NIGERIA'S INDUSTRIAL DEVELOPMENT, CORPORATE GOVERNANCE AND PUBLIC POLICY

Editors
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Essays in Honour of Michael O. Adejugbe
Professor of Industrial Economics

Edited by

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Abstract
The wave of failure in the Nigeria banking sector has increased a renewed interest in the discussion of the corporate governance of the sector especially as the sector's crisis may be said to have its origin from the corporate governance weakness in the sector. In spite of many binding rules enacted for market discipline in the sector, the wave of crisis appears to persist. However, literature appears to have paid little attention on how corporate governance may influence the performance of the sector. This paper attempts to review the existing literature on corporate governance around the globe with reference to Nigeria banking industry.

Keywords: Corporate Governance, Banking Sector, Performance

Introduction
The rationale to reduce risk of institutional, moral and systemic failure in the Nigerian banking sector for the purpose of promoting sustainable economic growth, employment and poverty reduction has significantly heightened concern for the corporate governance of banking institutions. This may be due to the centrality of the sector to the nation’s economy.

Research revealed that banks and other financial intermediaries are at the heart of the world’s financial crisis. In this regard, Kirkpatrick (2009) submits that the weak governance of banks is frequently identified as a major cause of the global financial crisis. Kirkpatrick affirms further that at the microeconomic (or microenvironment) level, managements of financial institutions and banks face challenging competitive conditions. With reduced margins coming from traditional banking, banks were forced to embrace other sources of revenue outside their core mandate. Moreover the Nigerian Deposit Insurance Corporation (NDIC, 2004) reveals that majority of the banks in the country are not actually engaging in their core banking business but rather in questionable deals involving sharp practices like round tripping and other illegal business acts. Supporting this, Emefiele (2014) observes that banks focus
more on quick high-yield investments and offer little macro-economic benefits. The attendant consequence being the strategic neglect of the real sector. Arguably, this may arise as a result of poor corporate governance in countries’ banking institutions. It is perhaps in this sense that Magbagbeola (2005) submits that corporate governance has become the mainstream issue in discussion of corporate boardrooms, academic meetings and policy circles around the globe.

Elegbe (2013) submits that the Nigeria Deposit Insurance Corporation (NDIC) had in 2009 reported weakness in Nigerian banks corporate governance as the main problem that led to the bank failure. NDIC emphasised poor risk management, weak board and management oversight, inaccurate financial reporting, abuse and fraudulent use of subsidiaries, poor book keeping practices, non compliance with banking laws, rules and regulations and non performing insider – related credits as the channel of weak corporate governance. The cases of insider related deals are common in banks having management of interconnected persons or economy of affection. (See Isola 2005.) This position supports Sanusi (2010) that the tenets and processes of banking were not strictly followed by the banks CEOs. After the consolidation process in 2006, the misconducts among specific banks CEOs were left unchecked by the CBN. The undue advantage of un-secured loan received by most banks’ boards paves way for executive management manipulation.

The Central Bank of Nigeria (CBN) (2009) announced the results of the stress test conducted on ten banks and determined that five of them were insolvent. Alford (2011) submits that the aggregate percentage of non-performing loans of these five banks was 40.81 per cent. In addition, these banks were chronic borrowers at the Expanded Discount Window (EDW) of the Central Bank of Nigeria (CBN), indicating that they had little cash on hand. Ten other banks found to be in “grave situation” were intervened. Sanusi (2010) links the 2008-2009 banking crises in Nigeria with governance malpractice within the consolidated banks.

The International Monetary Fund (IMF) (2013) listed major failures in corporate governance of banks as well as inadequate disclosure and transparency about the financial positions of banks as part of major contributing factors to Nigerian banking crisis.

The financial service industry, of which the banking sector forms an integral part, remains one of the critical sectors in any economy. This perhaps accounts for the submission of Wilson (2006) that banks are key players in any country’s financial sector. They occupy a delicate position in the economic equation of any country such that their (good or bad) performance invariably affects the economy of the country.
IMF further reports that, the Nigerian banking system currently accounts for over 80 percent of financial sector assets and represents about 53.6 percent of Gross domestic Product (GDP). By the end of 2011, the 21 operating registered commercial banks had ₦18.2trillion assets and ₦12.5trillion in deposits (about US$81billion). The effectiveness and efficiency with which the banks perform their intermediary roles between the surplus and deficit spending units of the economy may determine to a very large extent the prosperity of any nation. Efficient functioning of banks provides desirable incentive for the prosperity of total macro-economic performance of a nation. This is owing to their centrality in every economy. Reserve Bank New Zealand (2003) asserts that corporate governance is one of the key factors that determine the health of the financial system and its ability to survive economic shocks. Block, Jang, and Kin (2006) and Claessen (2006) submit that the concern over corporate governance originates from the fact that sound governance practices by organisations, banks inclusive, results in higher firm’s market value, lower cost of funds and higher profitability. More importantly, two key differences have been identified as distinguishing the governance of banks from that of non-financial firms. The first is that banks have many more stakeholders than non-financial firms. The second is that the business of banks is opaque and complex and can shift rather quickly.

In spite of binding rules to ensure transparency, accountability and long term sustainability as well as efficient market discipline, the banking sector appears to keep on recording dismal record of disappointing performance as there are indications of the persistence and severity of the phenomenon in the banking sector of the economy. Ojo (2010) observes that weak corporate governance and/or mismanagement have played major role in bank failure in Nigeria. Supporting this, Sanusi (2010) submits that the causes of 2009 were triggered by global events and in fact, failure in corporate governance at banks was indeed a principal factor contributing to the financial crisis. World Bank (2013) notes that the Nigeria banking crisis of 2008-2009 was partly triggered by the global financial crises and by domestic events. A special examination revealed that ten banks accounting for about a third of the banking system assets were either insolvent or undercapitalised. The identified banks had sizable off balance sheet instruments that concealed nonperforming loans (NPLs) while, in other cases, NPLs were rolled over or otherwise classified as performing. Oghojafor and Adebisi (2012) argue that transparency in reporting by banks was weak in Nigeria.

undertaking, most especially where stewardship accounting is required to be given. This is particularly more important among the corporate organisations and financial institutions as the general persistent distress cases, untimely business closure and unrealistic high share prices continuously indicate that corporate governance of these firms is doubtful. UNCTAD notes that governance practices affect company performance, and are important elements in analysts’ evaluations of risk both for individual companies and the market. From the perspectives of policy makers, better corporate governance has the potential to enhance the efficiency of companies and market, reduce the cost of capital, and encourage innovation. In short, corporate governance is important.

