Corporate Governance in Nigerian Banks: A Critical Review

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Abstract: Corporate governance has increasingly attracted global attention on account of large scale corporate failures that have threatened economies of the world. In the literature, both narrow and broad definitions of corporate governance are given, but this paper adopts the broad concept, which relates to all control measures taken to ensure that banks and other corporate bodies are managed in the best interest of all stakeholders. Various theories of corporate governance are examined and corporate governance regulatory framework and institutions in Nigerian banks are critically appraised. Although there appears to be adequate provisions in the regulatory framework to ensure good corporate governance in Nigerian banks, enforcement and implementation of the provisions by the supervisory institutions are weak and defective. There is therefore the pressing need to restructure the Central Bank of Nigeria and strengthen the monitoring and control capabilities of Corporate Affairs Commission and Securities and Exchange Commission to ensure more stringent sanctions on board members and management that engage in unwholesome acts inimical to the interest of corporate stakeholders. Members of bank audit committee should be professionally qualified and auditor’s appointment should be based on qualification and proven track record of service. Finally shareholder activism should be strengthened, with special appeal court established to speedily handle commercial cases from Investment and Securities Tribunal and Administrative Committee of Securities and Exchange Commission.

Keywords: Corporate Governance, Nigerian Banks.

I. Introduction

Corporate governance, a relatively new area of studies, has increasingly attracted the interest of academicians, researchers, government and business moguls both in the developed and developing economies. It is generally accepted that a good number of corporate failures are caused largely by issues related to poor corporate governance (Central Bank of Nigeria, 2003). The collapse of Enron in 2001, Marconi (UK) in 2001, and Worldcom in 2002 was attributed to bankruptcy due to accounting fraud and neglect of established controls. The East Asian corporate crises, which affected Daewoo (South Korea) in 1998 involved accounting fraud and embezzlement of corporate funds. The case of Volkswagen in Germany in 2005 was similarly associated with abuse of corporate funds (Yuguda, 2011).

In Nigeria, thirty-three banks failed between 1995 and 2000, and recently the Central Bank of Nigeria declared nine banks failed for reasons ranging from inadequate capitalization to poor corporate governance (Central Bank of Nigeria, 2001,2006). The failure of banks and other corporate bodies precipitates negative multiplier effect on stakeholders (shareholders, staff, creditors, suppliers etc.) and hampers national economic growth and development. This explains why governments of various nations strive to put in place necessary legal and regulatory framework for good corporate governance, in order to forestall or reduce the incidence of corporate failure.

This paper makes a critical review of corporate governance in Nigerian banks. In the next two sections, the concept and theories of corporate governance will be examined, followed by a brief exposition of the need for a good corporate governance in Nigerian banks. The regulatory framework for corporate governance in Nigerian banks will next be reviewed, followed by examination of internal corporate governance mechanisms in Nigerian banks. Finally, conclusion will be drawn and some recommendations for improved corporate governance in Nigerian banks will be proffered.

II. The Concept Of Corporate Governance

Researchers and academicians have given varying definitions reflecting different perspectives of corporate governance. Turnbull (1997) avers that various views on corporate governance can be related to different cultural contexts, intellectual background and interest of scholars. Turnbull (1997) defines corporate governance as all the influences that affect institutional processes, including those for appointing the controllers and regulators, involved in organizing the production and sale of goods and services. He maintains that corporate governance includes all types of firms, whether or not they are incorporated under civil law.

Allen (2005) presents both narrow and broad views of corporate governance. He avers that the narrow view, typically used in Anglo-Saxon countries like USA and United Kingdom, is concerned with ensuring that
the firm is run in the interest of shareholders. This is achieved using the standard mechanisms of the board of directors, executive compensation, and the market for corporate control, concentrated holdings and monitoring by financial institutions, as well as the use of debts. Allen (2005) gives a broad definition of corporate governance as being concerned with ensuring that firms are run in such a way that society’s resources are used efficiently for the good of society. He maintains that the broad definition is applicable in such countries as Japan, Germany and France, where, rather than shareholders alone, a wider set of stakeholders, including employees and customers is considered.

