Socio-Political Context as a Driver of Corporate Governance Practices in a Society: A Case Study of the Nigerian Banks

By

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DECLARATION OF AUTHORSHIP

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Abstract

The global increase in failures and scandals in the financial services sector, especially banking institutions, has renewed the call for a more robust corporate governance in the industry. This has necessitated the need to investigate the impact of corporate governance on bank performance, and this study focuses on the case of Nigeria. Previous research has investigated the impact of corporate governance practices mostly in the developed world, to the neglect of vulnerable and poor economies such as Nigeria. This study therefore investigates the impact of corporate governance on the performance of Nigerian banks in the pre- and post-colonial period, using quantitative and qualitative methodological approaches. While various different theoretical perspectives have been adopted to study the impact of corporate governance in specific social contexts, the appropriateness of these theories to the socio-political context of poor countries has become contested. Considering the integration of the Nigerian economy into the global neoliberal capitalist economic system, this thesis adopts neoliberal global capitalism to understand the activities of the Nigerian banking institutions. Using both qualitative and quantitative methods of data collection, adopting qualitative semi-structured interviews and questionnaires, within the framework of neoliberal capitalism, the quantitative results suggest that board size, frequency of board meetings, frequency of audit committee meetings and managerial share ownership have a negative relationship with bank performance. Most of the respondents did not believe that neoliberal corporate governance practices were practical in Nigerian banking institutions. In sum, the study identifies a number of factors leading to failure of banks in Nigeria: the impact of the Nigerian socio-political context of overbearing family domination, ineffective boards, dual and pseudo-dual CEOs, flagrant disobedience and poor application of corporate governance codes. These factors have resulted in poor risk management, excessive risk taking and other unethical behaviours. This study contributes to the body of knowledge by providing an understanding of the connection between corporate governance principles and the performance of banks, looking at the peculiarities of each society in the application of corporate governance principles and introducing a balanced score card to the application of corporate governance.

Keywords: Corporate governance, profitability, board size, neoliberalism, Central Bank of Nigeria, political economy, audit committee

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List of Abbreviations

AC	Audit Committee
ACS	Audit Committee Size
ACCA	Association of Chartered Certified Accountants
AGM	Annual General Meeting
BS	Board Size
BFE	Board Financial Expert
BIAO	Banque International Pour L'Afrique Occidentale
BCBS	Basel Committee for Bank Supervision
BCOMM	Board Committee
BOD	Board of Directors
BOFIA	Banks and Other Financial Institutions Act
CAC	Corporate Affairs Commission
CAMA	Companies and Allied Matters Act
CAR	Capital Adequacy Ratio
CBN	Central Bank of Nigeria
CIBN	Chartered Institute of Bankers of Nigeria
CEO	Chief Executive Officer
DMO	Debt Management Office
EBRD	European Bank for Reconstruction and Development
EFCC	Economic and Financial Crimes Commission
EPS	Earnings Per Share
EVA	Economic Value Added
GDP	Gross Domestic Product
FBCM	Frequency of Board Committee Meeting
FCMB	First City Monument Bank
FBN	First Bank of Nigeria
FCA	Financial Crime Agency
FDI	Foreign Direct Investment
FRC	Financial Reporting Council
GMM	General Methods pf Moments
GTB	Guarantee Trust Bank
IBWA	International Bank for West Africa
ICAN	Institute of Chartered Accountants of Nigeria
IFC	International Finance Corporation

IMF	International Monetary Fund
LCR	Liquidity Coverage Ratio
MS	Management Shareholding
NAICOM	National Insurance Commission
NDIC	Nigerian Deposit Insurance Corporation
NED	Non-Executive Director
NEEDS	National Economic Empowerment and Development Strategies
NNPC	Nigerian National Petroleum Corporation
NSE	Nigerian Stock Exchange
OECD	Organisation for Economic Co-operation and Development
PAT	Profit After Tax
PENCOM	Pension Commission
ROA	Returns on Assets
ROCE	Returns on Capital Employed
ROI	Returns on Investment
SEC	Securities and Exchange Commission
SOX	Sarbanes Oxley Act 2002
SAP	Structural Adjustment Programme
UBA	United Bank for Africa
WACB	West African Currency Board
WTO	World Trade Organisation

Chapter 1. Introduction

1.1 Introduction

Transparent and accountable corporate governance practices, which protect and advance the interests of shareholders and other stakeholders through setting the strategic direction of a company, appointing and monitoring capable management, are said to be essential for the smooth and efficient management of organisations and society (Abid and Ahmed, 2014; OECD, 2004; Ross and Crossan, 2012; Scherer and Voegtlin, 2020; Walker, 2009). In the above context, good corporate governance practices have been seen as an essential ingredient in fostering fairness, accountability and transparency within organisations (Landell-Mills and Serageldin, 1991; OECD, 2004; Pillay, 2004). Lefort and Urzua (2008) argue that the board of directors are central to corporate governance structure of an organisation and there is an increasing call for them to provide strategic guidance and more effective monitoring to deal with agency problems (Lefort and Urzua,2008; Samaha et.al.2012).

Therefore, good corporate governance practices act as checks and balances for both internal and external organisations and ensure that organisations discharge their responsibilities to the shareholders and other stakeholders with the required transparency and accountability and act in a socially responsible way to the society in all areas of their business activity (Dias et al., 2017; Mrabure and Abhulimhen-Iyoha, 2020; Solomon, 2013; Wachira, 2019). La Porte et al. (2000) argue that the implementation of corporate governance mechanisms will have a

positive impact on organisations, capital markets and the economy as a whole. In order to achieve the main objectives of good corporate governance practices therefore, the society in which organisations operate must put in place effective institutions of governance and an enforceable legal framework appropriate to that particular society.

The 2002 Enron debacle and 2008 global financial crisis have increased the awareness and interest of international financial institutions such as the IMF and World Bank in the importance of good corporate practices, especially in the global banking sector. This has particularly intensified in developing countries because the scandals and crises across the globe impacted them more and banks have been singled out for unethical behaviour in the crisis which shook the entire financial system. According to (Mitton, 2002), because banks play a role of financial intermediation, any disruption to the flow of their activities will have a damaging effect on the economy. This has further increased interest in corporate governance practices (Uwuigbe,2011), especially in developing countries such as Nigeria. The importance of corporate governance also cannot be overemphasised in developing countries such as Nigeria because banks dominate the financial services sector and constitute an engine of growth to the economy; therefore, any failure in the industry often speaks doom for the entire economy. Also, there has been an astronomical increase in corporate governance research in the past two decades as a result of various scandals in the nineties and the most recent financial meltdown, which have eroded investors' confidence in the banking industry and the market as a whole. This has equally led to various developments and investments in corporate governance

guidelines across the globe such as Sarbanes Oxley in the USA and the Combined Code on Corporate Governance in the UK (Adegbite,2010). According to Arun and Turner (2004) various organisations, such as the parliaments, governments and regulators, have come together to build what they claimed to be a strong, reliable and stable financial system, which has consistently failed to be effective (see for example, Bakre et al., Forthcoming; Bakre and Lauwo, 2016; Sikka, 2021; 2020).

The issue of corporate governance and regulation is not limited to developing nations as there has been increased scrutiny of the banking sector also at the international level through various agencies including the Basel Committee on Banking Supervision (BCBS), the Organisation for Economic Cooperation and Development (OECD) and the Report on the Observance of Standards and Codes (ROSC) to underscore inherent weaknesses in the framework of corporate governance across the globe. For example, the Basel Committee on Banking Supervision (BCBS) believes that corporate governance is necessary to guarantee a sound financial system, arguing that good corporate governance increases monitoring efficiency (Enhancing Corporate Governance for Banking Organisations, September 1999 and February 2006). Corporate governance has been defined and expressed in different forms (Jones and Pollitt,2002; Baker,2009). Tirole (2001) refers to corporate governance as "the design of institutions that induce or force management to internalize the welfare of stakeholders" while La Porta et al. (2000) define Corporate governance as a set of mechanisms through which outside investors protect themselves against expropriation by insiders. It has

also been defined as "the system of laws, rules, and factors that control operations at a company" (Gillan and Stark, 1998,). Other researchers have seen corporate governance as a machinery to ensure appropriate allocation of company's resources and prevent expropriation of the company's resources by managers (Nam et al., 2004).Generally corporate governance refers to everyone and every institution, from individuals to private and public institutions, including laws, regulations and accepted business practices, which together govern the relationship, in a market economy, between corporate managers and entrepreneurs (corporate insiders) on the one hand, and those who invest resources in corporations on the other (Gillian and Stark,1998;Oman, 2001, p.13). Adams and Mehran (2003) view corporate governance as the relationships among management, the board of directors, shareholders, and other stakeholders in a company and the relationships provide a framework within which corporate objectives are set and performance is monitored. Rezaee and Kedia (2012) provide a more detailed definition by looking at corporate governance as "the process affected by a set of legislative, regulatory, legal, market mechanisms, listing standards, best practices, and efforts of all corporate governance participants, including the company's directors, officers, auditors, legal counsel, and financial advisors, which creates a system of checks and balances with the goal of creating and enhancing enduring and sustainable shareholder value, while protecting the interests of other stakeholders".

Causes of corporate governance issues vary across the divide between developed and developing countries, which underscores the importance of the socio-economic value of the

divide. For example, conflicts of governance can emanate from principal-agent conflicts in developed countries, while in developing countries there is often a conflict between two principals, or a principal-principal conflict viewed as controlling shareholders versus minority shareholders. This is exactly the case within the Nigerian banking sector, where there is concentration of ownership in the hands of a few individuals and the interest of minority shareholders is flagrantly jeopardised. In the above context, corporate governance practices have also become an issue in Sub-Saharan Africa, particularly in Nigeria, which is examined in this thesis. Rossouw (2005) argues that corporate governance development across the African continent is still very slow and not sophisticated enough (Nyamori and Rahaman,2017) and that Nigeria has not yet implemented an inclusive model of corporate governance that reflects proper accountability to all stakeholders (Ibrahim,2003; Rossouw, 2005). All these factors have led to calls for a more transparent framework to protect the interests of minority shareholders, especially in the banking institutions, which is the main focus of this thesis.

The above analysis suggests that good corporate practices are very important to banking institutions in view of the prominent role that banking institutions play in the global economy in general and the national economy in particular which underpins a study of corporate governance and performance of banking institutions globally. It is even more important to the Nigerian cultural, socio-economic and political context, which is characterised by ineffective institutions of governance, a weak regulatory accounting and accountability framework and

corruption (Adegbite,2010; Bakre, 2011; Bakre and Lauwo, 2016; Bakre, 2007; Everett and Rahaman,2007; Iyoha and Oyerinde, 2010).

Despite various regulations, such as the Companies and Allied Matters Act (CAMA) 1990 and 2020 as amended, the Banking and Other Financial Institutions Act 2004, the Central Bank of Nigeria (CBN) Act, 2006, the Nigeria Deposit Insurance Act (NDIC) 2004 and 2020 as amended, introduced into the Nigerian banking sector, this sector has constantly witnessed systematic corporate failures akin to the worst scandals in recent history (Bakre, 2007; Mbara et al., 2019; Otusanya et al., 2013). This has been seen as the upshot of the failure and unresolved decay experienced in the sector in the 1980s and 1990s, which led to the consolidation of many Nigerian banks in quick succession in 2004 and 2006, aimed at strengthening banks' capital bases, ensuring sound control mechanisms and rebuilding public confidence in the sector. This was also expected to restore good corporate principles and best practice in the management of the affairs of these banks.

However, despite the adoption of Western corporate governance practices to supposedly rebuild investors' confidence in the Nigeria banking sector, through the enactment of the above various acts of the Nigeria National Assembly, the rebuilt banking sector continues to witness monumental corruption, scandals and failures (Bakre,2011), due to the corrupt internal socio-political system and external global capitalism. Turlea et al. (2010) argue that the continued occurrence of corporate scandals has been seen to have been caused by the interactions between internal and external actors in the corporate environment (Ibrahim 2013). As a result, the

unabated failure within the banking industry in Nigeria (Oke,2006) has led to calls to rethink corporate governance practices to make them appropriate and relevant to the Nigerian cultural, socio-economic and political context. This now brings us to an examination of the motivation for the study in the next section.

1.1 Motivation and Importance of the Study

A sound and healthy banking sector is very important as it will ensure transparency and accountability in banking institutions in particular and society in general. Like most other developing countries, Nigerian banks represent a major player in the economy as a financial intermediary. However, the global financial market meltdown of 2007/08, linked to poor corporate governance in the banking industry (Yusuf et. al, 2018; Adegboye, 2021) with Nigerian banks not an exception has called for a more concerted effort in tackling corporate governance crisis. The OECD (2009) claims that the crises were due to weaknesses inherent in corporate governance procedures, which could not prevent excessive risk-taking by the financial institutions (OECD,2009). Consequently, measuring corporate governance application and performance in banks is key to the survival of the industry and, by extrapolation, the economy, as banks are the lifeblood of the economy.

As a neoliberal capitalist economy, Nigeria adopted Western corporate governance practices in its banking institutions. However, while the Western world and their controlled institutions, such as the World Bank and IMF, claimed that codes of good corporate governance practices were already in place during the financial crisis, the institutions that complied with

these codes suffered the consequences of the crisis at the same intensity as those who had not applied the guidelines contained in the codes (Armour et al., 2016). This suggests that these acclaimed good codes may not represent best practice as claimed (Sikka, 2021). This has also necessitated the need to analyse to what extent banks' corporate governance, or more precisely the differences in banks' corporate governance, which formed the root of the crisis, were also responsible for the 2008 Nigerian banking crisis and failure. Thus, this thesis identifies three major needs for research on the appropriateness of the Western corporate governance practices adopted by Nigeria to the Nigerian cultural, socio-economic and political context and the banking institutions.

Firstly, contemporary experiences in the Nigerian banking sector suggest that effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the banking system, and these are critical to the proper functioning of the banking sector and the economy as a whole (Bank of Settlement, 2010; Ogbechie and Koufopoulos, 2010). Efficient corporate governance is essential to the economic existence of developing countries, as this will enable them to earn recognition, gain access to the required funds, and lead to better performance. The financial crises in the banking industry in Nigeria has further highlighted the relevance of understanding the role of corporate governance and its interaction with bank performance in Nigerian banking institutions. There have been a lot of corporate failure and distress, a high volume of non-performing loans, insider dealing and other vices in the banking sector and all these problems motivate further research in this area.

The second motivation for this study is that empirical studies on corporate governance practices and performance in banking institutions are limited, and where they exist only a few concentrates on developing countries on Africa in general and Nigerian banks in particular. The current study critically examines this gap by concentrating on Nigerian banking institutions and suggests an appropriate theoretical framework for understanding corporate governance practices in developing countries in general and Nigerian banking institutions in particular.

Thirdly, most of the studies on corporate governance practices do not give a complete view of corporate governance practices and performance. In most cases they have limited scope, covering a section of the study rather than providing a holistic view. Some of the studies have looked primarily at the quantitative view while others have looked at the qualitative side, and few relationships have been established on the impact of corporate governance on bank performance, leaving a lot of fertile ground for further research and a need to utilise a holistic approach that combines both the quantitative and qualitative approaches. Although there have been various codes and guidance from various regulatory bodies on corporate governance principles and practice in Nigeria, such as the CBN, Financial Reporting Council and government legislation, to guide activities of organisations, problems of non-compliance, lack of transparency and accountability, poor control systems and excessive risk taking have dominated the Nigerian banking terrain. According to Monks (1998), cases of corporate failure constitute an indictment of the corporate governance structures. This therefore provides an

opportunity to conduct further study to gain an insight into why these corporate governance issues persist and how they can be minimised. Consequently, this study seeks to locate why problems of corporate governance breakdown and breaches in Nigerian banking system persist in spite of various measures and policies put in place. Thus, this study concludes that the issue is lack of good institutional framework.

Lastly, criticisms of western corporate governance practices adopted by Nigeria, their implications on the 2002 and 2008 global financial crisis and growing international concern about quality of corporate governance around the world after the 2008/09 financial meltdown have become major concerns in the global economic environment (see Sikka, 2021). As the same Western corporate governance practices are adopted by Nigerian banking institutions, this has correspondingly necessitated comprehensive research into the implication and appropriateness of Western corporate governance practices to the 2009 Nigerian banking crisis, as well as other failures and endemic corruption in the Nigerian banking sector.

1.2 Objective of the Study

The main objective of this thesis is to carry out an investigation into the appropriateness of the Western corporate governance practices in improving transparency,accountability and controlling corruption in the Nigerian banking sector and the economy as a whole. This assessment has the intention of rebuilding investors' confidence in the sector and the economy at large. The research intends to look at the impact of various corporate governance indicators such as CEO duality, board and ownership structure as well as the size on performance of banks

in Nigeria. The question of why corporate-governance-related issues are important to banks' ultimate performance has been a subject of debate in the empirical literature. There is an argument that good corporate governance should enhance bank performance and curtail reckless risk-taking by bank management. However, the question of whether corporate governance has an impact on the management of bank's risk has received different answers from researchers. In the case of the Nigerian financial sector, poor corporate governance has been seen as one of the major factors in almost all the financial institutions' distress in the country (Olayiwola, 2010). Such failure of banks as a result of poor corporate governance could destabilise the entire economy because of the prominent role banks play in financial intermediation. According to Becht et al. (2002), corporate governance problems emanates as soon as an outside investor wants to exercise control differently from that of the manager of the firm. In the same vein, other scholars identified the risk of outside investors being represented by insiders as a corporate governance problem (La Porta et al. 2000). Also, Berglöf and Von Thadden (1999) point out that the "recent literature is based on the premise that the main corporate governance problem arises from the conflict between self-interested management and weak, dispersed shareholders." According to Jensen and Meckling (1976), "the ownership of a corporation, especially the role of equity ownership of managers, is a mechanism to align managers' interest with that of the owner" (Jensen and Meckling ,1976).

It is often argued in literature that the socio-political and cultural system of a society determines its socio-economic development, including corporate governance practices (Neu et al., 2013; Bakre and Lauwo, 2016; Ndibizu, 1994). This seems to suggest that adopting

Western corporate governance practices, which are developed bearing in mind the developed world's effective institutions of governance, strong and enforceable legal framework and well-developed capital market, cannot be successful in poor, developing countries with ineffective institutions of governance, weak regulatory frameworks and weak capital markets; this could amount to a global legacy of inappropriate technology (Bakre, 2011). Other researchers have also argued that the nature and behaviour of shareholders varies depending on the types of owners, which could eventually affect firm's performance (Douma et al., 2006; Pederson and Thomsen, 1999). Even though many studies have been carried out on the relationship between corporate governance and banks' performance, most of these studies have been based on developed economies with well-structured systems, and therefore the theories resulting from such studies may not be applicable to developing or emerging markets, because of the difference in the socio-political, economic and cultural environment. There is therefore a need for country-specific studies, and hence this study focusses on corporate governance within the Nigerian banking system.

It is in the above context that this research examines the impact of the Western corporate governance practices adopted by Nigeria, to supposedly regulate its corporate activities, and whether they can be effective in developing countries in sub–Saharan Africa with socio-political and cultural systems that are arguably embedded in corruption. For example, in Nigeria before the consolidation exercise, the banking industry had about 89 active players whose overall performance led to deteriorating customer confidence but with the consolidation, the number reduced to 24 supposedly healthy banks. However, there was lingering distress in the industry, the supervisory structures were inadequate and there were cases of official recklessness amongst the managers and directors, while the industry was notorious for ethical abuses (Akpan & Amran, 2014).

Corporate governance involves good management culture and encompasses the overall principles of good company management (Holm and Larsen, 2007). The structure of the system involves the relationships and interactions among the board, management and other internal, as well as external stakeholders in the pursuit of company's objectives (Holm and Larsen, 2007). This view on the conceptual content may be considered as the general interpretation of corporate governance as incorporated in leading reports on the issue such as the Cadbury Report (1992), the Greenbury Report (1995), the Report of the CEPS Working Party (1995), the Hampel Report (1998). At the same time, corporate governance issues have gotten a great deal of attention from the world bank reports of (2005;2007;2010) as well as IMF Country reports (2011, 2013)

1.3 Contribution of the Research to the Existing Knowledge

Researchers on the banking institutions in Nigeria have adopted different theoretical perspectives to understand and measure bank performance using corporate governance lenses. However, they have rarely adopted neoliberal economic theory to understand corporate governance practices in Nigeria. This research contributes to the body of literature by adopting neoliberal capitalism economic theory to gain a better understanding of corporate governance practices in the Nigerian banking system and how banking institutions and corporate governance can be strengthened, with a view to improving performance of banks despite weak legal and institutional frameworks.

This research addresses the issues confronting banks by looking at corporate governance from a proactive point of view without waiting for a collapse before identifying and analysing corporate governance problems. Corporate governance issues could be an early warning signal, supporting the saying that prevention is better than cure. For instance, a company might be declaring profit but if it has poor corporate governance this could be a disaster waiting to happen. For example, Coffee Jr. (2003) investigated the Enron failure, which he attributed to

the gatekeeper's failure rather than board failure. Corporate governance policies are later put in place long after the company had collapsed, and the damage was beyond repair. This suggests that bank health checks must be a continuous exercise and not limited to when they have already collapsed.

This research further contributes to the literature by analysing the state of corporate governance development in the Nigerian banking sector, the impacts of the banking regulations and the efforts put in place to ensure that banks are well governed. It also addresses the issue of whether banking reforms carried out by the CBN in relation to governance are adequate for the survival of the Nigerian financial sector in the face of global challenges.

Lastly, this research makes a case for a balanced score card methodology in analysing corporate governance applications, which represents a multi-theoretical insight to the understanding of corporate governance and prevents a one size fits it all approach to corporate governance principles and practices, since the issue of corporate governance is the joint responsibility of everyone in the organisation.

1.4 Organisation of the Thesis

The thesis is divided into eight interrelated chapters, as shown in figure 1.

Chapter 2 reviews prior empirical studies and extant theories on corporate governance practices and bank performance, to provide a conceptual overview of the study with reference to various theories and concepts that underpin corporate governance practices. The chapter further reviews the extant literature and studies that have been conducted on corporate governance and financial performance in developed as well as developing countries.

Chapter 3 provides a critical analysis and overview of the impact of Neoliberalism and globalisation on corporate governance. It discusses the interrelationship between neoliberal capitalism, corporate governance

and accounting, and analyses neoliberal capitalism as the mechanism for global economy in general and corporate governance practices in particular. The chapter also examines the various data collection methods that the study adopts.

Chapter 4 presents a country-specific analysis and overview of how the social, legal, political, economic and cultural systems in Nigeria influence corporate governance practices and outlines various transitional process in the Nigerian development post-independence and efforts made to institute governance mechanisms to regulate activities within the country. The chapter further analyses the political economy as applied to the banking sector and the corporate governance models.

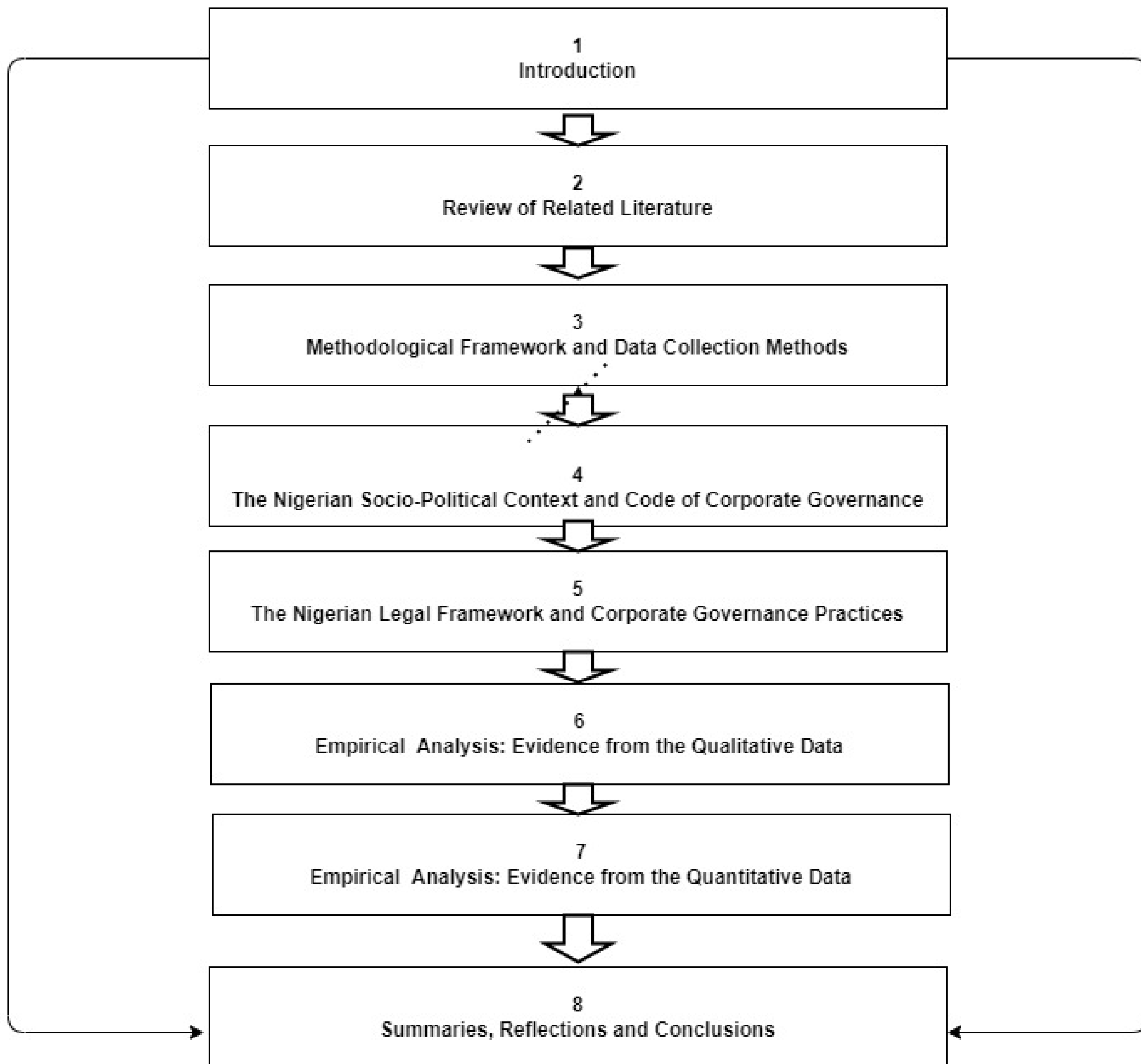
Chapter 5 presents the corporate legal practices in colonial and post-colonial Nigeria, the development of the legal framework of Nigeria as well as the historical perspective of various codes and principles, the philosophical approach to corporate governance in both developed and developing countries and corporate governance mechanisms. The chapter further reviews corporate governance development and the evolution of banks in colonial and post-colonial Nigeria.

Chapter 6 presents the empirical analysis of the evidence from qualitative data. This chapter adopts the theoretical framework of neoliberal economic policy and theory to analyse the empirical evidence from qualitative sources, interviews and questionnaires carried out to understand the relationship between corporate governance and bank performance, in accordance with the objective of the research. The chapter is structured into three sub sections. 6.1 presents the analysis of the interviews, discussing the design and data collection for the interviews as well as the views expressed by various participants. 6.2 analyses the results of the questionnaire, summarising respondents' answers and views, while 6.3 presents other issues raised by the participants.

Chapter 7 presents the empirical Analysis of the evidence from the quantitative data. This chapter adopts the theoretical framework of neoliberal economic policies to analyse the impact of corporate governance on bank performance from a quantitative perspective, presenting the correlation between dependent and independent variables. The chapter is divided into three subsections: 7.1 describes the hypothesis and data; 7.2 presents the results of regression analysis, including the empirical model and estimation results, while 7.3 analyses the empirical findings from the model.

Chapter 8 adopts the theoretical framework of neoliberal economy to present the summary and conclusions of the findings, and discusses the research contributions, research limitations and recommendation for future research work. The structure of the thesis is shown in figure 1.0.

Figure 1.0 Structure of the Dissertation


1
Introduction
2
Review of Related Literature
3
Methodological Framework and Data Collection Methods
4
The Nigerian Socio-Political Context and Code of Corporate Governance
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The Nigerian Legal Framework and Corporate Governance Practices
6
Empirical Analysis: Evidence from the Qualitative Data
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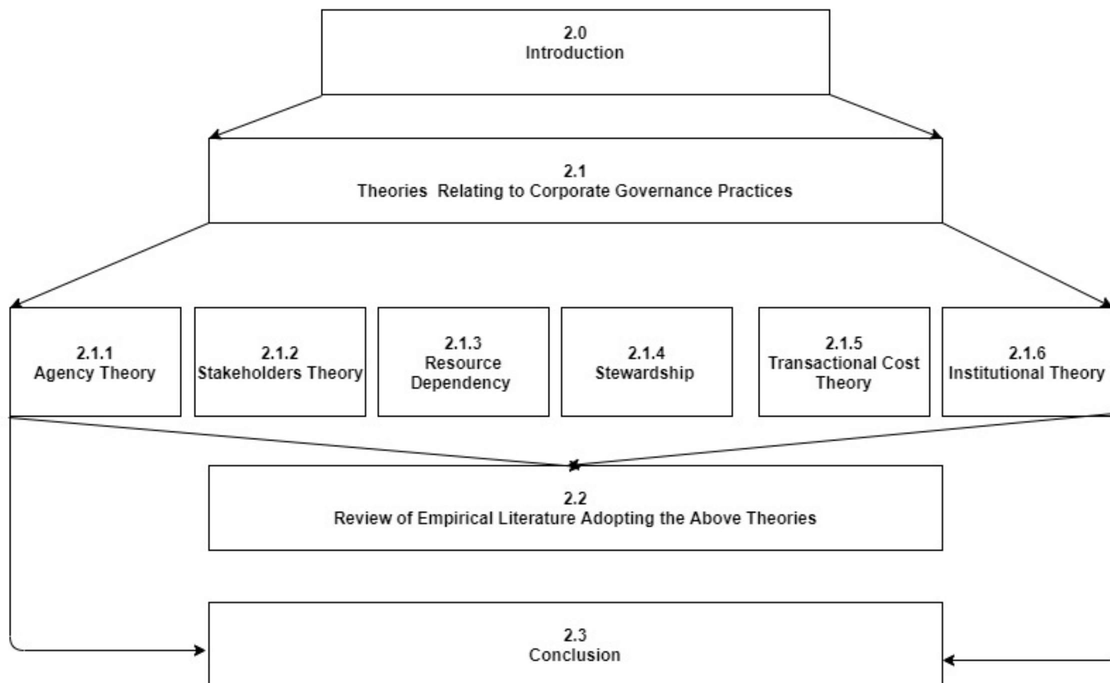
Chapter 2. Review of Related Literature

2.0 Introduction

Any understanding of the development of corporate governance is anchored on different theories, with each theory having a limited ability to illuminate every aspect of the subject (Bakre, 2001). It is therefore necessary to apply a combination of theories. This chapter therefore discusses various theories that have been deployed to gain an understanding of the theoretical and historical background of corporate governance**.** It discusses major theories of corporate governance such as the agency, stakeholder, stewardship, resource dependency, transaction cost and institutional theories. The chapter is divided into three further sections. 2.1 elaborates on the various theories of corporate governance, 2.2 provides a review of the existing literature on corporate governance, while 2.3 presents the summary, discussion and conclusion of the chapter. The structure of chapter 2 is shown in figure 2.

Figure 2.0 -Structure of the Literature Review



2.1 Theories relating to corporate governance practices

This section reviews some of the theoretical works that have contributed to the understanding of the relationship between corporate governance and bank performance. These theoretical frameworks help to understand the context of corporate governance in order to advance the interest of shareholders and other stakeholders with a view to ensuring accountability and transparency in the running of affairs of firms. These theories also highlight the objectives of the firm and how the firm should be responsible in meeting its obligations. Also, the theories view corporate governance from different perspectives and most have their origin in

economics, accounting, law and finance (Mallin, 2008; Solomon, 2013,2020). Researchers adopt various theories in carrying out research on corporate governance, with some using agency theory, while others based their research work on stakeholder theory, transaction theory or resource dependency theory. These theories suffer from diverse limitations, and none can be applied in isolation to gain a comprehensive understanding of corporate governance principles (Atuahene, 2016; Daily et al., 2003; Jackling and Johl, 2009; Kiel and Nicholson, 2003). This is particularly important to the governance structure of banks, which is very sensitive and fundamental to the entire economy. Each of these governance theories is further discussed below.

2.1.1 Agency theory

Agency theory has its roots in economic theory and was developed by Alchian and Demsetz (1972) and further exposited by Jensen and Meckling (1976). Agency theory can be described as the relationship between the principals, such as shareholders, and agents, such as the company executives and managers. Under this theory, shareholders, who are the owners or principals of the company engage the agents to act on their behalf in the management of the company. Shareholders employ bank management and a board to act on their behalf to maximise their wealth. As a result, principals delegate the running of the business to directors or managers, who are the shareholder's agents (Clarke, 2004). Indeed, Daily (2003) argues that two factors can influence the prominence of agency theory. First, the theory is conceptually simple and reduce the corporation to two major participants: managers and shareholders. Secondly, agency theory implies that employees or managers in organisations are out to protect their self-interest (Fama and Jensen, 1983). According to Fama and Jensen (1983), the board of directors represents the shareholders, and Bottenberg et al. (2017) state that the board's main role is to protect shareholders' interests. With agency theory, shareholders expect the agents to

act and make decisions in the principals' interest (Letamora,2019;Letza et al. 2004;Tulkur and Balkisu,2014), but this may not be the case in reality (Padilla, 2002). This problem dates back to the 18th century as identified and highlighted by Adam Smith (1776) and consequently advanced by Ross (1973). The first comprehensive description of agency theory was presented by Jensen & Meckling (1976). Indeed, the debacle caused by problems arising from the separation of ownership and control in agency theory has been confirmed by Davis et al. (1997). It has been argued that in agency theory, the agent may be carried away by self-interest and opportunistic behaviour, and thus congruence between the aspirations of the principal and the agent's pursuits is not realised (Ahmad & Omar, 2016; Bell et al., 1997; Davis et al., 1997; Letza et al., 2004). Despite such setbacks, agency theory was introduced basically as a separation of ownership and control (Bhimani, 2008). Holmstrom & Milgrom (1994) argue that instead of providing varying incentive payments, the agents will only focus on short term projects that have a high return and a fixed wage without any incentive component. Although this provides a fair assessment, it does not eradicate or even minimise corporate misconduct. Here, the positivist approach is used, where the agents are controlled by principal-made rules, with the aim of maximising shareholder value. Hence, a more individualistic view is applied in this theory (Clarke, 2004). Agency theory can be employed to explore the relationship between the ownership and the management structure. However, where there is a separation, the agency model can be applied to align the goals of the management with that of the owners. This is particularly true in a family firm where the management comprises of family members, hence the agency cost would be minimal as any management performance does not really affect the firm's performance (Eisenhardt, 1989). This is because self-interest from the management is also the interest of the owners, so there is no conflict. The employee, as portrayed in agency theory, tends to show self-interest, be individualistic and be bounded rationality, so that rewards and punishments seem to take priority (Jensen & Meckling, 1976). Proponents of

agency theory recommend that employees are held accountable for their tasks and responsibilities. Employees must create and work under a good governance structure, rather than just providing for the needs of shareholders that may challenge the governance structure (Sani,2016). It has been said that shareholder ownership of large companies is a "myth", but despite recurring crisis it has remained dominant (Arnold and Sikka, 2001; Collison et al., 2011; Galbraith, 1961; Ireland, 1999; Sikka & Willmott, 1995; Stout, 2012; Walker, 2009; Financial Reporting Council, 2010, 2012, 2013).

The major issue with this relationship lies in the fact that agents do not make decisions that meet the best interests of the principals, because self-interest from the management is also interest for the owners, so there is no conflict as agents and principals have conflicting goals. While, in theory, company managers are expected to maximise shareholders' wealth, they instead pursue their own personal interests and objectives. This can lead to information asymmetry, where managers, who hold detailed information about the firm may try to pursue sub-optimal objectives or projects that lead to short-term profit at the expense of long-term maximisation of shareholders' wealth. This Short-termism is a biproduct of the remuneration system, which rewards short-term profit through huge salary increases and enormous bonuses. This was one of the reasons for the recent financial crisis that rocked the length and breadth of the financial services across the globe. This short-termism is an attribute of companies that are outsider dominated by principals such as institutional investors who want short-term returns at the expense of the long-term maximisation of shareholders' wealth. Consequently, the separation of ownership and control, noted above, is one of the hallmarks of the modern corporation and may eventually lead in many instances to managers using their firm-specific knowledge and managerial expertise to gain an advantage over the firm's owners, who are absent from the day-to-day management of the affairs of the firm. Since managers are "in

control" of the firm, there is the risk that they will pursue actions in their own self-interest, and not in the interest of the owners (Jensen & Meckling, 1976; Letza et al., 2004).

Many suggestions have been put forward to resolve the conflict between the principal or shareholders and managers. This includes shareholders engaging managers in useful and peaceful discussions, otherwise known as moral suasion. Having a peaceful discussion or dialogue can avoid conflict and confrontation between management and shareholders. As Holland (1998) argues that such private meetings, if considered from a financial reporting perspective, demonstrate that private disclosure through engagement and dialogue was developed to supplement public corporate disclosure meetings (Holland,1998). Another method is voting at the Annual General meeting (AGM), which shareholders employ to influence major decisions and put a check on the management. Also, the shareholders, if dissatisfied with management, can support a takeover bid. Jensen and Ruback (1983) argue that takeover can eliminate inefficient management and, by supporting a takeover bid, shareholders can discipline managers and curtail their excesses.

Not only that, in order to align their interest with that of the managers, shareholders may come up with a shareholders' resolution, where they come together to influence issues. At the same time, if dissatisfied with the way the company is being managed, shareholders may divest their holding or interest in the company or refuse to put down more capital when it is needed. All these are necessary because the validity and coherence of agency theory depend upon the existence of mechanisms by which firm owners can monitor the performance of managers to confirm that they are using their own competences and the firm's resources to achieve the best returns for the principals (Fama, 1980).

However, agency conflict is a global problem and governments in various countries have equally come up with various policies and codes of corporate governance designed to make companies more accountable to shareholders. For example, in order to ensure transparency and

to forestall the problem of an overbearing chairman/CEO, the position has been split into two, such that no one individual can be the chairman and CEO at the same time. This is to ensure that there is transparency and separation of power. For example, the code of conduct in the UK requires companies that are listed on the London Stock Exchange to disclose the extent to which they have complied with the code. This Shareholder primacy has been promoted as a disciplining device for efficient allocation of resources (Berle and Means, 1991; Manne, 1965).While looking at agency theory in firms, Fama and Jensen (1983a) and Jensen and Meckling (1976) posit that when individuals engage in firm relationships, they are utility maximisers, self-seeking and opportunistic. These authors therefore suggested that the governance system must introduce mechanisms that will align the interests of principals (owners) with those of their agents (the mangers). Another measure put in place to resolve agency conflict is the appointment of non-executive directors (NED). The consensus among researchers is that NEDs must bring a variety of skills to their appointments, and must be sensitive to firm context (Kakabadse and Korac-Kakabadse, 2001; Tosi Jr and Gomez-Mejia, 1994). They have been viewed as being able to project their firms to informal networks, provide contacts in new markets, and improve the credibility of the firm in new markets (Hambrick and D'Aveni, 1992). Thus, NEDs have been constituted to provide guidance regarding growth strategies, general problem solving, strategic planning, recruitment and staff development, as well as marketing (Boussouara and Deakins, 2000).

Advocates of corporate governance reform have long emphasised the independence of board members as being critical to their ability to carry out their monitoring functions without interference. However, there is little research on the incorporation of NED motivation into the corporate governance theoretical framework. Researchers are of the opinion that research concerning boards, whether examining board structure or board process, is incomplete unless it also considers the motivation of the NED to accept this responsibility. Some even argue that

increasing the number of NEDs on a board will increase the board's independence in line with agency theory (Baysinger and Butler, 1985; Waldo, 1985). Within the corporate governance framework, the board of directors in general, and NEDs in particular, are a "weak link" and that was the thought of James Westphal (2002) when he stated that: "Nearly two decades of research finds little evidence that board independence enhances board effectiveness".

Agency theory suggests that in the banking industry, the control function lies with the board of directors, hence the need to pay special attention to the composition of the board in terms of size and mix. However, some schools of thought have argued that Corporate governance based on agency theory must be reviewed and modified in line with economic realities (Chancharat et al., 2012; Tangpong et al., 2010). Also Jones (1995) believes that managers are trustworthy and should be fully empowered and disagrees with the notion that agents serve self-interest and concentrate on fulfilling self-interest against the wishes of the principals.

Critics of agency theory see the theory as a narrow approach because it only looks at the relationship between the company and its shareholders, without considering other stakeholders that make up the organisation. There is therefore a need to consider the interests of other stakeholders in the organisation, which is illuminated in stakeholder theory.