Yet, until now, and to the best knowledge of the author, there appears to be little attention in literature for a deep and painstaking understanding of what exactly may be wrong with corporate governance, whether or not corporate governance failures contributed to the waves of crises in the banking sector and if the situation would require reform and improvement of the corporate governance practices to prevent future institutional, systemic and moral failures of the banking sector. The need for this understanding is imperative in an environment where banking industry plays a catalytic role in the socio-economic and political development of the country. The rationale behind this lies in the fact that corporate governance may not be unconnected with the major factors militating against the performance of the banking sector. This is so as the rapid changes brought about by globalisation, deregulation and technological advances appear to increase the risks in banking systems. Laura Ard et al. (2010), observes that banks have some specific corporate governance issues. Their stakeholders vary more widely than private firms, including not only the shareholders but also, and perhaps more significantly, depositors and the public. Magbagbeola (2005) notes that in Nigeria, banking business largely depends on funds provided by depositors and other customers, making equity an insignificant source of trading funds. Linked to this is the fact that the failure of a bank affects not only its own stakeholders, but may have a systemic impact on the stability of other banks, other firms and probably the whole economy. In view of this, it is imperative to have a reconsideration of CG of banks in a country like Nigeria. Accordingly, this study intends to review the existing literature on CG around the globe with reference to Nigeria banking industry.

This study will be of benefit to the corporate sector in Nigeria particularly the banking sector as it will engender sound corporate governance practices which will create efficient market system that will influence higher market value, lower cost of funds and higher profitability. It will also benefit investors, decision makers, regulators and researchers as well as assist the policy makers to set new and
improved standards for best practices. Finally the study will contribute to prior studies on the role played by good governance as essential element for an efficient market system for value creation and freedom from poverty.

There exists a growing literature on corporate governance both in the developed and developing countries but very few have drawn attention to the corporate governance of banks. This is in spite of the fact that key aspects of corporate governance are applicable to banks. In support of this, Caprio and Levine (2002) assert that the corporate governance of financial service sector and more specifically of banks in developing economies has been almost ignored by researchers. Similarly, Macey, et al. (2001) observe that even in developed economies, the corporate governance of this sector has only recently been discussed in the literature. The relevance of banks in the economic system and the nature of the banking business make the problems involved in their corporate governance highly specific. Studies like Prowse, 1997; Oman, 2001; Goswani, 2001; Malherbe and Segal (2001), Arun and Turner (2002), have further confirmed the assertion that research on corporate governance and banks performance has been underreported. The same argument also holds for Nigeria where a whole lot of studies on corporate governance focus mainly on corporate governance and the Nigerian firms’ financial performance. Prior literature for Nigeria has studied the relationships between corporate governance and firm performance. (See Sanda et al., 2005; Adenikinju and Ayorinde, 2001; Adenikinju, 2005). The few related studies that have examined the relationship between corporate governance and bank performance for Nigeria in particular include Adelegan (2005), Magbagbeola (2005), Okereke et al. (2011), Muhammed (2012) and Oghojafor et al. (2010).

This study contributes to the literature by considering very importantly, the influence of corporate reporting as a governance variable that may affect banking sector performance which to the best knowledge of the author may not have been considered in previous literatures for Nigeria. This constitutes a major gap in the literature for the Nigeria setting which this study intends to address. In addition it intends to suggest how corporate governance practices may be reformed and improved to prevent future institutional, systemic and moral failures of the banking sector.

The rest of this paper is organised as follows: Section 2 discusses conceptual issues and theoretical framework. Section 3 deals with some empirical expositions on corporate governance. Section 4 presents some matters arising from corporate governance in Nigeria banking sector while section 5 is on conclusion with summary and policy recommendation.
Conceptual Issues and Theoretical Framework

Conceptual Issues
Farinha (2003) opines that the term “corporate governance” is a relatively new one both in the public and academic debates, although the issues it addresses have been around for much longer. The varieties in the landscape of corporate governance from country to country appear to limit a universal definition of corporate governance. Moreover, countries differ from one another in terms of culture, legal systems and historical developments. This position is supported by Wilson (2006) that corporate governance is a nebulous concept. This may account for a wide range of definitions of the concept of corporate governance.

Shleifer and Vishny (1997), define corporate governance in terms of the ways in which suppliers of finance to a firm assure themselves of a good return to their investment. This is a view from the perspective of financial economics. This definition appears shallow as it emphasises the suppliers of finance like shareholders & other creditors and does not recognise the relationships between a firm’s and other stakeholders and managers. The UK corporate governance code (2010) defines corporate governance as being about what the board of a company does and how it sets the values of the company. This definition again appears narrow, as it limits corporate governance to what the board of a company does. Each firm has numerous stakeholders whose different interests must be taken care of. As a more inclusive definition, Sanda et al. (2005) opine that corporate governance is concerned with ways in which all parties interested in the well-being of the firm (the stakeholders) attempt to ensure that managers and other insiders take measures that safeguard the interests of the stakeholders. John and Senbet (1998) propose a more comprehensive definition that “corporate governance deals with mechanisms by which the stakeholders of a corporation exercise control over corporate insiders and management such that their interests are protected”. They include, as stakeholders, not just shareholders, but also debt holders and even non-financial stakeholders, such as employees, suppliers, customers, and other interested parties. Corporate governance is, according to the Organisation for Economic Cooperation and Development (OECD, 2004);

- A set of relations between the company management, the managing board, its shareholders and other interest groups within the company;
- The structure by which company objectives are set as well as the means for achieving these objectives and monitoring performances; and
- The stimuli system granted to the management board and administration in order to increase the objectives that are in the company’s and shareholders’ best interest and to facilitate monitoring, thus encouraging companies to use their resources more efficiently.
This definition by OECD appears very wide in scope because it specifically integrates a company’s relations to its internal environment, i.e., the shareholders and employees, as well as the outer environment, such as suppliers, creditors and, last, but not the least, the interaction between the two environments and management frames: management board, and the company management. The definition is consistent with the perception of Nigeria Deposit Insurance Corporation (NDIC) on corporate governance. In its 2007 report, NDIC states that responsive corporate governance in an organisation involves the enthronement of a system; appropriate board and senior management oversight; transparency and accountability to the various stakeholders; compliance with the applicable legal and regulatory requirements; disclosure of all material information to stakeholders, such as investors, depositors, regulatory authorities and the organisation’s viability and solvency which is sustainable through adequate internal controls and audits as well as appropriate risk management framework.

The Basel Committee on Banking Supervision (2010) asserts that corporate governance from a banking industry perspective, involves the allocation of authority and responsibilities, that is, the manner in which the business and affairs of a bank are governed by its board and senior management, including how they set the bank’s strategy and objectives. It also includes determining the bank’s risk tolerance/appetite, operating the bank’s business on a day-to-day basis, protecting the interests of depositors. Also included are issues, such as meeting shareholder obligations and taking into account the interests of other recognised stakeholders. The committee further believes that there should be an alignment of corporate activities and behaviour with the expectation that the bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations.

Thus, Frederikslust, Ang and Sudersanam (2008) submit that corporate governance, far from being monochromatic, presents a rich variety of laws, practices and institutional structures. Its cardinal objective is to ensure transparent accountability and efficient and effective corporate reporting systems. It also eliminates issue of expectation gap between the expected performance and actual performance of organisations.