Garvey and Swan (1994) view corporation as nexus of explicit and implicit contracts and define corporate governance as concerned with how the top decision makers of a firm actually administer such contracts. John and Senbet (1998) have a wider definition of corporate governance similar to Allen’s broad concept. They assert that corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and management in such a way that their interests are protected. They define stakeholders to include shareholders, debt holders, suppliers, employees, customers and other interested parties.

This paper adopts the broad definition of corporate governance as given by Garvey and Swan (1994) and Allen (2005). In Nigeria, there is a growing awareness of positive and negative impact corporations can create in their immediate operating environment. This has led to the regulatory requirement that corporations must provide environmental impact assessment report as a pre-requisite for commencement of business in a designated location. It is also in the light of this that corporate social responsibility programmes and projects have become important elements in corporate policy formulation. The incidence of youth restiveness, for example, has become a serious corporate governance issue in the oil-rich Delta region of Nigeria, where operations of oil companies produce enormous environmental degradation.

III. Theories Of Corporate Governance

Arising from different perspectives, various theories and models of corporate governance have been developed in the literature. They include the agency theory, stewardship theory, stakeholder theory, the political theory and, more recently, the convergence and other post-Enron theories (Roe, 1994; Donaldson and Davis, 1994; Hawley and Williams, 1997; Jennings and Happel, 2003; Aguilera and Jackson, 2003; Charreaux, 2004; Allens, 2005; Duhnfort, Klein and Lampenius, 2008).

The agency theory, or what Hawley and Williams (1997) call the simple finance model, is the most dominant, rooted in the separation of business ownership (investors) and control (management) and conflict of interest between shareholders and managers (Jensen and Meckling, 1976; Duhnfort, Klein and Lampenius, 2008). Turnbull (1997) asserts that agency problem is particularly acute in Anglo countries such as the United States of America, UK, Canada and Australia, with widely dispersed ownership. The agency problem arises out the possibility of opportunistic behaviour on the part of the agent, which works against the welfare of the principal.

A major element of agency problem is the concept of agency costs, incurred to protect the principal’s interest and reduce the possibility of opportunistic behaviour of the agent. Jensen and Meckling (1976) classify these costs into monitoring expenses, incurred in monitoring the behaviour and performance of agents, bonding expenditure by agents and residual loss of the principal.

Under the stewardship theory, managers are good stewards of the business organization and work diligently to attain high level of corporate profit and shareholders’ returns (Donaldson and Davis, 1994; Turnbull, 1997). Managers, according to Donaldson and Davis, are largely motivated by achievement and responsibility needs. Given their need for self-directed function, organizations may be better served if managers are free from subservience of board dominated by non-executive directors. Turnbull (1997) avers that, in Anglo law, director’s duties are based on stewardship theory. This is because the director acts as if he were the principal rather than as agent or representative.

The stakeholder theory sees the organization as a system of stakeholders operating under a wider societal system, which provides the input, market, legal and other operational infrastructure for the organization (Clarkson, 1994; Blair, 1995). The theory advocates that stakeholders, including employees, customers, suppliers, community representatives and other groups, directly or indirectly affected by the organization’s operations, should have a representation on the board of directors. Jennings and Happel (2003) took a critical look at Post-Enron era of stakeholder theory. They identified flaws in the stakeholder theory and highlighted danger of mandatory imposition of corporate social responsibility on corporations.

The political model of corporate governance asserts that allocation of corporate profit, power and influence among the various stakeholders is determined by government disposition to different groups. In other words, the ability of corporate stakeholders to influence allocation at the micro level depends on the macro framework, which in turn is influenced by the corporate sector (Turnbull, 1997). Pound (1993) avers that the political governance is based on politics rather than finance. In his view, active investors seek to change
corporate policy by mustering voting support from dispersed shareholders rather than by takeover bids. Hawley and Williams (1997) explain that political governance does not necessarily imply government involvement, but merely indicates absence of market forces or financial determinants. 