2.1.2 Stakeholder theory

Stakeholder theory has been entrenched in the management discipline since the 1970s and was further developed by Freeman (1999), who suggests that corporate governance should incorporate corporate accountability to a broad range of stakeholders, although the theory has been around since 1916 through the work of Clark (1916) and Dodd (1932). Wheeler and Davies (2004) contend that stakeholder theory is derived from a combination of sociological and organisational disciplines. Stakeholder theory has been seen as less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory,

economics, law and organisational science (Babalola and Adedipe,2014). Stakeholder theory is premised on the fact that companies are big entities and should be accountable to stakeholders other than the shareholders. This view also suggests that as the company affects the stakeholders as stakeholders also affect the company and thus there is an exchange relationship between the company and the stakeholders. March and Simon (1958) argue that stakeholders supply companies with contributions and expect their interest to be satisfied through inducements. Farrar et al. (1998) view stakeholders as those who have a legitimate stake in the company, which is akin to the suggestion of the Corporate Report (ASSC, 1975) which suggest that companies should be made accountable for their impact on the wider group of stakeholders.

Stakeholders can be viewed as any group or individuals who can affect or be affected by the organisation's activities and objectives (Jensen,2001). They include shareholders, employees, suppliers and government, among others. All these have a stake in the company and their interests must be protected by the organisation. Unlike agency theory, in which the managers are working for the interest of shareholders, stakeholder theorists suggest that managers in organisations have a network of relationships to serve, which includes the suppliers, employees and business partners. They should take the interests of stakeholders into consideration any time a decision is to be made, because it will impact all stakeholders. It has equally been argued that this group of networks is important outside the owner-manager-employee relationship, as in agency theory (Wheeler, et.al, 2003; Freeman,1999). According to Sundaram and Inkpen (2004), stakeholder theory attempts to address the group of stakeholders deserving and requiring management's attention (Odera,2012). In their own view, Donaldson and Preston (1995) contend that all groups participate in a business to obtain benefits (Abdullah and valentine, 2009). Other scholars viewed an organisation as a system including stakeholders, and the purpose of the firm is to create wealth for its stakeholders

(Clarkson ,1995; 2016). Similarly, Freeman (1984) argues that the network of relationships with many groups can affect decision making processes as stakeholder theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders (Abdullah and Valentine (2009). It has been suggested that this theory focuses on managerial decision-making and the interests of all stakeholders have intrinsic value, and no sets of interests are assumed to dominate others (Donaldson and Preston (1995). Stakeholder theory has thus been a broad approach to corporate governance, as against agency theory which has been a narrow approach. The above stakeholder view of corporate governance was supported by ACCA (Association of Chartered Certified Accountants) in their Corporate Governance and Risk management Agenda 2008, which states:

> *"In acting as good stewards, boards should work for the organisation's success. Boards should also appropriately prioritise and balance the interests of the organisation's different stakeholders. In a shareholder owned company, shareholder interests are paramount, but their long-term interests will be best served by considering the wider interests of society, the environment, employees and other stakeholders as well."* ACCA (2008).

This further confirms the importance of different stakeholders to the company in implementing effective corporate governance. To drive this home, stakeholder theory has been linked to the principle of corporate social responsibility, and in order to ensure that companies are socially responsible to various stakeholders, the Corporate Report (ibid.) encourages companies to include additional statements outside the financial statement report in order to demonstrate that the interests of stakeholders are at the heart of the company. Such an additional statement includes a statement of value added, an employment report, a statement of money exchanged with government, a statement of transactions in foreign currencies, a statement of prospects and a statement of corporate objectives.

The UK Companies Act 2006 has advocated greater stakeholder accountability by companies. Company directors are now required by law to consider the long-term consequences of their decisions, their employees' interests, their relationships with suppliers

and customers, and the impact of their activities on the environment and local communities. This means that companies are now concerned with the interests of non-shareholding groups. In addition, proponents of this theory suggest that the board of directors should be constituted to integrate representatives of all stakeholders in order to ensure fairness and equal representation (Donaldson and Preston, 1995). The UK Companies Act 2006 also requires firms to disclose their engagement with various stakeholders through section 172 in their annual reports.

However, some scholars have questioned stakeholder theory. For example, Key (1999) argues that it lacks specificity and cannot be operationalised. Some scholars believe that the theory lacks focus and is incomplete, suffering from under-specification of corporate purpose and not setting specific mechanisms for sound governance (Plaza-Úbeda et al., 2010; Tse, 2011). This is even more problematic in a country like Nigeria, where only the interests of management of organisations are satisfied at the expense of the wider stakeholders and there is no adequate legal framework in place to protect the interests of the wider stakeholders. Even though stakeholder theory indicates that managers should take into account the interest of all the stakeholders in a firm in taking a decisions (Jensen, 2001;Tosuni, 2013), the challenge then is how does one measure and reconcile the interests of different stakeholders?. However, despite the shortcomings of stakeholder theory, it still provides a broad perspective on corporate governance which is lacking in agency theory.

Stakeholder theory is becoming increasingly embraced because of the relationship that exists between a company and its environment, which many organisations have coined corporate social responsibility and accountability. It has thus been agreed that the broader view of corporate governance should be implemented (Ajala, et.al,2012; Olayiwola,2010). In analysing banking industry, owning to its peculiarity, corporate governance mechanisms must be designed to incorporate depositors as well as shareholders (Macey and O'Hara,

2003;Olayiwola,2010). This view was also shared by Arun and Turner (2004) who contend that "the special nature of banking requires not only a broader view of corporate governance, but also government intervention in order to restrain the behaviour of bank management". This study contributes to the understanding of all stakeholders on the requirement for better and more efficient management of organisation.

Lastly, this research will adopt both the agency and stakeholder perspectives to analyse corporate governance in the Nigerian banking system. This is because the nature of banks is such that regulations are necessary to protect depositors as well as the overall financial system (Arun and Turner, 2004; Biserka, 2007). OECD Principle Number IV of Corporate Governance (OECD 2004) views the role of stakeholders in corporate governance as follows:

> *"The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises."*

Figure 2.1: Stakeholders Diagram

The limitations of stakeholder theory, especially its lack of specificity, have encouraged the development of other more specific theories to enhance an understanding of the concept. These specific theories are discussed below.

2.1.3 Resource Dependency Theory

While stakeholder theory concentrates its attention on relationships with many groups for individual benefit, resource dependency theory concentrates on the role of the board of directors in providing access to diverse resources needed by the firm (Abdullah and Valentine,2009). According to Hillman et al. (2000), resource dependency theory focuses on the role that directors play in providing or securing essential resources for an organisation leveraging on their connections to the external environment. This is basically the ability of the company to tap into the skills and experience of the board members. This is otherwise known

as the Resource Based View of the Firm (RBV). Johnson et al. (1996) supports the view that scholars on resource dependency provide focus on the appointment of representatives of independent organisations as a means of gaining access to the resources that are essential to the success of the firm (Abdullah and Valentine,2009; Ujunwa, et.al,2012). For instance, outside directors bring their various expertise to the company, lawyers provide legal advice, either in board meetings or in private communication with the firm executives, that may otherwise be more expensive for the firm to secure. Provision of these resources will support the functioning of the organisation, enhance its performance and ringfence its survival from self-interest of management (Daily et al., 2003). According to Hillman et al. (2000), directors bring resources to the firm, such as information, skills, and access to key constituents such as suppliers, buyers, public policy. Resource dependency theory suggests that corporations depend on the environment and other organisations for required resources (Pfeffer and Salancik, 1978, 2003). As a result, the appointment of independent directors to the board can be used to manage environmental contingencies (Pfeffer, 1972).

Research by Barney (1991) and Grant (1996) views corporate governance in the area of strategic management and sees the firm as a black box that is made up of bundle of unique resources, which when used effectively can provide the firm with its competitive advantage. With Resource dependency theory, the board of directors is viewed in terms of resources that are used by a firm to improve its wealth (Johnson et al., 1996; Hillman et al., 2000). The theory thus advocates external directors as their input is very important in steering the affairs of the firm and providing the much-needed external support. The theory suggests that organisations attempt to exert control over their environment by co-opting the resources needed to survive (Pfeffer and Salancik,1978). According to Pfeffer (1972), the size of the board and the background of outside directors are critical in managing and aligning the organisation's needs for capital with the regulatory environment. This has prompted some researchers to take a

position that it would be wrong to emphasise the monitoring roles of the board at the expense of the skills and other knowledge and resources that directors, and particularly NEDs, can bring to the firm (Short et al., 1999).

However, these skills and resources expected to be brought in by the board have not been reflected in the management of Nigerian banks. What is mostly obtainable in Nigeria, as demonstrated in the recent banking crisis, can better be described as connivance of the board with management to perpetrate atrocities and defraud the banks, rather than help them to imbue good corporate governance in the running of the banks' affairs. Many of the board members were accused of conflicts of interest as they took loans from the banks they were acting as board members for, while some helped their companies to secure loans and contracts from the banks at advantageous rates.

2.1.4 Transaction Cost Theory

Transaction cost theory was originally initiated by Cyert and March (1963) and later theoretically described and expanded by Williamson (1996). Transaction cost theory has been seen as an interdisciplinary alliance of law, economics and organisations (Ayandele and Emmanuel, 2013; Williamson,1996). The theory seeks to present an organisation as comprising people with different views and objectives (Ayandele and Emmanuel,2013). This theory believes that organisations are big enough to determine how resources are allocated in the market and the economy. As a result, it is assumed that the organisation and structure of a firm can determine price and production in the market. In effect, the theory suggests that companies should internalise transactions in order to remove the bottleneck of intermediaries and information asymmetries inherent in dealing with third parties such as suppliers. They can achieve this through vertical integration, by owning the process from end to end, otherwise called Firm Lifecycle Perspective. This suggests that by investing in both the process and the

final product, an oil company, for example, would own the process of oil exploration and refining as well as retail and distribution. The unit of analysis in transaction cost theory is the transaction itself, which the firm can influence. In combining people with transactions, the theory suggests that managers are opportunists and arrange firms' transactions to meet their interests (Williamson, 1996). The managers may not want to internalise cost structure because it may not work in favour of their cronies. It has been suggested that the company will derive economic benefits if it carries out transactions internally as against externally, which in most cases will be derived from economics of scale, especially when the size of the organisation has increased. The main concern with transaction cost theory is that it could involve a lot of cost to regulate and monitor the managers and to also carry out the chain of activities involved. The theory further argues that a firm is made up of individuals with diverging opinions and interests, and also as organisations have grown in size and stature they are now able to provide an alternative to the market in determining how the pool of resources is allocated (Abdullah and Valentine, 2009). Williamson (1996) argues that managers' motivation is more opportunistic and that managerial transactions may be arranged to satisfy self-interest. The theory assumes that there are associated costs with reference to planning, adapting and monitoring task within different governance structure (Williamson, 1981) and that these costs will be incurred when goods and services are transferred across a technologically separate interface. These costs are affected by both human-related and environment-dependent factors.

Rindfleisch and Heide (1997) suggest that as the number of parties to the transaction increases, process costs will equally increase, while Macher and Richman (2008) argue that transaction costs will be incurred by an organisation once a good or service moves from one place to another which is in line with the principles of revenue and cost recognition.. Transaction costs are affected by many factors including the environment, opportunistic behaviour, risk appetite, tunnel vision mind-set and the firm's assets. These costs are expected

to increase external transaction costs according to Williamson (2005) and firms must make the most of the comparative advantage. However, in general the management of Nigerian banks prefers to incur the associated external costs rather than take advantage of the reduced costs that economies of scale offer.

2.1.5 Stewardship Theory

Stewardship theory stems from the assumptions of agency theory as postulated by Donaldson and Davis (1991). This theory agreed with agency theory that the interest of the shareholders must be protected while their wealth is maximised, and that the main objective of managers in the company is to protect the interests of the shareholders and to manage the organisation so that shareholders will prosper. However, stewardship theory disagreed with agency theory's position on managers as individualistic, opportunistic, and self-serving, requiring a proactive "alignment of interests" at best, and monitoring at worst. Instead, stewardship theory suggests that managers are stewards and are not motivated by individual goals but rather their behaviours are aligned with an organisation's principals (Mahbub, 2016). Hence, contrary to agency theory, stewardship theory believes that people may be motivated less by individual goals than is commonly believed. According to this framework, individuals serving as directors would be more inclined to embrace and seek to attain the goals of the organisation, rather than their own personal goals. Stewardship theory is operationalised by combining the psychological attributes of the director with the firm context (Davis et al., 1997). The theory assumes that managers are honest, inspired more by intrinsic rewards than extrinsic rewards and more interested in maximising collective interests (Davis et al., 1997; Kiel and Nicholson, 2003). The theory further suggests that managers' decisions are not dependent solely on financial considerations but also on factors such as sense of achievement, recognition and satisfaction due to successful performance (Argyris, 1972; Herzberg, 1966; Muth and

Donaldson, 1998). Unlike agency theory, stewardship theorist believe that shareholder returns will be better maximised when the company has a single Chairman/CEO with the board comprising in-house members. They believe that this will create opportunities for the board to have intimate knowledge of organisational operation and ultimate commitment to success. The theory assume self-interest from the management is also interest for the owners, so there is no conflict especially when the values of the principals and agents converges, or when organisations encourage selfless values, conscientious behaviour is agreed by internal means (Dicke and Ott, 2002). Stewardship theory thus suggests that managers are stewards and are not motivated by individual goals and will align their behaviour with organisational goals. Davis et al. (1997) and Mahbub (2016) posit that managers as stewards protect and maximise shareholders' wealth through firm performance and that an organisation's board of directors and CEO, while acting as stewards, are motivated to act in the best interests of the firm rather than for their own selfish interest. Also, Mallin (2004) opines that top management cares about the firm's long-term success.

According to Donaldson and Davis (1991), stewardship theory proposes that corporate governance practices should allow CEOs high authority and freedom and where possible allow CEO/Chairman duality. However, this theory that view directors and managers as stewards of a firm, with the main aim of maximising shareholders wealth (Donaldson and Davis,1991;Davis et al., 1997), may not work in a society like Nigeria where managers of firms have often been seen to be self-centred and willing to run companies down in order to achieve selfish gains, instead of providing skills necessary to move the company forward (Bakre, 2006; Osemeke and Osemeke, 2017). The situation worsens because members of the board are either handpicked by or friends of the CEO and will work to realise and perpetuate the interests of the CEO. For example, the former Governor of the Central bank of Nigeria (CBN), Lamido Sanusi (2009), says the inability of key personnel in some banks to live up to expectations

negatively impacted the banks, and reiterated that the failure of corporate governance in most financial institutions led to the recent crisis in the banking sector. This ultimately led to the dismissal of chief executive and executive directors of eight Nigerian banks between August and October 2009 as a result of poor corporate governance practices, following the audit and investigation carried out by the Central bank of Nigeria to determine the soundness and health of Nigerian Banks.

2.1.6 Institutional theory

Institutional theory seeks to provide a social and cultural explanation for uniformity in the behaviour of organisations, which is premised on the foundation that organisations will implement similar practices within an industry. Institutional theory has been described as the structures and approaches organisations take (DiMaggio and Powell,1983). It explains why firms operating within a specific organisational field exhibit similar characteristics and forms (Adams and Larrinaga-González, 2007; Fernando and Lawrence, 2014). The theory is premised on the assumption that organisations are not just concerned about their internal environment but also about their external environment (Scott, 1995). Proponents of this theory contend that an organisation's action is influenced by the institutional framework adopted within the industry in which it operates (Carpenter and Feroz, 2001). This theory believes that organisations will seek to align their behaviour and approaches to what is obtainable in the industry in which they operate through industry regulations or guidance. This could explain why a crisis in the banking industry is always across the board, as most banks will adopt similar strategies and implement the same practices. The theory describes three methods by which an organisation conforms to the industry behaviour (i.e., isomorphism), which could take the form of (a) coercive pressure or coercive isomorphism (Krause,et.al,2019) which is done out of the fear of a group of stakeholders on which an organisation depends for survival; hence it assumes, on the basis of a stakeholder theory, that organisations will voluntarily adopt corporate

governance mechanisms that addresses the concerns and fears of a major stakeholder group; (b) mimetic or derivative isomorphism which reflects organisational desire to mirror or improve their practices based on the practices of other organizations regarded as models or benchmarks, to either gain competitive advantage or legitimacy (Deegan and Unerman (2011); (c) The third approach refers to as normative isomorphism represents a situation where organisations conform to institutional or industry norms and practices. It suggests that normative theorists tend to bring professional ethics to the organization e.g., accountants and auditors. Also, institutional theory is seen as a decoupling methodology with alternate forms of isomorphism, which assumes that while there may be a need for organisations to adopt certain institutional practices, the actual implementation may differ from the formally sanctioned process and procedures (Boxenbaum et al.,2008;Sandholtz,2012), Deegan and Unerman (2011) contend that an organisation can decouple actual practices from institutional practices, such that the organisation might adopt some process for publicity and advertisement purposes rather than for improving its accountability or transparency (Boxenbaum et al., 2008; Campbell, 2007; Sandholtz, 2012; Teo et al., 2003). Institutional theory thus assumes that all social actors in an organisation are seeking legitimacy or reinventing legitimacy norms which constrain and force all to converge to create isomorphism and actions within institutional environments (North and Douglass, 1990).

In conclusion, these theories stand for different ideas with respect to the shareholders, stakeholders, management and board. Agency theory sees its main tenet as maximisation of shareholders wealth and thus directors engaged from outside are seen as device through which shareholders retain ownership and control as well as monitoring performance. For resource dependence theory, outside directors are seen as an important asset to help in internal stabilisation of the company and board, and strong external links are seen as necessary mechanism for accessing external resources and information. With stewardship theory,

managers are seen as sincere and inspired more by intrinsic than extrinsic rewards (Davis, et.al,2003, Nicholson and Kiel,2003), and more interested in maximising their collective interests; thus, the management must control the board and managers in order to achieve organisational goals. Stakeholder and institutional theories are based on maximising the overall interests of all stakeholders and not the objectives of an individual shareholder. Therefore, various theories have been developed on corporate governance practices over the years (Daily et al., 2003; Jensen and Meckling, 1976; Shleifer and Vishny, 1997), however there is no consensus as to which is the appropriate model to answer all evolving corporate governance questions and requirements (Daily et al., 2003; Letza et al., 2004) and this has renewed calls for a multifaceted corporate governance mechanism suitable for different socio-political and economic environments (Inyang, 2009; Okeahalam and Akinboade, 2003; Okike, 2007; Tomasic, 2011). Over all, out of these theories, agency theory remains the most popular and is generally accepted by academics, researchers and practitioners across the globe (Fama snd Jensen, 1983a; Jensen and Meckling, 1976). It provides the foundation for all other theories and codes such as the UK Combined Code on Corporate Governance 2018 and the OECD code, among others. However, corporate governance in Nigeria seems to align with stakeholder theory, because of the cultural heritage which sees an organisation as being accountable to the entire population and country as a whole. However, both agency theory and stakeholder theory have been embraced by Nigerian banks, mainly due to the ownership structure.

In summary, agency theory sees appointment of outside directors as a pipeline for shareholders to maintain control and ownership while monitoring performance of the firm. With stakeholder theory, the board is there to ensure that the interests of all the shareholders are protected, while under stewardship theory board is expected to manage a firm's assets efficiently and is majorly controlled by the management. Resource dependency theory argues that a board with effective external links will provide good access to external resources and

expertise. Transaction cost theory comes with a lot of complexities and may not be so useful to this study. As indicated earlier, there is no one-size-fits-all theory as each theory has its own limitations. According to Hendry and Kiel (2004), "the choice of a particular theoretical perspective depends on "situational and contextual factors" such as board power, environmental uncertainty and information asymmetry" (Atuahene,2016); thus, there is therefore the need to use a multi-theoretical approach (Daily et al., 2003). This suggests that these theories cannot be used in isolation to gain a full and comprehensive understanding of corporate governance principles (Daily et al., 2003; Jackling and Johl, 2009; Kiel and Nicholson, 2003). The impact of corporate governance on performance of banks cannot be conceptualised using a single theory. With this in mind, a multi-theoretical approach has been adopted in this study, as this provides a better premise for explaining the effect of corporate governance on financial performance as well as the economic realities of the Nigerian banking system, even though applications vary from bank to bank

Also, as this study is based on the examination of the impact of corporate governance on performance of banks in Nigeria, the examination will be incomplete without examining some studies that have previously been conducted on the same topic. This will illuminate our understanding of the application of various theories in order to ascertain their suitability or otherwise to the Nigerian situation, which is the focal point of this study. Therefore, the next section examines some of the previous studies that have adopted some of these theoretical perspectives to the study of the relationship between corporate governance and bank performance, including studies conducted with reference to Nigeria.

2.2 Review of the studies adopting the above theories

This section reviews existing studies on the developments of corporate governance, particularly on studies examining the relationship between corporate governance and bank

performance. The 2007/2008 financial crisis, coupled with corporate scandals, has rekindled concern about corporate governance basics (Polo, 2007) and has raised questions on the appropriateness of mechanisms put in place to manage organisations effectively.

There is a lot of literature on corporate governance, and various researchers, such as Shleifer and Vishny (1997) and Becht et al. (2003) have produced reviews of the existing knowledge in this field. Most of the studies on corporate governance adopt a finance perspective by using a quantitative research framework (Atuahene, 2016) and also most of them use agency theory for their analysis, but the complex nature of corporate governance demands a multi-theoretical approach to understand governance phenomenon (Filatotchev and Boyd, 2009; Haniffa and Hudaib, 2006). Wilson and Sharda (1994) argue that literature on corporate failure has developed at a speed equal to the growth of corporate failure itself, which is believed to be as a result of the effect of corporate failure on stakeholders.

Choi and Hasan (2005) investigate the impact of ownership and governance on organisational performance, following the post-financial-crisis experienced by the Korean banking industry between 1998–2002.The study investigates the impact of foreign investors in the ownership structure on banks' performance. It also examines how outside directors, especially directors from foreign countries, in the corporate board structure impacted bank performance. The results show that it is the extent of the foreign ownership level and not just mere existence of foreign ownership that has a significant positive association with bank return and a significant negative association with bank risk. The authors also show that the number of outside board of directors does not have any significant effect on performance; however, the presence of a foreign director on that board is significantly associated with bank return and risk. However, this theory of foreign director does not take into consideration the sovereignty of nations, and neither does it consider the socio- political and cultural environment of the country being considered. For example, this may not apply to Nigeria because banks and other

institutions that have appointed foreigners on their boards have not fared better, because of the level of corruption that has permeated the whole system.

Grove et al. (2011) investigates whether corporate governance explained US bank performance during the period leading to financial crises. This study adopted the factor structure by Larcker et al. (2007) to measure multiple dimensions of corporate governance for 236 public commercial banks between 2005 and 2008. The results reveal that corporate governance factors explain financial performance better than loan quality when compared. The study reveals strong support for a negative association between leverage and both financial performance and loan quality. It further states that CEO duality is negatively associated with financial performance. There is a positive correlation between executive incentive pay and financial performance, but this exhibits a negative association with loan quality in the long run. The study further reveals a concave relationship between financial performance and both board size and average director age. The study provides weak evidence of an association of anti-takeover devices, board meeting frequency and affiliated nature of committees with financial performance. In addition to the weak evidence, this study may not support Nigerian situation because separation of the office of CEO and Chairman does not achieve much in Nigeria because the Chairman in most cases is handpicked by the CEO.

Klomp and De Haan (2011) examine the impact of bank regulation and supervision on banking risk using data for more than 200 banks from 21 OECD countries for the period 2002–2008. The study uses quantile regressions and finds in contrast to most previous studies, that banking regulation and supervision influence the risk of high-risk banks. However, most measures for bank regulation and supervision do not have a significant effect on low-risk banks. Since banking risk and bank regulation, as well as supervision, are multi-faceted concepts, measures for both concepts are constructed using factor analysis. Borisova et al. (2012) examined government ownership and corporate governance in a sample of 133 government-

owned companies within a wide sample of 373 companies from 14 EU countries for the period 2003–2008. The study applies random effects to express corporate governance scores (CGQs) on the government ownership variables and logit regressions to establish if having an independent board (board independence) affects corporate governance and whether government ownership is associated with lower governance quality. Results showed that while government intervention is negatively related to governance quality in civil law countries, it is positively related to governance quality in common law countries. Finally, the study concludes that the preferential voting rights of golden shares are especially damaging to governance quality. However, there is nothing to suggest how representative the data is, as it only examines companies in EU countries, and what is applicable in Europe may not be applicable to other parts of the world, especially sub -Saharan Africa.

Tandelilin et al. (2007) investigate relationships among corporate governance, risk management and bank performance in the Indonesian banking sector. This study examines whether the type of ownership has a moderating effect on these relationships, and whether ownership structure is a key determinant of corporate governance. The study applies both primary and secondary data using Generalized Methods of Moments (GMM). Meanwhile, primary data utilises a bootstrap method, factor analysis, and 3-state least squares (3SLS). The study finds that the relationships between corporate governance and risk management, and between corporate governance and bank performance, are sensitive to the type of bank ownership. However, ownership structure shows partial support as a key determinant of corporate governance. Foreign-owned banks have better implemented good corporate governance than have joint venture-owned banks, state-owned banks and private domestic-owned banks. However, this claim does not appear to be justified, given the recent financial meltdown which affected many foreign banks such as Lehman Brothers, Northern Rock, RBS and Lloyds Bank.

Agrawal and Knoeber (1996) use seven mechanisms to control agency problems between managers and shareholders. They identify the following mechanisms: shareholdings of insiders; institutional shareholdings; large block holders; use of outside directors; debt policy; the managerial labour market; and the market for takeover of corporate control. They contend that the use of each mechanism depends upon the choices of other mechanisms as well as other factors such as technology of production, markets in which the firm operates and characteristics of the CEOs. However, the theory fails to analyse the circumstances in which mechanisms will be substituted for monitoring management activity by independent directors, or whether the presence of large shareholders mean that they can use their influence to encourage the appointment of additional independent directors.

Berry et al. (2006) investigates newly listed companies in the USA and find that board independence and the proportion of board seats held by venture capitalists increase as CEO ownership declines. However, the study provides little evidence that governance mechanisms are substitutes. On the relationship between ownership and performance, Alejandro et al. (2004) investigate the impact of ownership on bank performance based on data from 50,000 banks between 1995 and 2002. They found a positive relationship between ownership and bank performance in developing countries, although they did not find such relationship in developed economies. Also, Jensen and Meckling (1976), in their paper on agency theory, suggest that ownership structure and corporate governance structure influence bank's performance. They opine that bank managers with different capital structures tend to choose different activities that may be at variance with the view of the board of directors. Tricker (2009) suggests that within the scope of agency theory, directors are seeking to maximise their personal gains and take actions that are beneficial to them and detrimental to shareholders.

Laing and Weir (1999) investigate the extent of compliance with the recommendations of the report from the Cadbury Committee and its impact on performance of UK quoted

companies. They select 115 companies for their analysis and non-executive director representation, leadership structure and board committee are the governance mechanisms used. They find strong evidence of compliance amongst UK quoted companies, especially larger firms since combined leadership structure is more common in the largest companies; there is also strong evidence in favour of committee-based monitoring rather than monitoring based on the strength of non-executive director representation. The major problem with their work is that there is little evidence that the mechanism has had a positive impact on performance.

Dulewicz and Herbert (2004) analyse 1997 survey data to evaluate the relationship between a set of independent variables such as board size, number and proportion of independent directors, board tenure, pay, leadership structure, board committee and firm performance, in terms of cash flow returns on total sales and sales turnover. They find no major relationship between the governance variables except for the proportion of inside directors. Kajola (2008),used a sample of 23 Nigerian listed companies from 2000-2006, and established positive relationship between board size and financial performance based on return on capital employed (ROCE) and profit margins. The sample in the study was very small and also the study covered a period of time too short to form an overall opinion on the situation of banks in Nigeria.

Griffith (1999) investigates the impact of board composition on the value of a firm . In the study, a sample of 969 firms obtained from Standard and Poor's 1996 Exec comp database was analysed and the findings show strong evidence of a nonlinear relationship between insiders on the board and the market to book ratio. The study shows that the value of the firm increases and then decreases as the percentage of insiders on the board increases. This movement in the value of a firm as a result of changes in board composition is consistent with improvements in governance as monitoring of management increases (Page,2009); however, boards become unwieldy as the number of outsiders increases (Code Provisions A.3.1, FRC,

2003; Guest, 2009). It has also been argued that non-executive directors add value to the board by providing needed expert knowledge and oversight support (Fama and Jensen (1983). This is consistent with the view of Gordini (2012) who finds a positive relationship between non-executive directors and firm performance and also agrees with the conclusion of Kajola (2008) in his study of 23 listed Nigerian companies between 2000-2006 as stated earlier, which suggests that there is positive and significant relationship between board size and firm performance.

Other researchers report a negative relationship between board size and firm performance (Bozec, 2005; Cheng, 2008; Sanda, 2011). On the relationship between board committees, Black et al. (2003;2012) investigates 68 large public companies in the UK for the period 2006-2009 using multiple regression analysis and found a positive relationship between nomination committees, audit committees and firm performance (Black and Kim,2012). This agrees with the findings of Lam and Lee (2012) in their analysis of 346 public listed firms from 2001-2003 and conclude that the nomination committee have a significant positive impact on firm performance using proxies of ROA, ROE and ROCE. However, the size of the sample is too small for any conclusion to be established on the relationships. Sanda et al. (2010), find in a study of 93 Nigerian listed firms from 1996-1999, a positive correlation between board size and firm profitability, as proxied by a return on equity (ROE). However, the study's data sample and period covered were too small and not representative enough to provide an overall picture. Also, only one performance measure was adopted in this study and the data population was too small to represent corporate governance relationships in Nigeria.

On risk committees, Aebi et al. (2012) investigate 372 banks in the US from 2007-2008 and find a positive relationship between risk committee and firm performance. However, considering the size of the US economy, the largest economy in the world (World Bank, 2001), the data population for this study may not be appropriate to form an opinion on US banks or

firms in general. On the relationship between board size and firm performance, various empirical studies report diverse or mixed results. Wintoki et al. (2012) examine the relationship between board size and firm performance across 6,000 US listed firms from 1991 to 2003 and criticise prior studies for not controlling for the potential problems of endogeneity. They address the endogeneity problems by using the dynamic GMM and find no relationship between board size and firm performance using ROA. Bennedsen et al. (2008) find, in a study of 6,850 Danish firms over the period 1999-2003, that there is no relationship between board size and profitability as measured by ROA. However, even though the study addressed the issue of endogeneity, it only tested for one variable of governance and thus may not be able to show adequately the relationships that multiple proxies of corporate governance would have suggested.

Nodeh (2016) investigates 37 Malaysian Commercial Banks between 2005 and 2014, measuring ROA & ROE and finds bank size to have positive impact on firm performance. This is further supported by the findings of Alhassan et al. (2015) who investigates 10 banks listed in Saudi Arabia between 2007 and 2012, testing ROE and ROA, and establish a positive relationship between bank size and performance. These outcomes confirm the assertion that larger boards provide greater experience to the external environment as against smaller boards, which ultimately improve access to resources and thus impact performance positively (Goodstein et al., 1994). However, the population adopted in these studies is not representative enough to form an opinion or to generalise. Also, it has been suggested that the empirical support does not exist for neither the agency theory nor stewardship theory when evaluating the impact of board composition on the performance of the organisation (Belkhir, 2009; Ehikioya, 2009). Sanda et al. (2010) investigates 93 listed firms in Nigeria between 1996 and 1999 and conclude that there is a significant and positive relationship between larger board size and firm performance (Sanda, et.al,2010). This is also in agreement with the findings of Adams

(2012) investigation of 85 US banks between 2008 and 2009 to establish the relationship between board size and performance. Adams used Tobin's Q and ROA and found a positive relationship between board size and bank performance. This is however contrary to Ujunwa's (2012) conclusion; in his investigation of 122 quoted firms in Nigeria from 1991 to 2008 using ROA , he finds negative relationship between board size and performance, and this is consistent with the work of O'connell and Cramer (2010) who also finds a significant negative relationship between board size and firm performance in their investigation of 44 listed firms in Ireland in 2001 using ROA to measure performance.

While the above studies on corporate governance practices have arguably helped to understand the principles of corporate governance, they may not all be applicable to poor developing countries with different socio-political and cultural environments such as Nigeria. Adu-Amoah et al. (2008) argue that Western-dictated corporate governance guidelines may not be appropriate for fragile developing economies. This is also attested to by the fact that the codes and recommendations put forward cannot be used as one-size-fits-all solution. Consequently, appropriate corporate governance codes and approaches relevant to the socio-political, economic and cultural environment of Nigeria must be evolved and utilised (Bakre, 2001).

To understand the Nigerian perspective of Corporate Governance therefore, the socio-political environment of the country must be examined, as this plays an important role in the effectiveness of any system and society. This view is shared by Shleifer and Vishny (1997) who view corporate governance mechanisms as financial and legal institutions that can be altered through the political process. In the case of Nigeria, the socio-political system is arguably embedded in the neoliberal global economy and corruption, and it is necessary to understand this in order to understand the corporate governance practices in Nigeria. This leads to the theoretical framework elaborated in subsequent chapters.

2.3 Summary and Conclusion

This chapter has reviewed the extant literature on corporate governance in banks , explored and analysed various theories that underpin corporate governance practices. It builds on the introductory chapter, where corporate governance failures and various meltdown across the world were discussed. In analysing various theories, the study demonstrates the importance of each theory, its applicability in explaining various relationships and how this relates to governance within the banking sector in Nigeria and across sub-Saharan Africa. The chapter has established that the main purpose of corporate governance is not just to ensure that an organisation performs efficiently, but to also address agency problems, and any corporate governance methodology is expected to ensure a reduction in agency-related cost and maximise shareholders' wealth. The chapter carried out a review of the extant literature that demonstrates a relationship between corporate governance and different performance proxies. The purpose of this review was to find out if a particular relationship has been established to explain the appropriateness of corporate governance practices, but unfortunately none was found, and this further justifies the importance of this study. The review further demonstrates the need to identify local norms and the socio-political and cultural environments, in order to gain a better understanding of these external factors that also play a role in the development of corporate governance within a society.

While the above theories may have been adopted to investigate corporate governance practices in developed economies, their appropriateness to the socio-political context of poor developing countries continues to attract criticism (Bakre, 2004; Sikka and Willmott, 2010; Mir and Rahaman, 2005). In the above context, the next chapter examines an appropriate framework to understand corporate governance practices in Nigeria, a developing country in Sub-Saharan Africa.

Even though various theories have helped us in understanding various factors affecting corporate governance, however there is no one size fits it all theory as each theory is fraught with its own limitations. As Hendry & Kiel, (2004) argued that the choice of a particular theoretical perspective depends on 'situational and contextual factors' such as board power, environmental uncertainty and information asymmetry thus there is therefore the need to use multi theoretical approach (Daily et al., 2003). This further suggest that these theories cannot be used in isolation to gain a full and complete understanding of corporate governance (Daily et al., 2003; Jackling & Johl, 2009; Kiel & Nicholson, 2003). The impact of corporate governance on performance of banks in Nigeria thus cannot be conceptualised using a single theory. With this in mind, this study adopts a combination of theories or multi-theoretical approach as it provides a stronger basis for explaining the effect of corporate governance on financial performance of Nigerian banks. Therefore, agency, stakeholders and stewardship theories were applied in analysing corporate governance principles and practices as applicable to Nigerian banking system..

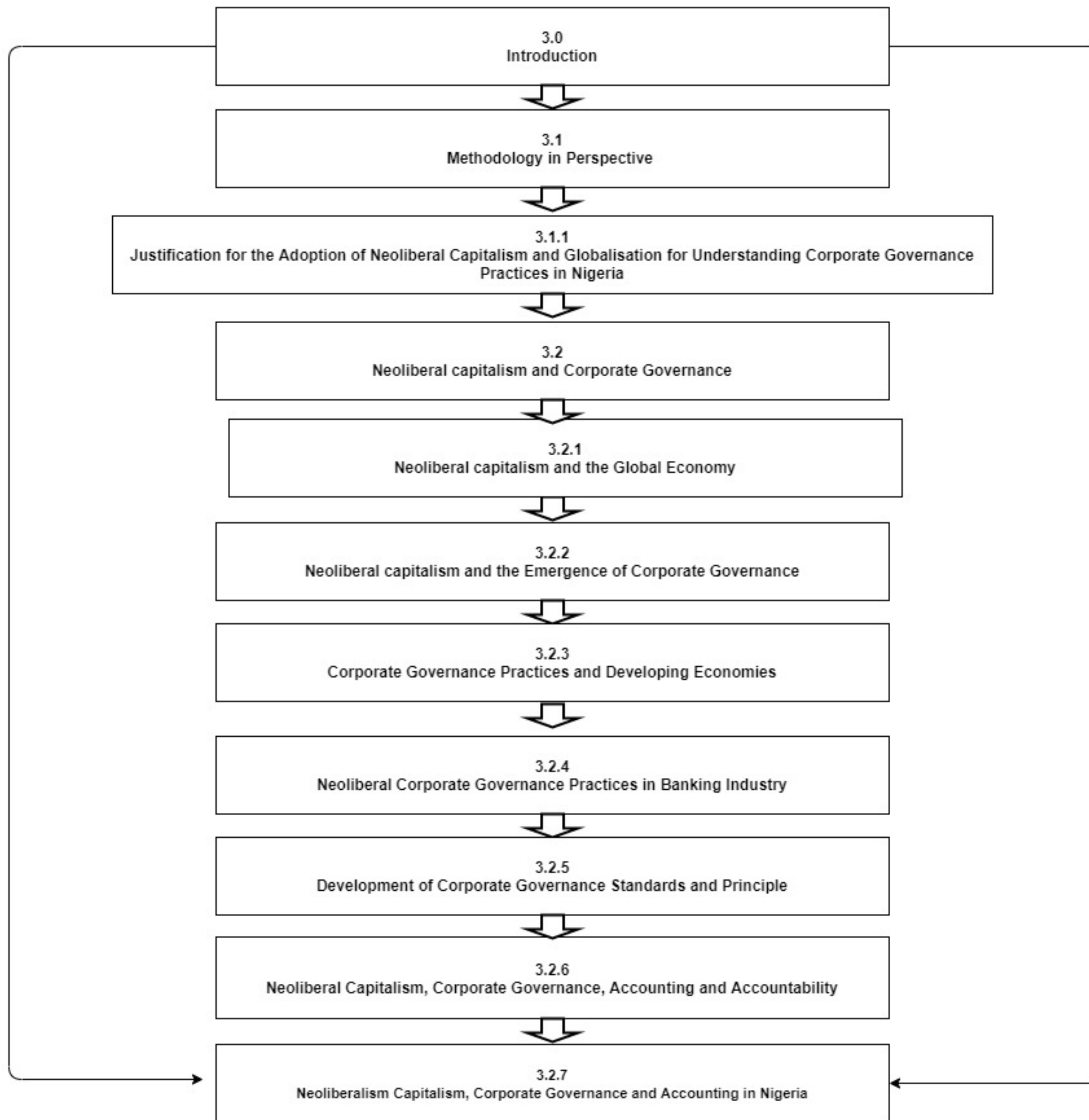
Chapter 3. Methodological framework and data collection methods

3.0 Introduction

The previous chapter examined prior studies adopting various theoretical perspectives to understand corporate governance practices at a global level (in developed and developing countries). While these frameworks may have enriched our understanding of corporate governance practices, they appear not to have fully considered the peculiar cultural and socio-political contexts of most developing countries. As a result, some researchers have advocated for the development of richer methodologies (Bakre and Lauwo, 2016; Bakre et al. 2016; Bakre et al. forthcoming).

Methodology can be seen as the interrelations of substantive problems, sources of evidence and of larger assumptions about society, history and the purposes of scholarship (Skocpol, 1984). The structure of the methodological framework is shown in figure 3.0.

Figure 3.0- Structure of Chapter 3-Methodological Frameworks



3.1 Methodology in perspective

Researchers in accounting have borrowed from the social sciences, sociological and philosophical schools of thought, to conduct research in accounting in developed and developing countries (see for example, Sikka and Willmott, 1995; Neu and Taylor, 1996; Bakre, 2001). However, most of these sociological and philosophical schools of thought have been criticised for their inappropriateness for accounting research in developing countries

(Susela, 1999; Bakre, 2001). As a result of these criticisms, and considering the Nigerian cultural and social context, this study argues for appropriate frameworks to understand corporate governance practices and bank performance in Nigeria, a developing country in Sub-Saharan African.

This thesis rejects the claim that Western-dictated corporate governance principles imposed on vulnerable and developing countries like Nigeria are appropriate, but rather promotes the idea that the influence of Western governance system principles and practices in Nigeria is integrated into the cultural and socio-political circumstances of the country. The Nigerian socio-political context is a combination of neoliberalism, capitalism and globalisation, and this needs to be understood in order to have a better view of the corporate governance practices in Nigeria; this claim is justified below.

3.1.1 Justification for the adoption of neoliberal capitalism and globalisation for understanding corporate governance practices in Nigeria

It has been argued in the literature that studies in social science require an historical scope, conception and a full use of historical sources (Mills, 1959). This has become more important for developing countries such as Nigeria, considering their socio-historical contexts. Before Nigeria's independence in 1960, the developing Nigerian economy was integrated into the colonial British capitalist system. Post-independence, the Nigerian economy has been further integrated into the global capitalist system and the global neoliberal capitalist system, which has shaped and continues to shape its cultural, socio-political and economic systems, including the development of corporate governance practices and professions such as accounting. Therefore, any understanding of governance systems in Nigeria will be incomplete without understanding its socio-historical context, which has shaped its legal, economic, regulatory political and institutional landscape. This will further help to understand causes of poor

corporate governance practices and accountability in Nigeria, which arguably has its economic framework integrated into the global neoliberal concepts. In light of the above, it is argued that a proper understanding of the emergence of corporate governance in Nigeria could be better achieved with an understanding of neoliberal capitalism and globalisation framework.