Theoretical Framework: The Stakeholder’s Theory
Arising from the literature, the theoretical framework used to conceptualise this study is stakeholder’s theory. The choice of stakeholder’s theory is justified by the following reasons. It conceives corporation as social entities that affect the welfare of many stakeholders. Banks have more stakeholders than other non-bank firms. Olukotun, James and Olorunfemi (2013) opine that the banking industry is so
strategic to the economy that virtually everybody is a stakeholder. As established in
the literature; the aim of corporate governance is to align the interests of all the
stakeholders in an entity. The approach that attempts to align the interests of
managers and all stakeholders is known as the stakeholder’s theory. The theory lends
itself to descriptive accuracy and instrumental power of good ethics and fairness to
all concerned in the existence of a firm. The theory asserts that management has the
responsibility to give due regard to the interests of everyone who has the capacity to
affect the firm. Freeman (1984) defines a stakeholder as any group or individual who
can affect or is affected by the achievement of the organisation’s objectives. This
definition has the implication of including an imaginable number of constituencies.
In order to succeed and be sustainable over time, executives must keep the interests
of customers, suppliers, employees, communities and shareholders aligned and going
in the same direction. Stakeholder theory underlines a broader perspective of
corporate governance, noting the involvement of institutions, legal and capacity
building and the rule of law. This position is clearly supported by OECD principles
of corporate governance, No. 1 (2004) which states that the corporate governance
framework should promote transparent and efficient markets, be consistent with the
rule of law and clearly articulate the division of responsibilities among different
supervisory, regulatory and enforcement authorities.

The definition by OECD of corporate governance earlier adopted, takes a wider view
of those involved in and affected by corporate governance. The OECD Principle of
Corporate Governance, No. IV (2004) provides that the corporate governance
framework should recognise the rights of stakeholders established by law or mutual
agreement and encourage active co-operation between corporations and stakeholders
in creating wealth, jobs and the sustainability of financially sound enterprises. The
stakeholder theory, as discussed by John and Senbet (1998), emphasises the role of
non-market mechanisms, citing as an example, the need to determine an optimal size
of the board of directors, especially in view of the tendency for board size to exhibit a
negative correlation with firm performance. Other non-market mechanisms include
the need to design a structure in a way that allows the setting up of specialised
committees with different membership on separate critical areas of operations of the
firm. Such a structure would allow, for example, the setting up of productivity-
oriented committees and monitoring-oriented ones. This bears consistency with the
OECD principle of corporate governance, No. 1 (2004), that the corporate
governance framework should promote transparent and efficient markets, be
consistent with the rule of law and clearly articulate the division of responsibilities
among different supervisory, regulatory and enforcement authorities.
In an extension of the stakeholder theory, Jensen (2001) also recognises the multiplicity of stakeholders. This appears to reflect the opinion of John and Senbet (1998) that certain actions of management might have conflicting effects on various classes of stakeholders. This implies that the managers have multiplicity of objective functions to optimise; something that Jensen (2001) sees as an important weakness of the stakeholder theory. This is because, as noted by Jensen (2001), it violates the proposition that a single-valued objective is a prerequisite for purposeful or rational behaviour by any organisation. In search of a single valued objective function that conforms to rationality, Jensen (2001) therefore suggests a refinement of the stakeholder theory - the enlightened stakeholder theory. For Jensen, the enlightened stakeholder theory offers, at least, two advantages. Firstly, unlike the earlier version with multiple objectives, the modified form of the theory proposes only one objective that managers should pursue: the maximisation of the long-run value of the firm. If the interest of any major stakeholder were not protected, the objective of long-run value maximisation would not be achieved. Secondly, it provides a simple criterion to enable managers decide whether they are protecting the interests of all stakeholders: invest an amount of the firm’s resources as long as that will increase by, at least, any amount the long-term value of the firm. Jensen, however, added a caveat that the criterion may be weakened by the presence of monopoly situation or externalities. Despite its appeal, Sanda et al. (2005) note that the stakeholder theory of the variety proposed by Jensen has not been subjected to much empirical evaluation. At least two factors might have contributed to the gap between theory and evidence. The first concerns the prevalence of externalities and monopoly situation. The second is the problem of measurement. Jensen himself offers no clue on how to obtain an accurate measure of the long-term value of the firm, let alone offer an indication of how to assess the possible impact of an investment on that long term value.

Carroll (2000) classifies stake-holders as primary and secondary stake-holders. The primary stake holders are directly involved in the economic process and have an explicit contract with the company. They include business owners and shareholders, customers, employees, suppliers of funds and government. These groups of people are essential for the survival of the company since they have a direct exchange relationship with the firm. They are the important stakeholders for the survival of the company’s shareholders and management. Secondary stakeholders have more of a moral or implied contract with the firm. Relations may be voluntary or involuntary. These groups may include customers, trade union, competitors, the public and society (Clarkson, 1995; Weiss, 1998; Capron and Quairel-Lanorzelee, 2007). They have indirect relationships with the firm but are clearly affected by its actions in terms of legal, social and environmental consequences. They may have the capacity to
influence the company or may be affected by the company activities. Although they have the capacity to mobilise public opinion, they are basically, not essential for the survival of the company itself.

Adopting Carroll (2000), the stake-holders of a bank could be classified into primary stake-holders, which comprise the business owners and shareholders, employees, suppliers of funds, depositors and other customers and government while secondary stakeholders, comprise community, trade union and the general public—all having different and sometimes conflicting interests.

![Fig. 1: Some Foreseeable Imaginable Stakeholders in the Banking Sector and their Interconnected Interests](source: Author’s Perception of Stakeholders and their Varying Interests in the Banking Sector)

Literature established that the banking sector has more stakeholders than other non-bank firms. Due to their being strategic and central to the economy, almost everyone is a stakeholder. Each stakeholder has a self interest in the bank entity to be maximised. Though the interests may be conflicting, logically, there may be a linearity of relationship between the joint interests of the stakeholders and bank performance. The interests of the stakeholders in the bank get renewed and improved as the performance of banks improves and vice-versa.
Corporate Governance around the World

It has been observed by Frederikslust, Ang and Sudersanam (2008) that the architecture of corporate governance differs across countries. This being the case, understanding the perspectives of corporate governance across the globe may be important. The institute of Directors in Southern Africa (2009) opines that the governance of corporations can be on a statutory basis, or as a code of principles and practices, or a combination of the two. This section undertakes a review of perspectives of corporate governance practices in the United States of America (USA), United Kingdom (UK), China and Africa.

Corporate Governance in the United States of America (USA)

Nzuve (2012) posits that the massive corporate failure in the United States of America in the 1990s and early 2000s as epitomised by the fall of Enron, WorldCom among others resulted in myriad lawsuits and erosion of shareholders’ wealth. The governance of public companies was brought to question. The politicians were under pressure to provide leadership to the mess that is corporate failure. The House and the Senate consequently passed into law the Sarbanes - Oxley Act of 2002.

Thus corporate governance in the United States appears to be predicated on the Sarbanes - Oxley Act of 2002 which was enacted as a reaction to a number of major corporate and accounting scandals. (Sinha, 2013) observes that in the US, corporate scandals, including Enron and WorldCom, resulting from failure in corporate governance, led to the Sarbanes - Oxley Act with the aim of improving the accuracy and reliability of corporate disclosures by way of enhanced oversight role of Boards, corporate responsibility, certification of accuracy of financial transactions by Top management and setting standards for auditors’ independence.