More recent attention has been given to the question of globalization and convergence in corporate governance (Gilson, 2001). Aguilera and Jackson (2003) developed a theoretical model to explain variations in corporate governance among advanced capitalist economies. They identified social relations and institutional arrangements that determine corporate controls and allocation of rights and responsibilities. Their model has strong implications for issues of international convergence.

IV. Need For Good Corporate Governance In Nigerian Banks

Banks, the world over, play critical role as catalyst of national economic growth and development. Services provided by banks, which, among others, include financial intermediation, payment and fund transfer services, financial and investment advisory services, are very crucial both at the micro and macro-economic levels. Adequate funding of small, medium and large scale industrial establishments is a sine-qua-non for full capacity utilization and consequent contribution to the national gross domestic product.

Banks not only provide the required financial services to the private sector of the economy, they also constitute important source of government funding for economic development projects. Above all, banks serve as important medium through which government economic policies are implemented. It is in realization of the critical role of banks in the healthy growth and development of the economy that various Nigerian governments have shown keen interest in the banking sector by establishing regulatory framework and institutions to monitor and control banking operations.

Over the years, the Nigerian banking sector has witnessed varying degrees of banking crises, beginning with the colossal collapse of indigenous banks during the unregulated banking era in the first half of the 20th century (Uzoaga, 1985; Orji, 1987). Between 1995 and year 2000, the banking sector recorded thirty-three cases of bank failures (Central Bank of Nigeria, 2001). The failure of nine banks in the recent past was attributed partly to inadequate capitalization and partly to problems related to corporate governance. Bank distress leads to loss of confidence of the banking public, which precipitates bank run and its negative effects on the economy.

In a bid to address the problem of bank failure in Nigeria, the Central Bank of Nigeria in July 2004 introduced a major banking reform, which saw upward review of bank capital base from 2 billion naira to 25 billion naira with effect from 1st of January, 2006 (Central Bank of Nigeria, 2006). The consolidation exercise, which involved mergers and acquisitions, produced twenty five mega banks out of eighty nine banks operating before the consolidation (Ogunleye, 2005; Ogowewo and Uche, 2006; Central Bank of Nigeria, 2006).

Although the bank consolidation exercise in Nigeria addressed the problem of weak capital base, it has raised additional corporate governance challenges, arising from integration of processes, information technology and cultures. Above all, the emergence of mega banks following the consolidation exercise has tasked the skills and competencies of boards and managements in improving shareholders’ wealth in a competitive environment (Wilson, 2006). It is therefore important that problems associated with corporate governance in Nigerian banks must be addressed, in order to actualize the envisaged gains of consolidation (Chizea, 2006; Central Bank of Nigeria, 2006).

V. Regulatory Framework For Corporate Governance In Nigerian Banks

Banking in Nigeria is highly regulated. In recognition of the crucial role of banks, government provides legal framework to ensure healthy growth and development of the banking sector. The first attempt at bank regulation in Nigeria was the passage of the Banking Ordinance in 1952 by the British Colonial Administration, on the recommendation of Mr G. D. Paton, an official of the Bank of England, appointed to investigate the high rate of bank failure in Nigeria (Uzoaga, 1985; Orji, 1987).

Three key institutions are currently established through legislation to address problems associated with corporate governance, to ensure that expected standards are attained and obligations to all stakeholders and the society at large are met. The institutions are the Corporate Affairs Commission, The Securities and Exchange Commission and the Central Bank of Nigeria.

The Corporate Affairs Commission

Section I of the Companies and Allied Matters Act 1990 established the Corporate Affairs Commission (CAC) to replace the Company Registry, which existed under the repealed Companies Act, 1968. By the Companies Act, 1968, all banks operating in Nigeria must be locally incorporated and subject to unrestricted control by Nigerian monetary authorities. The Companies and Other Matters Act, 1990 covers provisions on corporate governance in banks and other corporate bodies in Nigeria and charges the Corporate Affairs Commission with the responsibility of enforcing the provisions and monitoring operations of the corporate bodies.
Thus the Commission has the responsibility for incorporation, registration, management and winding up of companies in Nigeria. The CAC maintains register of companies in Nigeria and carries out investigations into the affairs of companies to ensure transparency and the protection of the interest of stakeholders and the general public. The Companies and Allied Matters Act, 1990, requires that annual returns of companies be submitted to CAC for the purpose of monitoring and surveillance.