The chapter is divided into two main sections: section 3.2 examines neoliberal capitalism and corporate governance and is divided into five further sub-sections. Section 3.3 discusses the research methods applied to answer the research questions.

3.2 Neoliberal capitalism and corporate governance

The notion that the socio-political and economic systems of most developing countries have been integrated into the global neoliberal economic system has been widely researched (Sikka, 2021; Murphy, 2008; Okike, 2007). The fact that the Nigerian socio-political and economic system have been integrated into the global neoliberal economic system has also been documented (see Bakre et al., forthcoming; Bakre, Lauwo and McCartney, 2017). In the above context, it is necessary to consider the impact of neoliberalism on the socio-political and economic development of these nations in general and Nigeria in particular, in order to investigate corporate governance practices in the country. This chapter therefore examines how neoliberal mechanisms have influenced the economic and social development of countries around the world, with an emphasis on the landscapes of developing countries and Nigeria in particular.

The neoliberal market model is anchored on free trade, freedom of movement for capital and minimal state intervention in economic activities, with the aim of pursuing shareholder value (Nwoke, 2015). Developing countries have also been integrated into the neoliberal ideology at the expense of their own applicable cultural values. This has been the case of sub-Saharan Africa and especially Nigeria, which further justify the importance of this study. This section is organised into five further interconnected sections. Section 3.1.1 examines neoliberal

capitalism and the global economy. Section 3.1.2 examines neoliberal capitalism and the emergence of corporate governance in the global economy. Section 3.1.3 examines the role of accounting in neoliberal capitalism, corporate governance and accounting. Section 3.1.4 links neoliberal capitalism, corporate governance and accounting in Nigeria and section 3.1.5 provides a summary and conclusion.

3.2.1 Neoliberal capitalism and the global economy

Neoliberalism assumes that an individual is an autonomous and responsible citizen (Bell 1993). This autonomy of citizen is a carefully managed autonomy enacted through subtle mechanisms of control designed to shape the conduct of individuals while maintaining the appearance of uncoerced choice. According to Burchell (1963), neoliberalism involves an artificial notion of freedom since the rational principle for regulating and limiting government activity must be determined by reference to artificially arranged or contrived forms of free, entrepreneurial and competitive conduct of individuals. The principles and guidelines of neoliberalism have shone a new light on how corporate governance failures can be looked at from a broader perspective. This commences with investors, who want increased returns, boards, who require managers to meet high performance standards, and the investing community willing to launch hostile takeovers owing to weak performances. These diverse needs and expectations have made the implementation of corporate governance principles complex and evolving over time. Neoliberalism is an economic theory that advocates the liberalisation of trade and the strengthening of market processes. It is a doctrine which emphasises the kind of market mechanisms through which finance exercises its coercive power (DeMartino, 1999; Nwoke, 2015; Peck, 2010; Harvey, 2007). For example, Harvey (2007) gives a more detailed definition of the term thus:

> *"A theory of political economic practise that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterised by strong private property rights, free markets, and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices... Furthermore, if markets do not exist (in areas such as land, water, education, health care, social security or environmental pollution) then they must be created by state action, if necessary. But beyond these tasks, the state should not venture. State intervention in markets (once created) must be kept to the barest minimum because, according to the theory, the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interest groups will inevitably distort and bias state intervention (practically in democracies) for their own benefit."*

Neoliberalism is an ideology that is based on the idea that free markets operate to maximise aggregate wealth and welfare and that the best policies to be implemented by governments (especially in developing countries) are liberalised market policies. With this in mind, it is assumed that economies are managed better when governments transform as many public institutions as possible into private institutions (Chang, 2003; Nwoke, 2017; Rolnik, 2013). The 1992 United Nations conference on environment in Brazil, which tried to reconcile global economic development with protection of the environment, declared that the only way the global community could enjoy long-term social and economic progress would be to connect economic progress with environmental protection and to establish international partnerships between governments and major players in civil society and the business sector, including international investors and multinational corporations. The diverse nature of geographical development of neoliberalism, its partial and lopsided application from one state and social formation to another, testifies to the tentativeness of neoliberal solutions and the complex ways in which political forces, historical traditions and existing institutional arrangements all shape why and how the process of neo liberalisation actually occur. The evidence strongly suggests that the move towards neoliberalism is in some way and to some degree associated with the restoration or reconstruction of the power of economic elites to dominate the economic landscape perpetually. Bakre (2000) argues that the new global course of imperialism, globalisation and cultural imperialism has given rise to intellectual hegemony, which is

projected on a global scale and continues to have consequences for the socio-political and economic development of most developing countries (Bakre,2000)

Even though neo liberalisation has not been very effective in reinvigorating global capital accumulation, it has succeeded in restoring, or in some instances creating, the power of economic elites (Harvey,2007). This concept of neoliberalism is what has led the Western world to introduce globalisation and free trade among the nations of the world as a way of controlling the world economy and resources and putting all countries of the world under their control; thus, neoliberalism can better be described as neo-colonialism (Watson,2004; Spector,2007; Halabi,2009). It is on the basis of this that convergence in corporate governance has been designed to suggest that there exist best practices that are applicable to all countries of the world without considering the socio-political and cultural environment of these countries. Contrary to the view that economic efficiency amounts to convergence, other scholars have argued that the foundation of economic performance is based on the diversity of corporate governance systems (Diagnam and Galanis, 2016; Lane, 2003; Jacoby, 2000). Even though authorities of most developed countries claim to have adopted the OECD Principles of Corporate Governance of 1999, they still face corporate mismanagement and failures (Bakre, 2011). Berkowitzet et al. (2003) posit that ex-colonial countries with transplanted systems, especially those that were not appropriate to local conditions, have fared worse in terms of growth. Khanna and Palepu (2000) argue that there is good evidence that certain organisational forms may fit the circumstances of developing markets but be poorly suited to an advanced economy, because developing countries lack the institutions of law and financial market discipline. In the same vein, introducing laws that are purportedly neutral in an environment where rule of law does not apply to the state, or its agents will not produce the desired result because economic and financial conditions differ among countries and therefore should their corporate governance frameworks differ. As a result of liberalisation, globalisation and

neoliberalism, many countries have been involved in legal transplants that, in the long run, may not be in tandem with the local norms and legal system. This is the case with Nigeria, where the legal system has been tailored along the UK laws and also corporate governance principles and practice are based on those of the developed countries without consideration of the Nigerian cultural setting. Berger and Dore (1996) argue that if enterprises or nations attempt to import governance principles from other institutional settings, they may undermine the basis of their own success and sovereignty. This is even more important because according to O'Sullivan (2003), organisational behaviour and performance will continue to differ, in accordance with the institutional context in which they are embedded. Cerny (2016) rejects the neoliberal efficiency arguments, and instead contends that financial globalisation fosters heightened assumption that, at certain times and places creates damaging impact on real economies (O'Sullivan (2003), especially in developing countries with weak institutions.

Researchers have thus argued that Western-dictated corporate governance guidelines may not be appropriate for fragile developing economies (Adu-Amoah et al., 2009). This is contrary to the silver bullet theory (Cornelius and Kogut, 2003) that claims "one size fits all" for all countries. Also, it has been argued that there is no best system (Peter and Kogut, 2003), because performance cannot be measured on one parameter; countries measure and interpret performance in different ways, and so they will also have different views on corporate governance systems. Corporate governance is an evolving system as no country seems to have got it absolutely right and one country's principles should not be imposed on another country. With this in mind, it is therefore necessary to understand how corporate governance has evolved within the neoliberal framework across the globe, which is further examined in section 3.2.2 below.

3.2.2 Neoliberal capitalism and the emergence of corporate governance

It has been argued that every social science or every well-considered social study requires an historical scope of conception (Bakre, 2001). Corporate governance as a phenomenon has been around since the twentieth century (Peebles, 2007) and dates back to the days of Adam Smith (1776), who suggested that although managers do not own the company but would watch over the company just as the owners. Corporate governance practices have grown with societies and evolved over time. They have gained more prominence and attention since the 1990s, following various scandals and failures, especially across Europe and the US, and even more so after the 2007/2008 financial crisis, which led to calls for a better governance to prevent future failure. Governments of various nations have also been encouraged to review and improve their governance structures to meet the challenges of modern society (OECD, 2010). This led to the formulation and development of various regulations, standards and codes across various nations. Corporate governance has been described as the formal system of accountability of senior management to the shareholders, which can be stretched to include the entire network of formal and informal relations involved in the corporate sector and their consequences to the society in general (Mahbub, 2016). Kocourek et al. (2003) said that governance begins at home, inside the boardroom and among the directors. Wheelen et al. (2006) described corporate governance "as the relationship that subsists among various stakeholders in an organisation including the shareholders, the board of directors and top management in deciding the direction and the performance of a corporation" (Wheelan and Hunger,2006). This definition has laid emphasis on shareholders as the main consideration in terms of interest that has to be protected, but other scholars argue that the interest of all stakeholders that contribute to the success of the organisation is important (Donaldson, 1983; Donaldson and Davis, 1993; Freeman, 1999). Corporate governance has been seen as a mechanism upon which companies are directed and managed (OECD, 2004) and from the

banking stance, corporate governance is seen as the way banking business is governed by the management and board of directors. Other people have defined corporate governance as simply a process of ensuring transparency and accountability in the management of affairs of an organisation (Luo 2005; Davies, 2016). Becht et al. (2003) views corporate governance as a system involved in resolving collective action problems among dispersed investors and resolution of conflict of interest among various corporate stakeholders (Choi, et.al,2003; Becht, et. Al,2007)

Corporate governance (CG) has emerged as one of the most common phrases in the modern business world and is widely discussed among academics, practitioners and policy makers (Mahbub, 2016). Shleifer and Vishny (1997) stressed the relationship and perspectives that subsist and considered corporate governance from the perspective of investors in organisations who want to be reassured of getting a return on their investments. According to Tricker (2009), corporate governance is an umbrella term that includes specific issues arising from the interactions among senior management, shareholders, board of directors and other corporate stakeholders. The principle of corporate governance can be viewed from both the narrow and broader perspectives. Narrow definition emphasises capital markets regulations to protect equity stakeholders and rules governing companies. This incorporates requirements for listing, prevention of insider dealing, disclosure requirements and the protection of minority shareholders (Atuahene, 2016). The broader approach expands the coverage to consider both the internal and external environment as well as informal practices that develop without formal rules (Dyck, 2001). This attests to the suggestion that the socio-political and cultural environment in which a firm exists has a role to play in the applicable corporate governance practices and that principles and codes should not just be imposed or transplanted from another environment. This broader view was also supported by Arun & Turner (2004) who argued that the peculiarity of banking requires not only a broader view of corporate governance but also

state intervention in order to curtail behaviour of bank management. The broader approach is also seen from the way IMF presents corporate governance as an all-encompassing concept which reflects the totality of how a country is governed (IMF, 2019; Nandkar,2021). In light of this, the mechanisms that govern good governance is very important to the understanding and implementation of the subject, as examined in section 3.2.1.

3.2.2.1 Corporate governance mechanisms

There are both internal and external processes and mechanisms that contribute to the implementation of corporate governance in any organisation in order to address agency problems (Jensen, 1993; Leventis et al., 2013). Internal factors are mechanisms internal to the firm which include management, ownership structure, internal audit and the board (Denis and McConnell, 2003) and external factors are external environmental influences on the firm such as regulations, market forces, rating agencies and institutional investors (Farooq et al., 2013). Both internal and external mechanisms must contribute to shape good governance in order for an organisation to act responsibly and meet its objectives to satisfy the interest of stakeholders. It is expected that external mechanisms will complement internal mechanisms, by acting as checks and balances and ensure that management makes reasonable decisions. It is equally suggested that external mechanisms such as regulatory authorities, government regulations and market participants will be able to ensure that stakeholders' interests are protected from bad governance and also avoid stakeholder conflict.

As companies, including banks, source their funds from capital markets and institutional investors, they thus contribute to the monitoring of corporate governance practices in order to guarantee that management's interest is in line with their expectation (Demsetz and Villalonga, 2001; Florackis et al., 2009). At the same time, internal governance mechanisms also support the functioning of corporate governance practices by managing internal risk and performance. For example, internal control systems ensure reliable and effective financial reporting, risk

management and organisational performance (Rezaee, 2008; Farooq et al., 2013). The need for these internal and external forces in managing Nigerian banks cannot be overemphasised, as leaving it to internal management has made the industry vulnerable and prone to manipulation, which was the bedrock of failure experienced by Nigerian banks in the 1990s and 2020s. The impact of neoliberal economic policy on corporate governance practices in the global economy cannot be fully understood without an examination of its impact on developing countries whose economies have also been integrated into the global neoliberal economy, and this is further explored in section 3.2.3 below.

3.2.3 Corporate governance practices and developing economies

It has been observed that despite an increase in literature on corporate governance (Solomon, 2013; Solomon et al., 2003), little research has been done on developing countries, which has created a major gap (Arun and Turner, 2004; Inyang, 2009). Most studies have been based on corporate governance of banks in developed countries while little attention has been placed on banks in developing countries such as Nigeria (Bos and Schmiedel, 2007; Okeahalam and Akinboade, 2003).This suggests that corporate governance development in developing countries is still very slow and immature. Where it exists, corporate governance in developing countries have been tailored towards developed countries' systems and with weak institutional and legal systems (ROSC, 2004), such introduced systems may be unsuitable to developing countries' requirements (Iskander and Chamlou, 2000). Efforts by international organisations such as IMF and World bank to ensure effective governance in developing countries have failed because the peculiarities and political environment of individual countries were not taken into consideration (Dyck, 2001). For example, the board of directors does not protect or represent the interest of minority shareholders in developing countries such as Nigeria, as they do not view this as their responsibility, preferring to protect the status quo. Thus, corporate governance system growth in developing countries has been very slow and what is in place as

codes at the moment are based on the dictates of international agencies such as OECD (Wanyama et al., 2009), without any form of originality. The failure of the Western model of corporate governance in developing world has been attributed to lack of adequate study and knowledge of the environment and corporate governance issues in the developing countries (Inyang, 2009). This has made it imperative to develop a corporate governance system for developing countries in line with their culture, legal system, socio-political and economic environment, which aims at ensuring compliance and enforcement (Bakre, 2007; Okike, 2007; Wanyama et al., 2009). This is equally important because corporate governance systems cannot be separated from the socio-economic system, culture, legislation, power and other institutional factors if they are to achieve the desired objective (Letza et al., 2004). However, the recent banking crisis, which rocked the banking system across the world and impacted both developed and developing countries, has further reiterated the need to develop an effective governance system in the banking sector. The problem of corporate governance of banks in developing countries stems from the ownership structure, board ineffectiveness, flagrant disobedience of rules and regulations and lack of transparency in reporting systems (Coombes and Wong, 2004). Moreover, corporate governance in developing countries is often set within poor and ineffective regulatory and institutional frameworks (Adegbite,2010; Bakre, 2007; Rossouw, 2005;). Also, there have not been enough resources deployed to facilitate the development and implementation of sound governance processes and procedures in the developing economy, and human and material resources and training are not adequate either, which inhibits the quality of governance that can be put in place. This is the case in Nigeria, where there is little or no awareness of sound and effective governance systems, coupled with an inherent and obstinacy in the Nigerian system which has made it defied any countercyclical governance principles.

It has been argued that the board has an important role to play in implementing an efficient corporate governance framework (Stanwick and Stanwick, 2005), but in developing countries boards are often an accomplice and rubberstamping instrument in the hands of a corrupt bank management team. Corruption is a major issue with implementing good corporate governance processes in developing countries, especially Africa, and it permeates the entire spectrum of African economic and political systems, ranging from abuse of power by management to misuse of firms' assets for personal gain. Lemma (2015) argues that corruption increases the operational costs of a firm, weakens institutional foundations that were meant to mitigate agency problems and distorts corporate governance application. This problem of poor governance structure in banks within developing countries, especially Nigeria, necessitates further analysis of how it has impacted the Nigerian banking industry, which is examined below.

3.2.4 Neoliberal corporate governance practices in banking industry

The issue of neoliberal corporate governance practices in the banking industry is critical. It is particularly important because of the role banks play in an economy, which makes banks' governance systems a matter of interest to all and sundry and this forms the main focus of this thesis. Corporate governance of banking institutions in developing nations has not been given adequate attention, and indeed has been almost ignored by researchers (Caprio and Levine, 2002). Banks perform the role of financial intermediary within the economy and their activity influences the functioning of other sectors of the economy. They are regarded as the economic engine of growth of any nation (Levine, 2007), and therefore any failure in the governance of banks will affect the entire economic system and the functioning of other firms (Turlea et al., 2010). As a result of this, banks are generally the most regulated industry in any economy, because of the need to protect the interests of various stakeholders connected to the industry (Mishkin, 2004). The corporate governance system of banks is unique because of the

nature of the stakeholders, especially the depositors, as their association to the bank results in huge agency cost, and equally , the principal-agent problem in banking is more complex as managers are required to work to maximises shareholders wealth which must not have adverse impact on depositors (Alexander, 2006; Mullineux, 2006). Also, banks' corporate governance is different from that of other organisations because banks are more opaque than other non-financial institutions (Mercy and O'Hara, 2003; Mullineux, 2006) and also provide acceptable means of payment as the depository of economic savings. The peculiarity of banks is inherent in the interconnectivity of business activities among them, which usually results in counterparty risk because of the contagious effect of one bank's problem on other banks (Mulbert, 2010). It is important for governments to regulate the activities of the banking industry because of their importance and the damage their failure could do to the entire economy; thus, suggest that corporate governance is even more important to the banking industry than other industries, as bad corporate governance practices in banks could cause a spill over effect to the entire economy. This has been demonstrated in the spill over of the recent financial crisis into other sectors of the economy, as banks in developing countries are the major source of finance for most of the firms in the country which necessitates the need for different institutions to provide guidelines, regulation and laws to guarantee the efficient operation of the banking sector. Such laws and regulations have come as a response to corporate governance failures and include the Sarbanes Oxley Act (2002), Dodd-Frank Wall Street Reform and Consumer Protection Act (2010), the Basel Committee on Banking Supervision, the CBN Act (2006) and SEC codes of corporate governance (2011). The Basel committee on Banking Supervision (2006) defined corporate governance from banking perspective as follows,

> *"corporate governance involves the manner in which the business and affairs of banks are governed by the board of directors and senior management which, inter alia, affects how they: (1) set corporate objectives; (2) operate the bank's business on a day-to-day basis; (3) meet the obligation of accountability to their shareholders and take into account the interests of other recognized stakeholders (including, inter alia, supervisors, governments and depositors); (4) align corporate activities and behaviour*

with the expectation that banks will operate in a safe and sound manner and in compliance with applicable laws and regulations; and (5) protect the interests of depositors"

Accordingly, in any legislation and guideline, the need to emphasise transparency and disclosure as means of improving corporate governance of banks cannot be overemphasised. Corporate governance of banks needs processes, procedures and codes of regulation and ethics to ensure its implementation (Altunbas, Evans and Molyneux, 2001; Uwuigbe, 2011). This is necessary because it has been realised that since the days of Adam Smith, managers will not always act in the best interest of shareholders (Henderson, 1986). This is linked to the issue of separation of ownership and control, which has created an agency problem in which managers run the firm for their own interests and not those of shareholders (Jensen and Meckling, 1976; Fama and Jensen, 1983). This problem is exacerbated by the inherent information asymmetry as managers do not disseminate adequate information to the shareholders and depositors. For example, shareholders do not know the quantum of a bank's loan portfolio at any point in time and this could prevent them from putting a check on managers' appetite for risky businesses. Banks' operations are not transparent and are often embedded in information mismanagement which creates an additional risk as their activities cannot be easily monitored and important information could be concealed. This problem has been compounded by the "too big to fail syndrome" in which it is believed that governments will not allow big banks to fail in order to protect the stability of the entire financial system. This belief has reduced the incentives to monitor these big banks (O'Hara and Shaw, 1990; Mullineux, 2011). This has also made monitoring of their operations unattractive despite the level of importance placed on banks' corporate governance. At the same time, introducing sound corporate governance principles into banking in developing countries has been impeded by poor legal protection, weak information disclosure and dominant owners (Arun and Turner, 2002). Corporate governance within the banking sector globally requires special attention, even though banks' scope of

operation differs from country to country (Barth et al., 2006). This is also very important because of banks' position as financial intermediaries and custodians of monetary policies with wider shareholders and different interests (Macey and O'Hara, 2003). The protection of depositors' funds as well as the safety and soundness of the financial sector as a whole has been seen as the rationale for various regulations in the sector (Alexander, 2006). The importance of banks' corporate governance also stems from their complex structure, which makes it difficult to align the interests of shareholders with those of managers (Levine, 2003) and undermines the ability of shareholders to exercise control over decisions and activities of the managers (Ibrahim 2013). There are other factors that make bank corporate governance different from other non-financial institutions. In the first place, banks provide liquidity matching in the economy, as shown in the balance sheet. The life of a bank revolves around liquidity, and this has necessitated the need for regulations to monitor the process of liquidity management in order to avoid failure and market disturbance. The second characteristic of a bank lies in the fact that it is a leveraged institution whose profit depends on the level or volume of lending to customers, which may lead to higher probability of default and the need to pay special attention by the government in order to monitor the bank's risk appetite. Also, banks are interconnected and any problem in one bank could easily spread to other banks which could cause instability to the entire economy if not checked. This could lead to a run on the banks and other countercyclical problems.

The most recent global financial meltdown, which cut across big economies and banks across the globe, has attested to the limitation of existing corporate governance frameworks (Ard and Berg, 2010). It has also highlighted the failure of neoliberal principles of globalisation and the perceived uniformity it preaches. This crisis has been ascribed to different reasons among which is what OECD described as absence of effective risk governance, lack of transparency in risk management (Moslein, 2012), the housing bubble which burst by the

subprime mortgage crisis in the US in 2007, or a combination of factors including bad corporate governance, lack of effective regulatory oversight and other macroeconomic issues (Yeoh, 2010). It should be noted that the agency problem for banks and other financial services institutions is not as straightforward as other industries because bank managers cannot make maximising shareholders returns as their main objective as this may portend an adverse implication for depositors, who are primary stakeholders, and taxpayers in general (Alexander, 2006; Mullineux, 2006). According to Caprio and Levine (2002), the peculiarity of banks and other financial institutions has called for effective corporate governance framework. Therefore, the uniqueness of banks compared to other sectors of the economy has exposed them to more regulations. Dibra (2016) notes that transparency and effective communication between decision makers should be the foremost consideration in preventing failure. He claims that even though corporate governance mechanisms cannot prevent unethical activity by top management, they can at least act as a means of detecting such activity before it is too late. In as much as corporate governance problems arise from separation of ownership and control (Shleifer and Vishny, 1997), appropriate mechanisms must be put in place to resolve the conflict emanating from this relationship. Such corporate governance mechanisms can be from within or without, internal or external, as detailed in section 3.2.2.1, above. Internal control frameworks should align with regulatory requirements and corporate governance best practice suitable to the bank. Corporate governance mechanisms adopted by banks should rely more on a compliance framework that suits the peculiarity of the bank and its business model and not just on application of statutory codes and regulatory standards (Alexander, 2010).

Effective corporate governance requires an all-inclusive and joint effort that is anchored on ethics, culture, behavioural patterns, leadership and environmental factors. This suggests that such governance principles must not be imported but must be based on the need of the environment where it will be implemented (Ibrahim 2012). Corporate governance in banks

should be very solid and effective in order to engender customers' trust and stakeholders' loyalty, which has been at a low ebb in recent years owning to frequent failure and malpractices within the sector which has endangered the principal-agent relationship. Also, ownership concentration has been seen as one of the issues associated with governance in banks as this restrains managers from acting in a way that deviates from the interest of owners (Capro and Levine, 2002), and is also at variance with the wider interest the bank represents. Corporate governance conflicts in banks are caused by factors such as information management in the principal-agent relationship, and this problem must be reduced or eradicated among stakeholders to protect interests of all stakeholders. This is more critical for depositors who may not benefit from the principal-agent model, and their interest must be protected. This has necessitated the requirement for another umpire to secure and protect the interest of depositors, and the regulator is the best fit for this role. According to Alexander (2006), regulator is set out as a mediator to develop corporate governance principles and guidance that will balance the interests of all stakeholders. Mishkin (2004, p. 260) suggests that the financial system is usually among the most heavily regulated sectors and banks being the most heavily regulated of financial institutions. Alexander (2006) argued that the motivation for bank regulation is the protection of depositors and the safety and soundness of the financial services industry (Tosuni,2013). Regulations in the banking industry are very important because problems in the banking industry create systemic risk that can consume an entire economy. Regulations also help to protect customers who otherwise cannot monitor banks. It is also expected that if banks are stable and strong, the socio-economic development of the country is guaranteed. The key elements of a good corporate governance vary from one country to another depending on the operating business environment in different countries; however, some works by different committees and organisations have provided some guidance on what should constitute key components of good corporate governance. These include the Sarbanes-Oxley Act (2002), and

guidance from the Organisation for Economic Co-operation and Development (OECD, 1992, 2004, 2015) with emphasis on shareholders protection, an effective and well-balanced board of directors, transparency, checks and balances in governance structure and an embodiment of ethical behaviours.

Following the recent global financial crisis in banking industry, corporate governance guidance and application has been stepped up to prevent any future failure in the industry and the impact this would have on the economy. This is even more important in developing countries where there has been a surge in the range of financial products being offered by banks. In recent years, banks have taken more risks, trading in different products in the financial market and different off balance sheet transactions (Aebia et al., 2014) which has also led to poor risk diversification and fraudulent activities. A broader look should therefore be given to corporate governance of banks to incorporate the interests of shareholders as well as depositors. Despite this development, not much research has been conducted on the impact of corporate governance practices in banking industry (Andres and Vallelado, 2008; Caprio et al., 2007; John et al., 2016).

However, various standards and principles have been developed over time, majorly as responses to failure and weaknesses identified in the system. These standards and principles are further examined in section 3.2.5 below.

3.2.5 Development of Corporate Governance Standards and Principles

The various corporate governance principles and guidelines developed by various establishments and organisations across the globe in response to various scandals and corporate failures are discussed below in sub-sections 3.2.5.1 to 3.2.5.6.

3.2.5.1 The Cadbury Report (1992)

The Cadbury Committee was set up in 1991 in response to various financial collapses in the UK in the late 1980s and as a result of public concern about failures in governance of companies. The report was named after its Chairman, Sir Adrian Cadbury. The committee was charged with the responsibilities of defining executive and non-executive directors, audit committees, auditors and the connections between shareholders, boards and auditors. The report recommended that the position of CEO should be separated from that of Chairman, full disclosure of the pay of the Chairman and the highest paid director, employment of a minimum of three non-executive directors, shareholders' approval of any executive director's contract exceeding three years, executive directors' pay set by a sub-committee of the board which should be comprised primarily of non-executive directors, and also that directors should establish an audit sub-committee. The report also recommended that listed companies should comply with the Code of Best Practice and include a statement of compliance/noncompliance of the Code in their annual report. The Cadbury Report thus set the tone for corporate governance reform in the UK.

3.2.5.2 The Greenbury Report (1995)

The Greenbury committee was set up in 1995 to review directors' remuneration, with emphasis on large public companies. The group was chaired by Sir Richard Greenbury. The report provided guidelines for determining and reporting directors' remuneration through a code of best practice, and established guidelines for setting and reporting various forms of compensation for all members of the board. It also recommended the establishment of remuneration committees consisting of non-executive directors. The report equally recommended the preparation of annual reports for shareholders with full disclosure of remuneration policies for executive directors and other senior executives.

3.2.5.3 The Hampel Report (1998)

The Hampel committee (1998) was set up to review and strengthen the recommendations of the Cadbury and Greenbury Committees and to look at the role of directors (executive and non-executive), shareholders, and auditors in corporate governance issues. The committee recommended the following: that the majority of non-executive directors should be independent and that companies must disclose which non-executives are not; that non-executive directors should make up of at least one third of the board members; that companies should appoint a senior non-executive director to whom any concerns could be reported; that a nomination committee should be set up to appoint new members of the board; and also to ensure that the nomination, remuneration and audit committees are composed largely of independent non-executive directors.

3.2.5.4 The Higgs Report (2003)

In the wake of the remarkable collapse in the share prices of many companies in the UK and the accounting scandals of Enron and WorldCom in America, the UK Government appointed Derek Higgs, in 2002, to review the role of non-executive directors, their appointment, independence and effectiveness among other things. The report, which was published in 2003, proposed that companies should no longer be allowed to employ the same person as the Chairman and the CEO, that the CEO should not be allowed to succeed to the position of chairman on stepping down, and to prevent the retiring CEO from acting behind the scenes to take control of the firm, the independent non-executive directors should comprise at least half of the board of directors. The report also recommended that there should be a clear description of the role of the non-executive director; a definition of “independence” addressing relationships that affect a director’s objectivity and those that could appear to do so; the appointment of a nomination committee consisting of a majority of independent non-

executives to conduct board appointments; annual performance evaluations of individual directors, the board and its committees; that the remuneration for non-executive directors should be sufficient to attract and fairly compensate quality individuals; and improved training for non-executive directors. The recommendations were controversial and there were particularly adverse reactions to the prevention of CEOs from transitioning to chairman, which has been seen as aiding the smooth transition to a new CEO and monitoring of their performance which eventually helps to ensure stability. Also, the increase of the number of independent non-executive directors generated resentments from investors who felt that the UK was drifting towards a US board structure.

3.2.5.5 The Combined Code of Corporate Governance (2003)

The Combined Code of Corporate Governance derived from the recommendations of Cadbury (1992), Greenbury (1995), Hampel (1998) and Higgs (2003) reports. The original Combined Code came in 1998 but was updated in 2003. This code places emphasis on the monitoring role of control systems, which are meant to reduce agency conflicts between shareholders and managers. The recommendations of this code are summarised as a "revised Code of Principles of Good Governance and Code of Best Practice, relating to the recruitment, appointment and professional development of non-executive directors". Also included is Related Guidance and Good Practice Suggestions for non-executive directors and chairmen, a performance evaluation checklist, as well as a summary of the principal duties of the remuneration and nomination committees. Some of the main reforms included are that, at least half of the board of directors should be non-executive directors, the CEO should not be the Chairman of the board and should be independent, board and individual director's performance evaluation should be regularly undertaken, and that there should be formal and transparent procedures for director's recruitment. Companies in the UK are required to comply with and

provide statements of compliance with the Combined Code on Corporate Governance and non-compliance must be disclosed and explained. (FRC,2010;2012).

3.2.5.6 OECD Principles of Corporate Governance

The OECD issued the Principles of Corporate Governance for the first time in 1999 with the aim of developing corporate governance standards and guidelines to help governments improve the legal, institutional and regulatory framework for corporate governance (OECD 2004) and also to provide guidance for stock exchanges, investors, companies, and other parties that have a part to play in developing good corporate governance. Even though the principles are not binding, they serve as a reference point for each country to be able to develop their legal and regulatory framework of corporate governance in line with their own economic, social, legal and cultural circumstances. The OECD Principles, released in 2004, has six subheadings which cover the following areas:

I. Ensuring the basis for an effective corporate governance framework. This suggest that the corporate governance framework should promote transparent and efficient markets,

II. Be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. (OECD,2004).

II. The rights of shareholders and key ownership functions. This requires that the corporate governance framework should protect and facilitate the exercise of shareholders' rights. (OECD,2004).

III. The equitable treatment of shareholders. The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign

shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights. (OECD,2004).

IV. The role of stakeholders in corporate governance. The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises. (OECD,2004).

V. Disclosure and transparency. The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company. (OECD,2004).

VI. The responsibilities of the board. The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board and the board's accountability to the company and the shareholders. Also, these principles and codes are dynamic, evolutionary and subject to review in line with changes in situations and circumstances and deeply rooted in neoliberal capitalism as they were meant to be applied outside the jurisdiction of their establishments as part of the global interconnected economic framework. (OECD,2004).

However, despite the above analysis which has clearly demonstrated the role of accounting and accountants in corporate governance practices, the new principles, which evolved in the wake of various corporate failures, have implications for accounting and accountability. This is because these principles are targeted at publicly traded financial and non-financial companies in which the expertise of accountants is important. The impact of neoliberal capitalism on accounting and accountability is further examined below.

3.2.6 Neoliberal capitalism, corporate governance and accounting

Neoliberalism and globalisation are the two main engines driving the global economy towards harmonisation and uniformity of economic policy, regulatory frameworks and accounting standards (Fukuyama, 2005; Harvey, 2005). In order to achieve the global uniformity objective therefore, developed-world-controlled international institutions, notably the World Trade Organisation (WTO), the World Bank and the International Monetary Fund (IMF) have been mobilised to give necessary socio-political and economic support, especially to poorer, developing countries such as Nigeria. Arnold (2005) notes that:

> *"Global "free" markets are politically constructed institutions that are shaped by-nonmarket actors – including multinational corporations and industry trade lobbies – by means of international trade agreements. These trade agreements institutionalise treaty-based legal regimes, but also impose constraints on local autonomy, and hence on the capacity of democratic societies to govern their economies and regulate markets".*

Hayes (1994) posits that the best way to coordinate economic activity is to promote free markets and foster competition whenever possible. He argues that competition is a much more efficient tool to organise an economy than government regulation, which he regards as cumbersome, wasteful and prone to arbitrary and coercive decision making. Ekanade (2014) argues that Neoliberalism has its root in the classical liberal ideas of Adam Smith (1776) and David Ricard (1817). Both of them saw the market as a self-regulating mechanism tending towards equilibrium of supply and demand, thus securing the most efficient allocation of resources (Adedipe,2016). The restructuring of state forms/structures and of international relations after the Second World War was designed to ensure that the catastrophic conditions that had so threatened the capitalist order in the great slump of the 1930s did not happen again. Neoliberalism was therefore designed as a potential antidote to threats to the capitalist social order and as a solution to capitalism's ills that had long been lurking in the wings of public policy. However, for neoliberalism and market reform to be effective there is a need for accountability. Political accountability is seen as an indispensable component of good

governance and economic growth, because as political accountability increases, so do the costs that public officials incur when acting for their own personal benefit or that of their cronies (Luigi Manzetti, 1992).

Accountability is the notion that elected and non-elected officials should answer for and take responsibility for their actions (Keohane and Nye, 2001) and political accountability must be institutionalised if it is to work effectively (Schmitter, 2004). Sikka (2001) posits that the politically constructed neoliberal, global "free markets" require a technology of surveillance, in which accounting techniques and practices are of paramount importance. Financial reporting and auditing are thus conceptualised as components of institutional arrangements that govern contemporary, neoliberal, global capitalist markets (Murphy, 2008). Conceivably, this has resulted in the growth of Western accounting reforms, since the ascendence of financial capital which occupies a dominant position within the global capital system necessitates the imposition of Western accounting reforms on global economies (Arnold, 2005) and in particular poor, developing economies (Annisette, 2004; Mir and Rahaman, 2005). In the global economy, the level of economic development varies from country to country. While some economies are well developed with developed capital markets, others are developing with weak capital markets. This seems to suggest that each country would need an appropriate institution of governance and a legal framework that is suitable to its environment. In the above context, the notion that Western economic sponsored corporate governance practices, often claimed to be the "international best practices", would be suitable to solving economic problems of the global economies, in particular the weak capital markets in poor, developing economies, is debatable (Mir and Rahaman, 2005; Sikka, 2010; Bakre, 2011; Sanusi, 2012). Such claims have been open to intensive global scrutiny since the 2002 Enron debacle and the 2008 financial crisis, which have continued to challenge the appropriateness of the Western sponsored corporate governance practices to even the Western

economies (Wolf, 2008; Livingstone, 2009). Accordingly, it has been consistently argued that where differences exist in socio-political, economic and cultural environment, each country will be better served by corporate governance practices specifically developed considering its peculiar socio-political, economic and cultural environment (Ndubizu, 1994; Wallace, 1990; Wallace and Briston, 1990; Bakre, 2006). However, despite such awareness, in their urge to pursue global private capital accumulation, Western economies and their multinational corporations, through the agency of their controlled institutions, notably the World Bank and the International Monetary Fund (IMF), have been making loans and other grants to poor countries contingent upon the adoption of Western-sponsored corporate governance practices (Anissette, 2004; Graham and Anisette, 2012). Poor and vulnerable countries such as Nigeria have been forced to adopt Western corporate governance practices that have proved to be inappropriate to their economic problems (Perera, 2012; Hopper et al., 2017; Bakre, 2011). It has been argued that the ideological content of a globalisation-tagged consensus is underpinned by specific theoretical assumptions and is inspired by a set of geopolitical strategies and interests (Bakre, 2001). This situation has been unilaterally imposed on the world community without input from the poor countries in the process, and any country that does not subscribe to the globalisation ideology will be isolated and left behind with no opportunity to enjoy the fruits of the promising new era of prosperity (Gosovic, 2000). Gosovic argues further that such actions have been used as a major instrument for influencing and shaping national political and economic strategies and for controlling the initiatives taken by developing countries in the economic, political, social and cultural spheres. Gosovic (2000) posits that:

> "*Intellectual hegemony, which is projected on a global scale, is inherently undemocratic and totalitarian in nature, and has become a major tool in the hands of those with political, economic, military and communication power. It is a powerful instrument for global domination, and it is used to shape and control the outlook and thinking of policy makers, as well as public opinion, regarding contemporary social, economic and political phenomena. It is a means of discouraging and, indeed, preventing, meaningful dissent or alternative thinking, which could challenge or engender doubts about the prevailing order and the systematic relationships which underpin it.*"

The above arguments suggest that every country exhibits a unique system of corporate governance and the system of corporate governance presiding in any country is determined by a wide range of internal or domestic factors, such as corporate ownership structure, the state of the economy, the legal system, government policies, culture and history (Solomon 2013). Developing countries have done themselves the harm of trying to" keep up with the Joneses", attempting to meet international standards without considering their individual circumstances, and this has led to failure in most cases. Many have embraced various forms of liberalisation and economic reforms, privatisation and divestments, which has led in most cases to policy summersaults and ended up in flames because the data and information used to explain corporate governance in developing countries are built on data from developed economies (Ard and Berg, 2010). This has called for a rethinking of corporate governance practices in developing countries where corporate governance principles and practice have been embedded in neoliberal principles and not in accordance with the dictates of their society and this may have been responsible for failure of corporate governance in these countries.

Also, developing economies have been affected by neoliberal economic policies because they were encouraged by key international agencies such as the IMF, the World Bank and the OECD to adopt these policies even though they were alien to their environment. They were more vulnerable during the worsening economic conditions during the late stages of Keynesianism in the late 1960s, which made governments in developing countries seek urgent solutions to the worsening economic situation in their countries. They looked to these international agencies and donors for help and assistance and were forced to embrace their economic footprint. International Donor agencies, such as the IMF and the World Bank, pressurised third-world governments to make changes to their policies. Even though a large number of these third-world governments accepted reluctantly, unfortunately the debt burden weakened their bargaining power with their creditors and they were left with limited choices.

Others accepted without much resistance because local constituencies had already started pushing for reform; less state, more market was the essential thrust of the strategy known as the Structural Adjustment Programme (Okike, 2015). Like other developing countries, Nigeria has its own economic and social framework embedded in the neoliberal capitalism framework, with implications for accounting, which is examined next.

3.2.7 Neoliberal capitalism, corporate governance and accounting in Nigeria

The globalisation agenda was more prominent in the early 1980s in developed countries, especially the UK and the USA, in response to the economic crises of the 1970s, which resulted in high costs of labour in Europe and the USA and the rapid development of capitalism in the newly industrialised countries (NICs) of Asia. This led to increased competition, reduced profit and the crises of overproduction, causing the UK and US to discard their welfare economic policies and pursue monetarism principles and reorientation within the framework of the International Monetary Fund and the World Bank. The outcome of this reorientation in the IMF and World Bank had a monumental impact on developing countries. As at 1983/1984, the African debt crisis was worrisome as debt servicing alone consumed about a third of all African's foreign receipts and moved them into severe depression. Thus, the World Bank and IMF were able to use the debt crisis in Africa to gain substantial leverage over Africa's economic policies and make the acceptance of the new market reform a pre-condition for granting loans and financial support to developing countries (Bakre 2011). Also, Ekanade (2014) argues that neoliberal reforms were not mainly concerned with social issues but with majorly market efficiency, which worked against the basic principles of human rights and constitutional safeguards for Nigerian citizens (Ekanade,2014). He further suggests that neoliberalism has been forced on people without their consent in post-colonial Africa (Ekanade, 2014; Bakre, 2011). In their quest for accelerated development, successive Nigerian governments have embraced neoliberal policies in the running of the affairs of the country

since independence, and this includes institutions such as banking. Indeed, a former CBN governor stated that he regretted adopting neoliberal principles in the running of the Nigerian economy during his tenure (Sanusi, 2018).

By the beginning of the 1980s there was an oil glut in the international market, and this almost led to the collapse of the Nigerian economy and brought the country to its knees as it could not pay back its loans. By 1986 it became apparent that the country could not borrow more from international financial institutions, and this necessitated a change in the economic system, which eventually led to the adoption of the Structural Adjustment Programme (SAP) as dictated by the IMF in July 1986, regardless of the impact on the citizens. This led to the devaluation of the currency, "naira", privatisation of state-owned enterprises and reduction of subsidies in the price of petroleum products. This brought untold hardship to the citizens that the regime was meant to protect and resulted in protests across the country against Babangida's regime.