The Act is also known as the Public Company Accounting Reform and Investor Protection Act. It sets new and enhanced standards for all United States Public company boards, Management and public accounting firms. There are also a number of provisions of the Act that apply to privately held companies.

The Sarbanes - Oxley Act, which is a codification of governance principles, covers responsibilities of a public corporation’s board of directors, criminal penalties for certain misconduct, and requires the Securities Exchange Commission to enforce compliance with the Law. Top management must individually certify the accuracy of financial information. In addition, there are severe penalties for fraudulent activities. It prescribes enhanced disclosures for off-balance sheet transactions. Furthermore, no loans can be made by a public company to its director or other senior executives.
The Sarbanes – Oxley Act attempts to strengthen the regulatory supervision mechanism by creating the Public Company Accounting Oversight Board (PCAOB). It has the responsibility to oversee the audit of public companies. Furthermore, it is empowered to investigate and undertake disciplinary proceedings against registered public accounting firms up to the extent of revocation of registration. Corporate entities must make periodic submissions of financial statements with declaration from the Chief Executive Officer and Chief Financial Officer that they comply with the requirements of the Securities Exchange Commission. Any willful falsification of records attracts a jail term of 10 years and 25 years for deceiving the shareholders. Even accidental, erroneous certifications or reports attract a penalty of USD one million or an imprisonment of 10 years or both. The Sarbanes - Oxley Act has adequate protection for all whistle blowers.

The United States Corporate Governance code is on “Comply or else” basis. Little wonder that Frederikslust, Ang and Sudersanam (2008) submit that the United States approach to Corporate Governance is strict and detailed in legislation.

**Corporate Governance in the United Kingdom (UK)**

The Financial Reporting Council (FRC) of the United Kingdom (2010) reports that the development of corporate governance in the UK has its roots in a series of corporate collapses and scandals in the late 1980s and early 1990s.

The report states that the UK recognised the need to put its house in order. This led to the setting up in 1991 of a committee, chaired by Sir Adrian Cadbury, which issued in 1992 a series of recommendations, known as the Cadbury Report. The Cadbury Report addressed issues, such as the relationship between the chairman and chief executive, the role of non-executive directors and reporting on internal control and on the company's position.

According to the FRC, the recommendations in the Cadbury report have been added to at regular intervals since 1992. In 1995, a separate report set out recommendations on the remuneration of directors, and, in 1998, the two reports were brought together in a single code (known, initially, as the Combined Code and, now, as the UK Corporate Governance Code.) In 1999, a separate guidance was issued to directors on how to develop risk management and internal control systems. The code was further updated in 2003 to incorporate recommendations from reports on the role of non-executive directors and the role of the audit committee. It was at that time that the responsibility for publishing and maintaining the code was put under the FRC.
The United Kingdom code sets out standards for good practice for listed companies on board composition and development, remuneration, shareholder relations, accountability and audit. Although the United Kingdom Corporate Governance code identifies good governance practices, companies can choose to adopt a different approach, if that is more appropriate to their circumstances. This is a 'comply or explain' approach, which is the trade mark of corporate governance of the UK's code of corporate governance.

Unlike the Sarbanes - Oxley Act of the United States, which is a law, the United Kingdom code is best practice. In addition, the United Kingdom code does not require personal certification as long as there are general assurances in the Director's Report and Annual Report.

The ‘comply or explain’ stance may NOT suggest that the code is voluntary. However, the ability of companies not to comply but explain gives recognition to the fact that not all companies’ situations are the same. The challenge here is that some directors and top executives may exploit this to circumvent a very important governance requirement and later offer tailored explanations as alibi.

Chinese Corporate Governance
Yong, Shi and Brown (2008) observe that since China started its economic reform in the late 1970s, her gross domestic product has been growing at an annual rate of 9.73 per cent. In spite of this growth, however, Corporate Governance has been very weak in China. They further submit that the first Company Law in China was passed in 1993. The law defines the maximisation of owner’s interest as the primary goal of corporation. This was followed by the Security Law in 1998. The law which was passed in partial response to the Asian financial crisis, allowed investors to sue Management and Directors for releasing false or misleading company information, but this right was rarely exercised to protect investor’s interest. The first code of Corporate Governance for listed Companies was passed in 2002. The code paid special attention to the protection of shareholders’ investors, especially small investors, and prohibited controlling shareholders from dominating the minority shareholders. The Chinese Companies law was reviewed in 2002. The new law prohibited Boards of Directors from voting on issues that relate to their own interests.

The institutions involved in the conduct of corporate behaviour in China include Shareholders General Meeting, which is empowered to be the ultimate decision-making entity for a corporation. Another institution is the Board. China operates a two-tier board model. The Board of Directors responsible for the day-to-day management and the supervisory board. However, the Supervisory Board does not
have the authority to select or dismiss Boards of Directors, and often lacks the knowledge and the experience to effectively supervise the Directors. The membership of the supervisory board is smaller.

Other institutions of Corporate Governance in China are: the Regulators, the auditing system, the legal system, the stock exchanges, institutional investors. The institutional investors can exert corporate governance influence by playing a role in the takeover voting process of the firm.

Yong, Shi and Brown submit that, in spite of laws and institutions, Corporate Governance in China is weakened by the influence of the following: weak supervisory Boards and independent Directors, insider trading, fabrication of financial reports by listed companies and immature capital market.

Corporate Governance in Africa
The African Development Bank (AfDB, 2007) reveals a raft of factors impeding the mainstreaming of corporate governance in several African countries. Notable among them is the problem of poor political and economic governance, including corruption and a weak rule of law.

Another identified challenge of reform in Africa is how to ensure the quality of the regulatory and institutional framework to promote transparency and accountability. Notable in this regard is the capacity for reform and enforcement.

According to the AfDB, many of the countries in Africa have, through their respective Central Banks, adopted or adapted international guidelines which impact on corporate governance. These include the Basel I and II Guidelines, the Equatorial Principles, and the guidelines proposed by the Global Corporate Governance Forum (GCGF). In addition, nearly all central banks have issued prudential guidelines for commercial banks. Many central banks have also initiated training programmes for bank directors.

The ADB further recognises that the banking sector in Africa remains a key leverage point for mainstreaming corporate governance across respective sectors of the economy. Unfortunately, the banking sector, particularly commercial banks, does not always play its full role in the development of corporate governance. In many African countries, access to financial resources is more closely linked to familial and social networks than to a firm compliance with basic corporate governance principles.
The AfDB, however, observes that an increasing number of countries in Africa are introducing various reform measures with corporate governance at the core. Nevertheless, owing to a number of factors, the status of corporate governance reform in African countries is uneven, with varying levels of emphasis and effectiveness.