The Companies and Other Matters Act, 1990 obviously made adequate provisions to ensure transparency, equity, accountability and balance of powers between directors and members of the company. Wilson (2006) asserts that the ability of Corporate Affairs Commission to effectively monitor and enforce the provisions of the enabling law is seriously in doubt. The power to investigate corporate dealings that are inimical to corporate survival is hardly invoked and cases of default in submission of annual returns by corporate bodies abound.

**Securities and Exchange Commission**

The Securities and Exchange Commission (SEC) is the apex regulatory organ of the Nigerian capital market, established by Securities and Exchange Commission Act No. 71 of 1979, and further strengthened by SEC Decree of 1989. The Investment and Securities Act No. 45 of 1999, which repealed SEC Decree of 1989, conferred on the Securities and Exchange Commission, as apex regulatory and supervisory body, extensive powers over institutions operating in the capital market. Nwankwo (1982) asserts that the need to regulate the capital market arises from information asymmetry and other imperfections that lead to sub-optimal functioning of the capital market.

The Securities and Exchange Commission, under the enabling law, has responsibility for the regulation and surveillance over capital market dealers and operations in order to maintain good standards and professionalism. Its other functions include registration and supervision of all securities and security exchanges, issuing houses, stockbrokers and other market operators. It regulates company mergers and acquisition and other forms of combinations and promotes orderly growth and development of the capital market through purposeful restructuring (CBN Brief, 2002/2003).

In exercise of its regulatory powers, the Securities and Exchange Commission in 2003 published a Code of Best Practices on Corporate Governance, as recommended by the Peterside Committee, and reviewed same in 2008 (Securities and Exchange Commission, 2008). The Code aims at ensuring that managers and investors of companies, including banks, show high level of accountability and transparency in the interest of stakeholders and the society at large. Major areas covered in the code include the board of directors, audit committee and the role of shareholders.

The board of directors, with a recommended board size of between 5 and 15, has oversight functions over the affairs of the corporate body, through proper selection, appointment, performance appraisal and compensation of management staff. The board has responsibility for strategic planning, effective and efficient risk management framework, ensuring the integrity of accounting procedure and financial reports. It equally ensures the maintenance of high ethical standards and compliance with enabling laws of the land.

The Code provides specifically for audit committee, charged with the responsibility of ensuring that accounting and reporting policies of the company satisfy the legal and ethical requirements. The audit committee has other functions specified in the Code, including review of the scope and planning of audit requirements, recommendation to the board on appointment, remuneration and removal of external auditors and review of reports of internal and external auditors with recommendation made to the board. The SEC Code of Corporate Governance seeks to enhance shareholder participation at general meetings, making recommendation for suitable venue, notice of meeting and provision of financial statements and other relevant information to ensure effective shareholder participation in the corporate governance.

The regulatory framework, as provided by the enabling law, however has continued to manifest significant weakness, resulting in inability of the Commission to effectively monitor public companies that are listed in the Nigerian Stock Exchange. The powers of the Securities and Exchange Commission, not only to regulate through its registration requirements, but also to discipline public companies through suspension and revocation of company registration is hardly invoked.

Under Section 224 of the Investment and Securities Act, 1999, the Investment and Securities Tribunal (IST) was established and under Section 259 of the Act, the Administrative Proceeding Committee (APC) of SEC was established. The setting up of IST and APC is aimed at speedy resolution of disputes involving quoted banks and othercorporate bodies. However decisions of IST and APC are subject to appeal in the High Court and the effectiveness of the two organs of SEC is consequently constrained by the slow process of appeal in the High Court.