One of the problems confronting corporate governance is that most countries that adopted legal transplants, like Nigeria, have not succeeded in putting the laws into effect (Pistor and Berkowitz, 2003), because in most cases they have less effective legal institutions. It has been argued that legal transplantation has been part of the colonisation of countries and territories and unfortunately most countries after independence that decided to modernise their legal system continued to use Western models that were not compatible with their socio-political needs. The failure of the legal transplant in Nigeria, like many other developing countries, can be attributed to the following reasons: In the first place, the transplanted laws may not have been a good match for countries that were less developed economically and generally lacked the legal knowhow to make the imported laws work. Secondly, the imported laws may be used by the political regime primarily as an instrument to entrench its own position and programmes, which will undermine the credibility of the law and legal institutions (North,

1990). A good example is the SAP requirements that were imposed on Nigeria by the Babangida military junta to please the international agencies in order to obtain loan reprieves and be able to access further loans. Also, the social order of the law-receiving country may take a form other than formal legal order, which has to do with the cultural setting of the country; it may have a cultural preference for informal over formal settings. In Nigeria, there is a need to engage with the local norms, socio-political and cultural environments to be able to design acceptable and enforceable regulations that are suited to the Nigerian environment. Also, the imported formal laws may be at variance with the existing norms, and as such the transplanted laws may irritate the pre-existing order (Teubner, 2001). Aside from this, legal transplantation can lead to economic backwardness where the economic and legal conditions are not ripe at the time of the transplantation.

Based on the above arguments, there is no gainsaying the fact that imported practices of corporate governance may not work in developing countries such as Nigerian and therefore the socio-political and cultural environment of Nigeria must be considered in developing appropriate corporate governance practice for the country (Bakre 2011). This is because introducing Western-dictated corporate governance principles and guidelines to Nigerian society without considering the Nigerian situation could be considered an extension of colonialism. This has also been supported by Fanon (1967), who notes that:

> *"Colonial administrations would be replaced by an indigenous educated middle-class that has profited from the colonial occupation and would therefore imitate their old colonial masters and prolong the imperial rule by proxy".*

Fanon's further proposition that the post-colonial capitalist bourgeois regime would not only continue exploiting the post-colonial people, but could be embedded in contradictions, which could create avoidable poverty in a post-colonial state. This is relevant in understanding the postcolonial crony capitalism, globalisation and the

expertise of accountants which have aided illicit financial outflows have been called to question as this has increased poverty in Nigeria.

Corporate governance in Nigeria can thus be viewed from both political economy and neoliberal perspectives. Like other developing countries, Nigeria has been encouraged to adopt Western-dictated corporate governance practices and this has become a condition for granting loans to the developing world. As such, corporate governance reform has become an essential element of the development agenda promoted by the World Bank (Adu-Amoah et al., 2009; Liew, 2009; Bakre, 2011). These views are supported by Shleifer and Vishny (1997) who see corporate governance as mechanism of legal and financial institutions that can be altered through the political process. Corruption and corrupt practices in Nigeria have grown unabated and are endemic, so that regardless of the encouragement and pressure to adopt Western-dictated corporate governance principles, such practices will not be successful (Bakre, 2011). Impey (2007) posits that Western-dictated corporate governance can only be successful with the cooperation of accountants. Unfortunately, accountants, who are supposed to be independent gatekeepers and providers of information to market participants and other stakeholders, have been acting as both independent auditors and consultants. This, according to Sikka (2001), often results in conflicts of interest, which may place the integrity of financial reports in doubt, due to client pressure to appease management in order to be retained for future audit assignments. Such pressure has led regulators to encourage light regulation at the expense of successful implementation of corporate best practices (Sikka, 2009), especially in developing countries where regulatory frameworks and legislations are weak and ineffective. This is the predicament of the socio-political economy of Nigeria, which has seen high level of violation and disregard for the existing statutory provisions entrenched in the Nigerian Security and Exchange Commission (SEC), Corporate Affairs Commission (CAC), the Central Bank of Nigeria (CBN Act) and other guidelines which are meant to govern publicly quoted

companies in Nigeria in the adoption of corporate governance. Captains of industry and business executives have also been involved and implicated in various forms of corruption (Cadbury Nigeria Plc, 2008, Akintola Williams Deloitee 2006).

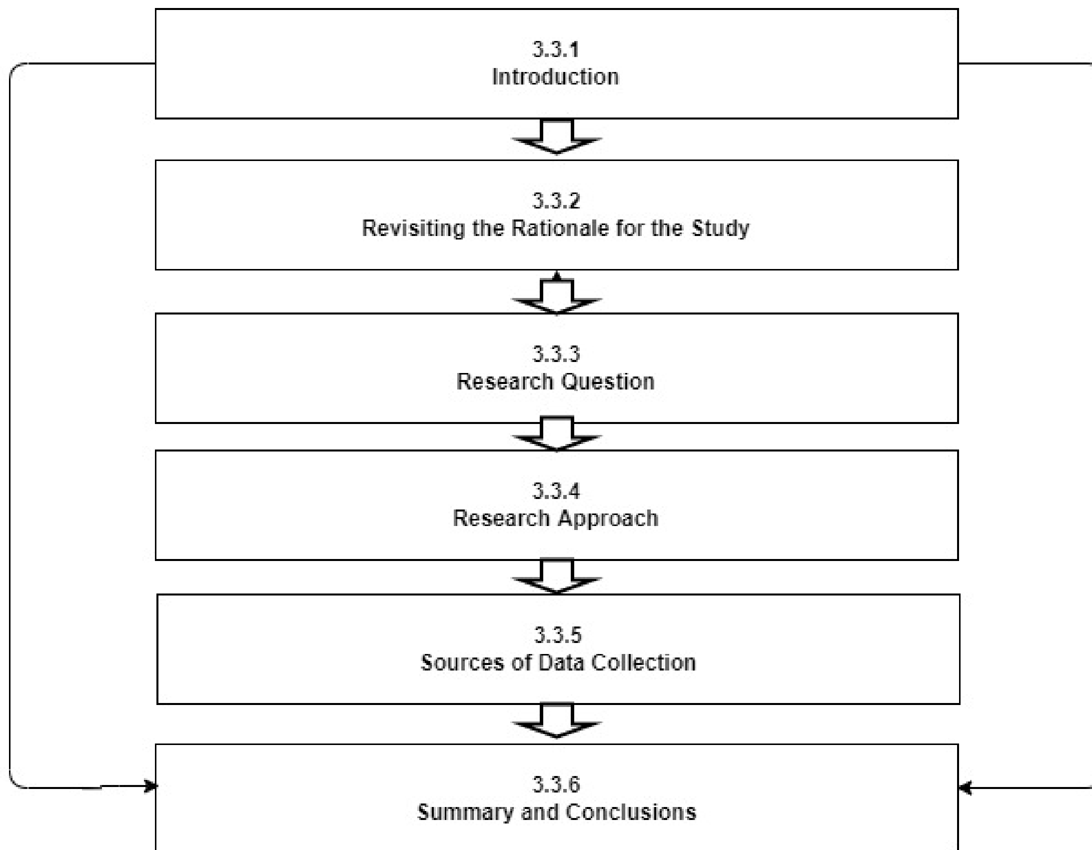
The weak systems and internal socio-political corruption have provided a fertile ground for multinationals to collaborate with local entities and elites to defraud the system. For example, UK-based Vetco Limited, German Siemens and American Wilbros colluded with politicians and public officials to bypass due process of competitive bidding in order to win contracts in Nigeria (EFCC Report, 2007). More recently the Malabu oil block scam which implicated oil companies such as Shell and Agip, in which some political elites were bribed to fraudulently award an oil block licence OPL 245 to Malabu Oil and Gas Limited, thereby defrauding the Federal Government of Nigeria. The massive fraud and "cooking the books" in companies, a notable example of which is Cadbury, not to mention insider dealings and compromised boards in many companies, toothless shareholders' associations and audit committees as well as rubber stamp Annual General Meetings suggest the collapse of corporate governance in Nigeria (Oyebode, 2009). The problem of corrupt practices spread across Nigeria with every sector of the economy having its fair share. The prevalence of instances of accounting irregularities and fraudulent activities recorded in Nigeria's banking industry such as "Oceanic Bank, Intercontinental Bank, Union Bank, Afri-Bank, Fin Bank and Spring Bank" in 2009 among others have been linked to the absence of robust oversight functions by the boards in which they abdicated their control to managers who were out to pursue their own selfish interest and the board failing in its responsibility to stakeholders (Uadiale, 2010). It has been noted that financial institutions occupy the centre of the recent financial crisis especially with the weakening of their asset base, owning to poor credit management (Fries, Neven and Seabright, 2002; Kashif, 2008; Sanusi, 2010). The next section examines the research methods and sources of data collection utilised to provide answers to the research questions.

3.3 Research Questions and Methods of Data Collection

3.3.1 Introduction

This section examines the rationale, research questions and data collection methods for the thesis. The structure of the research questions and data collection methods is shown below in figure 3.1

Figure 3.1 - Research question and methods of data collection



3.3.2 Revisiting the rationale for the study

With the global corporate scandals that hit the world economy, leading to the collapse of giant corporations such as Enron, WorldCom and Tyco, to mention but a few, the issue of corporate governance has attracted new global interest and debate (Bhagat and Bolton, 2009; Livingstone, 2009; Page, 2009; Sikka, 2008; Solomon, 2013; Wolf, 2008). While some scholars are of the opinion that more stringent rules and regulations should be enacted to avoid future occurrences (Solomon, 2013), others have argued that neoliberal policies, which arguably drives corporate governance practices, has failed the global economy and that

deglobalisation, in which each economy evolves appropriate and relevant corporate governance practices, would be the appropriate solution (Livingstone, 2009; Sikka, 2008; Wolf, 2008).

The sound health of the financial services sector is a matter of policy concern, especially in developing countries, where failure of financial intermediation can disrupt the development process. This is attested to by the 2008 meltdown in the financial service sector and the resultant impact on the world economy, in which the economic wheels of most countries almost grounded to a halt. It has been observed that the 2007-2009 financial crisis revealed many weaknesses in the banking industry, including the low loss-absorption capacity of capital instruments, inadequate risk management practices regarding liquidity and funding, the “too-little-too-late” recognition of credit losses and excessive complexity. These signpost only a few of the issues associated with banks that require post-crisis assistance from regulators. This crisis has also demonstrated how the wider economy was exposed to the high interconnection of institutions and the existence of banks that had outgrown the economy of their home country, effectively becoming “too big to fail” (Miklaszewska and Pys, 2018)

With its economy already integrated into the global neoliberal economy, the banking system in Nigeria has also witnessed enormous changes, among which is the ceding of ownership and control to a more market-based neoliberal economy as dictated by the World Bank and International Monetary Fund. Various consolidation exercises and unprecedented regulations that have necessitated effective corporate governance principles and practices have taken place over time. It is in the above context that this thesis adopts the framework of neoliberalism to examine the impact of various measures on the performance of banks, with reference to profitability, by applying corporate governance mechanisms. The effects of the global financial crisis on many emerging economies such as Nigeria remind us of the importance of corporate governance and have compelled regulators such as the Central bank

of Nigeria and the Securities and Exchange Commission to revise their codes of best practice for banks and other public companies. This is more important owning to the separation of ownership and management in banks across the globe and especially in Nigeria and other sub-Saharan African countries with weak institutional frameworks.

As the Nigerian financial sector expanded in size and scope, and with the intensity of competition, structural weaknesses began to appear , evidenced in unhealthy competition, quests for short-term profitability at the expense of long-term objectives, gross mismatches in assets and liabilities, needless risk taking, absence of precise and functional management plans, failures of corporate governance, abuse of office and privileges, regulatory breaches and lack of sound risk-management principles. These issues became pertinent in the Nigerian economy, and particularly the banking sector, because the sector is crucial to the economy as a financial intermediary. It is equally important to the Nigerian financial services sector in fulfilling its core financing roles and in propelling the nation's self-sustaining developmental aspirations, which have been hindered by poor corporate governance and fraudulent practices, coupled with a weak capacity for managing financial risks. This ultimately weakens every performance indicator in the industry. By 2009, the consequences of the foregoing situation in the industry, globalisation and liberalism, accentuated by the global financial crisis, led the sector to one of its most severe crises in Nigerian banking history. A crisis of confidence, last seen in the early 2000s, had returned. Many depositors, particularly offshore institutions, became extremely cautious within the prevailing crisis. The credit market was a shadow of its former self, while the economy groans under the yoke of devastating capital crunch. The sector also witnessed high incidences of non-performing loans and massive shrinking in the asset base, falling returns on investment, as demonstrated by declining share prices, dissipating dividend and bonus issues, industry-wide capital stress and increased job losses.

This problem led to liquidity challenges, evidenced in banks published financial statements, which reflected huge provisioning arising from non-performing loans (NPLs). The situation compelled a fresh round of capital raising exercises as banks attempted to bridge the gap in their asset positions through new offerings for tier 2 capital. In its response to this issue, the regulator announced its plans to re-assess the entire scope of the supervisory framework in the industry. Under the new arrangement, the CBN focused on corporate governance, enterprise risk management and liquidity/capital adequacy management. The 2009 regulatory reforms in the sector expose the conspicuous problems of corporate governance failure as most of the banks still operate with the same management teams as they were before the capitalisation, where the chief executive officer held majority shares and controlling influence, which is evidence that all is not well with the Nigerian banking sector's corporate governance mechanism. All this occurred due to lapses in internal control and corporate governance, as well as weak government policies, which eventually led to the sacking of the management and boards of banks, replacing them with temporary boards to protect depositors' funds.

The new policies and regulations also caused confusion and brought new challenges for the banks, continuously altering banks' strategic decisions and performance indicators, but providing them with no clear direction; this leads to failure. For example, banks in Nigeria were asked to recapitalise from their existing capital base to two billion and twenty-five billion in quick succession without any indication of what to do with the shored-up capital. This led to bank officials engaging in some unethical practices, increased risk appetite through giving unsecured loans and loans to board members, among other things. The problems facing the Nigerian banking system in recent years could therefore be seen as the legacy of years of weak corporate governance and bad lending practices, fuelled by inadequate supervision and regulation by the gatekeepers, which led to rapid lending growth and excessive risk taking. This research therefore answers the following questions.

3.3.3 Research Questions

In answering the research questions the following were considered. First, considering the integration of the vulnerable and poor Nigerian economy into the global neoliberal capitalist economy, the research examines the impact of the Nigerian socio-political and cultural environment on corporate governance practices. Second, it examines the trends of colonial and post-colonial legal frameworks, rules and regulations on governance systems and corporate governance practices in Nigeria. Thirdly, the research utilises a mixture of qualitative and quantitative data sources, such as archival documents, interviews and questionnaires, to seek the opinion of different stakeholders on the subject of corporate governance practices in Nigerian banking institutions.

The following questions have therefore been specifically asked.

1. *What has been the trend and pattern of corporate governance and performance of Nigerian Banks*?

2. *What is the long run co-integrating relationship between corporate governance and profitability in Nigerian banks over the period of study*?

3. *What are the dynamic interactions among corporate governance, board structure and performance of Nigerian banks over the study periods*?

4. Why are banks still failing despite all the reforms and measures put in place to forestall collapse.

4. *To what extent is the relationship between corporate governance and profitability sensitive to various governance proxies?*

5. *What is the impact of social political and cultural environment relationship between corporate governance and profitability*?

3.3.4 Research approach: mixed method

This study used a mixed method approach by combining both qualitative and quantitative research methods and techniques to achieve the research objectives. Mixed-method research combines the qualitative and quantitative approaches of data collection and analysis, concurrently and sequentially to form a solid understanding of the research query (Creswell, 2003; Tashakkori and Teddlie, 1998). Punch (2005) argues that this method helps in the consolidation of the benefits of the two approaches and compensate for any inherent weaknesses of each, while Greene et al. (2005) viewed mixed-method research as offering a broader understanding from multiple perspectives, more insightful understanding from fresh and creative perspectives, and a greater validity and diversity of values. Polit et al. (2001) and Proctor, (1998) posit that research based on numeric data is related to positivism while the interpretivist paradigm is more in accordance with non-quantitative techniques. Generally, researchers are advised to investigate the benefits and characteristics of both positivism and interpretivism in order to decide on which method to adopt. By using blended approach, this study attempts to harness all the necessary techniques to provide balanced research findings. The quantitative data explains the relationship between corporate governance proxies and performance, using financial statement information collected from banks, while the qualitative technique uses interviews and questionnaires to measure the efficacy of corporate governance in managing banks' activities.

Using mixed methods adds breadth to the research findings and provides balanced opinions and conclusions. Bryman (2012), Silverman (2013) and Patton (2014) view the qualitative research approach as showcasing the interactions that exist among people in social situations and as the perfect approach to studying and understanding social phenomena. A portfolio of 14 post-consolidation banks over a period of ten years (2006-2016) were selected to analyse profitability in relation to corporate governance using a quantitative methodology.

At the same time qualitative methods using interviews and questionnaires were used to gather information on corporate governance proxies.

Quantitative data were obtained from various agencies such as the Nigerian stock exchange, Nigerian Deposit Insurance Company (NDIC) and the Central Bank of Nigeria, on banks' published accounts and other statutory requirements, financial statements and reports. Relationship results were generated using simple regression analysis. Qualitative data was obtained from interviews and questionnaire with various stakeholders such as representatives of state institutions, shareholders, NDIC, CBN, public and bank officials, and bank staff at large.

As Maylor and Blackmon (2005) explained, the influences on qualitative research design are the issue being studied and the guidelines for doing the study in general. Therefore, designing the qualitative research for this thesis commenced with the identification of the theory of inquiry, research approach and strategy, which set the tone for the choice of an appropriate methodological framework. Even though, qualitative research means different things to different people (Strauss and Corbin, 1998), it is based on the assumptions and the use of interpretive theoretical frameworks that inform the study of research problems in addressing the meaning of individuals or groups ascribe to a social or human problem (Creswell, 2013). The characteristics of qualitative research have evolved over time. Creswell (2013), however, argues that all forms of qualitative research involve the following common characteristics, which suggest that it occurs within a given natural setting, complex reasoning through inductive and deductive logic, accepts multiple forms of data methods, allows researchers to reflect on their background and how it informs their interpretation of the information and what they gain from the study. It also involves reporting multiple perspectives and the factors involved in a situation, and basically the evolving design of the research processes. In qualitative research, a hypothesis is not needed to begin research; it employs

inductive data analysis to provide a better understanding of the interaction of “mutually shaping influences” and to explicate the interacting realities and experiences of researcher and participant (Lincoln and Guba, 1985). It allows for a design to evolve rather than having a complete design at the beginning of the study, because it is difficult, if not impossible, to predict the outcome of interactions due to the diverse perspectives and value systems of the researcher and participants, and their influence on the interpretation of reality and the outcome of the study.

Consequently, the notion of causality in critical theory suggests that it cannot be reduced to mere statistical correlation and quantitative methods; other methods are acceptable (Reed, 2005). Hughes and Sharrock (1990) argue that the study of history, i.e., the study of human behaviour and actions, needs different methods to that of the natural sciences. Prasad and Prasad (2002) suggest that a substantial body of research in the social sciences, especially in management, organisational and business studies, suffers from various forms of positivist anxiety that are manifested in an eagerness to measure up to conventional positivist standards, and such work is best described as a form of qualitative positivism.

It has been argued that ontology and epistemology are significant in illuminating how research begins by outlining theoretical propositions that are taken as given by the research (Ruddock,2001). While positivist epistemological and ontological positions are linked to quantitative research methods, interpretivist epistemological and ontological positions are linked to qualitative research methods.

This thesis adopted a mixed method because, it is believed that the relationship between theoretical position, method and methodology is less straightforward and cannot be predicted with certainty. Hence, Blaikie (1993) opined that it could be concluded that in certain circumstances interpretivist theoretical positions can be combined with quantitative research methods. This has resolved the conflict that would have been generated using positivist or

interpretivist ontological and epistemological assumptions in order to explain these two views on the impact of theoretical positions on the choice of methods. Quantitative research is based on positivism while qualitative on interpretivism or social constructivism and the distinction is between objective and subjective knowledge. Mixed methods research combines paradigms, allowing investigation from both the inductive and deductive perspectives, and consequently enable researchers to combine theory generation and hypothesis testing within a single study (Jogulu and Pansiri, 2011). This thesis resolves the conflict between the two approached by amalgamating statistics with thematic approaches in order avoid over-reliance on any of them (Jogulu and Pansiri, 2011) by administering questionnaire, conducting interviews and use this as a base for generating data for quantitative analysis. This approach provides stronger evidence and more confidence in my findings as it provides more granular results than each individual method.

Also, integration of quantitative and qualitative approaches permits a more complete and synergistic utilization of data in providing a better understanding of research problems and complex phenomena than either approach alone (Fetters & Freshwater, 2015). Mixed method approach equally helps to overcome the deficiencies in studies that engage either a quantitative technique or a qualitative approach (Creswell, 2013). For instance, quantitative research is less likely to answer ‘why' a phenomenon such as shareholder behaviour occurs (Creswell & Clark, 2011), providing an opportunity to apply important elements of one approach to research that engages another approach. Thus, this approach enables us to unpack the various rationalisations that inform the response of stakeholders to the features of good corporate governance drivers.

This conflict in the theoretical frameworks is further reconciled by using the work of the qualitative framework as a base for the quantitative data generation and analysis,

In the above context, and given the objectives of this research, as well as the socio-economic and political situation of Nigeria, a critical theory paradigm of inquiry would seem most appropriate in order to achieve the main aim of the research. This is because critical theory understands reality as being shaped by "social, political, cultural, economic, ethnic and gender values that crystallised over time" (Guba and Lincoln, 1994). Critical researchers assume that social reality is historically constituted and that it is produced and reproduced by people (Myers, 2009). As a result, it is seen as the interrelations of substantive problems, sources of evidence and of larger assumptions about society, history and the purposes of scholarship (Skocpol, 1984). Consequently, the indigenous norms and values of Nigerian society will be used to understand Nigeria's corporate governance framework, and this will be used to understand the trends and patterns of corporate governance and the performance of Nigerian banks. Although people can consciously act to change their social and economic circumstances, critical researchers recognise that their ability to do so is constrained by various forms of social, cultural and political domination. The peculiarity of each socio-political and cultural environment dictates the appropriate theory to understand the evidence from that environment. Consequently, the Nigerian socio-political and economic environment, which is embedded in corruption (Smith, 2008; Joseph, 1987; Moghalu, 2009; Okaro, 2004; Bakre, 2006; Iyoha and Oyediran, 2010) requires a critical theory perspective to illuminate the investigation. Critical theory focusses on providing an explanation for observable organisational events by looking at the underlying causes and mechanisms through which deep social structures shape everyday organisational life. This is thus relevant to the Nigerian situation, where the social, political and cultural environment has to be studied in order to gain a proper understanding of the corporate governance practices applicable to the country. Also, as this approach focuses on historical analysis and structure, epistemological relativism is embraced. According to Marx (1997), the economic structure of any society is the base

condition for all other social arrangements including law, the family and the nature of political governance. This aligns with stakeholder theory, which this research will adopts.

3.3.5 Sources of data collection

3.3.5.1 Qualitative data

This research involved the collection of both primary and secondary data. Primary data were derived from interviews and questionnaires, while secondary data were collected from banks' annual reports and financial statements for a period of ten years from 2006 to 2016. Interviews and questionnaires were designed to obtain stakeholders' opinions on corporate governance and bank performance. Stakeholders include experts, market operators, academics, practitioners and others. This was centred on the following areas: ownership structure, board structure and composition, CEO duality, audit committee, financial experts in the audit committee, board size, frequency of board and audit committee meetings. Interviews were conducted with the stakeholders already identified across various sectors of the economy and the questionnaire was administered on another set of industry participants drawn from different sectors of the economy.

Data Sampling

This research adopted purposive sampling method, which is adopted when it is necessary for researchers to exercise their judgement in selecting cases that aid them to answer their research questions (Robson,2011; Bryman,2012). This approach is equally suitable when contemplating factors such as participants access. Also, random sampling was used for locating participants while benchmark sampling was adopted for selecting banks for the study.

As this study largely employs primary data using interviews and questionnaires, it is expected that the information from the interviews will lead to the collection of secondary data. Interviewing is a method of gathering information through oral questions, usually using a set of pre-planned core questions. According to Schneiderman and Plaisant (2005), interviews can

be very productive since the interviewer can pursue specific issues of concern that may lead to focused and constructive suggestions. Structured interviews (also known as standardised interviews) were used in this study. In structured interviews, the interviewer uses a set of predetermined questions which are short and clearly worded; in most cases, these questions are closed and therefore require precise answers in the form of a set of options read out or presented on paper. This type of interview is easy to conduct and can be easily standardised as the same questions are asked all participants. According to Preece, Rogers, and Sharp (2002), structured interviews are most appropriate when the goals of the study are clearly understood, and specific questions can be identified. This will involve questionnaires based on prearranged and 'standardised' or identical sets of questions. The very formal character of structured interviews is the reason why they are used to collect quantifiable data (thus, they are also referred to as 'quantitative research interviews'). Major stakeholders with the Nigerian banking system were considered for interviewed and questionnaire, such as Bank Executives, staff of commercial banks, Central Bank of Nigeria, National Debt office, National Deposit Insurance Company (NDIC), EFCC, audit firms, professional bodies and other professionals. The interviews lasted for about one hour. Based on the information or data generated from the interviews, some quantitative analysis was carried out to reflect the relationship between corporate governance and the bank's quantitative parameters, in order to answer the research questions. In order to achieve this objective, annual report for the period 2006-2016 was analysed. This period was chosen due to a series of corporate frauds arising from banks in Nigeria over that period, which have been attributed to poor corporate governance practices. A total of 14 banks listed on the Nigerian Stock Exchange were analysed. This represents about 60% of the total population of banks, which is consistent with the propositions of Krejcie and Morgan (1970), who consider a minimum of 5% of a defined population to be an appropriate sample size to allow

generalisations to be made. The sampled banks were chosen based on their size, market capitalisation and the availability of their annual reports. The banks are:

1. Zenith Bank

2. Guarantee Trust Bank (GTB)

3. First bank of Nigeria (FBN)

4. United Bank for Africa (UBA)

5. Fidelity Bank

6.Eco Bank

7. Access Bank

8, Diamond bank

9.First City Monument Bank (FCMB)

10.SKYE Bank

11.Sterling Bank

12.Union bank of Nigeria

13.Unity bank

14. Wema Bank

Information has been made available owning to the Freedom of Information Bill passed in Nigeria in 2007. This enabled necessary documents to be sourced through archival documents, interviews, questionnaires and from the annual reports and accounts of the sampled banks and the publications of the Nigerian Stock Exchange for the period under review. Also, information was obtained from the Central Bank of Nigeria (CBN), the Nigeria Deposit Insurance Corporation (NDIC), and National Debt office, among others. The key words pertaining to this methodology are participation, collaboration and engagement (Henning, van Rensburg, and Smit, 2004). Participants were selected from various sectors of the economy in Lagos, Ibadan and Abuja. Lagos was chosen as the economic hub of Nigeria and also because

of its diverse demographic distribution representing various ethnic groups. Ibadan was selected. because at independence, it was the largest city in Nigeria and also presently one of the commercial hubs of Nigeria. Abuja was selected because it's the political capital of Nigeria and most companies in Nigeria have their headquarters in Abuja.

3.3.5.2 Quantitative data – measurement of variables

Research variables are categorised into independent and dependent variables for the purpose of this research.

Independent and dependent variables

The study consists of independent variables which are the main corporate governance proxies (board size, frequency of board meetings, audit committee, finance experts on the board, ownership structure and independent directors), a mediator variable (corporate governance) and the dependent variable (corporate performance). Regression analysis is used to determine the overall relationship derived from the pooled sample of 14 Nigerian banks based on the seven independent variables.

3.3.5.3 Measurement of bank performance variables

Profit can be defined as the difference between income and expenditure, which suggests that the bank is earning more than it is spending. Sanni (2006), contends that profitability is a situation where the income earned or generated during a given period exceeds the expenses incurred over the same period of time. Bank profitability is determined by both internal and external factors. Internal factors include management decisions and policies on liquidity, fund management, liquidity and expenses management, the quality of management team, branch network and location. External factors are determinants outside the influence of management, and these include macroeconomic policies, regulations and other forces such as inflation, interest rates, market growth and market forces.

Various financial indices are used to measure banks' performance. These include return on assets (ROA), return on equity (ROE) and Tobin's Q. These have been used by different researchers in previous studies; for example, Ntim (2009) and Ranti (2011) applied ROA while Gordini (2014) and Karmani (2015) used ROE to explain firm performance. Also, firm performance measurements have been viewed from two perspectives, accounting-based measures and market-based measures. Accounting based measures consider the current financial performance of a firm while market-based measures explain investor perception of the company, such as the share price. This study uses return on assets as a proxy to measure bank performance as an independent variable. ROA is expressed as net profit/total assets of the 14 banks under consideration. Lam and Lee (2008) argue that ROA is the most used ratio to combine accounting-based performance as a representation of organisational performance.

3.3.6 Summary, Discussion and Conclusion

This chapter has demonstrated that the socio-political and cultural environment of a society is the determinant of socio-economic development and regulatory practices, including corporate governance and accounting, in that society. This thesis has been able to establish how the evolution of neoliberalism as an economic policy has undermined the collective structures which may also impede economic development around the world, and especially the vulnerable, poor, developing countries. In doing so, this study has been able to establish the connectivity between neoliberal capitalism, corporate governance and accountability. The neoliberal economic principles that have created globalisation have used the instrument of international financial institutions such as the IMF and the World bank to encourage vulnerable, poor, developing countries to embrace neoliberal economic reforms, which may not be appropriate to the reality of their cultural and socio-political context.

With the failures arguably associated with various neoliberal policies in developed and developing countries, various codes were developed to instil good governance practices, but

these have not subsided failure and corruption, and this has implications for accounting and accountability (Ibrahim 2021). This study therefore suggest that while the above theories on corporate governance practices may have helped to understand the practices of corporate governance in some socio-political contexts in Western, developed economies, they may be inappropriate to some other socio-political contexts, such as those of developing countries.

The Nigerian economy, with its ineffective institutions of governance (Iyoha and Oyerinde, 2010), a weak regulatory framework (Adegbite, 2015) and corruption (Bakre et al., 2017), has arguably been integrated into the neoliberal economic system. This therefore suggests that the Western-dictated principles and practices of corporate governance may be an inappropriate methodology to understand corporate governance practices in Nigeria

This chapter has articulated the methods used to carry out the research. It demonstrated that in conducting this research, mixed methods were applied by combining both qualitative and quantitative approaches. Interviews and questionnaires were applied to gather quantitative information while regression analysis was applied to establish relationships between dependent and independent variables using a quantitative approach. The chapter described how data were collected from both the primary and secondary data sources.

The following chapter examines Nigeria's cultural and socio-political contexts and their impacts on corporate governance and accounting practices in Nigeria.

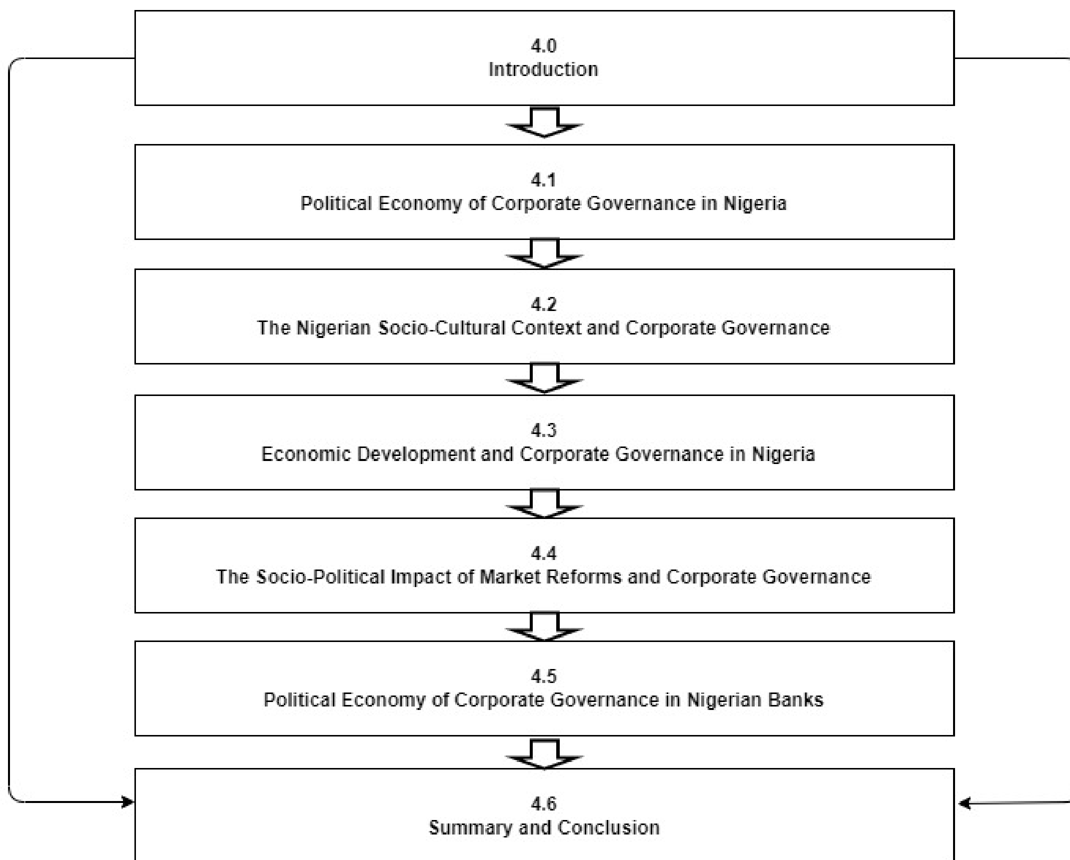
Chapter 4 - Nigerian Socio-Political Context and corporate governance

4.0 Introduction

Chapter 3 examined the methodological framework of neoliberalism and globalisation as deemed appropriate frameworks to understand corporate governance systems globally and their impact on developing countries as well as their consequences for the effectiveness of governance practices within such economic wildernesses, and the research methods undertaken. With its economy arguably integrated into the global neoliberal economic system, this chapter looks at the impact of Nigeria's socio-political environment on the implementation of neoliberal economic policies arguably imposed on Nigeria by international financial institutions, notably the World Bank and IMF, as a viable economic policy. This is because any understanding of the governance systems of a particular society is akin to understanding the socio-political and cultural system of that society. This further suggests that the understanding of the Nigerian socio-political and cultural context is essential to the understanding of the governance practices in Nigeria (Bakre, 2007).

This chapter is divided into six sections. 4.1 examines the political economy of corporate governance in Nigeria, reviewing the political process in Nigeria since independence and the impact of various governance systems on the economy. 4.2 examines the socio-political context and corporate governance issues within the Nigerian system. 4.3 provides a review of the impact of corporate governance practices on economic development in Nigeria. 4.4 explores the socio-political impact of market reforms embarked on by successive Nigerian government. 4.5 looks at the impact of corporate governance practices on the banking sector in Nigeria, while 4.6 concludes the chapter with a discussion and summary. The structure of the Nigerian socio-political context and corporate governance chapter is shown in figure 4.0.

Figure 4.0 - Nigerian socio-political context and corporate governance



4.1 The Political Economy of Corporate Governance in Nigeria

Despite the assumption that corporate governance has been receiving serious attention in emerging markets over the past two decades, little attention has been given to the study of the relationship between the political environment and corporate governance in Nigeria. Nigeria is a sub-Saharan African country with huge deposits of oil and gas, but with ineffective institutions (Iyoha and Oyerinde, 2010), a weak regulatory framework (Okaro, 2004), and lack of accountability in its oil and gas resource management (Transparency International, 2014). This study focuses on the effect of cultural background on the application of corporate governance practices in Nigeria. The political economy of corporate governance in Nigeria can

be explained by the events in the country pre- and post-independence. This is very important because of the role politics plays in shaping corporate governance (Roy 1997; Adegbite, 2010). This can be explained through various transformational governance and economic reforms over time within the Nigerian economic and political landscape. The governance of Nigeria began with parliamentary democracy at independence in 1960 and has alternated between periods of democracy (1960-66, 1979-1983 and 1999 to date) and periods of military dictatorship (1967-1979, 1983-99). The political environment has thus experienced a period of turbulence and political instability with military interruptions, the unfortunate civil war and other attendant chaotic situations such as annulment of a peaceful and free and fair election in 1993 before the country returned to democratic governance in 1999. All these instabilities have affected the economy adversely and have made the country resort to borrowing despite the huge resources at its disposal. Like other developing countries, partisan politics in Nigeria has eaten into the governance of corporations, which has been the hallmark of corruption; politicians continuously use their positions to exploit and seek financial support from corporations to finance elections and this always provides a fertile ground for corrupt practices before and after elections.

Furthermore, the Nigerian economy has witnessed unprecedented ineffective institutions of governance and a weak regulatory framework (Bakre, et.al,2017), leading to lack of accountability and endemic corruption in its resource management (see Bakre, 2011). After independence, like other developing countries, Nigeria adopted an interventionist development approach which included restrictions on foreign ownership and created a role for government involvement in and ownership of key economic sectors, especially infrastructural development and oil and gas. However, such developmental strategy cannot thrive in a weak market institution with lack of robust political democracy and will not result in responsible corporate governance (Arslan and Alqatan, 2020). In recent years, international economic pressures have

induced the country to adopt a programme of economic liberalisation and deregulation. Advocates of these reforms argued that they would not only generate greater economic growth, but also contribute to a more responsible corporate governance. Notwithstanding such claims, Nigeria's socio-political terrain has been riddled with weak political structures and corruption-ridden political cultures (Adegbite, 2010; Bakre 2007).

Any major debates about corporate governance will be based on the recognition of the importance of corporate enterprises for resource allocation in the economy. Corporate enterprises have been viewed to perform an important role in defining economic outcomes in relation to decisions that they make about investment, employment and trade in most economies (O'Sullivan,2000). Thus, corporate governance plays an important role in defining investment decision makers in corporations, types of investments they make, and how returns from investments are distributed (O'Sullivan, 2000).

The current situation in Nigerian public and private sectors, such as the corporate scandal resulting from Lever Brothers Nigeria plc, Siemens, Shell, Halliburton and Cadbury Nigeria plc, have shown that the issues of fraud, corruption, and corporate scandals cannot be overlooked. Most top management bring beliefs acquired from their early childhood into their senior management roles and responsibilities. The Nigerian corporate environment has been beleaguered with top management abuse of power, weak legal frameworks, poor recruitment and ineffective control. Failure of corporate governance in Nigerian banks can thus be attributed to the following issues, among others. In the first place, bad credit management and deterioration of asset portfolios in banks and other financial institutions are part of the main causes of the recent financial crisis. Secondly, the organisational structure of businesses and unholy alliance among banks and big businesses have prevented transparency in the management of such banks. This is seen in the issue of Intercontinental bank and Access Bank of Nigeria with shady mergers and acquisitions. Also, there was a symbiotic relationship among

various stakeholders such as the government, banks and big businesses which contributed to poor regulation and poor corporate governance rules and regulations. This is clearly seen in the case of Malubu Oil, Societe Generale Bank of Nigeria and other celebrated cases where political interference crippled the activities of banks and other organisations.

In the pre-consolidation era, the banking industry in Nigeria had about 89 active banks. These banks were involved in various cases of ethical misconduct and lacked adequate supervisory structures, which led to a reduction in customer confidence. Several instances of recklessness amongst the leadership were recorded and this led to a lingering distress in the industry. This eventually led to the reduction of the number of banks to 24 post-consolidations through various mergers and acquisitions. This period equally recorded weak corporate governance, which manifested in form of weak internal control systems, excessive risk taking, overrides of internal control measures, absence of or non-adherence to limits of authority, disregard for the canons of prudent lending, absence of risk management processes, insider abuses and fraudulent practices, among others. The above view is supported by the "Nigeria Security and Exchange Commission (SEC) survey of 2004" which shows that only about 40% of quoted companies had recognised codes of corporate governance in place.

It is therefore necessary to understand the Nigerian socio-cultural context to be able to suggest appropriate corporate governance practices, as understanding the socio-cultural factors of a society or organisation is synonymous with understanding the functioning and practices of that society (Neu et al., 2013). With this in mind, the Nigerian socio-cultural impact on corporate governance in Nigeria is illuminated in the next section.

4.2 The Nigerian Socio-Cultural Context and Corporate Governance

The new independent Nigeria was filled with great optimism and expectation in 1960 about the expected developmental prospects, however , forty years on, the Nigerian economy is yet to achieve its expected post-independence potential. The country lacks efficient basic infrastructure such as communications and transportation systems, electricity, water, etc., while unemployment rates are very high and basic social needs are not met. Also, the country is embedded in corruption and divided along ethnic and tribal lines (Federal Office of Statistics, 1996). These features of Nigeria's socio-economic development have major implications for business, both in the private and public sectors (Akanki, 1994). For example, a former Governor of the Central Bank of Nigeria, Ahmed, expresses the frustration felt by many Nigerians thus:

> *"There appears to be a certain built-in stubbornness in the attitude of the typical Nigerian economic agent . . . It manifests itself in a strong propensity to circumvent laid-down rules of economic behaviour and to resist control and regulation . . . it tends to encourage a kind of softness and lukewarmness in the application and implementation of legitimate rules of economic conduct. Hence it provides a fertile ground for bribery, corruption, idleness and the contrivance of get-rich quick attitude which are antithetical to hard work and discipline (Ahmed, 1996, p. 14)."*

The nature of Nigeria's problems is not only rooted in the attitudes of individual Nigerians, but also in the larger political and economic structures and practices, of which the ownership structure, which remains one of the key problems, is examined next.