**Why is Corporate Governance Important for Financial Institutions?**

The UK FRC (2010) asserts that good corporate governance is essential for the effective operation of a free market, which facilitates wealth creation and freedom from poverty. To corroborate this, Sinha (2013) notes that, while good governance is essential for any entity, it has deeper significance for financial institutions. Sinha gave the following as some of the compelling reasons:

- Financial institutions are central to economic activity. Banks and a large part of the non-banking financial system (the shadow banking system) undertake credit intermediation. Failures of financial institutions would thus impede the economic growth and would cause serious damage to the system. Economies take a longer time to rebound from financial crisis than the business cycle recessions.

- Financial institutions operate on a higher leverage. According to a study by the Bank for International Settlement (BIS) for the period 1995-2009, compared to non-financial institutions that had a leverage of about 3, banks operated at a leverage of 18.3 while non-bank financial firms had a leverage of 12.1. A high leverage makes financial intermediaries more vulnerable to shocks. From a systemic perspective, the inherent proclivity of the financial system leads to the build-up of high leverage during an upturn phase of the economy which amplifies booms and busts. Therefore, while the proclivity issues need to be dealt with from a financial stability perspective, it is apparent that these financial institutions must be well governed to achieve financial stability.

- Financial institutions, especially banks, deal in people’s savings and trust by customers forms the cornerstone of their existence. Any breach of trust leading to loss of confidence is bound to lead to a run, not just on a particular bank, but on others, too, who are perceived to have weaknesses or even similar business models. The non-bank financial intermediaries who lose the trust of their lenders would not be able to raise resources at a reasonable cost, making it hard for them to operate efficiently and profitably. All these can lead to a snowballing effect, impairing the functioning of the entire financial system, due to their interconnectedness. Good governance ensures customers’ and other stakeholders’ trust in banks and non-banking financial intermediaries.
Among the financial intermediaries, banks occupy a special place, due to their centrality in the transmission of monetary policies and the functioning of the payment and settlement systems. They also are the beneficiaries of deposit insurance which may weaken their incentive for strong management monitoring as well as monitoring by other stakeholders, including depositors. Good corporate governance would ensure strong internal controls, which would offset the weakened incentive for monitoring. A robust and stable banking system is an absolute necessity for a well-functioning economy.

Review of Empirical Literature on Corporate Governance Variables
This section undertakes a review of studies that have been conducted on both single dimensions of corporate governance measures as well as on composite corporate governance mechanisms. Given below are some of these mechanisms, along with the direction of their impacts on firm performance.

**Board Size**
While certain existing literature advocates for a small board size, another believes in the large type. Two reasons have been advanced as causing expression of preference for small rather than a large board size. Firstly, large boardrooms have been argued, as tending to slow down decision making process, and hence can be an obstacle to change. Secondly, is that directors rarely criticise the policies of top managers and that this problem tends to increase with the number of directors (Yermack, 1996; Lipton and Lorsch, 1992). Many empirical studies have been conducted to either validate or refute the claim. While some empirical studies support the smallness of the board size (see Jensen & Meckling, 1976; Lipton & Lorsch, 1992; Jensen, 1993; Yermack, 1996; Eisenberg, Sundgren and Wells, 1998; Mishra, Randoy and Jenssen, 2001; Singh & Davidson, 2003; Hermalin & Weisbach, 2003; Mak & Kusnadi, 2004; Kyereboah-Coleman and Biekpe, 2006; Sanda et al., 2005; Moustafa, 2006; De Andres, Azofra and Lopes, 2005; Adelegan, 2007; Cheng, 2008; and Chang & Duta, 2012), some other researchers support large size for board. (See Bacon, 1973; Druckeriv, 2002; Dalton, Daily, Johnson and Ellstrand, 1999; Kiel & Nicholson, 2003; Adams & Mehran, 2003; Anderson, Mansi and Reeb, 2004; Magbagbeola, 2005; and Chidambaran et al., 2007; Coles, Daniels and Naveen, 2008; Belkhir, 2009; Arslan, Karan and Eksi, 2010; Chang & Duta, 2012). Walker (2009) submits that a research by Deloitte indicates that the median size of UK-listed banks is 15 or 16 but the ideal size is 10-12 members.

**Block Holdings/Ownership Concentration**
Block holding refers to the proportion of a firm’s shares owned by a given number of the largest shareholders. Teriba et al. (1977) submits that a satisfactory measure of
ownership structure as a means of indicating control structure must reflect the distribution of both shareholding and shareholders. According to Sanda et al. (2005), a conflicting views however suggest that concentrated ownership allows undue influence over management to secure benefits that are detrimental to minority stakeholders (Shleifer and Vishney, 1997; and Teriba et al., 1977). Gorton and Schmid (1996), Shleifer and Vishny (1997), Morck et al. (1988), and Wruck (1989) have associated high ownership concentration with an increase in firm value, but that beyond a certain level of concentration, the relationship might be negative. Also, Sakai and Asaoka (2003), Sanda et al. (2005), Moustafa (2006) and Cremers and Nair (2003) document that an increase in the ratio of blockholders’ shareholding improves firm performance. A high concentration of shares may be an incentive for managers to behave in ways that are value-maximising. Conversely, studies such as Agrawal and Knoeber (1996), Holderness and Sheehan (1988) Renneboog (2000), Ashbaugh-Skaife and Collins (2005) and Demsetz and Lehn (1985) confirm otherwise.

Directors’/Insider Shareholding
The relationship between director/insider shareholding and firm performance has been tested in several studies by different researchers but with conflicting empirical outcomes. Such researchers include De Angelo and De Angelo, (1985); McConnell and Servaes (1990); Loderer and Martin (1997); Nor et al. (1999); Yeboah-Duah, (1993). In particular, McConnell and Servaes (1990) find a significant curvilinear relationship between insider ownership and firm performance. While Loderer and Martin (1997) find no significant relationship, Nor et al. (1999) reported a non-linear relationship, drawing conclusions contrary to those of Yeboah-Duah (1993). Study by Chou (2015) reveals a diverse relationship of insider ownership and firm performance among industrial settings. For companies in a high-complexity and large scale setting, high insider ownership exerts a negative effect on firm performance while for companies in a low-complexity and small-scale setting, a high insider ownership exerts a positive effect on firm performance.

Composition of Board Members
Research findings show that the extent of agency problem depends on the number of outside directors sitting on the board. Sanda et al. (2005) submit that the reason for this lies behind the fact that outside directors, unlike inside directors is better able to challenge the CEOs. Thus, a positive relationship is hypothesised between the number of outside directors and firm performance. The number however varies from country to country. In the United Kingdom, a minimum of three outside directors is required on the board; in the US, the regulation requires that they constitute, at least, two-thirds of the board (Bhagat and Black, 2001). Divergent opinions still exist in the
literature as regard its impact on firm performance. For instance, studies by Weisbach (1988), Mehran (1995) and Pinteris (2002), have produced evidence in support of a positive role of outside directors on firm performance. John and Senbet, (1998), in a survey of corporate governance reported that the work of (Fosberg, 1989) was in support of this positive role. Other works have reported no evidence of a significant relationship between firm performance and the proportion of outside directors on the board (Bhagat and Black, 1999); (Hermalin and Weisbach, 1991); (Yermack, 1996); and (Metrick and Ishii, 2002). In fact Weir and Laing (2001) reported a negative relationship.