Above all, the regulatory powers conferred on the Securities and Exchange Commission by the extant law and penalties that may be imposed on quoted companies are not applicable to private companies. This is a serious constraining factor when overall impact of regulation on corporate performance is considered.
The Central Bank of Nigeria

The Central Bank of Nigeria (CBN) was established by the Central Bank Ordinance of 1958 as the apex regulatory body in the financial sector. The CBN also carries out this responsibility in line with the provisions of the Companies Act (1968), the Banks and Other Financial Institutions Act of 1991 and the Central Bank of Nigeria Act (1991) as variously amended. By the Companies Act (1968), all banks operating in Nigeria must be locally incorporated and, as Nigerian companies, are subject to unrestricted control by Nigerian monetary authorities. The CBN Act of 1991, as amended, specifies conditions governing the establishment and operation of banking business in Nigeria and the controlling powers of the Central bank of Nigeria. Both the Banks and Other Financial Institutions Act (1991) and the Central Bank of Nigeria Act (1991) aim at ensuring high standard of banking practice and financial stability through efficient and effective surveillance of the CBN.

The CBN has, as its core functions, the provision of banking and financial advisory services to government and, as banker of last resort, offers banking services to other banks. Above all, the Central Bank of Nigeria performs its supervisory and control functions by regulating the entry and expansion of banks through issue and withdrawal of licences. It has the responsibility for implementation of monetary policies of government, using specific instruments to influence monetary variables in the economy. The appointment of chairmen and members of board of directors, as well as management staff of banks in Nigeria must be confirmed by the Central Bank of Nigeria. This is to ensure that guidelines are complied with and standards maintained. In August 2003, the Bankers Committee of the CBN released a Code of Corporate Governance for Banks and Other Financial Institutions in Nigeria. The Code was published in realization of the need to amplify the code put together by the Securities and Exchange Commission, which was applicable to all corporate bodies, in order to address the peculiarities of the financial sector. As outlined in the introductory part of the Code, the objective of corporate governance is to improve long-term shareholder value by enhancing corporate performance, while taking into account the interest of other stakeholders. It aims at building credibility, ensuring transparency and accountability, as well as maintaining effective channel of information disclosure that foster good corporate performance.

In April 2006, the Central Bank of Nigeria published the Code of Conduct for Directors of Licensed Banks and Financial Institutions. The provisions of CBN Code of Corporate Governance are similar to those published by Securities and Exchange Commission. Much emphasis is placed in the CBN Code on board of directors as ultimate organ of good corporate governance. The Code contains explicit recommendations on the best practice, including constituting effective board of directors, major responsibilities of the board, remuneration of directors, board performance assessment and audit committee. The Code also articulates factors that are relevant to depositors’ and investors’ confidence, given the importance of these stakeholders to the growth and stability of the financial sector.

Although the CBN Code of Corporate Governance (2006) was published to address post banking consolidation challenges in corporate governance, not much appears to have been achieved. The ability of Central Bank of Nigeria to monitor and verify the integrity of returns and financial statements submitted by banks is highly questionable. The CBN appears to be overburdened with its functions as apex regulatory financial institution. There is much reliance on periodic returns, as CBN is unable to carry out regular inspection visits to the banks, as specified by the enabling laws. Such on-site inspection visits are important for verification of integrity and accuracy of returns submitted by banks.

VI. Internal Corporate Governance Mechanisms In Nigerian Banks

The regulatory authorities, as examined above, appear to have made adequate provisions in the various framework designed to strengthen corporate governance in Nigerian Banks, although enforcement of the provisions have fallen short of expected performance level. With the regulatory empowerment in place, key functionaries in the banking sector are expected to play their respective roles, which, on balance, will ensure healthy growth and development of the sector, marked with high standards of transparency, equity and fairness to all stakeholders. In this section, we examine the various internal mechanisms that are available to achieve good corporate governance in Nigerian banks. The mechanisms include Board of Directors, Management Compensation and Stakeholder Activism.