4.2.1 The Nigerian Ownership Structure and Corporate Governance

After independence, majority of corporations in Nigeria were under the control of the government, which afforded the government greater control over productive resources, which had been previously dominated by foreigners during the colonial rule. As a result of this, various Acts were passed in order to ensure transfer of ownership of corporations to Nigerians. Such Acts included the FX Act and the Nigerian Enterprises Promotion Decree (NEPD), although scholars contend that these Acts did not achieve their intended objectives, especially

in the area of ownership structure of Nigerian corporations (Yerokun, 1992). In most cases foreign entrepreneurs used Nigerians as fronts while ownership remained with them (Achebe, 1989, p. 663). However, despite all the shortcomings, these laws mark the beginning of Nigerian ownership and the enterprise governance process. However due to lack of adequate domestic investment, the government had to take up most of the divested shares (Yerokun, 1992). As a result of this macroeconomic policy, the government became more involved in different aspects of the economy including industrial, productive and commercial activities, with foreign investors, who were meant to be in the minority while local investors operated either as (minority) partners with foreign investors or through small family-owned corporations. It has been observed that one of the issues facing corporate governance in Nigeria is adequate protection of minority shareholders' rights. Even though protection of shareholders' right is entrenched in the Companies and Allied Matters Decree (CAMD, 1990) and other laws in the country, these laws are violated and infringed upon with impunity. According to Okeahalam and Akinboade (2003), legal and regulatory systems exist to protect the rights and obligations of shareholders as well as rules and regulations for conducting business, and necessary penalties for any violations of these regulations. However, such laws suffer from poor supervision and enforcement with the resultant effect of preventing effective implementation of corporate governance. The authors contended that there haven't been adequate judicial and administrative means of supervision to bring the type of changes necessary to implement effective corporate governance and also those extra-judicial systems for supervision, including the registrar of companies and shareholders' associations, who could bring pressure to bear on directors, have also proved ineffective. It is not enough to formulate rules; such rules must be enforced and monitored for effective compliance (Otobo, 1997; Okeahalam and Akinboade, 2003). However, watchdog organizations, such as consumer bodies, are not yet well developed in Africa (Botha, 2001). It has therefore been suggested that

there is an urgent need for legislative overhaul of the rules or a decree that establishes a regulatory agency which indicates its functions and enforcement powers (Otobo, 1997).

Mwapachu (2001) claims that a World Bank survey of 60 developing nations found corruption and lack of transparency and disclosure among firms in developing countries as the single greatest obstacles to economic development in these countries such as Nigeria. By diverting investment into unproductive dead ends and blocking business growth, corruption makes it difficult for people to move out of poverty. One of the principal sources of corruption in African countries is the close relationship between the political leadership and private businesses (Mwapachu, 2001). Investors typically view a well-governed company as one that has majority of outside directors with no management ties to its board and is open to liaise with investors for information on governance issues (Okeahalam and Akinboade, 2003). In most African countries, including Nigeria, having an independent board of directors has been very difficult, not only within the government circle, but also for those with whom such enterprises have contracts, which is a product of shortage of skills and lack of familiarity with board functions as well as fiduciary responsibilities. One of the challenges facing modem corporations in Nigeria might have stemmed from lack of qualified corporate board members. According to the Central Bank of Nigeria (2006), many board members lack the requisite skills and competencies to contribute effectively to leadership of modem corporations. According to Okpara (2010), several factors prevent good corporate governance in Nigeria, including a lack of qualified board members, weak or non-existent law enforcement mechanisms, ignorance on the part of stakeholders, government interference in the operations of state-owned enterprises and lack of corporate governance regulations for businesses in the informal sector, among others (Oyejide and Soyibo, 2001; CIPE/IEA, 2001).

4.3 Economic Development and Corporate Governance in Nigeria

Since the mid-1980s, economic development in Nigeria has been very slow and faced with inconsistent policies caused largely by political instability, coupled with people-unfriendly market reforms. Most economic and social reforms introduced in the country have led to policy summersaults and only resulted in hyperinflation, unemployment, increase in prices of goods and services, decayed infrastructure, social turmoil, worsening unemployment, high inflation and stagflation. These problems were exacerbated during Obasanjo's tenure as president (May 1999–May 2007). Over time, the economy has been dominated by the political elites and their cronies across all industries and this has brought the country into penury despite the tremendous human and natural resources. Thus, the country has been managed with impunity while the vast majority of people live in abject poverty, which has fuelled a lot of discontent among the populace. Public funds and resources were massively embezzled and misappropriated for intra-party and inter-party-political purposes at the expenses of important public infrastructure. The electioneering process was turned into selection rather than election, putting democracy at major risk and allowing government by the elite for the elite, using the undeveloped masses as a ladder of growth without any commitment to equality and fairness. Amuwo (2009) argues that elections in Nigeria, right from the early period of independence, have been to a great extent a competition for spoils, although it is arguable that by tearing down whatever remained of the country's growing developmental state, market reforms transformed Nigeria into a deeply corrupt state. Also, market policies have arguably done little to solve the problems of venality and political competition for spoils, but instead they have tended to exacerbate these problems (Amuwo,2009). The situation worsened during the Obasanjo regime, as market policies were integrated into politics, partly due to the enmeshing of the

corrupt wealth accumulated by retired senior military officers who now turned politicians with that of "professional" business operators, which has been defined as the "military-business complex" (Adekanye, 1999). Moreover, it has been argued that while structures are determinant in routinising democracy, they are far from being deterministic, and that "what individual actors do" is equally significant (Haynes 2001).

Most of these problems arise in developing countries, and particularly in Nigeria, because of the impact of globalisation in the management of their economies, which has weakened both their political and economic systems and equally subordinated local economic and human development to the whims and caprices of the transnational corporate powers, especially the World Bank and IMF. These institutions have consistently encouraged poor nations to embrace neoliberal policies and dictated the lines they should tow, regardless of whether this conforms to their cultural, socio-political and economic systems. According to Haynes (2003), post-independent African governments have been forced to work with international and domestic structures that undermine attempts to deliver changes to the substance of rule (Rahaman et.al.2007). While there is little doubt that neo-colonial interests and domestic clients have always benefited from the state's primitive task of organising production for external profit, this process has been worsened since the 1980s by market reforms (Khadiaghala 1990, p. 348). In the same vein, the Washington Consensus imposes neoliberalism and market fundamentalism on developing economies through fiscal discipline, subsidy withdrawal, financial and trade liberalisation, openness to foreign direct investment (FDI), privatisation and deregulation. The impact of these economic policies on developing economies is examined in section 4.4 below.

4.4 The Socio-Political Impact of Market Reforms and Corporate Governance

Arguably, market reforms have been seen as an ongoing process and have been associated with effectiveness and efficiency as well as designed to guarantee higher living

standards and significant wellbeing. However, Stiglitz (2004) argues that not only do unfettered markets often fail to achieve even these limited objectives, but also that "poverty may increase even as the economy grows", and that "'unemployment is the most remarkable failure of markets". The World Bank and the IMF have tended to present markets to African governments as if they are financial institutions that are sacrosanct and infallible. However, in reality they are political institutions that can and do fail. They are also susceptible to manipulation, not only by monopolies and oligopolies, but also by global powers. Hence Payer (1991) argues that the truly scarce commodity in the world today is not capital, it is free markets. The government's National Economic Empowerment and Development Strategies (NEEDS), tagged "Vision 2020" in Nigeria, was designed as an economic reform programme to rejuvenate the economy as the engine of growth and development. However, this programme did not see the light of the day because of fiscal indiscipline and lack of commitment within the government, as the country has a reputation for lack of transparency and accountability. Indeed, basic information on oil transactions involving production volumes, costs and export prices was often not shared with relevant government agencies such as the Federal Inland Revenue Service and the Office of the Accountant-General. Also, the Nigerian National Petroleum Corporation (NNPC), which is officially the senior partner in oil production joint ventures operated by the oil majors, lacked the capacity for independent sourcing of information on the production data of foreign and domestic players in the industry as a result of the endemic dishonesty inherent in the system.

Due to a combination of undue political control by successive Nigerian governments and a seeming lack of professional autonomy at its apex, the Central Bank of Nigeria (CBN) has never succeeded in keeping proper and accurate oil payment and sales records. It was thus not clear whether the huge shortfall mentioned previously had been "misclassified, wrongly posted or somebody did not make payment of what [they] should have paid" (The Guardian 2006, p. 25). The former CBN governor once claimed that about 20 billion dollars was missing

or unremitted to the federal government of Nigeria's account in 2006. This is not limited to the oil industry; Nigerian Banking institutions were also beleaguered with political interference which has affected the growth and development of the industry, and this is further examined in section 4.5.

4.5 Political Economy of Corporate Governance in Nigerian banks

Corporate governance of the banking industry has been embedded in extensive political intervention, which may be due to the need to protect the entire economy from failing or due to government participation in ownership. La Porta et al. (2002) identifies government ownership as common to many developing economies which may be intended to create a level playing field and to solve inherent informational problems in developing financial systems (Arun and Turner, 2002). According to Arun and Turner (2002), the seriousness of conflict between depositors and managers in government-owned banks will depend on the credibility of the government. The Basel Committee on Banking Supervision (1999) argues that government ownership of a bank has the potential to alter the strategies and objectives of the bank and the internal structure of governance (Arun and Turner, 2009). This was the case with Nigerian banks in the 1970s to 1990s, before government divestment through privatisation programmes. Since then, the Nigerian banking system has been locked in various failure and scandals that have shaken the industry and almost brought the economy to a halt. This has also necessitated various forms of consolidation, reform, intervention and other bounce-back programmes. At the same time, the Corporate Affairs Commission (CAC), the Central Bank of Nigeria (CBN Act) and other guidelines that were meant to govern publicly quoted companies in Nigeria on corporate governance have not lived up to expectations and have been embroiled in unethical links with the political class, to support internal board wrangling and take sides in a manner that is not transparent and healthy for the industry. The enormity of cases of accounting recklessness and fraudulent activities recorded in the Nigerian banking

industry have been attributed to lack of vigilant oversight functions by the boards of directors, the board relinquishing control to corporate managers, who pursue their own self-interest, and the board being negligent in its accountability to stakeholders (Uadiale, 2010).

It has been argued that banks and other financial intermediaries are the major culprit of the world's recent financial crisis. This has been demonstrated in the deterioration of their asset portfolios, largely due to distorted credit management, which has been seen as one of the main structural foundations of the crisis (Kashif, 2008; Sanusi, 2010). The financial market meltdown has been linked to weak corporate governance framework within the industry. The industry experienced protracted problems, the supervisory structures were inadequate and there were cases of official recklessness amongst the managers and directors, while the industry was notorious for ethical abuses (Akpan, 2007).

4.6. Summary and conclusion

The notion that Western-economy-sponsored corporate governance practices, often claimed to be "international best practices" would be suitable in solving the economic problems of global economies, in particular the weak capital markets of poor, developing economies, has become debatable (Mir and Rahaman, 2005; Sikka, 2010; Bakre, 2011; Sanusi, 2012). Such claims have been open to intensive global scrutiny in the light of the 2002 Enron debacle and the 2008 financial crisis, which have continued to challenge the appropriateness of such corporate governance practices to even the Western economies (Wolf, 2008; Livingstone, 2009). It has therefore been consistently argued that where differences exist in socio-political, economic and cultural environment, each country would be better served by corporate governance practices specifically developed in line with their environment (Ndubizu, 1994; Wallace, 1990; Wallace and Briston, 1990; Bakre, 2006). However, despite such awareness, in their urge to pursue global private capital accumulation, Western economies and their multinational corporations, through the agency of their controlled institutions, notably the

World Bank and the International Monetary Fund (IMF), have been making the granting of loans and other grants to poor countries contingent upon the adoption of Western-sponsored corporate governance practices (Anissette, 2004; Graham and Anisette, 2012). Poor and vulnerable countries, such as Nigeria, have been forced to adopt such corporate governance, which has proved to be inappropriate to their economic problems (Perera, 2012; Hopper et al., 2012; Bakre, 2011). Berkowitz, Pistor and Richard (2003) posit that countries of colonial origin with transplanted legal systems, especially those that were not appropriate to local conditions, have fared worse in terms of growth. Khanna and Palepu (2000) argue that there is good evidence that certain organisational forms may fit the circumstances of developing markets but be poorly suited to advanced economies, because developing countries lack the institutions of law and financial market discipline. Put differently, introducing laws that are purportedly neutral in an environment where rule of law does not apply to the state or its agents, will not produce the desired results. This is because as economic and financial conditions differ among countries, so also should their corporate governance. One of the earliest contributions was made by Andrei Shleifer and Robert Vishny (1993), academic economists at Harvard and Chicago respectively, who argued that corruption was caused by weak central government and that its effect was to distort the economy significantly. On the basis of research in Russia, they argued that the central authority existing during the Soviet era resulted in monopoly or organised corruption – in which one actor had to be bribed to gain favour – whereas under post-Soviet conditions weak central authority resulted in competitive corruption, in which many actors had to be bribed without any certainty that the favour would be provided. Krastev (2004) argued that corruption was the effect of, and not a cause of, weak states and underdevelopment.

In 1998, Joel Hellman, a political scientist then working for the European Bank for Reconstruction and Development (EBRD), published a paper entitled “Winner Takes All: The

Politics of Partial Reform in Post-communist Transitions in World Politics", in which he argued that in countries where politicians were protected from electoral jeopardy, initial winners of reform were able to "stall the economy in a partial reform equilibrium that concentrated rents" (1998: 204). Multilateral and bilateral overseas development assistance donors were instrumental in the establishment of many corruption indices. For example, the World Bank was instrumental in the founding of TI in Berlin in 1995. In turn, donors used the indices to allocate assistance to countries (Grigorescu, 2006) and to determine their policy advice, technical assistance and lending activities.

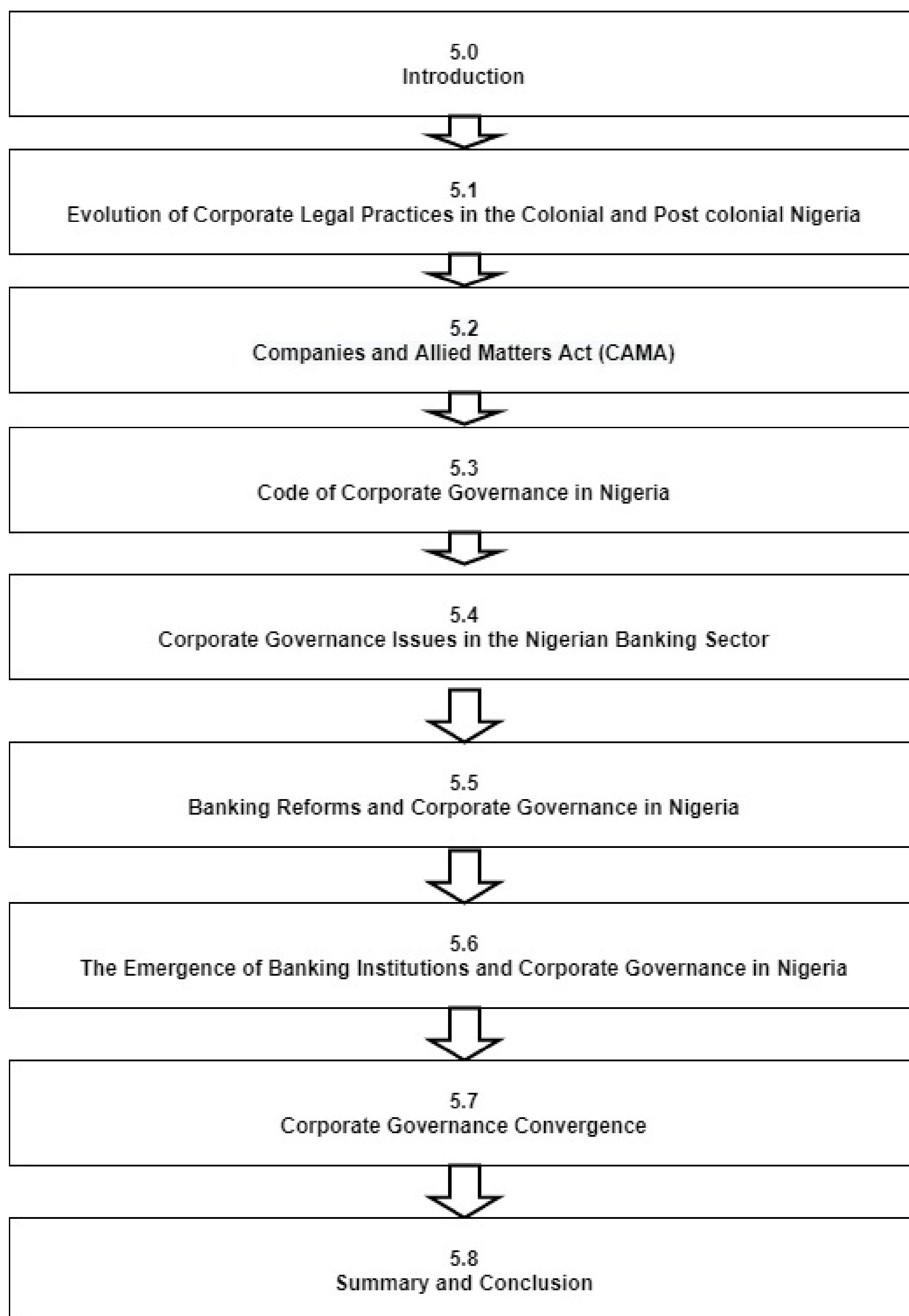
It has been argued that ineffective institutions and weak legal frameworks are responsible for poor corporate governance in most developing economies, particularly Nigeria (Iyoha and Ojerinde, 2010). Consequently, beginning from the mid-1990s, the World Bank and IMF recognised corruption, "the abuse of public office for private gain" (IMF 1997: 2, fn2), as a prime justification for the liberalisation of international markets and structural reform of developing and transitional economies (Everett et al., 2006; Bukovansky, 2006; Marquette, 2004). The above points therefore necessitate an examination of the Nigerian legal framework that has arguably been responsible for poor corporate governance in Nigeria. This is examined in the next chapter.

Chapter 5 - Nigerian Legal Framework and Corporate Governance Practices

5.0 Introduction

Chapter 4 examined the impact of the Nigerian socio-political and cultural environment on the development of corporate governance in Nigeria. As the legal system of a society plays an active role in the development of corporate governance framework in such society, this chapter examines the legal framework that shapes the evolution of corporate governance in Nigeria. The chapter is divided into five sections. 5.1 discusses the evolution of corporate governance in colonial and post-colonial Nigeria. 5.2 examines the promulgation of the Companies and Allied Matters Act (CAMA). 5.3 discusses The Code of Corporate Governance development in Nigeria. 5.4 discusses corporate governance issues in the Nigerian banking industry. while 5.5 analyses the impact of banking reforms on corporate governance in Nigeria. 5.6 discusses the emergence of banking institutions and corporate governance in Nigeria and 5.7 discusses corporate governance convergence. 5.8 provides a summary and conclusion. The Structure of this chapter is shown in figure 5.0.

Figure 5.0 Nigerian legal framework and corporate governance practices


5.0
Introduction
5.1
Evolution of Corporate Legal Practices in the Colonial and Post colonial Nigeria
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Corporate Governance Convergence
5.8
Summary and Conclusion

5.1 Evolution of Corporate Legal Practices in Colonial and Post-Colonial Nigeria

It has been argued that the legal system of any society is very important to the development of corporate governance framework of that society (Licht, 2005). The legal system forms the guiding principle for organisational activities and incorporates shareholder protection, structure of the organisation and the framework of corporate governance. Company law in Nigeria has its roots in UK company law, and this has led to the wrong impression that shareholders in Nigeria in principle enjoy most of the legal rights enjoyed by shareholders in the dominant Anglo-American economies. However, Nigeria has suffered from a weak judicial system that is incapable of enforcing human rights, coupled with underdeveloped marketplace, information asymmetry, deep-rooted corruption and non-compliance with legal process (Ahunwan, 1998) which has made business activities less attractive and riskier in the country (La Porta, 1998).

Prior to colonisation, indigenous customary business practices were prevalent in Nigeria and the principles guiding business then were based on local norms, values and culture. Nigeria was colonised in 1861, when Lagos territory was colonised, and became known as the Lagos Colony (Daniels et al., 2011; Usuanlele, 2010). Corporations began to come to Nigeria to do business in the second half of the 19th century, and they were mostly British companies chartered in England. One of such pioneer companies was the National African Company which was chartered in England (Ukpabi, 1987). During this time, the vast majority of the companies in Nigeria were incorporated within British laws and status, and hence subject British practices (Orojo, 1992).

The first corporate statute ever enacted in Nigeria was in 1912 (Ahunwan,2002). However, this law was only applicable to the southern part of the country, especially Lagos,

the country's main commercial centre. It was amended five years later and replaced with a new law known as Companies Amendment and Extension Act of 1917. This ordinance of 1917 applied to the whole country and was later replaced with the Companies' Ordinance 1922 Act. The 1922 Companies Act was in place up until and even after independence, although it went through amendments in 1929, 1941 and 1954 (Nwangwu, 2018), before it was replaced with the 1968 Companies Act (Okike, 2007), because as an independent state, the need to review company rules was inevitable. During this period of colonial rule, corporate governance in Nigeria was tailored to, and remained embedded in the British governance process. Thus Nigerian "made" corporate governance can only be traced to the post-colonial era. This new 1968 act brought considerable developments into the country's business arena by ensuring effectiveness in the management of affairs of companies and fostered shareholder participation in the management of companies. Directors were made more aware of the need for accountability and transparency in the day-to-day activities of organisations. Also, part of its provisions, was guidance on how company affairs are managed, including the roles of the board of directors and that of shareholders in the general meeting. This supports the practice and principles of good governance in the management of corporations in Nigeria.

After independence in 1960, economic self-dependence was one of the most important factors that affected the direction of governance in Nigeria, and this was clearly the fundamental ideological conviction after independence (Ahunwan, 2002). According to Ahunwan, economic self-dependence was viewed from indigenous ownership of means of production as illustrated from two perspectives. In the first instance, government took over the control of public utilities, infrastructure and social welfare provision through the establishment of state-owned corporations and banned foreign, private and domestic corporations from ownership of such corporations. (Ahunwan, 2002). Secondly, the government promoted indigenous ownership in other sectors of the economy by passing two major legislations which

were the Foreign Exchange Control Act of 1962 (hereinafter "the FX Act") and the Nigerian Enterprises Promotion Decree, No. 4 of 1972, often referred to as the "Indigenisation Decree" (hereinafter "NEPD"). The FX Act prohibited the creation or transfer of any security or interest in a security in favour of a person resident outside Nigeria, except with the permission of the Minister of Finance. The NEPD was an interventionist development strategy adopted by the federal government of Nigeria with the aim of promoting indigenous ownership of businesses (Osemeke,2012). This decree restricted foreign ownership by creating three schedules of enterprises: (i) enterprises exclusively reserved for Nigerians; (ii) enterprises in respect of which foreigners cannot hold more than 40% of the shares, and (iii) enterprises in respect of which foreigners cannot hold more than 60% of the shares. (Ahunwan,2002; Beveridge,1991; Iyang, 2009). This classification was based on the perceived financial and managerial needs of the country at the time. The second schedule was comprised of manufacturing companies, where foreign participation was expected to bring foreign capital and managerial expertise. The third schedule included capital-intensive enterprises (Kachikwu, 1988; Orojo, 1992; Yerokun, 1992).

One of the major pushes for the development of this decree was that before the promulgation of the government's Indigenisation Act in 1972, most businesses in Nigeria were under the control of British citizens and subjected to British company legislations so as to protect their economic interests as the legal system plays an important role in corporate structure and conduct (Adegbite,2010; Morrison, 2004). Another legislation that influenced corporate governance regime in Nigeria was the Nigerian Privatisation and Commercialisation Decree (1988). This legislation was meant to encourage and afford more foreign investors or strategic partners the opportunity to hold up to 40% of privatised companies (Marshall,2015). The purpose of this policy was to provide an opportunity for investors to give the much-needed injection of capital and more professional management. However Ahunwan (2002), expressed

some reservations on efficacy of the legislation, especially on the privatisation of government-owned corporations which he thought might change the composition of ownership of Nigerian corporations, but would not alter the pattern of concentrated ownership (Ahunwan,2002). The aim of the act was ultimately to protect Nigeria's economy from foreign acquisition and domination, by reserving certain enterprises for Nigerian citizens. Unfortunately, this restrictive regulation did not help to improve the productive base of the country and did not enhance the industrialisation process as it was undoubtedly intended to (Ezeani, 2012). Ezeani argues as follows:

> *"The indigenisation scheme did not achieve the desired objective, at least not in the area of industrialisation. Most of the enterprises taken over by Nigerians were mainly trading outfits whose major occupation was the importation and marketing of foreign goods and services. Those of the enterprises that lay claim to being industrial enterprises depended almost exclusively on imported inputs. The Nigerians who purchased those trading outfits were contented with the status quo and did little or nothing by way of establishing new industries. The government was perhaps a greater culprit in this regard as most government owned enterprises or those in which government had a substantial stake came under this category".*

This decree emphasised ownership of corporations, which is the groundwork for corporate governance under the agency theory.

However, despite the changes the 1968 Act brought, it was embedded in the UK Companies Act of 1948 to a great extent (Okike, 2007), which made it difficult for the legislation to deal with the country's peculiar circumstances such as company law and the unique socio-political and cultural situation (Okike,1994), neither did it address the rapid economic developments the country needed at that time. At the same time, Nigeria was faced with the deficiencies identified in the corporate governance structure in the area of board activities, disclosure and transparency, as well as risk management (OECD, 2010) and this led to the development of new global corporate governance guidelines (OECD, 2010; UKFRC, 2012, 2016; CBN, 2006). This analysis of the development of rules, decrees and corporate governance in Nigeria has proven that it can be described as "Anglo-Saxon", or the "outsider

control system" (Franks and Meyer, 1994), reflecting Nigeria's colonial heritage. This system is anchored on the following pillars: in the first place, the interest of shareholders is seen as very important to the management, and the ultimate goal is the maximisation of shareholders' wealth; secondly, with this framework, it is assumed that there is a functioning capital market, and that this will be able to reconcile the interests of management and shareholders; the third pillar assumes that there is a chain of accountability, that executives are accountable to the board of directors, who are in turn accountable to shareholders; lastly, the rights and responsibilities of key players in the corporate governance framework are embedded in the statute.

The inherent weaknesses noticed in the 1968 Companies Act necessitated the need for a new legislation and this led to the promulgation of Companies and Allied Matters Act (CAMA) 1990. Consequently, CAMA 1990 was the first major regulatory and governance framework to shape post-colonial business activities in Nigeria, as further examined below in section 5.2

5.2 Companies and Allied Matters Act (CAMA) 1990 (Now CAMA, 2020)

The companies and Allied Matters Act 1990 (CAMA 1990) was the first major step in producing the much-anticipated regulatory framework and governance structure for businesses in Nigeria. Hitherto, discussions on corporate governance had focussed on ownership, shareholders, board composition and corporate social responsibilities (Okike, 2007). The meltdown experienced by the financial service sector in 2008/2009 with Nigeria not an exception has brought a new call for necessary reforms in corporations (Ahmed, 2007).

Prior to the enactment of CAMA there was no major control or challenge to the status quo in the management of corporate enterprises. However, the corporate governance issue was a threat even at that time, although there was no agitation for accountability and transparency except where required by the law governing corporate governance (Yakasai, 2001). CAMA

1990 was promulgated to repeal and replace the Companies Act of 1968 to regulate companies in Nigeria. Despite the fact that corporate governance was yet to occupy prominent position when it was promulgated in 1990, it made provisions that were pivotal to corporate governance practice in Nigeria, which include among others: accounting and auditing standards, equity ownership disclosure, minority shareholders' rights and equality of members, oversight management, where Corporate Affairs Commission and other regulators are expected to mediate and regulate the activities of companies. Aside from the provisions of CAMA, industry-specific regulations, such as the provisions of the CBN Act, BOFIA (1991, 2020), NAICOM Act (1997, 2003), PENCOM Act (1991) were also in place to provide guidance to companies. Another major feature of CAMA was the provisions on directors' duties. Section 279 provides that "a director of a company stands in a fiduciary relationship towards the company and shall observe the utmost good faith towards the company in any transaction with it or on its behalf". It further provides that the director of a company is to have regard for the performance of his duties in the interest of the company's employees in general, as well as the interest of its members. Section 280 provides that "the interest of a director shall not conflict with any of his duties and shall not, in the course of management of affairs of the company or in the utilisation of the company's property, make any secret profit or achieve other unnecessary benefit without being accountable". Section 282 provides that" a company director shall "exercise and discharge the duties of his office in honesty, good faith and in the best interests of the company, and shall exercise that degree of care, diligence and skill which a reasonably prudent director would exercise in comparable circumstances". It further states that failure to take reasonable care shall ground an action for negligence and breach of duty. CAMA 1990 also provides for the meetings of corporate entities, and this is usually the Annual General Meeting for the companies (CAMA section 213). Also, companies are also required to file annual returns, which should contain their financial statement, and a public limited liability

company that is quoted on the Nigerian stock exchange is subjected to a high level of corporate governance because, in addition to separate personal liability and limited liability, its shares are freely traded on the stock market, mostly based on financial information supplied by the company to the market (Unini, 2015). Moreover, in addition to the general requirements on company governance, public companies have to have an audit committee and are subject to the listing requirements of the Nigeria Stock Exchange as well as regulation by the Securities and Exchange Commission (SEC). Also, CAMA allows for the creation of different kinds of corporate entities, with different legal and reporting requirements. Section 283 provides that "directors who are trustees of the company's assets must account for them in the best interest of the company and all the shareholders, and not for their own or sectional interests. CAMA's provisions confirm Nigeria's corporate governance philosophy which is shareholders' primacy which is in tandem with Anglo-Saxon-based Agency Theory. Directors' duties underscore the importance of transparency, accountability and disclosure, which are the principles of corporate governance. It should be noted however that CAMA did not provide any guidelines for joint audit or rotation of auditors. As noted earlier, like the 1968 Companies Act, CAMA 1990 also mirrored UK corporate law which led to a lot of questions on whether such UK-based ordinances were appropriate to address Nigerian's corporate governance issues (Adegbite, 2010; Okike, 2007).

Notwithstanding the improvement CAMA brought to the Nigerian regulatory system, as soon as it was promulgated, economic realities across the world necessitated a rethinking of corporate governance issues as the dynamics changed considerably. Consequently, countries across the globe began to issue new corporate governance codes of practice to address new corporate challenges not covered by their previous company legislation, and this included Nigeria. Furthermore, the meltdown of some giant companies such as Enron and other major

corporations around the world in 2000s brought the issue of corporate governance to more prominence across the globe.

As already stated, as an ex-colony Nigeria has been substantially influenced in its corporate governance development and mechanisms by the Anglo-American model (Adegbite et al., 2013) and for as long as corporate governance principles are imported, they may not be fit for purpose because of the differences in the socio-political systems inherent in each economy. This is even more important to the banking industry in view of the role the industry plays in the development of the economy, which suggests that there must be robust and fit for purpose governance principles in place. It follows therefore that corporate governance is peculiar and strategic to the banking sector and the economy as a whole because, aside from the interests of the shareholders that must be protected, public interest is equally important. Thus, it is necessary to understand the whole embodiment of corporate governance codes in Nigeria, as further discussed in section 5.3 below.

5.3 Code of Corporate Governance in Nigeria

Nigerian codes of good corporate governance have evolved over time, largely as a response to failures in the banking industry (Adegbite, 2010; Nwoji et al., 2011). For instance, the 2003 Code of Corporate Governance was enacted to provide guidance for companies with multiple shareholders (Kyei,2009). According to Kyei (2009), this code was set out to improve discipline, transparency and accountability. A new code of corporate governance was introduced in 2006 for banks in Nigeria after the consolidation exercise, to address issues that were identified before and during consolidation (Okike & Adegbite, 2012). Aside from this, other codes of corporate governance were introduced which include the code for licensed pension operators in 2008, while a code for not-for-profit governance was introduced in 2016 with emphasis on public sector in Nigeria to address defects in the “bottom-up” approach adopted in the 2003 corporate governance codes introduced in Nigeria , in which emphasis

were placed on listed and unlisted public companies. This code, however, was meant to create corporate governance public awareness in order to strengthen governance practices in Nigeria. The 2003 Code has the following provision:

Board of directors: "Part B of the code discusses the board of directors and requires boards to have a clear understanding of their mandate and the implications of its implementation". The code recommends "the boards to seek clarity from the government when there is doubt and the board is expected to execute its mandate to ensure that transparent increases in public value and to maximise socio-political benefits". Every board of a public-sector entity is required by the code to work towards a financial target and a dividend policy. On an annual basis, or more frequently where appropriate, the government should review the board's mandate. Section 8.9 of the code advises the boards to act with skill, care, diligence and loyalty in the public sector entity's interest. Section 9 also gives advice on the role of the board. Also, according to the code, "the board of a public-sector entity (PSE) has absolute responsibility for the performance and the PSE is fully accountable to government for such performance". Section 9.1 of the code "requires the board to give strategic direction to the PSE. The government, in agreement with the board where applicable, appoints the CEO, and the CEO should ensure that an effective succession plan for all key executives and directors is in place and adhered to". The board is expected" to ensure that PSEs are fully aware of, and comply with the applicable laws, regulations, business practice codes and government regulations". The code requires the board "to be responsible for formulating, monitoring and reviewing corporate strategy, action of major plans, annual budget, policy on risk, and the PSE's business plan, and to regularly identify key performance indicators as well as risk areas based on financial and non-financial aspects". Section 9.8 of the code mandates the board "to monitor and oversee the management, board members and the government for potential conflicts of interest". The code advises the board and individual directors "to abstain from accepting payment of commission, bribery or

any form of gift or profit". The boards are also required by the code "to ensure that a financial statement that presents the true and fair view of the affairs of PSEs is prepared each year. "The board is expected to appraise the performance of the Chairman on an annual basis and to ensure that the whole board, its committees and each director's contribution during the entire term of office is effective. The boards in Nigeria are also expected to make sure that there are effective and continuing education programmes for new and existing board members. The code mandates the board to be responsible for IT governance and maintain the highest standards of integrity, responsibility and accountability, and to make sure that it conforms to corporate governance principles while optimising the performance of the PSE.". (2003 Code of Corporate Governance). However, in the Nigerian banking system, boards have not lived up to these expectations as they have not been effective in checkmating the management, instead join them in most cases and supporting management's unethical behaviour, which led to failure of most banks

Independent/non-executive directors: "Section 10 of the code provides that "individual or small groups of individuals" should not dominate the board's decision-taking". "It requires that "a PSE's board should constitute both executive and non-executive directors and that the number of executive directors should not be less than two, of which one must be the CEO, but executive directors must not be more than one-third of the whole board size". Also, "the number of non-executive directors should not be less than two-thirds of the whole board, while the number of independent non-executive directors on the board must not be less than half the number of non-executive directors". The code further advises the board to delegate everyday management of the PSE to the executive directors, and the executive directors are to make sure that they implement the strategic decisions of the board effectively and in a timely manner. Non-executive directors shall consist of independent nonexecutive directors, nominee directors and government institutional directors. Nominee directors are also executive directors in some

situations. The code further advises that “the independent non-executive directors should attend all important committee meetings and non-executive directors to perform different functions including the following: give independent and objective supervision and monitoring of executive management performance related to the board’s decisions; assist in resolving conflicts, for instance regarding executive directors’ remuneration and succession”. (2003 Code of Corporate Governance). It should be noted that in most Nigerian banks, the supposedly independent directors are not independent at all. Most of them were handpicked by the powerful CEO who will always select his cohorts. This has made it difficult for the directors to be independent and effective, which has resulted in large-scale frauds and failures.

CEO/Chairman: The code requires the positions of Chairman and the CEO to be separated so that no one in the PSE can hold the two positions at the same time and that the appointment of the CEO of PSEs should be the responsibility of the government and the main job of the CEO will focus on managing the PSE, making sure that the running of the PSE is effective and efficient in accordance with the board’s strategic decisions. Section 11.1 under part C of the code requires “the government to appoint one board member who is independent and non-executive as the board Chairman and requires “that the responsibilities of the Chairman and the CEO should be separated, and where this becomes impossible then the government should appoint a deputy Chairman who is an independent non-executive director so that no single individual has unfettered decision-making powers in the PSE”. The code stipulates that “the Chairman should be the head of the board and have responsibilities including ensuring that non-executive directors contribute to the business decisions of the PSE and monitor businesses; ensuring that the CEO’s performance is appraised on an annual or more frequent basis as the PSE’s circumstances may demand, and exercising independent judgement, acting in an objective manner, and to ensure that every relevant matter is placed on the agenda and prioritised properly” (2003 Code of Corporate Governance). However, despite the provision

to separate the positions of Chairman and chief executive, what occurs in Nigeria is pseudo-dualism, when the powerful CEO appoints his or her candidate as the Chairman to rubberstamp his/her decisions. This has frustrated the intentions to separate power and enhance transparency.

Board meetings: the code requires that all Nigerian PSE boards and their committees should meet at least once every quarter. It requires the Chairman to consult other board members to develop and agree the agenda for the board meetings and that directors are advised to try to attend board and committee meetings. It sets out attendance of meetings as an important factor to be considered when contemplating reappointment or re-nomination. The Code further suggest that "it is normal for non-executive directors to have a separate meeting, at no cost to the PSE, without the attendance of the executive directors, to discuss crucial matters in the PSE's best interest that are of serious concern to the non-executive directors". The board is expected to ensure it receives feedback on the work of its committees and is able to consider their decisions formally. The minutes of the boards and committee meetings are expected to be maintained by the secretary or officer performing that duty. Despite the promising provisions of this code, the level of organisational failure in Nigeria remains unabated, and this calls for the development of new codes. The failures could be attributed to non-compliance or flagrant disrespect for the requirements of the codes and regulations (Adegbite 2015). This led to the birth of a new code, the Nigeria Code of Corporate Governance 2018.

Nigerian Code of Corporate Governance, 2018, seeks to institutionalise corporate governance best practices in Nigeria and to promote public awareness of essential corporate values and ethical practices that will enhance the integrity of the business environment and rebuild public trust and confidence in the system. The code is divided into six sections, A through F. Section A, the board of directors and officers of the board; Section B, assurance;

Section C, relationship with shareholders; Section D, business conduct and ethics; Section E, sustainability; and Section F, transparency (Nigerian Code of Corporate Governance, 2018).

A. **Board of directors and officers of the board:** The code requires that a company should be headed by an effective board which provides entrepreneurial and strategic leadership as well as promoting ethical culture and responsible corporate citizenship. It also requires both the executive and non-executive directors to bring their knowledge and independent judgement to support in the strategic and operational management of the company.

B. **Assurance**: The code requires that a sound framework for managing risk and ensuring an effective internal control system be put in place. This is expected to provide assurance to the board on the effectiveness of the governance, risk management and internal control systems, through effective internal audit functions. Principle 19 requires that an effective whistle-blowing framework be put in place while Principle 20 requires that an independent auditor be appointed to provide an independent opinion on the true and fair view of the financial statements of the company, to give assurance to stakeholders on the reliability of the financial statements.

C. **Relationship with shareholders:** The code requires that the board should engage shareholders in order to facilitate greater understanding of the company's business, governance and performance through general meetings. Principles 23 suggests that shareholders should be treated equitably and that the interests of minority shareholders should be protected.

D. **Business conduct with ethics**: The code requires companies to promote professional and ethical standards in the conduct of business activities to promote investors' confidence. This includes instituting mechanisms to monitor insider dealing, related transactions, conflicts of interest and other corrupt activities.

E. **Sustainability:** The code requires firms to pay attention to sustainability issues such as environment, social, occupational and community health and safety as a responsible citizen**.** Section 26(1) requires the board to establish policies and practices regarding its social, ethical, safety, working conditions, health and environmental responsibilities, including equity and diversity, training initiatives and employee development.

F. **Transparency:** Firms are required to be transparent in managing their activities. Principle 28 requires full and comprehensive disclosure of all matter's material to investors and stakeholders. Communication with stakeholders and the general public is expected to ensure timely and accurate disclosure of material information. (The Nigeria Code of Corporate Governance 2018)

Furthermore, in order to address the problems facing corporate governance, Kraakman et al. (1995, 1996) advocate basic features that should be implemented in corporate governance rules in developing countries such as Nigeria. This is to ensure that corporate governance rules are "self-enforcing," that is, they rely for their success on actions and decisions of direct participants in the corporate enterprise (shareholders, directors, managers), rather than by indirect participants (judges, regulators, legal and accounting professionals, financial press). These features include direct participation of the parties in the corporation through shareholders' approval, cumulative voting for directors, requirement of one share, one vote, and unitary ballot. Secondly, a high degree of protection for minority shareholders and provision of appraisal rights for dissenting shareholders to major decisions and the use of procedural protections such as approval of certain decisions by independent directors and shareholders. Also, establishment of board powers to set dividends and establish company policies. With regard to takeover rules, a requirement that shares be issued only at market value with pre-emptive rights to shareholders; provision of safeguards for employee shareholders against voting control by managers; strong legal remedies and use of clear language in

legislation that defines proper and improper behaviour. Protection of minority shareholders was incorporated into the Companies and Allied Matters Act (1990) which was the governing law for companies in the country at that time. With CAMA, "shareholders were afforded the right to participate in the management of the corporation, including the ability to call for a meeting, while those of them that are directors can also summon meetings". CAMA provided for voting rights and the principle of one person one vote was upheld. On the reporting side, CAMA provided for disclosure requirements, e.g., the requirement for the filing of annual returns, an audit report and provisions for accounting reports, as well as legal solutions and a framework to address various infractions against stakeholders".