Corporate Reporting
Corporate reporting is an important mechanism of corporate governance that represents board accountability. Deegan (2004) and Rezaee (2009), argue that the board of directors is accountable to shareholders and other stakeholders who are affected by the activities of the firm. According to Zairi & Letza (1994), the purpose of corporate reporting is disclosure of information useful to those stakeholders who have an active interest in the organisation. Furthermore, Gary, Owen & Maunder (1991), state that it provides society-at-large with information about the extent to which the organisation has met the responsibilities imposed upon it. An accountability model explained by Gary, Owen and Adams (1996) states that accountability involves responsibility to undertake certain actions and responsibility to provide an account of those actions, so that reporting is assumed to be responsibility-driven rather than demand-driven. Eccles (2004) opines that corporate reporting includes financial reporting and information beyond what regulations require companies to provide to their shareholders and other stakeholders. Ghazali (2008), states that it comprises mandatory reporting required by regulations such as the Companies Act, accounting standards and stock exchange listing requirements and voluntary disclosures, which vary in the level of disclosure. According to Bushman & Smith (2001), financial accounting information is considered to reduce the risk premium demanded by investors to compensate for the risk of losses due to the opportunistic behaviour of managers.

Essentially, financial reporting disclosures are information instrument relied upon by the shareholders of a company to make their economic decisions about the business enterprise. UNCTAD (2011) affirms that disclosure is important because reporting is widely viewed as the most effective tool that regulators have to encourage better corporate governance. Reporting puts information in the hands of the market and markets and investors make investment decisions based on this information. The markets function best when they have access to sufficient information to properly assess governance. Good information helps the markets ascertain the degree to which
companies respond to shareholders’ needs; it reveals risks, and shows the quality of future cash flows. Board of directors, corporate management and external auditor may have an influence on financial reporting disclosures. According to Habib and Jiang (2015), managers have incentives to mislead shareholders by providing financial information which does not portray the true underlying performance of the business.

A considerable number of studies have investigated the association between corporate characteristics and disclosure levels in annual reports and found that large firms tend to disclose more information as they are more prone to public scrutiny (Firth, 1979; Huafang & Jianguo, 2007).

Debt Structure
Debt is another important measure used in mitigating agency problem. Thus, debt owed to large creditors is expected to improve firm performance, since large creditors, like large stakeholders, also have interest in seeing that managers take performance-improving measures (Sanda et al., 2005). Many empirical studies seem to support this position. For instance, Sakai and Asaoka (2003) in a panel data of over 400 Japanese firms find that higher debt-asset ratio improves firm performance. This is consistent with Sanda et al. (2005) in the case of Nigeria. Agrawal and Knoeber (1996) have however shown that the effect of leverage on firm performance can be technique-dependent. They find higher debt financing to be negatively related to firm performance in a single mechanism OLS regression, but this effect disappears in simultaneous equation estimation.

Review of Empirical Studies on Corporate Governance and Bank Performance
This section undertakes concise but critical reviews of the impact of corporate governance on banking sector performance, both in the developed and developing countries.

Barako and Tower (2007) investigate the association between ownership structure and bank performance in Kenya. Their empirical analysis included all financial institutions operating in Kenya and ran a multivariate regression with variables, such as ownership, bank size and ROA. The results provided a strong support that ownership structure influences bank performance. Specifically, board ownership is significantly and negatively associated with performance, institutional shareholdings have no significant influence on performance and foreign ownership has a significant and positive impact on bank’s performance.
Delfino (2007) examines the impact of control changes (due to privatisation, foreign acquisition and mergers and acquisitions) on efficiency and productivity in Argentina’s banking sector. Specifically, the study used panel data for the period 1993 – 2000 in order to construct the regression model and came to the conclusion that state-owned banks were less efficient than private ones, bank privatisation provided only short-term efficiency gains, foreign acquisitions led to stronger productivity performance of acquired banks, although it did not affect efficiency, and finally, mergers and acquisitions had a negative impact on bank’s performance.

Grobi and Levratto (2008) examine, at a theoretical level, the impact of private ownership on bank performance in Bulgaria and Hungary, taking into account, also, principles of corporate governance. The result shows that in both transition countries, private ownership plays a crucial role, especially if it is combined with principles of good corporate governance, which depend on accepted social norms derived from cultural value orientations, such as rule of law and accountability. Their study which concentrates on Bulgaria and Hungary, exposes differences in their value orientations. Their study concludes that Bulgaria hindered the privatisation process of banks as a result of corruption, absence of law and maximisation of owners’ interest while Hungary, based more on Western system, supported the creation of private banks.

Love and Rachinsky (2008) in their paper investigate the connection between ownership, corporate governance and operating performance in the banking sector for the period 2003 – 2006. Their sample consists of 107 Russian banks and 50 Ukrainian banks. Regression results showed some significant but economically unimportant relationship between corporate governance and operating performance. Tandelilin et al. (2007), examine the correlation among corporate governance, risk management and bank performance using a sample of 51 Indonesian banks for the period 1999 – 2004. For the empirical study they used a Triangle Gap Model with primary data analysis and secondary data analysis. This study revealed that bank ownership affects both the relationship of corporate governance and bank performance and corporate governance and risk management. It is worth mentioning that the model used in this study found no linear effect of corporate governance on bank performance.

Sinha (2008), examines 40 Indian Commercial banks, both public and private using a Radial DEA model for the period 2000–2001 to 2005–2006 comparing two variables: Total Assets and Off Balance Sheet exposures in order to compare their performance. The results were that for the period 2000 – 2001, public banks outperformed the private ones, while for the period 2005 – 2006, private banks outperformed the public ones. The main disadvantage of this research is that it did not use any qualitative factors.
Hossain (2007) reveals the level and extent of the corporate governance disclosure of the banking sector in India. After collecting the annual reports of 38 Indian banks for the year 2002-2003, a regression model was adopted to investigate the relationship between corporate governance disclosure and various corporate attributes such as size, profitability, ownership, listing, status, age, etc. The conclusion was that Indian banks had very high level of compliance in corporate governance disclosure, showing that attempts made by the Indian authority to include Corporate Governance Reporting in the annual report were notable.

Kyereboah-Coleman and Biekpe’s (2006), study investigate the role of boards and CEOs in the performance of the Ghanaian banking sector, examining 18 banks, both listed and unlisted for the period 1997 – 2004 by adopting panel data to support their model. The conclusion was that, the more independent the board was, the worse the profitability of a bank. Also, the regression results showed a positive relationship between the board size and return on assets (ROA), while on the other hand, they showed that CEO's tenure largely indicated a negative impact on ROA.