Board of Directors

The Companies and Other Matters Act (CAMA) of 1990 specifies that the business of a company (including bank) shall be managed by a board of directors. Section 63(3) of CAMA vests all powers of the company on the board of directors, except those expressly reserved for shareholders in a general meeting. However, Section 279(2) and 279(3) of the Act provide that the directors owe each and every shareholder a fiduciary duty, such that in carrying out its duties, the board must always act in the interest of the company as a whole so as to preserve its assets, further its business and promote the purpose for which the company was formed.
The question is: How well have boards of directors of Nigerian banks carried out their fiduciary functions in the general interest of stakeholders? To what extent are the directors’ personal interests divested from their official role as trustees of the shareholders? And do directors always act in conformity with regulatory specifications in carrying out their oversight functions over bank management and banking operations? As earlier stated, the capitalization exercise, in an effort to shore up the capital base of banks in Nigeria, produced twenty-five mega banks, through mergers, acquisitions and other forms of combination. In many cases, the post-consolidation boards, as observed by Wilson (2006) emerged out of “marriage of convenience”, in which board members, representing the constituent blocks, showed divergent backgrounds, loyalty and interest.

The result is a myriad of challenges in many of the bank boards, which were highlighted in CBN Code of Corporate Governance (2006). These include technical incompetence, boardroom squabbles among directors, lack of robust risk management system in many of the banks, sharp practices and insider abuse. Other challenges include rendering of false returns and concealment of information from examiners, ineffectiveness of board statutory committees and inadequate operational and financial controls (Wilson, 2006; Yuguda, 2011). Unfortunately, the Central Bank of Nigeria, which has statutory responsibility for the supervision and control of the banking industry, appears to be overwhelmed by its numerous functions. With undue reliance of the CBN on periodic returns submitted by banks and faced with inadequate on-site supervision, non-compliance of board of directors with the Code of Corporate Governance in many of the banks cannot be effectively checked.

An important statutory committee of the board is the Audit Committee provided for both in the codes published by the Securities and Exchange Commission and the Central Bank of Nigeria. The responsibilities of audit committee, membership of which includes shareholder representatives, as clearly spelt out in the regulatory framework, include: ensuring the effectiveness of both internal and external audit system, checking the integrity of accounting standard and accuracy/ transparency of financial reports, as well as compliance with regulatory specifications. In practice, audit committee, in some banks, lacks the capacity to effectively discharge its functions, leading to rubberstamping of audit reports.

Managerial Compensation

A basic concept in the theory of corporate governance, arising from agency theory, is the conflict of interest between owners and managers of companies including banks and separation of powers between the chairman of board of directors, as representatives of the owners and chief executive officer, as head of management. While the board has oversight functions to ensure that management conduct the business of the organization in the best interest of shareholders, management has the duty of deploying human and material resources of the organization to achieve desired results. In the literature, there are theoretical arguments on the reasons for conflicts between shareholders and managers. A number of studies have found evidence of agency conflicts associated with the horizon, risk differential, perquisite and shirking problems (Farinha, 2006).

The agency theory recognizes the effectiveness of bonding as a means of reducing the manager’s opportunistic behaviour, which leads to self-aggrandisement at the expense of shareholders’ interest. Bonding involves the execution of contractual agreement, which specifies benefits and obligations of management and the limit of discretionary powers in expropriation of corporate resources. Such contractual document covers, among others, managerial compensation packages. A compensation package may contain profit sharing scheme, special performance-related bonus and increased level of managerial share ownership. Jensen and Murphy (1990) gave a theoretical exposition of a strong relation between management compensation and firm performance. However, their empirical analysis of the Chief Executive Officer pay in the USA showed a weak link between managerial compensation and firm performance. Yermack (1995) reported similar finding.

In Nigeria, it is generally believed that performance-linked bonus and promotion schemes in Nigerian banks are effective strategies for wealth maximising effort of bank managers. This view needs to be confirmed in empirical study.

Stakeholder Activism

Two dimensions of stakeholder activism are examined in this section. First is shareholder capability in controlling the affairs of a corporate body, in this case a bank. The second dimension is the role of host community in influencing corporate social responsibility efforts of banks and other corporate bodies.