In Nigeria, 2003 marked the beginning of code of corporate governance with the enactment of Code of Corporate Governance for Banks and Other Financial Institutions in Nigeria, which was issued by the Bankers' Committee in August 2003. These codes were issued as a result of various issues experienced in the sector over the years. This is important because corporate governance is more important to the activities of banking sector considering its prominent role in the economy and this is further analysed in section 5.4 below.

5.4 Corporate Governance Issues in the Nigerian Banking Sector

The Nigerian banking sector has passed through various levels of failure as a result of inherent weaknesses in the system which have aided corruption and corrupt practices by management of these banks. In order to strengthen the capital base and gain stability, Nigerian banks went through a rapid period of consolidation, which created very large banks. However, the consolidation did not provide any direction to the bank on what to do with the huge capital outlay, leaving banks to engage in unethical behaviours, coupled with a weak corporate governance framework within the industry. It was further confirmed that bank managements engaged in unscrupulous and potentially fraudulent business transactions when CBN documented these in an investigation (Sanusi, 2010). Sanusi (2010), further states that boards

were misled by banks' management, who concealed their nefarious activities, most especially giving unsecured loans to themselves, dipping into shareholders' or depositors' funds. Thus, under corporate governance, these banks deteriorated badly such that unethical behaviour became their second nature, leading to a huge provision of non-performing loans. According to Sanusi (2006), the audit procedure of these banks seemed not to have considered the impact of these unethical behaviours on the economy, especially with the growth in size of these banks following the consolidation exercise. It was expected that as the banks grew, their dynamics and required oversight would increase and lead to a more robust and suitable board, but unfortunately most boards were ineffective and compromised by powerful Chairmen/CEOs who had inordinate ambition and thus rendered the board powerless and without independence. Directors were often rendered useless and hardly made any useful impact towards the growth and development of the bank (Uwuigbe, 2011).

Corporate governance in Nigeria lacks effective structure, which hinders supervision, and banking oversight cannot function appropriately if there is no adequate corporate governance structure to define the suitable level of accountability, control and balance of skills required by the banks (Hettes, 2002). The banking industry in Nigeria, like other developing economies, has faced a high level of risk because of the ownership structure, lack of adequate and efficient prudential regulation, weak legal protection and presence of special interest groups (Arun and Turner, 2003) and, where regulations exist, the level of compliance is very low. Arun and Turner (2003) further argue that banks require special attention in order to protect depositors from opportunistic bank management. Also, it has been argued that the interest of bank shareholders may be at variance with that of regulators, who could have their own agendas that may be at variance with the objective of maximising bank's value (Boot and Thakor, 1993).

Hitherto, discussions on corporate governance have been focussed on ownership, shareholders, board composition and corporate social responsibilities (Okike, 2007). The meltdown experienced by the financial service sector, which also impacted Nigeria, has brought further demands for necessary reforms in firms (Ahmed, 2007). As a result of this failure, and in order to avoid future recurrence, various reforms were carried out in the banking sector over, time as examined below in section 5.5.

5.5 Banking Reforms and Corporate Governance in Nigeria

Contextually, the banking sector had its fair share of the 1977 indigenisation policy which sought to dilute the foreign ownership that dominated the economic space of the country prior to independence. Also, as a fallout of this decree, the number of banks increased drastically and that led to a lot of failure and governance problems. The influx of banks and the attendant failure led to various reforms, in various formats, to stabilise the sector against further collapse. In the first place, private participation and ownership were encouraged, while government ownership was removed. This deregulations of the banking sector between 1986 and 1993, with removal of the government stake, was very important (Balogun, 2007). The second reform took place between 1993 and 1998, with regulations designed to reduce failure and distress in the banking sector. This slowed down the emergence of banks and in 1999 government further strengthened the system by stratifying banks through distress resolution programmes, introducing universal banking and increased banking activities (Brahim, 2013). As a result of this policy, banks could diversify into non-banking activities such as pensions, asset management, securities etc.

Since 2004, corporate governance codes have evolved following the consolidation exercise to rectify deficiencies identified in banks' structure and operations. Following the consolidation exercise there were mergers and takeovers, and this led to the total of banks in Nigeria to sink from 89 in 2004 to 24 in 2007, and further to 22 in 2011. However, despite

various reforms and consolidation activities, there were still corporate governance problems and breaches in the Nigerian banking sector (Adeyemi and Ajewole,2004; Somoye, 2008; Adegbite, 2012). Both Soludo and Sanusi, who were former heads of the Central bank of Nigeria, concluded that bank management compromised their position at the expense of depositors, while boards watched helplessly without the ability to enforce good governance practices (Sanusi, 2016). Such corrupt practices have been the cardinal point of corporate governance issues in Nigeria and led to the implementation of the IMF-dictated Structural Adjustment Programme by the military government in 1986, which is examined in the next section.

5.5.1 The Nigerian banking system pre-structural adjustment programme (SAP)

Before the Structural Adjustment Program (SAP)was introduced in 1986, the Nigerian banking system was relatively stable and the relationship between banks and government was cordial. However, in 1986, the then military government bowed to pressure to restructure the economy from the International Monetary Fund (IMF) and the World bank (Oyejide, 1991). Since Independence, the government had supported banks in order to prevent failure and its resultant impact on the bank and shareholders, but this changed after the implementation of SAP as emphasis now changed from protecting the banks to protection of customer deposits. During this period, the stability of the Nigerian banks was partly due to government support, as the government owned significant or golden shares in the leading banks in Nigeria and therefore would not want those banks to fail (Uche and Ehikwe,2001), because of the negative impact that would have on public confidence in the banking system and the economy as a whole. To ensure the stability of the economy, the government bolstered a few struggling banks as a way of protecting the shareholders. However, under the new economic policy, emphasis has shifted from bank protection to customers' protection.

5.5.2 SAP and the changing nature of banking regulations

Initially, SAP was intended to achieve balance of payment viability by altering and restructuring the production and consumption patterns of the economy, eliminating price distortions, reducing the heavy dependence on consumer goods imports and crude oil exports, enhancing the non-oil export base, rationalising the role of the public sector, accelerating the growth potential of the private sector and achieving sustainable growth. To achieve the above objectives, the main strategies of the programme were the adoption of a market-determined exchange rate for the Nigerian currency (naira), the deregulation of external trade and payments arrangements, reductions in price and administrative controls, and more reliance on market forces as a major determinant of economic activity. At the centre of this programme was the deregulation of the banking system. Bank licensing policy was liberalised, giving rise to a proliferation of banks and other financial institutions. Between 1985 and 1992, for instance, the number of licensed commercial and merchant banks in the country increased from 40 to 120. Most of these new banks unfortunately were no more than a black-market system known as Bureaux de Change. The deregulation of the economy, loopholes and sometimes outright evasion of the law made it possible for some of the new banks to survive and prosper by mainly buying and selling foreign exchange.

SAP altered the face of banking in Nigeria and the new competition principles meant that the decision as to whether banks should fail or not was now to be determined by market forces. This made government to focus on protecting the depositors; hence the establishment of the Nigeria Deposit Insurance Corporation (NDIC). Therefore guarantee of deposits by government, required closer prudential monitoring of events in these banks. As a result of this and owning to the lack of a legal framework for effective supervision, the Central bank of Nigeria, in 1991, promulgated Decree 24 (CBN Decree,1991) and the Banks and other Financial Institutions Decree Number 25 (BOFID, 1991) which replaced the repealed CBN Act

of 1958 and the 1969 Banking Act, which were regarded as not only inadequate but embroiled in unnecessary ambiguities. With the new decree, CBN was made to report to the President directly rather than through the Ministry of Finance and had the power to compile and circulate to all banks in Nigeria a list of bank debtors whose debts to any bank had been clarified by bank examiners (Uche,1997). In addition, BOFID further entrusted the CBN with the sole responsibility of licensing both banks and non-bank financial institutions and dealing with any ailing or failed bank. The CBN, upon receiving approval from the President, could take over the management of any bank that is struggling or failing bank and obtain a court order to buy it, for the purpose of restructuring or liquidating it. Despite these powers granted to the regulatory bodies, banking stability in post SAP Nigeria is yet to be achieved. For example, in 1998 alone, at least 26 banks were liquidated, which can be ascribed to CBN's inability to carry out some of its oversight roles effectively and address early warning signals.

As mentioned earlier, government fiscal indiscipline has been identified as one of the main causes of the current banking crisis in Nigeria. Unfortunately, Nigerian banks have been unable to constitute an effective pressure group, partly because many of the big banks were, until recently, government-owned or government-controlled. This has made it difficult for the banking sector to come together in order to persuade or lobby the government to pursue non-inflationary policies. Over-regulation by the Central Bank of Nigeria and the Nigeria Deposit Insurance Corporation (NDIC), coupled with the small size of the Nigerian financial system, has also made it difficult for these banks to constitute an effective lobbying group to challenge what they perceive to be anti-development government policies. For instance, it has been noted that the small nature of the financial system in relation to the GDP reduces banks' influence and ability to voice their concerns against any government policy (Sanusi, 2010, Uche,2010). Also, the central bank's extensive regulation of banking activities and interest rates in LDCs through the 1980s has tended to dilute FOI (financial sector opposition to inflation), as banks

concentrated their political capital on opposing (or altering) regulations and adopting a more confrontational stance with the central bank.

It can be seen that the introduction and adoption of SAP in 1986 essentially changed the dynamics of both the practice and regulation of banking in the Nigerian financial system. Government divested from banks and made it impossible for banks to operate in an enabling, conducive macroeconomic environment. Some of these banks, mainly because of past government involvement in their ownership structures, have been unable to persuade the government to pursue policies that could promote what they claim to be a stable macroeconomic environment. Consequently, corporate governance gained momentum following the adoption of SAP. The introduction of SAP heralded an upsurge in the growth of private ownership of financial institutions in Nigeria but owning to the weak corporate culture in these institutions, the incidence of corporate failures was very high. However, in order to regain the confidence of the public, the Securities and Exchange Commission set up a committee in 2000 whose report was to articulate a code of best practices for public companies in Nigeria. This was followed by a similar code from the Central Bank of Nigeria in 2006 (CBN, 2006) to address corporate governance failures in Nigeria. This section highlights an apparent need to understand the emergence of banking institutions in Nigeria, which is further examined below.

5.6 The Emergence of Banking Institutions and Corporate Governance in Nigeria

The evolution and development of banking institutions in Nigeria can be viewed from both the colonial and post-colonial era, which are examined in 5.6.1 and 5.6.2 below.

5.6.1 Emergence of colonial banks

During colonial rule in Nigeria, efforts were made to establish banks and the first step towards these dates back to 1871, with the establishment of the Bank of West Africa in London under the Joint Stock Companies Acts of 1862 and 1867. This bank had its head office in London with branches in Sierra Leone and Lagos. However, despite all the hype about the bank, it cannot be ascertained if this bank ever commenced business operations. The birth of commercial banking in Nigeria thus came with the establishment of the African Banking Corporation in 1891 (Uche, 2010). This bank was regarded as both a commercial and a foreign bank in Nigeria. On January 28th, 1892, the bank agreed with the Crown Agents to import new silver coins into Lagos colony and later became colonial government's banker. However, the arrangement was not well received by other European traders in the West African territory (Uche,1997), who claimed that the bank's agent had undue advantage by virtue of his position as a banker, shipper and trader. All these and other factors made ABC divest from Nigeria and hand over their business to Elder Dempster in 1893. The banks' problems worsened as the Governor of Lagos ceased doing business with the bank on the grounds that banking functions should be carried out by an independent bank and not by a trading company like Elder Dempster. This pointed to the issues of corporate governance that could arise from concentrated ownership and individuals taking over the business of banking. As a result of this, a new bank named "Bank of British West Africa" was established in May 1894 (Uche,2010). According to Uche (1997), no sooner this bank was established, than it aligned with the Crown Agents to manage and regulate silver currency in Lagos, which was moved from the government to the bank. The bank later acquired African Banking Corporation (ABC) (FBN, 2006) and gained the sole right to import silver into the country, which was separate from the arrangement the government had previously with African Banking Corporation. This bank consolidated its position in British West Africa by entering into similar agreements with the

governments of the Gold Coast Colony in 1896, Sierra Leone in 1898 and the Gambia in 1902, and further consolidated its position as the single agent for importing silver until 1912, in which a special silver currency was introduced in the colony.

However, prior to the presence of the Niger Coast Protectorate in 1893, powerful and influential European traders were already present within the territory. In order to prevent the BBWA from taking over businesses in their territory, they established the Anglo-African Bank in 1899 (later known as Bank of Nigeria) and requested for the responsibility of being the main supplier of Silver to the colony. As such, the Anglo-African Bank was an attempt to perpetuate barter trade in order to control Africans and their resources. The name of the bank was changed to Bank of Nigeria in 1905 (Uche, 1999). However, the colonial government did not like the focus of this bank as the promoters assumed that the continuous existence of barter system is in their own interest, which was not in tandem with the position of the colonial government. In 1912, BBWA absorbed the bank of Nigeria and provided banking services in the colony until 1916 when the Colonial Bank, entered the Nigerian banking terrain. The new bank had two offices in British West Africa in 1917, and this ultimately brought the reign of BBWA in the Nigerian colony to an end. In 1926 the Colonial Bank merged with other banks such as "Barclays Bank", "Anglo-Egyptian Bank and the National Bank of South Africa" and later named Barclays Bank (Okigbo,1981). However, in 1945, when the newly established indigenous banks had gained ground and their impact was being felt, the two banks decided to sign a pact to work together. It is felt that the emergence of indigenous banks led to the reconciliation of these two large banks and decision to put their differences aside and speak with one voice and one common position. Furthermore, the British and French Bank for Commerce and Industry was established in Nigeria. This bank also joined the West African Agreement, which was meant to curtail the activities of banks in West Africa following Ghana's independence in 1957 (Uche, 1997). In addition, the International Bank of West Africa

(IBWA) was established in Nigeria, and it equally joined the West African Agreement. (Uche,1997).

However, no indigenous bank was accorded the opportunity to sign up to the agreement until 1960, with the establishment of the Bank of the North which was reluctantly allowed. Indigenous banks had not been admitted because they were seen as being poorly capitalised with inexperienced staff and a lack of external support to allow them to compete with their European counterparts. It was also believed that if they were given the opportunity to be part of the West African Agreement, it would be viewed as subsidy of the foreign banks to indigenous banks. The catch was that indigenous bank had the capacity to challenge the agreement and they felt that it would be counterproductive to invite such banks that can challenge them to join.

The colonial government did not make any attempt to regulate or curtail the monopoly activities of these foreign banks who were the sole beneficiaries of the system, which is also in line with the aspirations of the colonial government, even though not in tandem with the aspiration of the indigenous banks. It should be noted that the colonial government and the foreign banks managed the African economy in a manner that gave them the opportunity to perpetuate themselves at the expense of the local people. The Bank of British West Africa, which was established to carry out business activities in the West African colony, with the aim of expanding their business activities in Africa and also to perpetuate the unsupportive behaviour of foreign banks to Africans, under a wrong assumption that they could not trust Africans with credit, even though it was claimed that the main aim was the continuous domination of African market.

With this and other restrictive policies, the colonial government prevented the establishment of agricultural banks, based on the false assumption that they couldn't trust African banks with credit, and thus denied Africans credits to support their businesses, which

played out in the discriminatory credit policy adopted by Barclays Bank (DCO). It should be noted that these colonial banks were established to service the interests of British enterprises in the colony and not to meet the needs of Africans, as Africans were regarded as not being credit worthy (Uche, 2010). This led to the agitation and consequent establishment of indigenous banking institutions in Nigeria to serve the interest of African businesses which is further discussed in subsection 5.6.2 below.

5.6.2 Indigenous banking institutions in colonial Nigeria

Indigenous banking institutions commenced in Nigeria when some African businessmen acquired the "Industrial and Commercial Bank" in 1929. This bank was initially designated as a foreign bank in London, with the intention of carrying out banking business abroad, but could not commence such operations `because of the outbreak of World War One and went into liquidation in 1930 (Ayida, 1960; Uche, 2010). The intention of this bank was to support Africans in their quest to expand their businesses, which was hindered by colonial government policies. Although its failure was attributed to fraudulent and unethical behaviour of the managing director, who used it to fraudulently enrich himself (Paton, 1948). The second indigenous bank to be established in Nigeria was the Nigerian Mercantile Bank in 1931. Paton (1984) argues that the main activity of this bank was share pushing, which was instrumental to the collapse of the bank. However, the establishment of this bank has been viewed as an indication that African public did not have adequate banking experience (Newlyn and Rowan,1954). In fact, it was noticed that one of the directors of the bank once worked for the failed "Industrial and Commercial Bank", which may partially explain the collapse of this bank in 1936. The unethical behaviours observed in the earlier attempts at establishing indigenous banks continued and led to the post-independence behaviour of bank management, creating the foundation for poor corporate governance in the industry.

In 1933, National Bank of Nigeria, which was the first successful indigenous bank was established (Umeh,2018). It was followed by the Nigerian Penny Bank, which was short lived and failed in 1946, while in 1945, the Agbonmagbe Bank (Now Wema bank) was established. Two other banks "African Continental Bank and the Nigerian Farmers and Commercial Bank" were established in 1947. However, it is worth nothing that what we have today as banks are the products of the revolution or transformation that happened after independence (Nworji et al., 2011).

The colonial government was seriously concerned about the rate at which indigenous banks were springing up, and due to past banking failures, they engaged Mr G D Paton, to investigate the banking business in Nigeria and make necessary recommendations to the government on the control framework that should be introduced (Uche, 1997).

5.6.3 The Paton Enquiry

Opinions differ on why Mr Paton was engaged to examine the banking business in Nigeria, and to ascertain if the enquiry was responsible for the indigenous banking boom of the time. According to Uche (1997), it was the setting up of the committee, which Africans anticipated would lead to a clampdown on indigenous banks, that led to a rush to establish more banks. However, Nwankwo (1986) argues that it was the unexpected increase of registrations in 1947, and the need to protect the public of "wild cat" banks, that triggered the fear in the government circle and led to the Paton enquiry in 1948. Nwankwo (1990) also argues that:

> *"The spate of these banking establishments and the collapse of many of them, moved government to set up an enquiry (the Paton Commission) in September 1947 to enquire generally into the business of banking in Nigeria and make recommendations on the form and extent of control which should be introduced".*

However, it has been argued that it was the leakage of the recommendations of the Paton report in Lagos that led to the indigenous banking boom (Brown,1966). Brown further suggests that:

> *"…it therefore appeared likely that anyone even vaguely interested in banking rushed to register his bank before the Ordinance could be passed and the capital requirements take effect"*

Newlyn and Rowan (1954) support the argument of Brown. They state that:

> *"The principal reason for this sudden burst of registrations is to be found in the prevailing state of expectations with regard to the Government's intentions".*

In the same vein, Teriba (1986), while supporting the above argument, posits that the recommendations of the Paton report with reference to a minimum paid up capital and "adequate" cash reserves were meant to manage the defects of poor capitalisation and illiquidity in indigenous banks. However, this was misinterpreted within the local banking circles as an attempt to stifle native banking development. He then concluded that it was the foreknowledge of the above provisions and premature disclosure in Lagos business which drove the spate of "beat the law" registrations of indigenous banks, leading to unsuccessful banking boom (Teriba, 1986).

Most of these indigenous banks failed as a result of bad management, which emanated from lack of banking experience and poor accountability (e.g., credit and loan management) as well as fraudulent activities and practices, including embezzlement by directors and managers. All this then led to a call for a central body, such as the central bank, to coordinate the activities of these banks in order to avoid future failure, and this led to the enactment of the 1952 Banking Ordinance, which is further discussed in subsection 5.4.3 below.

5.6.4 The 1952 Nigerian Banking Ordinance

The colonial authorities in 1948 instituted a commission to review banking business in Nigeria and to recommend to the government, the necessary control framework Nigeria required. This led to the setting up of Paton Committee in 1948 and the committee submitted its report the same year. The criticism that attended the recommendations of Paton, especially by indigenous banks, prompted the government to come up with another report, which

eventually led to the enacted of the 1952 Banking Ordinance. Following the recommendation of Paton, the house of representative moved a motion for the establishment of the central bank of Nigeria to provide an oversight on the activities of these banks. Even though the motion was not well received by the government, it did crystalise into the Banking Ordinance of 1952. The ordinance was meant to ensure the stability of banks and prevent failure; however, it had a counterproductive impact on the banks as many of them collapsed because they were given three years to comply with the provisions or be liquidated.

Unlike other regulations during the colonial rule in Nigeria, this Banking Ordinance of 1952, came with some form of ingenuity as it considered some local content, and it was also a major effort at regulating the banking industry in Nigeria. This Ordinance described banking business as “the business of receiving from the public on current account, money which is to be repayable on demand by cheque and on making advances to customers.”. The Nigerian banking system was mostly unregulated before the banking ordinance of 1952. According to Uche (1997), the main provisions designed for the control of banks are contained in two main sections of the “Companies Ordinance of 1922 and section 34 of the Stamp Duties Ordinance Number 5 of 1939”. Under Section 2(1) of the Companies Ordinance:

> *“No company, association or partnership consisting of more than ten persons shall be formed for the purpose of carrying out the business of banking, unless it is registered as a company”.*

Each bank was required to prepare a half-yearly financial statement of its affairs and display in all its offices. Section 34 proscribed the issue of bank notes by the bankers aside from the notes of the Bank of England and the West African Currency Board. Within these regulations, a partnership of less than ten persons can come together to carrying out the business of banking without necessarily need to register as a company because there wasn’t equivalent regulation in the United Kingdom then.

While the 1952 Banking Ordinance may appear to have been a good step in developing a robust financial system in the economy, it suffers some fundamental weaknesses. One of such defects was that it did not make any provision to support struggling banks when they needed help. Also, the three-year ultimatum given to indigenous banks to comply with the provisions of the Ordinance or discontinue banking business was inadequate (Paseda,2020). This, coupled with the absence of deposit insurance scheme that depositors can resort to should the bank goes into liquidation, which usually triggers a run on such banks. In the second place, the ordinance specified the single obligor limit in absolute terms as against expressing this in relative to some bank performance measurement indices. Thirdly, in their bid to maintain adequate liquidity requirements, most of these banks kept free cash, and without any opportunity to invest and this amount to unwanted tie down of resources and thwarted their ability to generate revenue and jeopardise their efficiency. Unsurprisingly, the foreign banks had an advantage, as they were not only able to obtain funds from their overseas headquarters when needed, but equally had access to the money and capital markets in London (Paseda,2020). Also, without central bank, the credibility of bank examination was at stake, as examiners were not as successful as envisaged because of the dubious window-dressing techniques that banks used to deceive them. Furthermore, even though the law could prevent undercapitalised banks from being established, it could not prevent malpractices and abuses in banking (Ajayi and Ojo, 2006).

Consequently, the first major banking regulations in Nigeria were the Banking Ordinance of 1958 and the CBN Act of 1958, when the central bank was created. This new ordinance raised the minimum share capital for foreign banks from £100,000 to £200,000, while the requirement for indigenous banks remained unchanged. However, the new capital requirement hadly had any impact on the Nigerian banking industry at the time, because the foreign banks had paid-up capital above the minimum requirement (Ogowewo and Uche, 2006). For example, Barclays Bank (DCO) had a paid-up share capital of £7.1 million in 1947, while that for the

Bank of British West Africa was £1.2 million in 1948. The ordinance had other provisions such as: "the raising of the proportion of profits to be transferred to the reserve fund from 20 percent to 25 percent; the prohibition of banks from trading or owning real estate except where absolutely necessary; the fixing of a limit of loans to any one person or client (obligor limit) at 25 percent of paid-up capital; and the provision for a reserve requirement, the amount and composition of which could be changed by the central bank". (Ogowewo and Uche, 2006; Paseda,2020)

However, the ordinance and other regulations seem not to have provided a level playing field for the indigenous banks and this led to the agitation for the establishment of the Central Bank of Nigeria to moderate the activities and provide policy direction to the banks. As such, the 1952 Banking Ordinance laid the foundation for the establishment of a central bank. However, the Bank of England was not favourably disposed to such request; they assumed that a newly established central bank would not be able to carry out rescue missions to arrest the problems of the indigenous banks. The Bank of England also believed that a central bank run by Africans would not be able to avoid political interference in monetary policy execution and that such interference would lead to high inflation. Against this pushback and against the wishes of the colonial government, the IBRD Economic Mission to Nigeria supported the idea of establishing a central bank and the discussion on the issue reopened. the Bank of England did its best to change the report of IBRD or influence IBRD to change its mind, but without success.

In order to support and encourage indigenous banks in Nigeria and Africa as a whole, various suggestions were offered. For example, the United Nations recommended actions including "deposit insurance schemes", "rediscounting facilities" as well as "provision of guaranteed government or other public securities", and also that foreign banks should not repatriate their profit but to reinvest locally (Uche, 2010). The debacle over the founding of the

central bank attests to the colonial government's use of debatable approaches to delay the process of regulatory development in order to impose their own policies. The agitation for and the establishment of the Central bank of Nigeria is further examined in subsection 5.6.5 below.

5.6.5 Emergence of the Central Bank of Nigeria (CBN)

Prior to the establishment of the Central Bank in colonial Nigeria, there was the "West African Currency Board (WACB)", overseeing monetary activities in Nigeria, and saddled with the responsibility of supplying and controlling currency to the "British West African Colonies, Protectorates and Trust Territories". However, the WACB was no more than a Bureau de Change, rather than been a monetary authority. It was responsible for the local currency and the transactions when banks wanted to buy sterling and vice versa, in line with the Bank of England monetary policy objective of ensuring stability of prices and to protect the interests of the British businesses in the colony. This was also a way to protect colonial banks that were benefitting from the Nigerian economy. During this period, a substantial portion of Nigerian government funds remained abroad, which further starved indigenous banks and the economy of the necessary funds for development. These policies, coupled with the collapse of indigenous banks, renewed the demand for a central bank to be established to replace colonial monetary system and be free from both political and financial colonialism. The unfriendly stance of the foreign banks to Africans across the colonies remained a matter for discussion even today. Kennedy (1988) and Kaniki (1985) believe it was an outright discrimination, even though other scholars attempt to rationalise the unsupportive approach of the British banks on economic grounds (Rowan, 1951; Trevor, 1951; Nwankwo, 1972). However, it was the unabated anger of the indigenous population towards colonial banks that climaxed in the questioning of the status quo by Africans and that led to the demand for, and ultimate establishment of indigenous banks in the Nigerian colony. The establishment of the central bank was seen as a radical step towards independence and saw WACB as a sign of

colonialism, representing perpetuation of colonial rule. As earlier stated, after the 1952 Banking Ordinance was enacted, the "Federal House of Representatives" moved a motion to establish a central bank, in order to strengthen and support the existing African banks. However, the colonial government claimed that given Nigeria's level of growth, it could be served by a currency board rather than a central bank (Uche, 1997). The colonial administration felt that the problems of indigenous banks were irreparable, and so it insisted that an amended motion that did not care about reinforcing the present system be introduced. They also believed that the central bank could easily be manipulated. However, owning to the overwhelming acceptance of motion by the parliamentarians, there was no option other than to give the issue the attention it deserved, and the motion was subsequently revised by the government, which necessitated the formation of an enquiry to advise on the likelihood of establishing a central bank in Nigeria. This marked the beginning of the journey towards the establishment of the Central Bank of Nigeria. The Bank of England then engaged Fisher, its loyalist, to review an enquiry into the need for the establishment of a central bank in Nigeria.

The Central Bank of Nigeria was established in 1958 with Mr R P Fenton appointed as its first Governor. The bank's principal functions were to issue legal tender in Nigeria, to maintain external reserves in order to safeguard the international value of the currency, to promote monetary stability and a sound financial structure in Nigeria, and to act as a banker and financial adviser to the federal government. It has been argued that the main distinction between the WACB and the new central bank was the level of autonomy each could exercise on monetary policy (Uche, 1997). Uche (1997) argues further that while the WACB was not authorised to influence money supply, the new central bank was granted the power to do so, even though such power was limited. Also, the establishment of the Central Bank of Nigeria was a welcome and pleasing development to the nationalists, who saw WACB system as anti-African and the financial hallmark of colonialism, even though the central bank came rather

too late to aid the collapsed indigenous banks (Uche, 1997). There is therefore no doubt that the Bank of England employed questionable methods in its attempt to delay the establishment of a central bank in the British Nigerian Colony owing to some unfounded fears. There was a fear that political interference with the central banking in developing countries would lead to devastating consequences. And this led to continuous inclusion of statutory limit by the Bank of England to the level of money the central bank can create. However, the emergent Central Bank of Nigeria was not designed to be a lender of last resort to the indigenous commercial banks that called for the establishment of such bank after all.

The Central bank of Nigeria (CBN) started operations as an independent body in July 1959 and it was independent of the federal government until 1968. They empowered the CBN to design measures to curb bank failure and to promote sanity and stability within the Nigerian financial system. Its independence ended when a military decree gave the Federal Executive Council authority over banking and monetary policies. The policy on price stability by the CBN was consistent with requirements of the interests of the colonial banks, while WACB remained in operation until the early 1960s. Pursuing self-interest, and unlike the indigenous banks, the foreign banks were happy with the WACB which arguably ensured price stability and did not interfere with their operations. On the other hand, the indigenous banks favoured the establishment of a Central Bank with the hope that such a bank could act as a lender of last resort to poorly capitalised and poorly staffed indigenous banks. More importantly, Africans saw the establishment of a central bank as a vehicle to assist their beleaguered banks and make it easier for them to access credit, which would help to accelerate the much-needed developments post-independence. However, with the enactment of the Companies Act 1968, banks were mandated to be incorporated locally and publish the balance sheet of their Nigerian operations, while the Central Bank was required "to monitor as well as approve banks' advertisements and to authorise the opening and closure of bank branches". Furthermore, banks

were required "to transfer 25 percent of their net profit into a reserve fund until the total sum was equal to the paid-up capital, and to transfer 12.5 per cent of net profit where the amount of reserve funds was equal to or in excess of paid-up share capital". In 1969, the regional/state governments took over the surviving indigenous banks after the 1953-54 crisis because it was increasingly difficult for private participation owning to share capital increase (Ogowewo and Uche, 2006).

In 1973, the federal government acquired a 40-percent equity ownership of the three largest foreign banks, which held about one-third of total bank deposits, and in 1976, in line with the second Nigerian Enterprises Promotion Decree, which required 60-percent indigenous holdings, the federal government acquired an additional 20-percent holding in the three largest foreign banks and 60-percent ownership in other foreign banks. However, indigenisation did not change the management, control and lending orientation toward international trade, particularly of foreign companies, and the Nigerian subsidiaries of foreign banks. At the end of 1988, the banking system consisted of the Central Bank of Nigeria, forty-two commercial banks and twenty-four merchant banks: a substantial increase since 1986.

Consequently, the banking industry from 1952 until independence witnessed a period of massive establishment of banks under the guidance of 1952 Banking Ordinances. This also included some specialist banks such as merchant banks and development banks; prominent among them were the Nigerian Bank for Commerce and Industry, the Nigerian Agricultural and Credit Bank and the Nigerian Industrial Development bank (Adeyefa et al., 2016). As of 1991, there were 121 banks in Nigeria (Uche, 2010). However, most of the early indigenous banks collapsed as a result of poor capitalisation, poor management, incompetent staff and fraudulent and unethical behaviour (Uche,2010). There has been discussion on the need to streamline corporate governance practices across the world as a result of globalisation, and this is examined in section 5.7.

5.7 Corporate Governance Convergence

Globalisation of the world economy and the increased competition in the global markets has resulted in increased prospects for confluence of corporate governance models. The literature emphasises the convergence of ideas regarding the best or optimal governance structures. However, implementation of the ideas or written governance codes is subject to the country-level characteristics, supporting the idea of partial convergence (Aoki, 1994; Bebchuk and Roe, 1999). Corporate governance mechanisms exist in many forms and adaptations globally, depending on micro as well as macroeconomic variables, institutional and political set-ups. At each end of the spectrum, two major economic models have been identified: the "Stockholder Model" (external control exercised by the stockholders in the firm) and the "Stakeholder Model" (internal control exercised by various stakeholders such as creditors, bankers, employees, etc.), being the two extremes. The "Anglo-Saxon", "capital market" or "Stockholder Model" (Jeffers, 2005) of governance mechanism is prevalent in the USA and the UK. Firms with this mechanism of governance in place are dominated by the objective of maximising shareholders' wealth. The "German Model" or "Stakeholder Model" (Jeffers, 2005) is prevalent in Germany and continental Europe, which differ from the USA and the UK in social, economic, judicial and cultural dimensions.

In German society, the emphasis is not only on shareholder value maximization but also on the costs and benefits that accrue to society out of the operations of a corporate entity. Essentially, the businesses are managed taking into consideration the welfare of various stakeholders including the workforce, creditors, suppliers and society. The corporations in the model are characterised by a large block of shareholding controlled by large institutions such as financial institutions, banks and public shareholding. In this mechanism, the corporations are also not prone to hostile takeovers, unlike the corporations in the market-based governance systems. The model is characterised by the system of governance, wherein the board exists in

two parts, namely the management board and the supervisory board, without any overlap of members of these boards.

Overall, the governance models in vogue across the globe and adopted by various countries do not belong to the two extreme ends of the continuum; rather they lie somewhere in between, based on the legal, social, economic and cultural dimensions of the nations concerned. Governance mechanisms also draw on the aspects of governance reported from certain emerging economies. For example, in the 1980s there was avid attention to the strengths of the German and Japanese systems of corporate governance, compared to their US counterpart, to facilitate "economic performance and social cohesion".

As noted by Arun & Turner (2004), excessive political interference in the operation of the banking sector in developing economies has hindered the implementation of good corporate governance. Such problems include government ownership, which creates conflict between the government and the managers of the bank and can also be used to advance the political career of government officials.

As the "new economy" emerged in the US, advocates of the US model of corporate governance, and specifically of the merits of "shareholder value" as the main objective of corporate enterprises swamped other voices with some scholars arguing that there are mounting pressures on national systems of corporate governance to converge on a model that supports an increased focus on shareholder value, i.e., a model that closely resembles the US system of corporate governance, while others believe that systems of corporate governance around the world will continue to diverge (Choon Yin Sam, 2007; Federico et al., 2010).

There has also been debate on the convergence/divergence dichotomy as a way to analyse comparative corporate governance across various economies, with some scholars arguing that convergence is anchored on a process of competition that favours systems of corporate governance that generate higher levels of economic efficiency, while others assert

that convergence is a product of the growing political hegemony of US financial interests (Sullivan, 2003). The most influential argument for convergence contends that heightened global competition will lead enterprises, and ultimately countries, to converge on a set of “best practices” for corporate governance. From this perspective, increased pressure for convergence has been generated by the process of globalisation, commonly understood as the development of commodity markets to permit the free flow of economic resources across national economic borders. Thus, arguments for convergence and divergence have been based on either side of the globalisation/localisation divide. Proponents of the Anglo-American model of corporate governance, which puts pressure on corporate enterprises to “maximize shareholder value” as their primary objective, argue that when shareholder value is maximised, the economic system as a whole will perform well, so that the interests of all stakeholders are served, since more efficient allocation of capital will occur, thus improving savers’ access to investment opportunities and companies’ access to finance.

The notion of the shareholder value model as an optimal economic system of corporate governance has been prominent for some time in discussions around corporate governance. Clearly the argument that economic efficiency implies convergence in corporate governance is closely related to the more general neoliberal argument that holds that the convergence of economic systems towards a market-oriented ideal is both inevitable and desirable (Brewster et al., 2007; Clarke, 2016; O’Sullivan, 2011). That perspective is, in turn, based on a theory of market economy, neoclassical theory, in which the perfection of capital, labour and product markets is supposed to lead to optimal economic outcomes. For superior economic performance, nothing should inhibit the free flow of economic resources from one use to another, and any impediment to that flow is deemed a market imperfection. With its links with neoclassical economics, it is not surprising therefore that the efficiency argument for

convergence in the corporate governance debate has drawn much of its intellectual support from the work of neoclassical financial economists like Michael Jensen (1994).

Contrary to the assumption that convergence comes with economic efficiency, other scholars have argued that an understanding of the foundations of economic performance implies the persistence of diversity in systems of corporate governance. Their argument is based on the fact that there is no one way to organise an economy such that free flow of economic resources through “perfect” capital, labour and product markets will lead to optimal economic outcomes (Albert, 1991; Amable et al., 1997; Amable, 2000; Aoki, 2001; Dore, 1973; Hall and Soskice, 2001; Herrigel, 1995; Lazonick, 1990, 1991; Lazonick and O’Sullivan, 1996; Dore et al., 1999; Nelson, 1993).

It should therefore be noted that differences in corporate governance reflect the variations in political organisation applicable to different environments and are subject to change in response to changes or alterations of the political system. This further attests to the fact that convergence of systems of corporate governance is a mirage and an unattainable position, owing to prevailing political differences.

Although proponents of the convergence school of thought believe that globalisation is a driving force for a uniform economic and corporate system, this argument is self-defeating because they also argue that the process of integrating markets, especially financial markets, throughout the world cannot be understood as a “purely” an economic project because both its origins and outcomes are highly politicised (Cerny, 1993; Chesnais, 1996; Gowan, 1999; Helleiner, 1993, 1995; Strange, 1986, 1998).They are of the opinion that the financial pressures being brought to bear on national systems of corporate governance to converge are political in origins. The argument of convergence versus divergence is a continuous one that will be around for a long time and will always have a bearing on the political economy of corporate governance, in order to determine the impact of economic and political pressure on corporate

economies across the globe. Due to the diverse needs of various stakeholders in an economy, the political system provides the necessary arbitrage or link between the economic outcome and legal rules (Pagano and Volpin, 2005; Bebchuk and Neeman, 2005).

5.8 Summary and Conclusion

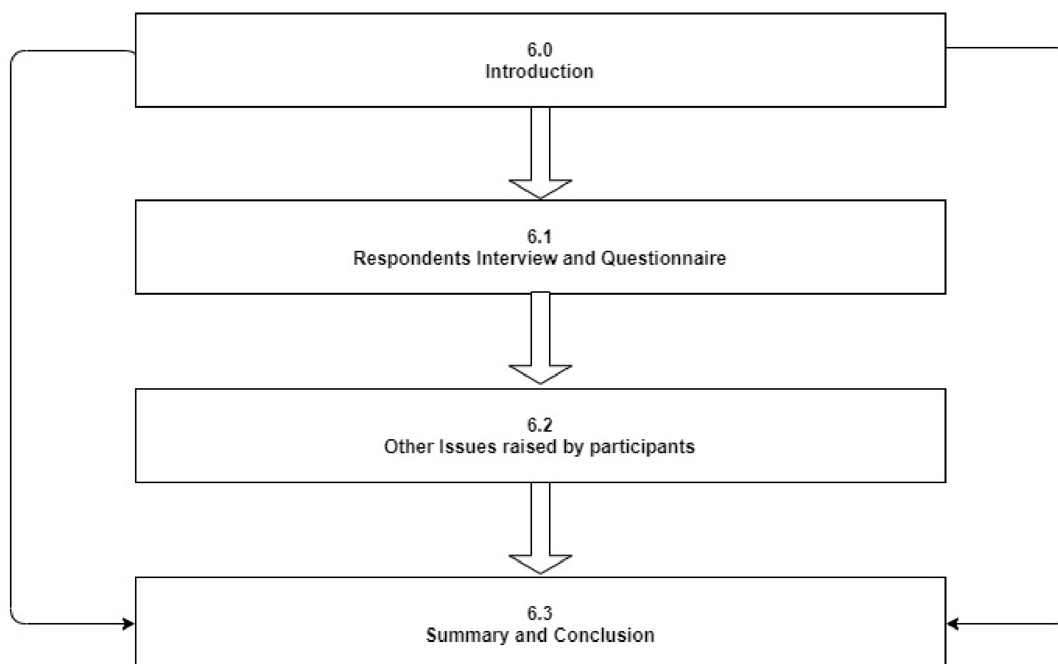
It is believed that political processes determine economic behaviour and corporate laws governing interest groups of corporate behaviour, institutional shareholders and entrepreneurs, and this eventually governs the allocation of corporate power, privilege and profit (Turnbull, 1997). This can also be seen from the point of view of business ethics, morality and adoption of standards of behaviour to resolve any opportunistic behaviours in business transactions, and this is further examined in the next chapter.

Chapter 6 – Empirical Analysis: Evidence from the Qualitative Data

6.0 Introduction

Chapter 5 examined the Nigerian legal framework and corporate governance practices, chapter 6 continues by utilising a combination of archival documents, interviews and questionnaires to examine how Nigeria has fared in the implementation of corporate governance post-independence. The chapter is divided into three sections. 6.1 analyses the findings of the interviews and questionnaires; 6.2 presents other issues raised by the participants; and 6.3 provides a summary and conclusion. The structure of chapter 6 is shown in figure 6.0.