Hoque et al. (2013) empirically investigate the influence of corporate governance mechanisms on financial performance of 25 listed banking companies in Bangladesh over the period 2003-2011. Estimated results demonstrate that the general public ownership and the frequencies of audit committee meetings are positively and significantly associated with return on assets (ROA), return on equity (ROE) and Tobin’s Q. Directors’ ownership and independent directors have significant positive effects on bank performance measured by Tobin’s Q. The results indicate that a good number of companies do not comply with the mandatory requirements for board size, appointment of independent directors in the board, and holding audit committee meetings set forth by the central bank and the Securities and Exchange Commission (SEC) implying remarkable shortfall in corporate governance practice in Bangladesh banking sector. The board is seen to have been prevalently dominated by the outside non-independent directors having multiple directorships and the companies are actually run by the independent managers having no ownership interest.

Goddard, Molyneux and Wilson (2004) investigate the profitability of European banks during the 1990s. They used data from 665 banks from the 6 European countries of Denmark, France, Germany, Italy, Spain and the UK, for the period 1992–1998. In their study, they created cross sectional, pooled cross-sectional time-series and dynamic panel models in order to identify selected determinants of profitability. The result was that despite the high competition, which is effective in eliminating abnormal profit, there is significant evidence of abnormal profit from year to year. However, there is some variation between countries in effectiveness of competition in eliminating abnormal profits.
TAŞKIN (2012), analyses the relationship between corporate governance and bank performance. Return on assets (ROA), return on equity (ROE) and net interest margin (NIM) are considered as the measures of bank performance. Corporate governance is determined through the measures of internal governance mechanism which is measured by CEO duality and external governance mechanisms which are reflected by discipline exerted by shareholders, creditors and educated personnel and bank ownership. The analysis covered the period 1990-2000 and 2002-2011 which are the pre and post periods of the severe 2001 banking crisis. The results show that different governance characteristics are important in the pre and post crisis periods. Efficiency of banks is measured using Cobb-Douglas cost function for the year 2000-2002. It is evident from the results that on average, overall efficiency remains about 82 percent throughout the period of analysis. However, it is observed that public ownership show lowest efficiency among all the groups, i.e., 74 percent on average, which emphasises on a competitive environment in the banking sector that may improve the efficiency of these institutions. Similarly, market share also affects the performance of banks negatively, suggesting that banks in a less competitive environment might feel less pressure to control their costs. Moreover, introduction of governance variables such as sound management and concentration have significant impact on banking efficiency.

Oghojafor et al. (2010), made use of copies of a structured questionnaire to elicit responses from conveniently selected respondents, comprising investment experts, academics, bank customers, public and policy analysts within Lagos metropolis. The study confirmed that poor governance culture and supervisory laxities were majorly responsible for the banking crises. The study recommended an adherence to the execution of the tenets of good corporate governance in the Nigerian banking sector and stressed that actions contrary to this should be dealt with appropriately by bringing offenders to book irrespective of their status in the society.

Okereke et al. (2011) examined the relationship between corporate governance practices in Nigerian Deposit Money Banks (DMBs) vis-a-vis their financial performances (2002-2006). To accomplish this, data were collected through the use of questionnaire administered to Corporate Affairs Managers in twenty-four Deposit Money Banks (DMBs) and from the Central Bank of Nigeria (CBN) annual report and statement of accounts and the Nigeria Stock Exchange (NSE) Fact Books. The data were descriptively and quantitatively analysed and the hypotheses tested using Statistical Package for Social Sciences (SPSS). The regression result and test indicated a significant relationship and positive correlation between corporate governance and banks' performance. It therefore recommended, among others, that Deposit Money Banks (DMBs) in conjunction with the regulatory authorities should
model various functions performed by banks and factor in all aspect of corporate governance variables as it may concern a highly regulated industry like the banking industry. The study stated that this will go a long way in the designing of an optimal governance mechanism for the Deposit Money Banks (DMBs) in Nigeria and beyond.

Muhammed (2012) considered the impact of corporate governance on the performance of banks in Nigeria. The study made use of secondary data obtained from the financial reports of nine (9) banks for a period of 2001 - 2010. Data were analysed using multiple regression analysis. The study supported the hypothesis that corporate governance positively affects performance of banks. In conclusion, the study showed that poor asset quality (defined as the ratio of non-performing loan to credit) and loan deposit ratios negatively affect financial performance and vice versa.

**Governance Issues and Banking Sector Performance in Nigeria**

Literature has shown apart from the economy-wide problems confronting the country, the developments in the Nigerian banking industry have also shown the absence of good corporate governance as a key factor occasioning the dismal performance of the industry as a catalyst for economic growth. Several anecdotal evidence abound to substantiate incidence of financial reporting games within the banking industry which had consequently led to untimely collapse of many of the indigenous banks.

For a business, financial returns are a perfectly legitimate measure of performance (Collins, 2005). The need therefore to meet the capital market expectation of a high value of the banks become a consuming pre-occupation of Chief Executive Officers and boards of banks across the nation. Management reported earnings have a powerful influence on the full range of a bank’s performance measurement. In response to this prospect, managers of banks may be under pressure to assume a responsibility to manage earnings such that the capital market expectation is met or exceeded. They often may resort to abusive earnings management involving the use of various forms of gimmickry to distort a company’s true financial performance in order to achieve a desired result. Various techniques such as recognising fictitious revenue on obviously delinquent loans, window-dressed capitalisation, capitalisation of expenses, deliberate poor classification of risk-assets and failure to make provision for them, overstating assets or understating liabilities, etc. Kasznik (2002), maintains that managers use positive discretionary accruals to manage reported earnings upwards when earnings would otherwise fall below forecasts. What starts as an aggressive application of accounting principles many later become fraudulent corporate reporting if it continues and is found to contain material amount.
Prior to uniform reporting dates for banks in 2009, a number of banks were allegedly found notorious for game playing at year end to create a Pseudo healthy scorecard in their balance sheet. This is made possible with the window of opportunity of different reporting dates. The different corporate reporting dates of banks made it possible for banks to play game of assets and liability swapping. A bank with risky assets that are non-performing could enter into arrangement with another friendly or related bank to sell off the non-performing loan for cash as at balance sheet date. The bank owning the loan receives cash to look like the loan has been paid. The position is immediately reversed after the balance sheet date of reporting. Similarly, liabilities may be obtained from a helping bank for the purpose of boosting the deposit as at balance sheet date. Another reason for assets and liability swap is to achieve or meet with critical regulatory ratio. This is in addition to giving a false presentation of size of the bank. Essentially, corporate governance problems of most of the banks appear to be associated with financial reporting manipulations by the banks using creative accounting practices. The ensuing outcomes of these confer questionable benefits like share price effects, borrowing cost effects, bonus plan effects and political cost effects respectively on the initiating entities but at the expense of shareholders and other stakeholders.

Nigeria Deposit Insurance Corporation (NDIC) annual reports (2000-2012) indicate that Nigerian Banks lost colossal billions of amount to frauds and forgeries alleged to have originated from fraudulent and self-serving practices among members of the board, management and staff, overbearing influence of chairman or MD/CEO, especially in family-controlled businesses, weak internal control, passive shareholders, sit-tight directors, non-compliance with laid down internal controls and operation proceedings and abuses in lending.