The Companies and Allied Matters Act (CAMA) of 1990 made adequate provisions for the balance of powers between board of directors and shareholders of companies, including banks. The powers of shareholders in a general meeting, as contained in Sections 166 and 283(1) of CAMA 1990 include consideration and approval of election and report of directors, appointment and remuneration of auditors as well as approval of financial statements and dividend proposals. The consent of members of the company in a general meeting is equally required for alteration of the memorandum and article of association of all companies, including banks, alteration of share capital, the removal of directors and winding up of companies. Above all, Section 63(5) of
CAMA 1990 vests residual powers in the general meeting, where there is a deadlock or disqualification of the board.

Although the extant law confers enormous powers on shareholders at general meeting, these powers are hardly used in practice on account of many factors. These mitigating factors, as observed by Wilson (2006) include wide dispersion of shareholders, high cost of attending meetings, ignorance of the powers available, lack of understanding of reports given at general meeting and lack of willingness to press on vital issues raised at general meetings. The end result is that general meetings in banks and other corporate bodies in Nigeria merely become approving or confirmatory organs of the board of directors. Even though CAMA specified judicial remedies for breach of directors’ fiduciary obligations, shareholders hardly seek legal redress on account of slow, expensive and ineffective court processes in the resolution of commercial disputes.

Give the adoption in this paper of the wider definition of corporate governance to cover the role of all stakeholders, who directly or indirectly are affected by operations of the company, activities of host community in which the corporate body locates its operations need to be examined. Although the regulatory framework and the enabling laws do not assign any specific role to host community, Chapter IV of the Nigerian Constitution as amended, covers fundamental rights of citizens, including the right to a healthy living. Host communities, as significant stakeholders, seek to influence corporate policies that affect their wellbeing in several ways, which include seeking redress in the court of law, peaceful and sometimes violent demonstrations.

Banks and other corporate bodies are compelled to adjust their corporate policies to accommodate social corporate responsibility programmes and projects that seek to mitigate adverse effect of their operations on the inhabitants of their immediate environment. A good example is the youth restiveness in the Niger Delta region of Nigeria, where operations of oil companies have caused large scale pollution attracting both national and international sympathies.

VII. Conclusion And Recommendations

The failure of banks and other corporate bodies in the global economy including Nigeria has led to increasing interest in corporate governance. Defined in broad terms, corporate governance relates to all control measures directed at ensuring that banks and other corporate bodies are managed in the best interest of stakeholders generally. The banking sector in Nigeria is adequately regulated, given the crucial role of banks in national economic development. However supervisory and control institutions lack effective monitoring and enforcement capabilities, resulting in weak corporate governance in Nigerian banks.

For improved corporate governance in Nigerian banks, the following recommendations need to be implemented.

The Central bank of Nigeria should be restructured to strengthen its supervisory machinery, with greater emphasis on on-site bank supervision and less reliance on periodic returns. More stringent sanctions should be imposed on board members and bank management who engage in acts inimical to the interest of corporate stakeholders. Confirmatory clause should be provided in bank annual returns certifying that provisions of the Code of Corporate governance were not breached.

The audit committee should have increased number of shareholders representatives. Members should be professionally qualified in accounting and/or financial management and should have the competence to discharge their functions independently. The external auditor’s appointment should be based, not only on qualification, but also on proven record of service. The auditor, who gives unqualified audit report on a bank that fails within a specified period after the audit, should be professionally sanctioned.

The monitoring and enforcement capabilities of Corporate Affairs Commission (CAC) and Securities and Exchange Commission (SEC) should be strengthened to ensure adequate sanctions for breach of corporate governance provisions in the enabling laws. The investigative powers of CAC should be strengthened by amendment of relevant sections of Companies and Allied Matters Act, 1990, while SEC should readily apply its deregistration powers on erring banks and other listed corporate bodies.

Finally shareholder activism should be encouraged through legislative empowerment of shareholders associations, while special court of appeal should be established to speedily handle commercial cases from Investment and Securities Tribunal and Administrative Proceeding Committee of SEC.

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