Figure 6.0 - Empirical Analysis: Evidence from the Qualitative Data



It has been observed that despite all the codes discussed above, many Nigerian banks still faced monumental failure and collapse. The series of failure can be attributed to the inappropriateness of the imported rules and codes, alien to the Nigerian socio-political system with its weak institutions (Perrow, 1986; Okike, 2007; Adegbite, 2015). Uche (1997, 2010) attributed the failures to factors such as lack of experience in the art of banking, poor management and fraudulent activities within the management of the bank. The identified weak institutional framework has thus intensified the principal agent problem. Although the neoliberal economic policy codes were enacted in Nigeria like other developing countries, these were mere window-dressing, as the Nigerian cultural and socio-political context appear to have become an obstacle in the way of their successful implementation. These issues were alluded to in the course of interviews with participants while analysing the impact of neoliberalism on the existing corporate governance codes, their effectiveness and causes of non-compliance. The financial collapse in the UK which led to the Cadbury report of 1992 and the collapse of Enron and WorldCom in the USA, which led to the enactment of Sarbanes-Oxley Act of 2002 as well as the Organisation for Economic Corporation and Development (OECD) principles in 1997, constituted a rebirth of corporate governance across the globe and put the phenomenon on the world map. Driven by financial integration and globalisation (Khana et, al., 2006), countries around the world enacted corporate governance codes within their jurisdiction in order to catch up with happenings around them. This led to the enactment of the 2003 Code of Corporate Governance for Banks and Other Financial Institutions in Nigeria. Unfortunately, this code was weak and not enforceable (Ofo,2013; Okike 2007; Adegbite, 2012) and had no impact as corporate failure still permeated the entire financial system of the country. As Nwuche, (2012) puts it:

> *Despite the presence of a multiplicity of codes designed to address corporate fraud and malpractices in Nigeria, corporate governance practices in the country are still poor.*

This failure could be attributed to the rush to fashion the codes along the lines of those in developed countries and impose them on the Nigerian banking system with a weak institutional framework. This position was substantiated by the World Bank report which suggested that:

> *Institutional standards contributed to failures regarding regulation, compliance and enforcement of rules and to poor governance in Nigeria (ROSC, 2004).*

Another reason for the failure of the codes and why Nigerian banks were just muddling through is that the codes were more of moral suasion and not binding on the banks, and they also did not consider the Nigerian perspective, which is embedded in endemic corruption.

From the foregoing, it is clear that the codes were not developed with an independent frame of mind but based on the neoliberal dictates of the Western world (Ekanade, 2014). Ekanade suggests that:

> *"Neoliberal economic policies and profound internal socio-political convulsions are challenging African states, including Nigeria. Even though they are acknowledged as independent states within the global community, African countries have not adequately established themselves as nations with national identities. They also have not conquered the challenges of good governance and gained their economic autonomy."*

The erstwhile governor of the Central bank, Sanusi, at the centenary programme of Union Bank of Nigeria, claimed to have regretted the application of neoliberal policies in the management of Nigerian economy, while he was the Central Bank Governor (Sanusi, 2018, Punch Newspaper, April 30,2018). Also, the implementation of the Structural Adjustment Programme (SAP) by the Babangida administration in 1986, following the advice of World bank and IMF as a condition for obtaining loans, subjected many Nigerians to abject poverty with a substantial drop in the standard of living of Nigerians, as subsidies on essential commodities and services were removed. This resulted in a series of devastating riots across the country, as the whole country was subjected to penury, social and economic deprivation

Alfred and Ake (1991) argue that colonialism left behind a legacy of a social welfare system irrelevant to the social needs of the masses in Nigeria, as it was structured for profit maximisation and essentially designed to meet the needs of the colonial masters rather than the colony. Thus, it did not encourage investment in social welfare schemes for the African population (Ake, 1981; Alfred, 1991).

The same paradox was witnessed during Obasanjo's regime (1991 to 2007), when democracy returned to Nigeria. The administration, instead of meeting the needs of the citizens, preferred to abide by the international market standards at the expense of the welfare of the governed. This intensified social problems in the country and demonstrates how neoliberalism exacerbated the plight of a large segment of the Nigerian population, deepening poverty, inequality, unemployment, and social exclusion (Ekanade, 2014).

From the forgoing, it can be seen that corporate governance development in Nigeria has not been effective because there was no originality, but rather imposition of codes and principles which was just a marriage of convenience or a rule of thumb without any integration into the socio-political system, which would have made it more effective. There is lack of an effective judicial system to enforce the right of shareholders, as entrenched in the Anglo-Saxon principles which preach shareholder supremacy. The institutional framework within the Nigerian environment does not support such a claim because of corruption and other shortcomings inherent in the system (Ogbeiche and Kouropoulos, 2007; Okike, 2007). Even where codes and best practice standards exist, their enforcement cannot be guaranteed (Nmedielle and Nwauche, 2004). Thus, applying imported corporate governance mechanisms has been difficult because of the overbearing influence of developed countries' policies on developing countries (Nakpodial et al., 2016), which has made corporate governance just an academic exercise and a mere cosmetic gloss rather than a tool of substance. In addition, the peculiarity of the cultural and legal framework of each socio-political context challenges the

appropriateness of the Western-dictated neoliberal economic policies to the situation of each nation state. In the above context, the level of corruption in Nigeria, which is deeply rooted in the socio-cultural, political and economic environment of the country (Shehu, 2005) has become an obstacle to adopting any externally evolved corporate governance practices to effectively improve transparency and accountability in the Nigerian economy (Lawal, 2007). The appropriateness of Western corporate governance practices in improving transparency and accountability in the Nigerian economy in general, and the banking sector in particular, is further investigated through comprehensive interviews conducted within banking institutions and other stakeholders. The next section examines the perceptions of the executives, managers and other stakeholders in order to understand the impact of corporate governance codes and practices on the Nigerian banking institutions.

6.1 Respondents' Interviews and Questionnaires

The proponents of corporate governance practices claim that the adoption of the neoliberal corporate governance rules and regulations will improve the level of transparency and accountability in the global economy (see Bakre, et al., forthcoming; World Bank, 2004). Also, the proponents of neoliberal economic policies in Nigeria also claimed that the adoption of neoliberal corporate governance practices will improve transparency and accountability in the Nigerian economy (see for example, Omolehinwa and Naiyeju, 2015). Following these external and internal claims, this section examines participants' perceptions of corporate governance practices and their impact on organisational performance in the Nigerian economy in general and the banking sector in particular.

In selecting research participants, various stakeholders were considered in order to obtain opinion of different shades of the society and provide a balance population. This cuts across managers, Directors, Ex-Directors, practitioners, professionals, academia, captains of

industry, shareholders, policymakers and general public. This equally included men and women in order to gain an in-depth understanding of the problem from all and sundry

This however produced some tension in the analysis of the result from the respondents as there was no consensus in the opinion expressed in the interview with majority of the opinion that board and other committees as well as management were responsible for failure in the banking industry because of poor corporate governance. However some participants especially those closed to defunct boards had divergent opinion and believe that board acted in the best interest of stakeholders but were witch hunted by regulators and used as scapegoats or excuses in order to take over the banks. They argued further that board members and managements of the banks were illtreated and made to lose their resources by the regulators ostensibly to protect the shareholders as banks that were taken over were sold to cronies of people in governance

In order to achieve this objective, opinions of some company executives, managers and other stakeholders were sought. A manager of one of the Nigerian banks said:

> *With the level of failure and collapse in the Nigerian banks, I don't think they are being guided by any rule. It was like a banana republic where people are doing what they like. This was responsible for the mass failure in the industry. P15*

Another director in one of the banks has this to say about his perception of the effectiveness of neoliberal corporate governance practices adopted by Nigerian banks.

> *I don't think there is corporate governance in Nigeria; if there is any, there would have been uniformity in the management of these banks and their activities streamlined. There was no effective guidance in place to direct the affairs of the banks in a professional manner. P5*

In order to get a balanced opinion of Nigerians outside the banking institutions about their perception of the impact of Western imposed corporate governance practices in Nigerian banking industry, I extended my interviews to some stakeholders, and one of them has this to say.

Yes, the management of these banks have abused their positions by enriching themselves at the expense of their customers and shareholders. The level of frauds in the banks does not suggest that there is corporate governance in place. We have said this over time, and nobody is listening. P18

Another stakeholder who maintains accounts with some of the Nigerian banks said:

I am aware that poor management and non-adherence to CBN directives was responsible for the failure of many of these banks. For example, some directors were given loans and did not pay back; as a result, the capital base was depleted because there are no rules in place. It is unbelievable that directors who were meant to protect shareholders' funds have now taken all the funds. Who is now to trust? P17

In order to gain a better understanding of the appropriateness of the neoliberal corporate governance principles in Nigerian banking sector, further interviews were conducted on various proxies of corporate governance as follows.

6.1.1 Ownership concentration

Ownership structure has been a major determinant of the corporate governance mechanism (Darko et al., 2016, Iannotta,et al., 2007). Hansamann (1996) provided groundwork on how ownership structure affects the internal design of the organisational structures, which includes the internal governance mechanisms. One form of ownership structure is ownership concentration. Darko *et al.* (2016) and Fauzi and Locke (2012) argue that there is a negative relationship between ownership concentration and a firm's financial performance. They state that large shareholders, by virtue of their position, used their power to manage the resources of the organisation for their gain, at the expense of the interests of small shareholders. Jensen and Meckling (1976) posit that ownership structure decision is a panacea to agency problems and expected to reduce agency cost. This suggests that ownership structure has a significant impact, as different countries exhibit different corporate governance, which is influenced by their ownership structure. It has been noted that corporate governance across the globe has been

frustrated by a common feature in which control of publicly traded corporations has been left in the hands of a single individual, family or group (Gilson, 2006). Family ownership and dominance, as well as kinship structure has been one of the prevalent issues in the banking industry in Nigeria. Dominant families become majority shareholders with controlling influence over the company.

It is widely believed that if an organisation is dominated by large shareholders, this could result in one-directional decision points or mindsets and prevent minority shareholders from airing their voices, even when they have a superior opinion and potential that could enhance organisational performance. This could also stifle growth, as ideas may not be welcomed in such a winner-takes-all environment.

Most of the interview participants complained about ownership concentration, which they believed led to the collapse of some of the banks in Nigeria. They found that because ownership was skewed towards a few people who were the majority shareholders, they abused the resources of the bank to enrich themselves at the expense of minority shareholders. Decisions were taken solely by these few people over recruitment, compensation, investments and general running of the banks. Even though their actions might reduce agency cost and agency problems, they nonetheless created another problem of overbearing influence, as expressed by research participants. A shareholder who participated in the interview for the purpose of this research commented as follows:

> *Most of these banks are managed as a one-man business; they do whatever they like because they are in control; they don't take small players into consideration. They take decisions all by themselves, decide on the profits and dividends to share to shareholders and there is no one to fight for us.* P12

A senior staff of one of the banks argued in the same lines on the impact of ownership structure on Nigerian banks, saying:

> *Too much power has been given to just a few individuals to manage the affairs of these banks, they have held on to power for too long and in the process have mismanaged*

the banks to their advantage. Look at the case of bank ZXC where the CEO who owns more than 80% of the shares in the bank traded with the bank's money at the stock market and took the proceeds abroad to buy houses all over the place. There is no discipline and governance process in place at all. P18

The situation was so bad that people did not believe that other people owned shares in these banks, because majority shareholders or institutional investors owned well over 70% of the shares. In his own view, an auditor in one of the leading audit firms expressed disappointment about the effectiveness of the ownership structure, which has been purportedly based on global best practice, saying:

I don't believe that there are other shareholders in these banks, because nobody has challenged the majority shareholders or created the impression that they are not happy. We have been auditing bank ABC for the past three years and nothing has changed, the ownership structure, trends of activities and leadership have remained unchanged. Decision-making processes remain with the same people and minority shareholders are just in the shadows. P15

In order to get a balanced view on the public perception of the ownership structure in Nigeria, a consultant was interviewed and expressed the view below:

There is only one shareholder in most of these banks (Laughs), Mr Z, claimed to have started the bank with his friends, where are the friends? He is running the show all alone. I heard he sold shares at some point to people; he went behind to buy the shares to maintain his control. There is no proper monitoring and control over the affairs of these banks. What is the Central Bank doing? Anyway, they are birds of a feather. P18

This suggests that nobody is sharing the ownership of the bank with him. Another area of interest was the impact of the shareholders' association on monitoring and controlling activities of the majority shareholders to protect the interests of the minority shareholders. The findings revealed that majority shareholders have bought over the shareholders' associations and made them toothless and mere rubber stampers, which has further worsened the case of minority shareholders.

It can be seen from the findings that ownership of most of the banks is concentrated in a few hands, undermining good corporate governance. This inhibits separation of power/duties, pushing aside the managers and minority shareholders as well as other stakeholders. The

information asymmetry in these banks is no longer between agents and principals, as described in agency theory, but more between majority and minority shareholders. It is therefore argued that firms with a broader ownership base are more able to provide adequate information in their annual reports (Depoers, 2000; Ghazali and Weetman, 2006) than highly concentrated organisations. Also, it is expected that agency cost will increase where a company's shares are concentrated in the hands of a relatively small number of shareholders (Friedland, 2003). Unfortunately, the situation in Nigeria is such that majority shareholders abuse their position to enrich themselves and oppress the minority shareholders, acting against the interests of other stakeholders. At annual general meetings they vote down minority shareholders because of their higher voting rights and manipulate financial statements to their advantage. A shareholder in one of the banks expressed serious concern about how minority shareholders are being treated within the context of the neoliberal globalisation, as expressed below:

> *I think majority shareholders have pocketed other shareholders;* they *don't allow us to participate in decision making. Even at annual general meetings, other people are there to rubber-stamp decisions of these powerful people. It is so bad that in some instances they change the venue of the AGM just to ensure that shareholders don't attend, and where they attend, they are not allowed to talk at all. They cannot vote out bad leadership, even when they are not happy. P19*

When interviewed on the impact of Western neoliberal assumptions on ownership structure, a branch manager in one the banks expressed dissatisfaction about the application in Nigerian banks by saying:

> *There is no transparency in the activities of banks in Nigeria because they are mostly owner-managed; they declare any profit they want to declare because nobody will challenge them effectively. I learnt that the CEO of bank CBK had taken half of the profit before declaring the rest, leaving minority shareholders with whatever was left. The ownership structure has made it difficult for them to be challenged. Even our own boss does whatever he likes in the management of our bank; he hires and fires at will, he pocketed the entire executive management and the board. They rubberstamp all his decisions without any challenge. P8*

It can be seen that ownership concentration hurts corporate governance and performance in banks. With high ownership control, the propensity to act against the interests of other smaller shareholders is very high, owing to strong voting power and ability to appoint their cronies into positions such as CEO, Chairman of the board and independent director (Morck et al., 1988). Aside from this, with what has happened in Nigerian banking sector, many shareholders can use connected parties to enrich themselves through illegal transactions to siphon funds. For example, a bank CEO was said to have acquired over 61 properties in Dubai through connected or related companies. (*The Nation* newspaper May 4, 2018). It prevents directors who possess better abilities and potential that could improve the bank's performance and enhance growth from reaching the decision-making level. Where ownership concentration is not self-managed, many shareholders usually force their opinions on managers (Yeoh and Jubb, 2001), who must work according to their dictates. Ownership concentration has led to bad corporate governance in the Nigerian banking sector, characterised by unlimited abuse of office and corrupt practices. For example, in 2009, five bank MDs who were referred to as "super-MDs" were removed, and later MDs who had spent ten years in office were also removed. The reason for their removal was anchored on the fact that they had held a knife to the economy. Dumontier and Raffournier (1998) and Konishi and Ali (2007) argue that in concentrated ownership structures, risk information will not be reported appropriately in the annual reports, and this will undermine the position of minority shareholders and other stakeholders as well as the general public.

The position of the interviewees is further supported by the information obtained from the questionnaire on ownership structure which depicts the following. The vast majority of participants, about 46 (82%) supported the view that ownership should not be concentrated in a few hands, while 12 (18%) responded to the contrary, and this suggests that majority believe that if ownership is diversified, governance will be improved. This agrees with the agency

theory prediction of a divergence of interest between the agent(s) and principal(s) due to the separation of ownership and control (Jensen and Meckling, 1976). The agency cost of equity is higher where a company's shares are held by a small number of shareholders (Friedland, 2003). It is believed that broadly-owned companies are more likely to provide more voluntary information in their annual reports to confirm that they are acting in the best interest of shareholders (Depoers, 2000; Ghazali and Weetman, 2006). Certainly, within the Nigerian banking system, where ownership has been placed in the hand of a few people and family members, the possibility of having a level playing ground among stakeholders is very slim. For instance, after the capitalisation exercise, since most of the bank CEOs were not prepared for such huge shareholders' fund, they were reckless in the management of the funds in acquiring properties and trading with the funds in the stock market for personal gain, because ownership of the banks was in their hands and their families. Ownership concentration has been seen as synonymous with bad governance because it gives room for large shareholders to monitor their interests directly (Shleifer and Vishny, 1997) and to influence management (Yeoh and Jubb, 2001). Concentrated ownership can lead to reduced corporate transparency and increase agency costs, and flow of information can be truncated (Fan and Wong, 2002). Large or majority shareholders may impose their personal opinions on the organisation even if the opinion is contrary to the opinions and preferences of the minority shareholders (Holderness and Sheehan, 1998: Shleifer &Vishny, 1997). With this conflict of interest, they can derive personal benefit at the expense of the minority shareholders. Concentrated ownership will also increase conflict of interest between majority and minority shareholders (Hansmann and Kraakman, 2004), negatively impact the ability of the organisation to raise capital and the risk of adverse strategic behaviour (Carney and Gedajlovic, 2002). Another area of measuring corporate governance effectiveness is the size of the board, which is discussed below.

6.1.2 Board size

The board of directors plays a vital role in the management of the organisation, and they are expected to provide oversight on the corporate governance system and the entire management of the organisation. From an organisational governance perspective, the board of directors is a key structural mechanism in monitoring managerial behaviour and providing protection to stakeholders (Rechner and Dalton, 1991). To this extent, understanding the characteristics of the board and its relationship with regards to organisational performance is very important. One of the areas covered by the rules and regulations of neoliberal corporate governance practices in improving transparency, accountability and combating corruption, is to have an effective board size. I sought the opinions of participants to examine the effectiveness of the board size in improving corporate governance in the Nigerian banking industry.

A lawyer, when interviewed, suggested that boards have not been effective in protecting shareholders form mismanagement. She expressed her opinion as follows:

> *Boards are collaborators in cases of recklessness in the banking industry in Nigeria; they did not carry out their oversight functions effectively, and that has been responsible for failure of most of these banks. They are only after what they can derive from the bank and not to protect stakeholders as expected. This has questioned their importance and purpose in the affairs of the banks. They have abused their positions and abandoned the minority shareholders they were meant to protect. P5*

A lecturer from one of the universities also expressed disappointment in the effectiveness of the board in checkmating management, saying:

> *There is no difference between the board and the management; members of the board are hand-picked by the CEOs, who bring in their cronies to rubberstamp their decisions and fraudulent actions. I don't know what the board of directors were doing and what they were looking at while those banks under their supervisory control collapsed. Many members of the board were ex-bankers who just came on board to maintain the status quo; they can't stop bank management from doing what they have done in the past; in fact, they contributed to the problems of these banks. In most cases, they lack experience and were just appointed to fulfil regulatory requirements and not on merit; it's like they do not know what's expected of them. They compromised their position so as not to be kicked out by the CEO and management. P14*

In order to get an insider view on the relationship between the board and management in protecting other stakeholders of the bank, a member of the bank staff who works in the credit team of a commercial bank was interviewed and expressed reservations and concerns on the level of loan exposure to members of the board, which he said was not at an arm's length. He said:

> *In bank ABC, looking at the loan profile, members of the board took a substantial portion of the loan for their personal businesses. As such, they could not advise the management appropriately on loan and credit risk management. It was therefore difficult for them to challenge the risk assessment process put in place. In fact, they have increased the debt burden of the bank. P9*

When asked to comment on whether the size of the board has a role to play in its effectiveness in protecting stakeholders, a former executive of a bank had this to say:

> *As for me, I do not believe that there is any correlation between the board size and bank performance, if any there is negative relationship. Boards of directors have not contributed anything to ensure good corporate governance in these banks; instead, they only go there to warm the chairs and get paid at the end of the day, regardless of the size of the board. P21*

On the size of the board, it is believed that an overly bloated board size will lead to additional cost in the form of coordination and communication. It will be more challenging to arrange board meetings and reach a consensus, which will lead to slower and less efficient decision making (Jensen, 1993). In contrast, a small board will reduce agency problems, as activities of the organisation can be better managed. This view was echoed by a senior manager in the corporate communications department of one of the banks, who organises board meetings and events for her bank Saying.

> *I don't believe in the big board as it will be difficult for them to make any reasonable decision and it usually leads to a lot of arguments before they agree on any issue, and this was the case at Bank ZKL where the boardroom is always like a house of commotion, different people coming with different irreconcilable ideas. They fight on virtually everything and thus waste shareholders' time and resources. I believe that a big board means big problems, which makes the company spend more on allowances and directors pay. They are more interested in the pay. You will see some of them carrying payment vouchers about, pursuing payments and nothing more. P10*

It has been argued that a small board can collaborate more effectively and take a quick decision, which helps to improve organisational performance (Dharmadasa et al. 2015; Larcker, et.al,2007; Mashayekhi and Bazaz,2008to provide). The proponents of a large board, however, argue that increasing the size of the board will avail the board more independent directors and a greater number of directors with specialised experience and knowledge, which will enhance the board's effectiveness and assist them in making important decisions (Elbadry et al., 2015; Ujunwa,2012). It is also argued that boards made up of many directors can monitor more effectively and create active subcommittees that help to increase firm's performance (Anderson et al., 2004; Ntim. and Soobaroyen 2013). Board's independence to oversee organisations effectively, monitor the activities of management and protect the interests of shareholders will help to minimise agency conflict, and that independence is discussed next.

6.1.3 Board independence

In order to perform its oversight function on the executive and management of banks, the board of directors should be independent of the management. However, even though the neoliberal principles expect that the board should be independent in the discharge of their duties, this has not been seen as the case in the Nigerian banking sector. Adegbite (2015) and Langevoort (2001) suggest that board independence amounts to bringing a high degree of objectivity, scrutiny and fairness to the evaluation of a company's management. Board independence requires a board to have more non-executive directors and independent directors, diversified ownership and lack of CEO duality (Adegbite, 2015). If directors had been independent in discharging their duties, most of the problems that culminated to the collapse of banks in Nigeria would have been avoided; they would have been able to prevent the opportunistic behaviour of executives and management and curtail their excesses in the running of these banks. Independence of the board is one of the provisions of the CBN codes of 2006 and 2014. The code expects the board to be independent so as to be able to perform its role

without fear or favour and this is expected to ensure good corporate governance. It is expected that board independence will guarantee positive firm financial performance, but this hasn't been the case in Nigeria, as expressed by a lawyer who participated in the interviews, when asked what he thinks about the board of directors' independence:

> *The directors are not independent because most of them were handpicked by the CEOs, and they select those who will not challenge them. Like in Bank BKL, the CEO will never allow any director he cannot control on the board, the allegiance of the director, and by extension the board, is to the CEO and not to the shareholders. He runs the bank as a personal business and does what he likes with impunity, hires and fires directors at will. There is nothing independent about the independent directors; they put the economy where we are today, and they ran down the banks along with the management. Imagine directors taking loans from the bank to run their personal business; how will the bank not collapse? There is nothing like checks and balances; everything was just muddled together. When Bank XYZ collapsed, it was realised that most of the bad credits were owed by members of the board. P14*

Another manager with one of the banks has this to say on independence of board of directors in his own bank, which marginally survived the collapse:

> *There is nothing like the independence of directors around here in this bank. Almost everyone on the board came through our chairman; he only brings in people he knows very well that he can trust and control, in fact; they are all yes-men, and he even encourages them to take loans.* P12

From the participants' comments, it can be concluded that directors of banks in Nigeria are not independent of the CEO and management, and this contributed to the collapse of most of the banks in the country. This is contrary to the belief that independent directors will bring new experiences and fresh ideas to the bank to improve board decisions and the company's activities (Ntim and Soobaroyen, 2013). As a result of this lack of independence, the independent directors have a negative influence on the financial performance of the banks. It has also been argued that board independence has increased the number of agencies issues and weakens the monitoring role of the board (Fernandes, 2008). Independent directors can increase diversity and disagreement between board members, which may reduce the level of cooperation in the decision-making process and consequently impact the firm's performance (Goodstein et al., 1994).

Another corporate governance issue that has bewildered organisations and which has created problems over time is CEO duality. In this situation, an individual holds the two positions of Chairman and Chief Executive. Even though this model is becoming old fashioned, it is still worth analysing its impact and the damage it has done to corporate governance and organisational performance, as discussed below in sub-section 6.1.4.

6.1.4 CEO Duality

It has been argued that if the CEO doubles as the board Chairman, it will create a negative influence on the oversight role of the board as the powerful CEO/Chief Executive will dominate major activities of the organisation, which include deciding the meeting agenda and assigning new directors, which can increase the agency problems (Haniffa and Cooke, 2002). In such a situation, there will be a negative relationship between CEO duality and the bank's performance, as separation of duties is essential to the running of an organisation. The SEC Code (2011) in Nigeria specifically provides that "the positions of the Chairman of the Board and CEO shall be separated and held by different individuals" and further stresses that the Chairman should not be involved in the day-to-day operations of the company to ensure effective operation of the board. The separation of the two positions is to ensure good corporate governance practices (Mallin 2004; Monks and Minows 2008;). The CBN code proposes that no two members of the same family shall occupy the post of the Chairman and CEO at the same time. It has therefore been suggested that there is a negative relationship between CEO duality and performance (Tang, 2016: Duru et al., 2016; Kyereboah-Coleman, 2007; Ezzine, 2011).

This has, however, been seen from a different perspective in the Nigerian Banking system, which can best be described as pseudo-CEO duality, since a powerful CEO handpicks the Chairman (or vice versa) as a rubber-stamping stooge, while he or she runs the affairs from behind. This has been seen as a menace of banks in Nigeria, where the owner or majority

shareholder is either the Chairman or CEO, and participants saw this situation in Nigeria as one of the major causes of bank failure, as expressed below when they were asked if CEO duality is a problem in Nigeria. This practice cast aspersions on the appropriateness of the neoliberal principles to the Nigerian situation and circumstances. To gain a further understanding, I interviewed a director with the Apex Bank who gave an insight into the situation of banks in Nigeria as follows:

> *The case of the Nigerian banking sector is a sad one as it has not moved away from CEO duality; most of them just appoint the Chairmen as mere figureheads while they are still technically occupying both roles. They put their cronies, who have no say, in the position of a chairman. Like the case of Bank C, the CEO appointed his cousin as the Chairman; no wonder the bank collapsed. At Bank X, duality was the order of the day as there was still no separation between ownership and management; the majority owner put in place a CEO and Chairman who could not check him. They all worked together to run the bank down. For example, when the bubble burst, they were all in debt to the bank. In fact, they were the highest debtors, and nobody was surprised when they were arrested. P27*

In order to get a wider view, a staff member from another bank also disagreed with the claim that there is a separation of power between CEO and Chairman in Nigerian banking sector by saying:

> *In our bank, on paper, there is separation between the CEO and Chairman, but our CEO does everything, and this tells in the performance of the bank. The CEO approves all expenses and takes all decisions without recourse to the Chairman. board or shareholders. We are all concerned, but what can we do as employees? He does not seek anyone's approval, he decides how much bonus to pay to staff, there is, in fact, no governance in place around here. P24*

An independent shareholder questioned the effectiveness of the prohibition of CEO duality, saying.

> *I can describe what happened at bank D as pseudo-CEO duality. When the Chairman was questioned after the bank collapsed, he was not aware of most of the transactions they said he signed; you could see that he was not in control. The CEO signed most of the documents and claimed that the Chairman signed them; he just got the old man into trouble. There is a need to enforce the separation of responsibilities between the two. P23*

To gain further understanding, I interviewed a member of staff in an audit firm, and she has this to say:

The situation at Bank Z was devastating. The father was the Chairman while the son was the CEO, all decisions being made in one household. Who will now say there is no duality in this situation; they only separated the two roles in the eye of the public? There is nothing like corporate governance here, and this is affecting the image of the bank negatively. P9

It follows from the comments from various participants that most of these banks implemented separation rules to avoid conflict with regulatory bodies, while in reality the banks were being controlled and manipulated by top executives, who are the largest shareholders and family owners. The negative influence of CEO duality continued to exist in practice where there was no genuine separation of roles. This pseudo–duality is just designed to deceive unsuspecting public.

It is one of the principles of agency theory that there should be a separation between decision management and decision control (Fama and Jensen, 1983). Separating the CEO and the board Chairman position discourages withholding unfavourable information (Ho and Wong, 2001). It supports transparency and adequate disclosure in financial reporting (Ghazali and Weetman, 2006). Therefore, CEO duality has been seen to be closely related to inadequate quality disclosure (Forker, 1992). Meanwhile, supporters of CEO duality think that it has a positive relationship with firm's performance, which is in tandem with stewardship theory. Their argument is premised on the assumption that CEOs are people of high integrity and there is no need to monitor their activities, and this will give the CEO an opportunity to be more focused and concentrate on management issues more effectively (Donaldson and Davis 1991; Finkelstein and D'Aveni 1994). However, their argument does not hold water as it will always lead to abuse of power and irresponsible behaviour. One of the determinants of corporate governance effectiveness is the ability of the board to work in smaller units or committees, and one measure of the effectiveness of the committee is the composition and the number of meetings, which is believed to have an impact on the company's performance. One of such committees is the audit committee.

6.1.5 Audit committee

The importance of the audit committee (AC) cannot be overemphasised, as companies with ACs are more likely to have higher financial reporting quality (McMullen, 1996) and to engage specialist external auditors (Chen et al., 2003). Also, organisations with an AC are less likely to engage in earnings manipulation (Baxter and Cotter, 2009; Dechow et al., 1996) as well as fraudulent financial reporting (Beasley et al., 2000). Eighme and Cashell (2002) argue that an effective AC promotes the degree of responsibility that the executive directors and employees demonstrate towards the shareholders and other stakeholders. Also, an effective AC will prevent management from taking excessive risk, which has been seen as one of the causes of poor corporate governance (Kirkpatrick, 2009).

The audit committee usually has the responsibility of providing an oversight on the financial reporting of an organisation to ensure accountability and transparency. They support the firm in ensuring that adequate controls and policies are put in place, as well as overseeing the appointment of external auditors and monitoring their performance and activities. However, the level of fraud, failure and other unethical behaviours within the Nigerian banking sector has led to questions around the role of the audit committee in the system. The complacency of ACs has made many to wonder if they are still necessary in the running of affairs of these banks, or the appropriateness of the globalisation policy on which the principles that established such committees are based. In order to establish the effectiveness of audit committees within the Nigerian social context, I interviewed a manager with the Central Bank of Nigeria, who confirmed that ACs have failed the Nigerian banking system. This is based on the audit the central bank carried out on the control framework of banks in Nigeria before and after bank consolidation. He argued that they were not convinced that the audit committee had any useful role in preventing bad governance, saying:

I do not believe that the audit committee is effective in checkmating management or ensuring effectiveness in corporate governance and performance. In these banks, the audit committee was meant to recommend the appointment and reappointment of external auditors, but the CEO decides on who the auditors will be, he takes decisions outside the recommendations of any committee. The audit committee meets regularly just to create awareness that they are meeting to protect the interest of the shareholders, but the meeting could better be described as a mere awareness gathering; the meeting could not stop management, nether could it enhance financial performance. Look at bank X that collapsed a while ago; what was the effectiveness of the audit committee and their meetings? It was so bad that the CEO singlehandedly appointed members of the committees, the audit committee had no power at all, and they all played along until the bubble burst at the bank. P22

This position was echoed by a staff member of a commercial bank who also did not see any value being added by the audit committee and has this to say:

I believe that both the audit committee and external auditors contributed to the failure of banks in Nigeria. When auditors came to audit our bank, they just certified the accounts, without doing a thorough job. They finished quickly without raising any issues, while there were big issues of mismanagement that even staff were aware of. P17

On his part, a member of staff at the Central Bank has this to say on his concern about the knowledge and business awareness of members of the audit committee on the bank's businesses and activities:

My concern is that I don't even think that members of the audit committee have adequate knowledge of banking business to be able to provide the necessary oversight that can check management actions. These deficiencies are reflected in their performance and contribution to corporate governance in the banks. Also. I don't think that members of the audit committee were selected on merit or based on their expertise. In such situations they cannot perform, and this has limited their effectiveness. At the same time, the audit committee lacks adequate power and resources it needs to carry out its responsibilities effectively because most of these banks have a weak internal control system which cannot support the need and speed of the audit committee. P22.

It has also been contended that even if an audit committee has the pedigree and adequate influence to carry out their duties and responsibilities, the ability to execute their duties will depend on the composition of the committee, which is examined next.

6.1.6 Audit committee size and composition

It has been suggested that for an AC to be effective in ensuring good corporate governance and enhancing organisational performance, its size and the structure must be appropriate. The composition of ACs in Nigeria has been skewed towards what the management want and not based on any required provision; hence they have not been effective. This was the position of an ex-director of one of the banks when considering the structure and composition of audit committees in banks:

> *I think the audit committee in our bank has been poorly constituted. In the first place, members were handpicked by the CEO without considering their skills and knowledge. That is the more reason they could not add any value to the bank and corporate governance in general, which eventually led to the collapse of the bank. My own opinion is that it is not only the size but who are the members? If they are made up of majorly independent directors, they will perform better. But this was not the case in our bank. Our MD imposed incompetent members on the committees regardless of whether they possessed the required experience and exposure relevant to the bank and its activities. The committee should ordinarily be made up of people who have excelled in their fields, especially in the area of finance. Also, they should be made up of a mix of high calibre. professionals that cannot be compromised. P36*

In corroborating this position, a manager in one of the banks also expressed displeasure about the activities of the ACs and suggested that size does not matter, saying.

> *Size or no size, I am not impressed with the role the audit committees have played in the Nigerian banking system. The level of failure banks witnessed in Nigeria has cast aspersions on their importance and independence; if they cannot control management, they should have raised alarms before the banks collapsed, as we have seen a wave of failure in Nigeria banking system which led to loss of funds and jobs. Audit committees, like any other committee, have not helped in sustaining and stabilising banks in Nigeria; they are in most cases accomplices in the unethical behaviours of the banks, which eventually led to their collapse. I cannot see their impact at all. How do we explain it that about five big banks collapsed when we have audit committees and external auditors in place? P36*

It can be seen from the interviews above that the audit committees have had a bad influence on the Nigerian banking industry, which has negatively affected their performance. Attention was therefore turned to audit committee meetings. AC meetings are regarded as a determining factor in the effectiveness of the AC. It has been suggested that an effective audit committee

that meets regularly will enhance a firm's performance and encourage good governance. In Nigeria, the Code of Corporate Governance of the Central Bank of Nigeria (CBN 2006, 2014), suggests that the audit committee must meet regularly in order to be able to advise management properly on control processes in the management of the organisation. The positive relationship between audit committee meetings and performance has been attributed to the fact that committee meetings increase the effectiveness of communications between the committee and the management, which is expected to improve the monitoring role and the audit quality, thus decreasing the number of agency issues and enhancing the firm's performance (Lin et al. 2006; Menon and Williams, 1994; Hoque et al., 2013; Kyereboah-Coleman, 2007). However, despite the purportedly frequent meetings of the audit committees in most of the banks in Nigeria, the ACs have not had any major impact on the governance framework of these banks, given the level of failure and inappropriate behaviour. A director of one of the defunct banks expressed his opinion as follows:

> *I think the meetings of the audit committee were a curse rather than being a blessing as such meetings did not achieve any result in my former bank. Such meetings could not put any check on the management, which was instrumental to the collapse of the bank. I think we need to go back to the drawing board in all these things; nothing is working. We have recommended over time that the audit committee should meet regularly to carry out their oversight functions in an independent and effective way. Most of the banks that have failed in Nigeria had inefficient audit committees that met seldomly and hardly provide useful support to the management and the board. On our side we could have blown the whistle, but who would have listened to us? The CBN was not helping matters because of their divide and rule policies, which were skewed towards some banks while others were seen as outcasts. In summary, audit committees can best be described as non-existent. P37*

This position was alluded to by a senior staff member of another bank, who claimed that none of the committees has been effective, saying:

> *You cannot single out one committee; they were all involved, and they could not check each order to prevent failures in these banks by coming up with good policies. How come the policies could not save the banks from drowning or improve their performance? And I don't think it's the number of meetings that is important but the quality of decisions that were taken and how effective they have been in managing the affairs of these banks*

> *effectively. Most of these meetings were held just for members to take tea together, discuss some personal and political issues and just create the impression that they are working hard and that all is well. P17*

However, a more positive opinion was expressed by an internal auditor in one of the banks, who saw frequent audit meetings of the audit committee, as recommended by the external auditors, as one the rescue measures for the banks that survived the turmoil, saying:

> *Yes, frequent meetings of the audit committee have been very helpful in taming management excesses. The MD of bank CDC would have sold the bank if he had not been checked, and unnecessary expenses have been cut. If the audit committee meets regularly, it will reduce recklessness and put people on their toes; this will enhance the performance of the banks and protect shareholders. I believe this was lacking previously, which was responsible for the collapse of most of the failed banks. P32*

Thus, while some participants were convinced that having regular meetings would enhance AC performance and improve organisational performance, others disagreed and believed that there was no correlation between the number of meetings and performance, as this has not been justified given what has occurred in the banking sector in Nigeria.

The AC must also be able to hold extraordinary meetings whenever this is required (Burke et al., 2008), especially where there are emergency situations that the committee needs to deal with, such as the risk of financial reporting failure (Hogan et al., 2014). It is considered that those meetings will afford the committee the opportunity to carry out its monitoring responsibilities more effectively (Ebrahim, 2007; Ali, 2014). Based on participants' opinion therefore, it is generally agreed that holding regular as well as extraordinary meetings should impact positively on the audit committee's ability to carry out its duties and responsibilities effectively which is consistent with the findings of some studies (See Smith, 2003; Krishnan 2005; Ebrahim 2007; Hogan et al., 2014; Ali, 2014). Another theme I looked at is the impact of independent directors on corporate governance and bank performance, which is discussed next.

6.1.7 Independent directors

It is generally believed that unchecked management may abuse its position by benefiting at the expense of the shareholders and other stakeholders (Bainbridge, 1993). One of the ways to ensure effective separation of ownership and control is the appointment of independent directors to put a check on management. For example, one of NACD's principles presented to the US Congress in 2002, which was designed to improve corporate governance and address disclosure requirements for publicly traded firms in the USA, recommends that boards should be made up of a substantial number of independent directors (NACD 2002). Even an AC is said to be more effective when majority of its members are independent. Also, the CBN code (2003) stipulates that majority of board members should be non-executive directors with at least one independent director in order to improve board effectiveness (Eisenberg 1976) and ensure good governance, which is meant to protect the interest of stakeholders (CBN Code, 2003). However, majority of interviewees were not satisfied with the composition and the impact of independent directors on the board of banks in Nigeria. In order to ascertain opinions on this, I interviewed a senior manager in one of the banks, who argued that the independent directors were not independent enough to challenge the management:

> *I have lost faith in the whole system. Were the independent directors not there when bank ABC collapsed? What did they do? They must have been handpicked by the CEO or his cohorts, and because of that they could not control or challenge them. I cannot see the value they have added to the board. Independent directors ordinarily should have a positive impact on the performance of banks I suppose. But with what we have experienced in Nigeria and what is still going on, this is not the case. They are easily manipulated by the management of these banks, and everything becomes a mess. There is no sanity in our banking system here, which is disappointing, because of the stubbornness of the leadership of the banks who will always do things without considering the impact on the bank and society at large. P32.*

Other participants agreed that independent directors on the board were important in theory but could not live up to expectation in Nigeria because of the culture of endemic corruption. Based on the participants' opinions, one way of managing the divergence of

interests between the providers of capital and management is to incur monitoring costs. The primary role of the independent director is to monitor activities of management in order to minimise agency cost.

Even though, the presence of independent directors minimises the danger of management's abuse of power, as they are required to make independent judgements and decisions, there remains no convincing evidence that the composition of the board of directors affects overall firm performance. According to Bhagat and Black (1997), the proportion of inside directors on the Board correlates with improved performance. In Nigeria, banks tend to exhibit diversity in the composition of the board to showcase good corporate governance, which is also one of the recommendations of Basel Committee on Banking Supervision Report in 2014. This report requires among other things that the board should be composed of a diverse set of directors in order to enhance good governance. However, this has not yielded the desired result within the Nigerian banking system. Another area of concern is the impact of external auditors in ensuring good corporate governance, which is examined next.

6.1.8 External auditors

External auditors have been under scrutiny in recent times as a result of the global banking crisis, in which accountants and auditors have been accused of playing a significant role. Accountants and auditors are expected to report financial irregularities in company accounts by enhancing transparency and accountability and by developing techniques for fraud detection. However, an emerging body of literature argues that accounting professionals have increasingly used their expertise to conceal and promote anti-social practices (Sikka, 2008a; US Senate Permanent Sub-Committee on Investigations, 2005; Bakre 2007). It has been reported that between 1990 and 1994, the Nigerian economy lost more than N6 billion ($42.9 million) to fraud within the banking sector alone (Bakre, 2007). Bakre(2007), further provides evidence that shows that Akintola Williams and Deloitte (AWD) were indicted for facilitating

the falsification of the accounts of Afribank Plc and for deliberately overstating the profits of Cadbury Nigeria Plc. This led to unnecessary social cost in the banking industry, in which huge amounts of public money were spent to bail out distressed banks.