The reports group major causes of fraud into institutional and environmental factors; the institutional causes are those that can be attributed to the internal domain of the Organisation such as weak accounting and internal control system, inept Management, inexperienced staff and ineffective supervision of subordinates, uncompetitive remuneration, lack of implementation or partial disregard of the 'Know Your Customers' (KYC) rules, delays in procuring documents/ bureaucratic bottlenecks and inadequate infrastructure in terms of communication facilities, power failure.

The environmental factors include societal demands, low moral values, slow and cumbersome legal process, lack of effective deterrent and punishment, reluctance on the part of the individual banks to report fraud cases due to reputational concerns.
Another issue bedeviling CG of Nigeria banks is huge non-performing loans. It is reported that many owners and directors abuse or misuse their privileged positions or breached their fiduciary duties by engaging in self-serving activities. See Ojo, 2010 and Magbagbeola, 2005). The abuses included granting of unsecured credit facilities to owners, directors and related companies which in some cases were in excess of their banks’ statutory lending limits, in violation of the provisions of the law. This is a major corporate governance issue. Magbagbeola (2005) reported that at 2004, while about 25% of total loans advanced in the banking sector were non-performing, about 75% of loans advanced by banks in distress were non-performing.

Other corporate governance issues of banks as noted by the CBN are disagreements between board and management giving rise to board squabbles, ineffective board oversight functions, fraudulent and self-serving practices among members of the board, management and staff. Others include overbearing influence of chairman or MD/CEO, especially in family-controlled banks, non-compliance with laid-down internal controls, sit-tight directors – (even where such directors fail to make meaningful contributions to the growth and development of the bank), succumbing to pressure from other stakeholders e.g. shareholder’s appetite for high dividend and depositors quest for high interest on deposits, technical incompetence, poor leadership and administrative ability and many others.

What is apparent from the brief expositions is that Nigerian banks are generally characterised by institutional weaknesses stemming directly from the exposure of their corporate governance problems by the regulatory authorities for example the (CBN) and other enactments. This explains in a way why a bank that declared multi-billion profits from a promising annual report in the immediate past year may be found to be in a grave situation by the following year.

**Governance Institutions**

While it is evidently clear that the activities of various banks affect the economy in many ways, various measures are being put in place by the CBN, NDIC, Securities and Exchange Commission (SEC), Asset Management Corporation of Nigeria (AMCON) whose activities are mandatory. There are also other advisory institutions such as the Bankers Committee. They are to ensure best practice by the Nigerian banks while ensuring that they all operate in the best interest of their various stakeholders. Wilson (2006) observes that corporate governance from the banking perspective demands that banks will operate in a safe and sound manner, and will comply with applicable laws and regulations while protecting the interests of depositors. Mandatory corporate governance provisions relating to banks are contained in the Companies and Allied Matters Act (CAMA) 1990, the Banks and other Financial Institutions Act (BOFIA) 1991, the Investments and Securities Act
1999, the Securities and Exchange Commission Act (SECA) (and its accompanying Rules and Regulation), etc. In addition, in April 3, 2006, the CBN issued a Code of Conduct for Directors of Licensed Banks and Financial Institutions. It further issued the Corporate Governance codes for Banks in Nigeria Post Consolidation 2006. Compliance with the provisions of these codes is compulsory.

The Key highlights of the SEC code of 2008 and the CBN codes of 2006 include: (I) Principles and Practices that Promote Good Corporate Governance (ii) Equity Ownership (iii) Organisational Structure which is also divided into (a) Executive Duality i.e. Separating the roles of the CEO and the board chairman; (b) Quality of Board Membership (c) Board Performance Appraisal (d) Quality of Management (e) Reporting Relationship (iv) Industry Transparency, Due Process, Data Integrity and Disclosure Requirements (v) Risk Management (vi) Respective roles of Internal and External Auditors. Adherence to the provision of the codes is compulsory.

Wilson (2006), noted that a glance through the 2006 issued Corporate Governance Code of the CBN reveals major weaknesses in the corporate governance of Banks in Nigeria prior to the code enactment. It is worthy to note that prior to the introduction of these codes, there were disparate codes of corporate governance, which regulate the activities of banks in Nigeria. However, as admitted by the CBN, these codes were manifestly ineffective and inadequate

**Conclusion**

The need to reduce risk of institutional, systemic and moral hazards brought about renewed interest in the discussion of corporate governance for banks. There is no universal consensus on, or globally applicable definition of, corporate governance because there is variety of perspectives on what it is. Good corporate governance practices instill in firms the essential vision, processes, and structures to make decisions that ensure longer-term sustainability. Weak corporate governance in banks on the other hand portend potential threats to financial intermediation and consequently the nation’s stability. Beyond the shareholders, other interest groups are capable of having influence on banks’ activities. Banks have some specific CG issues. Their stakeholders vary more widely than private companies, including not only the shareholders but also, and perhaps more significantly, depositors, government and the public. Opinions defer on the effect of board characteristics on bank performance but there appears to be a consensus in the literature that board characteristics constitute part of governance mechanisms and should be maintained in balance. The accuracy of corporate reporting is a direct consequence of the effectiveness of corporate governance.
In reality, it can be held that there are sufficient and adequate corporate governance frameworks for Nigerian banks in the present circumstance. These are aimed at improving the accuracy and reliability of corporate disclosures by way of enhanced oversight role of boards on corporate responsibility, certification of accuracy of financial transactions by Top Management, setting standards for auditor independence, and so on. At each point in time, there have been laws governing conduct of banking business. The crucial challenge therefore remains with the implementation of the codes. In the opinion of William Sun et al. (2011), it is believed that complying with the code itself constitutes good corporate governance.

**Policy Recommendation**

Arising from the foregoing is a number of policy recommendations.

1. Adequate and stringent conditions should be put in place by regulatory authorities to checkmate the excesses of institutional investors as well as protect the minority interest holders.

2. Enforcement of codes for banks by both the CBN and the SEC should not be compromised in any way, in order to create an enhanced investors' confidence, accountability, and corporate governance.

3. Corporate reporting should be in line with relevant international standards. The wide practice and application of IFRS, CAMA, BOFIA, as well as enforcement of their compliance by the Financial Reporting Council of Nigeria (FRCN) and other relevant regulatory agencies will make the reported earnings, cash flows, and statement of financial position more reliable and contribute to more disclosures. Production of a credible annual accounts or financial statements by the banks in accordance with the International Reporting Standard is capable of protecting the investing public from trading in the securities banks with no current or weak information disclosure regarding their financial status.

4. The optimisation of board size and composition is desirable for performance. This should be determined such that decision management and decision control are separated. The board size of banks should be big enough to display a good spread of monitoring skills of the board and enhance its effectiveness. However, it should be small enough to allow quality communication within the board. In composition, independent board membership should be encouraged, as this may enable directors to act without relying solely on initiatives from management. That larger size may imply smaller performance does not necessarily suggest scaling down for large firms, especially given the high unemployment rate in the country.
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