Overall, participants were not convinced of the role and importance of external Auditors in strengthening corporate governance. They felt external auditors had let the shareholders they were meant to protect down, by compromising their position in the audit of these banks, as most of the failed banks received a clean bill of health despite the fact that they had huge problems such as non-performing loans.

A principal manger with the Apex Bank, who was among the team that reviewed the financial positions after consolidation, has this to say:

> *As far as I am concerned, there is no difference between management and external auditors; it's like they always engage people who would not challenge them as auditors because months after auditors have given a clean bill of health some of these banks went bust. Nobody can rely on their reports anymore. In my opinion, instead of protecting the interests of the stakeholders and ensuring accountability and good governance, the external auditors were just there to ratify management decision and failed to challenge inappropriate behaviours. I want to believe that external auditors have done more harm than good to the Nigerian banking sector; they have not been open enough to stakeholders. Their concern is always to keep their contracts or engagements with the management. In most cases, they are not as independent as they should be in protecting the interests of various stakeholders; instead, they compromise their positions by defending the status quo. P29.*

Another staff of a commercial bank in Nigeria equally challenged the effectiveness of external auditors in Nigeria, as follows:

> *The external auditors that have been coming to our bank have not been effective in curbing the excesses of the management; they are rather accomplices and rubber-stamp whatever management wants. It's so bad because they claim to be one of the Big 4 audit firms. Their actions have supported poor corporate behaviour, as you can tell from what has been happening in the industry so far. P16.*

Elliott (1994) suggests that external auditing is a service activity that helps management to manage the business enterprise, rather than a system for providing information that is useful for investor decision-making. Audited financial statements have thus been of secondary

importance to the investment decision-making process (Frost and Pownall, 1996). Also, social and environmental reporting, which are of interest to a broader spectrum of stakeholders and society generally, are not well specified and social and environmental audits are not well developed (Gray 1998; Owen et al., 2001; Adams and Frost, 2007). It has been argued that external auditors are considerably influenced by company management (Tinker1991; Byrne 1998), and that this has made their work unreliable in ensuring good corporate governance. All this points to non-independence of external auditors and their failures over the years, which have contributed to the collapse of many banks. All these issues attest to the need for a review of the effectiveness of corporate governance principles within the Nigerian banking system, as discussed below.

6.1.9 Effectiveness of corporate governance principles

Corporate governance in the Nigerian banking system has been muddled and eroded by unabated corruption since independence. The sector has been characterised by corrupt practices dating back to the early days of indigenous banking in the country, even before independence, and many banks established collapsed shortly after establishment, due to incompetent management, poor capitalisation and corrupt practices. This industry has lost its shine and coupled with a lack of regulatory framework; customer confidence has been eroded. The first banking ordinance was enacted in 1952, followed by other legislations and regulations to combat the problems in the sector. Such regulations include the Companies and Allied Matters Act (CAMA,1990), Banks and Other Financial Institutions Act (BOFIA) 1991 and other CBN codes which have evolved over time such as the CBN Codes of 2003, 2006 and 2014.

On effectiveness of corporate governance principles and practices, interviewees were not convinced that good corporate governance principles have been implemented within the Nigerian banking sector, considering the level of failures and recklessness the industry has witnessed over time. The respondents are of the opinion that the inherent and unabated failure

in the industry has damaged any governance principles and practices in place, as expressed below by a governance consultant:

> *No one can justify the existence of any rule or regulation going by the way and manner these banks have been managed. It was chaotic, without any rule or guidance. Or it could be that the regulations were not enforced by the regulators. There is no evidence that they were being governed by laws or regulations, not to talk of corporate governance principles. The failures and malpractices have been too overwhelming to justify compliance with any rule or regulation. How can one explain what happened at bank XYZ, where directors, members of the board, their friends and families took loans without any collateral? P34*

The responses expressed above cast aspersions on the effectiveness and success of any corporate governance principles in the Nigerian banking sector. The level of corruption and unethical behaviour in the industry, as well as opportunistic behaviour at the expense of long-term goal and value creation, (Claessens 2003) has gone unabated.

This investigation into neoliberal governance practices and principles which aims at improving transparency and accountability in the Nigerian economy in general, and the banking sector in particular, suggests that it has been a failure to say the least. For example, local and multinational companies and banking institutions, duly supervised and audited by professional accountants, have often collapsed after receiving a "clean bill of health" from external auditors (Bakre, 2007a). However, professional bodies are often reluctant to investigate suspected or confirmed unethical malpractice of their members (see Bakre, 2007; Bakre, 2011).

With the above perceptions from the operators of the banking institutions in Nigeria, it became necessary to carry out further interviews of some executives of Nigeria banking institutions' regulatory bodies. I therefore extended the interviews to the main regulators of the banking institution, the Central Bank of Nigeria (CBN), to understand how effective the regulatory and oversight functions of the CBN were on the banking operations in Nigeria. While openly accepting the failure of neoliberal corporate governance practices in the Nigerian economy, a former governor of the CBN shifted the blame for lack of transparency and

accountability to endemic corruption in the Nigerian banking sector, and in particular to the role of accountants, thus:

> *External auditors are colluding with banks in the perpetration of frauds by failing to alert regulatory authorities when they discover malpractices. When we go round and see accounts that have been passed and then discover uncomfortable revelations, we feel alarmed that such were not discovered earlier by the auditors. When we express this concern, especially as far as banks are concerned, we are not only concerned about our own people, but are also concerned about professional accountants who are auditors to these banks. (Former CBN Governor)*

In an interview with another banking institution in Nigeria, a staff member, when asked to explain what appears to be a failure of the Western-imposed corporate governance practices to improve transparency and accountability in the Nigerian banking sector, said:

> *Yes, we are aware that Bank ABC had a problem because the CEO was trading with the bank's money in the stock market and acquired properties all over the world without any check, so I believe there is no rule in place to check them. It is also sad that the regulators, who are meant to be gatekeepers, have also failed in their responsibilities by not deploying adequate resources to address the problems of these banks before they get out of hand, as most of these banks failed under their watch. P13*

The above opinions suggest that while Western neoliberal corporate governance practices may be essential to improve transparency and accountability in the global economy in general, and the banking sector in particular, they appear not to have positively impacted the Nigerian economy in general, and the banking institutions in particular, contrary to the expectation of various stakeholders in the economy.

The expectation of any society is that sound corporate governance practice should improve corporate performance by watering down the influence of majority shareholders and enshrining robust decision-making process that will cater for the interests of all the shareholders and stakeholders at large. Also, good corporate governance principles and practices will help to reduce the vulnerability of the organisation to various risks of failure and distress, as it builds resilience and continuity to the operation of the business.

Based on the questionnaire administered, majority of the responses, about 89%, agreed that good corporate governance would improve performance of banks in Nigeria, as shown in table 8.1. This is line with a suggestion that good corporate governance tends to be the starting point for a fair and just society (Ogege and Boloupremo, 2014), while poor corporate governance creates avenues for dishonest and fraudulent activities, which will eventually lead to corporate failures. According to Iskander and Chamlou (2000), a limit to the exploitation of the minority shareholders and less fraudulent activities in organisations and political power can be a foundation for more equitable income distribution, and this may enhance the value of the company and attract investors. In the same vein, good corporate governance protects a firm from vulnerability to future financial distress (Bhagat and Jefferis, 2002), shapes its ability to respond to external factors which have a bearing on its financial performance (Donaldson and Davis, 2003) and enhances investors' confidence, which results in better financial performance and more favourable treatment of all stakeholders (Demsetz and Villalonga, 2002). Good corporate governance in the Nigerian Banking sector thus suggests a situation where organisations are governed responsibly in a more transparent and accountable manner, such that they will meet the needs of various stakeholders in the banking industry.

In order not to limit the scope of the interviews and to avoid tunnel vision, participants were asked if they felt there were any other issues that were not covered in the interview. The issues they raised are discussed below in sub-section 6.2

6.2 Other issues raised by participants

In the course of the interview and questionnaire, respondents raised some other issues and suggestions in terms of what they felt corporate governance should entail going forward. One of such issue was corporate governance scalability; they felt that corporate governance principles should be applied according to the size of organisations and not with a one-size-fits-all approach. They opined that all businesses can be captured and that "catch them young"

principles can be applied by instituting good governance principles in the operations of small businesses right from their foundation, so that they can build on these as they grow and establish a culture of good governance that grows seamlessly as they expand. The second issue raised by interviewees was data collection for small businesses and self-employed businesses. They argued that it would be difficult to measure corporate governance with this category of business if it exists at all. They argued that small businesses constitute a high percentage of business set up in Nigeria and that in these organisations, shareholders are closer to the grassroots than in large companies. They believed that too much emphasis has been placed on big organisations in measuring the effectiveness of corporate governance and that mechanisms should be put in place to capture small businesses as well. Third, they argued that corporate governance should begin from home, in households and families, which aligns with the saying that "charity begins at home". They support the principle of corporate governance that suggests that everyone is a "corporate" and that we must all imbibe the principles and culture of good governance in our day-to-day activities before we move to the larger society. They equally linked this to the socio-economic and socio-political implications of corporate governance, which they believe has been highly westernised.

Lastly, participants raised issues about awareness of corporate governance among stakeholders, which they felt has been very poor with limited information available from the regulatory authorities such as Corporate Affairs commission (CAC), the Central Bank of Nigeria (CBN), the Nigerian Securities and Exchange Commission and the Financial Reporting Council of Nigeria (FRCN). They argued that these bodies have not been active in sensitising people about what good corporate governance entails, the expectations of stakeholders, their rights and how they can hold firms accountable.

6.3 Summary and Conclusion

The Nigerian banking sector was not spared in the 2008 financial crisis, which almost brought the economic wheels of the global economy to a halt. In fact, it was particularly challenging to Nigerian Banking sector as the sector was brought to its knees and at the brink of collapse. This was largely attributed to certain interconnected factors which include, among others, failures of corporate governance in banks, insufficient disclosure and transparency about the financial position of banks, critical gaps in the regulatory framework and regulations as well as weaknesses in the business environment (Sanusi, 2012). Consequently, good corporate governance practices are required, particularly in the banking sector, because of its role as financial intermediary and major lubricant of the economy. In order to combat this problem, the Central bank of Nigeria issued a code of corporate governance for the Nigerian banking sector aimed at repositioning the sector for better accountability and transparency in the management of their affairs. Boards and management of banks are meant to act responsibly and be transparent in accordance with due process and data integrity requirements. Disclosure requirements are seen as the main attributes of good corporate governance practices in the banking sector. The entrenchment of sound corporate governance increases financial performance and provides meaningful and reliable financial reporting on bank operations. However, Nigerian corporate governance system has been embedded in pervasive corruption, which is deeply rooted in every facet of the economy (Okike, 2007: Shehu, 2005) and this has led to poor corporate governance and poor ethical practices in the economy.

In order to gain a better understanding and have a broader base for conclusion on corporate governance in Nigeria, the above responses from the interviews and questionnaires, were further substantiated by quantitative secondary data gathered from the financial statements of the banks in order to corroborate the findings from the above primary data. The results of this exercise are examined in the next chapter.

7. Empirical Analysis -Evidence from Quantitative Data

7.0 Introduction

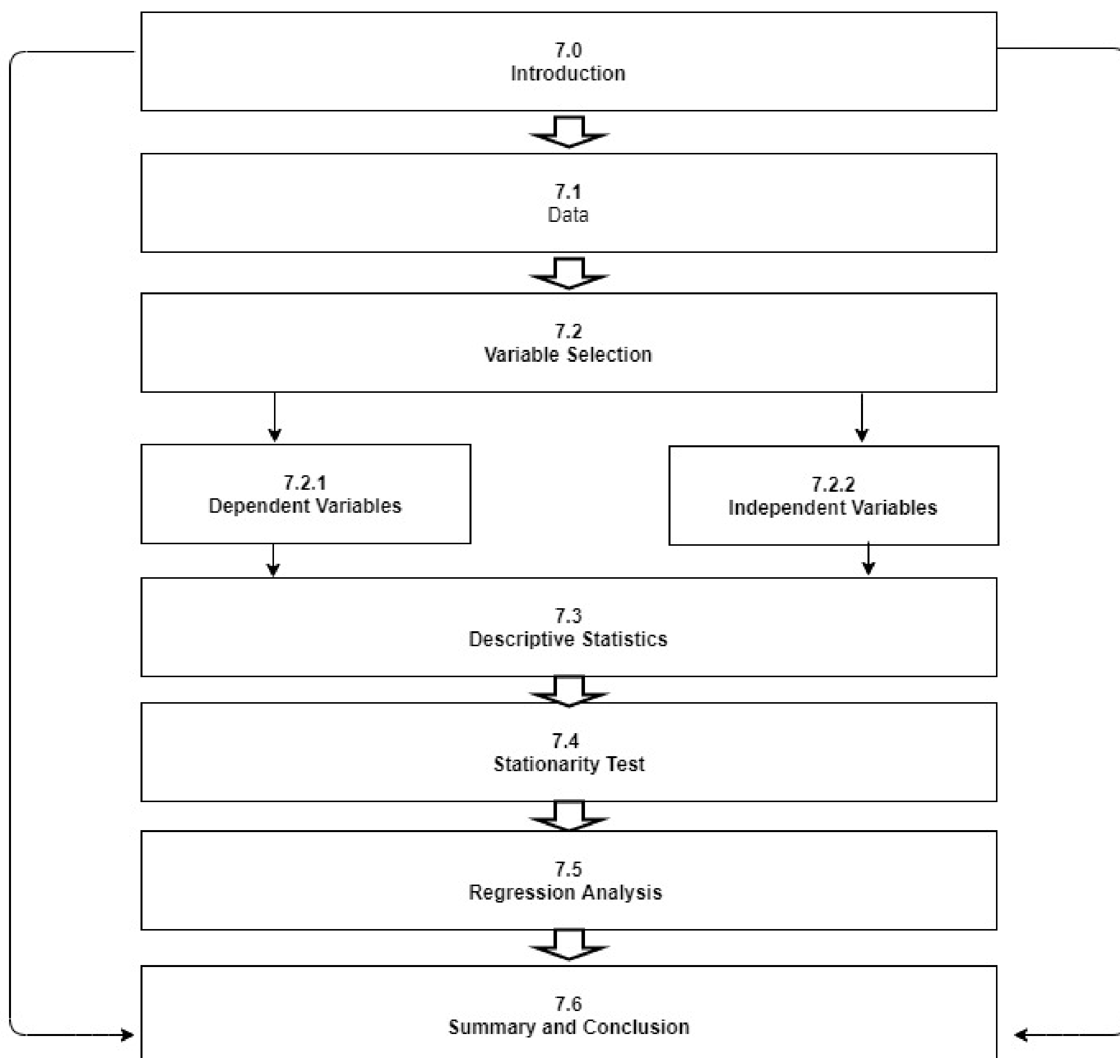
The previous chapters have looked at the relationship between corporate governance and bank performance using a qualitative approach. Chapter 6 presented the results of interviews and questionnaires conducted to gain stakeholders' views on the effectiveness of corporate governance in Nigeria. In order to consolidate and confirm results from these qualitative approaches, I collected secondary data from banks' financial information to test whether a relationship exists between corporate governance and bank performance, using a quantitative approach. This is expected to corroborate the assertions and findings of the qualitative stance.

The quantitative approach to research is embedded in the ontological and epistemological philosophy of positivism, which is anchored on the generation and testing of hypotheses, upon which conclusions are arrived at. With this approach, a hypothesis is translated into testable research questions, from which knowledge is generated (Edmondson and McManus, 2007).

This chapter provides an empirical analysis and interpretation of data collected from annual financial reports and corporate governance indices of selected banks in Nigeria. The data spanned across 14 Nigerian banks for the period 2006-2016. While the dependent variable for the study was financial performance, which was measured using Return on Assets (ROA), corporate governance is the independent variable and was measured using 6 proxy variables: Board financial expertise (BCFE), Board committee size (BCS), audit committee independence (ACI), audit committee size (ACS), frequency of board committee meetings (FBCM) and managerial shares (MS). The tests were carried out on all the 14 banks under consideration in

order to establish if there is a relationship between corporate governance variables and bank profitability. Section 7.2 describes the data set, section 7.3 explains the descriptive statistics, section 7.4 describes the stationarity test, section 7.5 describes regression analysis and the interpretation of the results, and section 7.6 concludes the chapter. The structure of Chapter 7 is shown in figure 7.0

Figure 7.0 – Empirical Analysis: Evidence from the Quantitative Data



7.1 Data Set

The data set represents secondary data collected from the annual reports of the banks under investigation, covering a period of ten years from 2006 to 2016, across a range of commercial

banks in Nigeria. Other information was obtained from the Nigerian Stock exchange (NSE), newspapers and other sources. In order to provide quality assurance and reliability on the findings of this research, data obtained from the annual reports have been edited, reviewed and cross-checked for consistency.

7.2 Variable selection

7.2.1 Dependent variable

Many factors have been taken into consideration in determining which variable of profitability should be measured, as all factors are important. Opinions differ among scholars on the superiority of one indicator or variable over another as a measure of profitability and different authors have used different indicators to measure bank performance. For example, Hefferman and Fu (2008) use economic value added (EVA) and net interest margin (NIM), while Akinola (2008) applies profit before tax (PBT), profit after tax (PAT) and return on capital employed (ROCE). However, Goudrean and Whitehead (1989), Mahbub, (2016) and Uchendu (1995) conclude that all profitability measures are good but depend on their application and the independent variables selected. This study thus uses return on assets (ROA) for the purpose of measuring profitability. This metric, which is calculated as net profit divided by total assets, is very simple to calculate and can easily be understood by both financial and non-financial professionals.

7.2.2 Independent variables

These are the independent variable/proxies applied in the profitability model to estimate dependent variables. The independent variables employed in this study are frequency of audit committee meeting (FACM) which measures the number of meetings audit committees hold; board financial expertise (BFE), which is a proxy for the number of financial experts on the

board; board size (BS), which measures the structure and mix of the board; audit committee independence (ACI), which measures the level to which the audit committee was allowed to perform their role without interference; audit committee size (ACS), which refers to the size and complexity of the audit committee; frequency of board meetings (FBM), which measures the number of times the board meets in a year and managerial shares (MS), which is a proxy for the share structure of the bank and shareholding of the management.

7.3 Descriptive Statistics

Table 7.1, below, shows the descriptive statistics for the selected variables for the study, including the mean, median, standard deviation, and skewness, minimum and maximum of selected variables for 14 banks in Nigeria for the period 2006 to 2016. As shown in the table, board size reported a mean value of 14.56494, which means that on average the sample companies have a board size of 15 directors. The standard deviation reported a relatively small value of 3.549694. The audit committee independence reported a mean value of 2.772727, which means on the average the banks have at least 3 independent auditors in proportion to the total audit committee; the standard deviation of 0.599812 means that this number of independent auditors is similar across most of the banks. The audit committee size reported a mean value of 5.889610, which means that on the average the sample companies have an audit committee size of 6 auditors. The standard deviation has a relatively small value of 3. 549694. The management shares reported a mean value of 0.119482, which means that on the average the management share across the banks is around 12%. The standard deviation also reported 0.212590 which denotes that the data is widely spread. The return on assets reported a mean value of 0.372123, which means that on the average the sample companies have a return on assets of 0.37.

Jarque–Bera statistics reported very large values and their associated probabilities are significant. The implication of this is that the regression variables are all normally distributed.

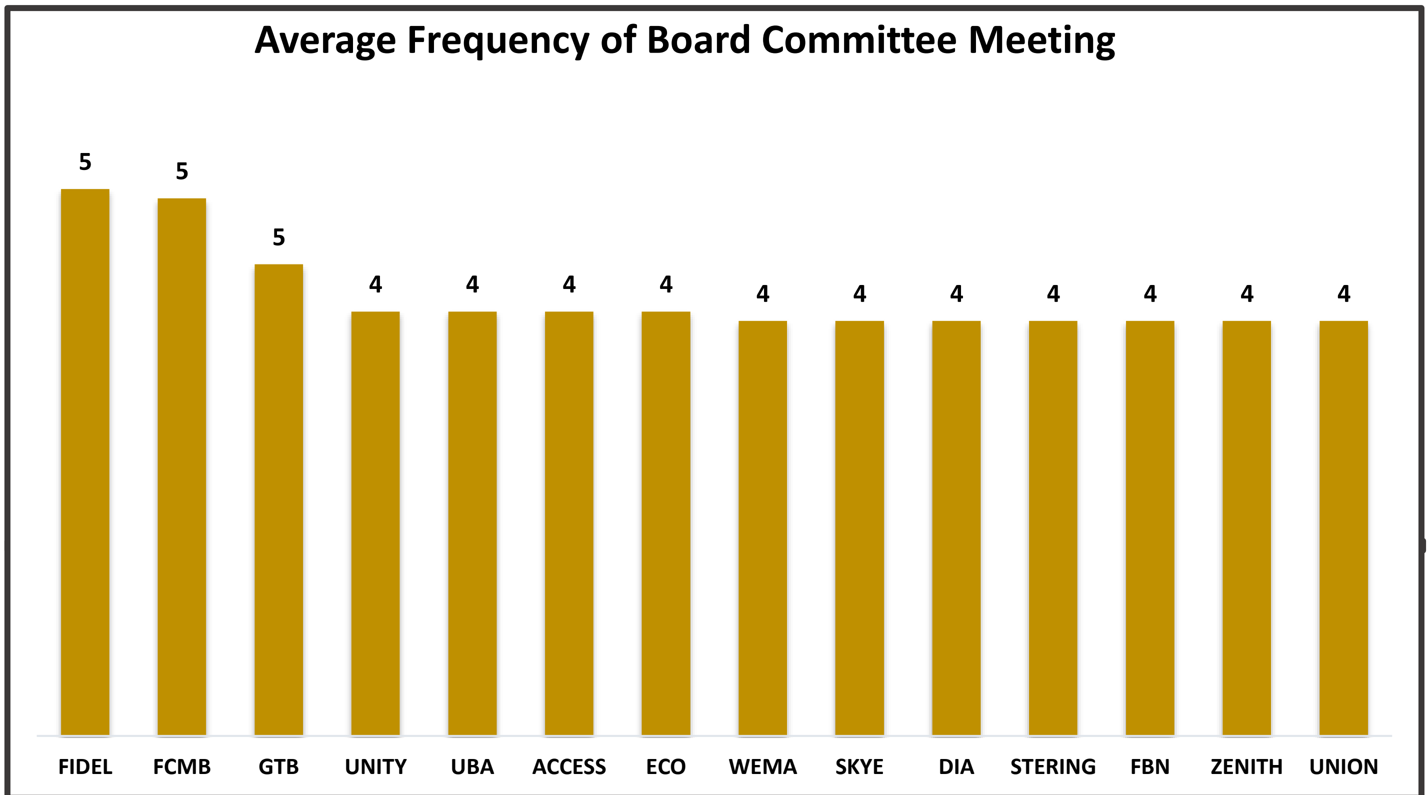
BCS reported a Jarque-Bera value of 2318.889 (0.000000) and ROA 12486.18 (0.000000). The majority of the variables are positively skewed, and the positive value of the kurtosis signifies that the regression variables are peaked rather than showing a normal distribution.

Table 7.1: Descriptive Statistics of the Dependent and Independent Variables

Descriptive	ACI	ACS	BCFE	BCS	FBCM	MS	ROA
Mean	2.772727	5.889610	7.298701	14.56494	4.240260	0.119482	0.372123
Median	3.000000	6.000000	7.000000	15.00000	4.000000	0.044057	0.015589
Maximum	3.000000	7.000000	12.00000	41.00000	9.000000	1.592572	18.01742
Minimum	1.000000	3.000000	4.000000	7.000000	3.000000	0.000000	-0.258559
Std. Dev.	0.599812	0.451022	1.764315	3.549694	0.878614	0.212590	2.172787
Skewness	-2.420610	-3.894155	0.643692	2.435983	4.270589	3.854501	6.442465
Kurtosis	7.171940	20.13391	3.501765	21.37523	21.69300	22.49921	45.18858
Jarque-Bera	262.0727	2272.967	12.25022	2318.889	2710.273	2821.074	12486.18
Probability	0.000000	0.000000	0.002187	0.000000	0.000000	0.000000	0.000000
Sum	427.0000	907.0000	1124.000	2243.000	653.0000	18.40027	57.30694
Sum Sq. Dev.	55.04545	31.12338	476.2597	1927.851	118.1104	6.914770	722.3132
Observations	154	154	154	154	154	154	154

Source: Author's Computation, 2021

7.2: Frequency of Board Committee Meeting



7.4 Stationarity Test

A panel unit root test was applied for all variables used in the analysis to determine the level of stationarity of the variables and to avoid spurious regression results. The study applied a Fisher-type test because it has more advantages than other panel unit root tests. The Fisher-type unit root test requires specification of Augmented Dickey-Fuller to test whether a variable has a unit root. Table 4.2, below, shows the results of the panel unit root test. These tests were used to test the presence of a unit root in the panel form of the data. The panel data were appropriately examined by using the ADF-Fisher Chi-square.

H_0: Data does not contain unit root.

H_1: Data does contain a unit root.

The study therefore concluded that all the variables under consideration do not have unit root and were therefore used in their first difference since their respective p-values were less than the benchmark value of 0.05; therefore, the null hypotheses is rejected, and I conclude that data does not contain unit root.

Table 7.3: Unit Root Test

	Unit root Testing	
	T-Statistics	**P- Values**
ACS	36.7891	0.0000
ACI	16.7030	0.0104
BCFE	108.279	0.0000
BCS	90.0465	0.0000
FBCM	42.1704	0.0000
MS	133.695	0.0000
ROA	74.2243	0.0000

Source: Author's Computation, 2021

Correlation Analysis

A scatter diagram was also plotted to show the relationship between the dependent variable ROA and the various independent variables of the study. Half of the independent variables, ACI, BCFE and BCS, showed some sort of relationship with ROA, but these were relatively low; the rest of the independent variables (ACS, FACM and MS) were negatively correlated with ROA.

Figure 1: Audit Committee Independence

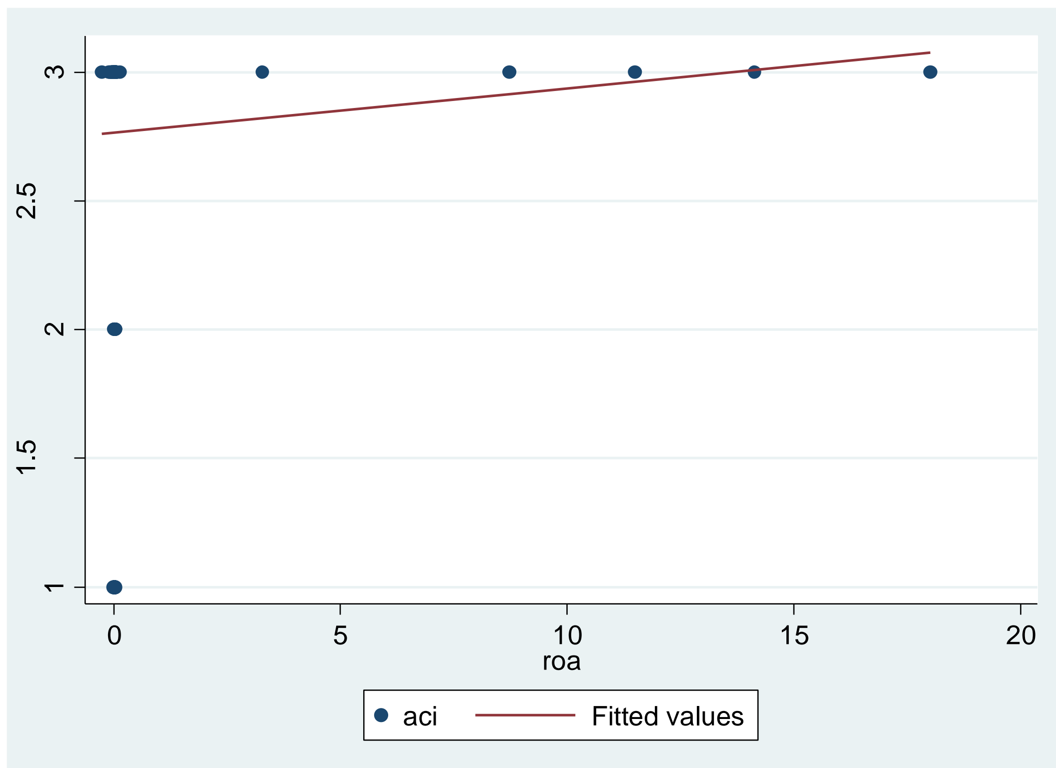


Figure 2: Audit committee size

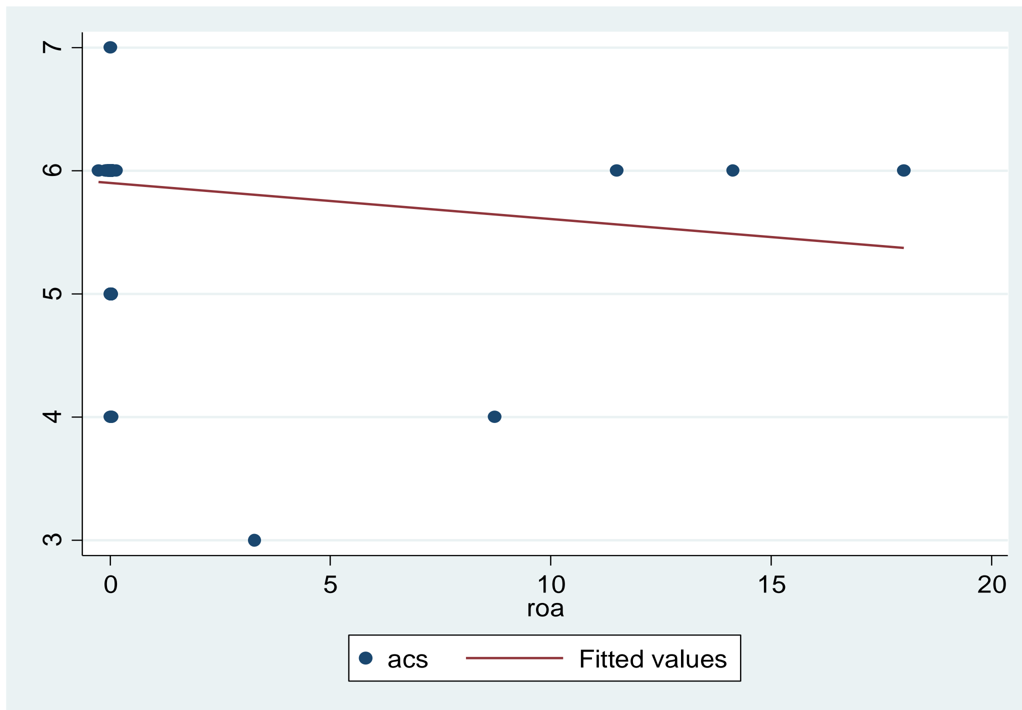


Figure 3: Board committee Financial Expertise

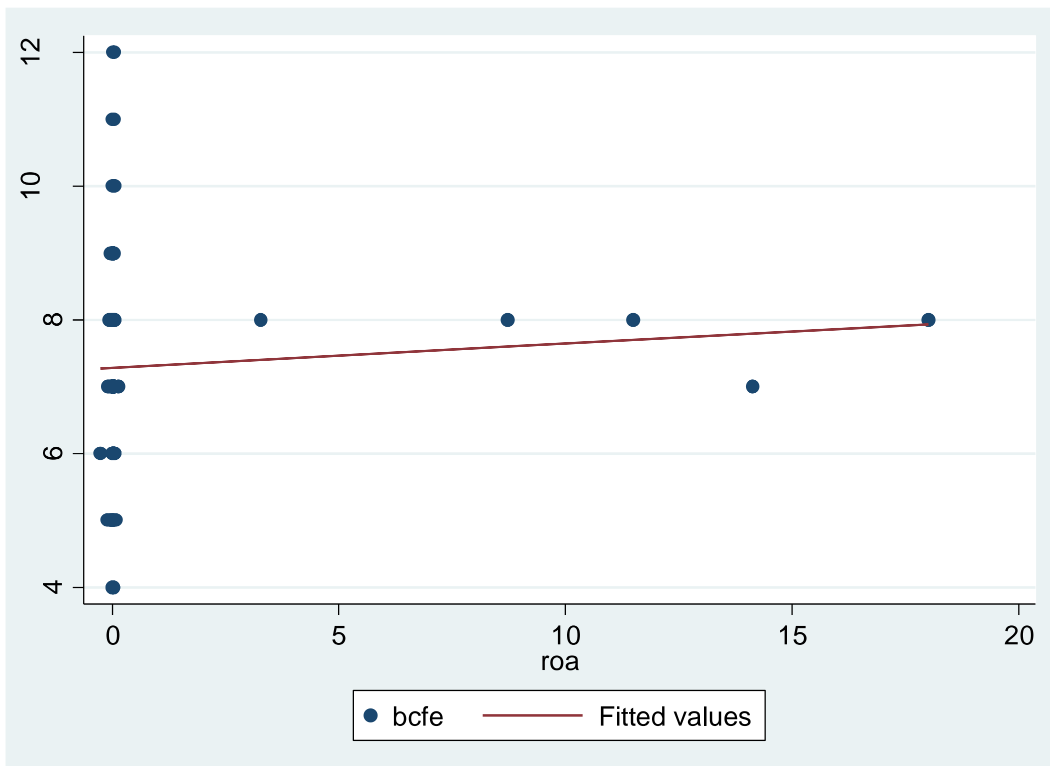


Figure 4: Board committee size

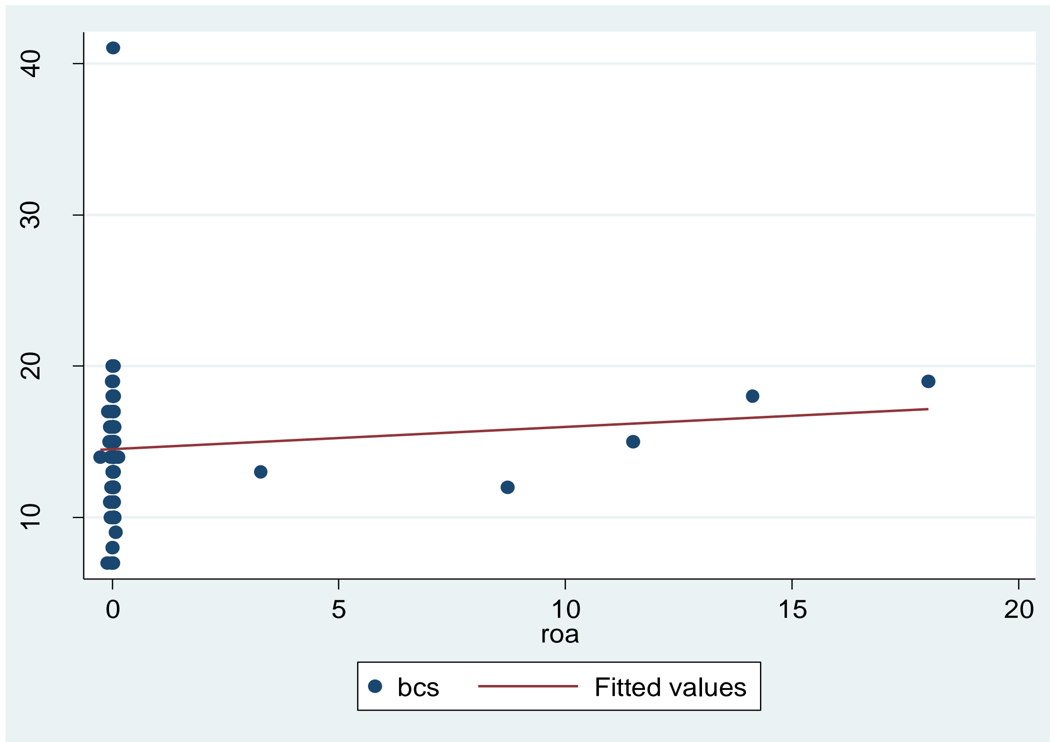


Figure 5: Frequency of board meeting

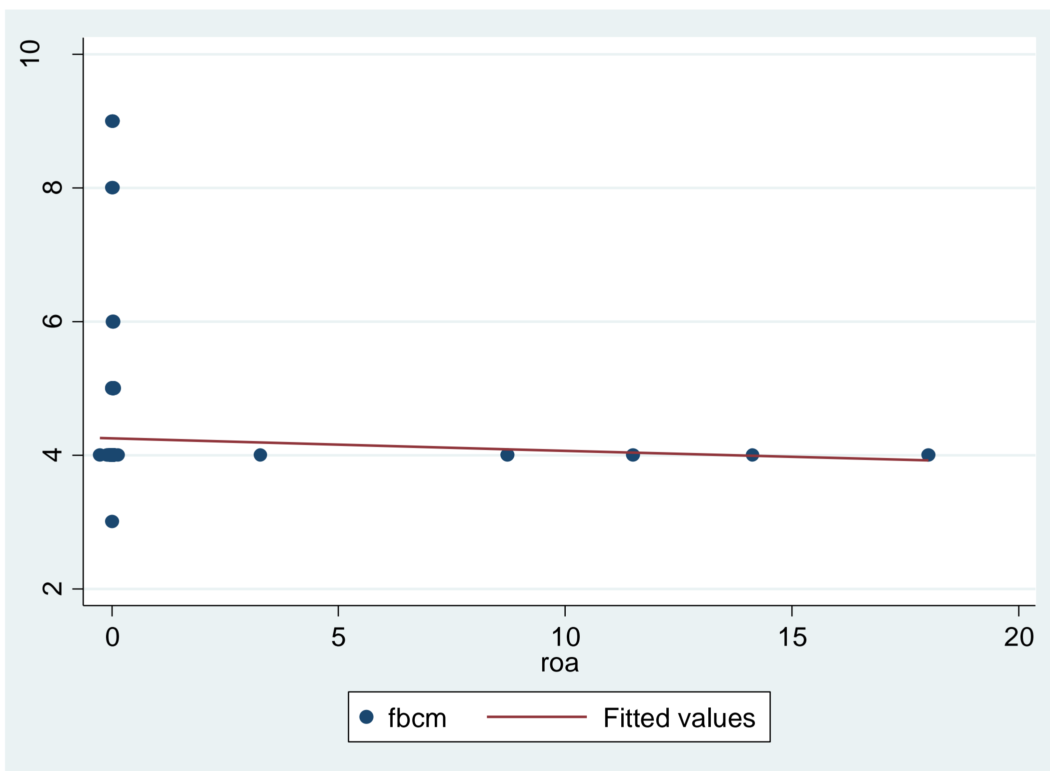


Figure 6: Managerial Shares

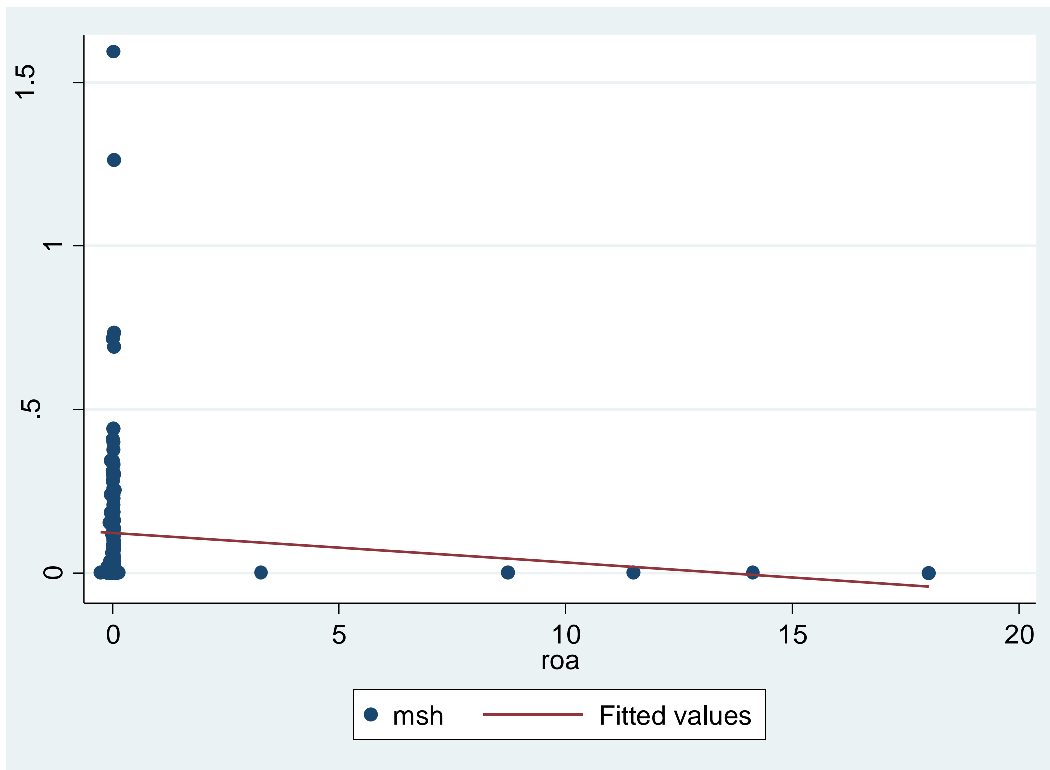


Table 7.4 provides the Pearson's correlation for the variables used in the regression model. The correlation analysis reported in table 7.3 reveals the strength of the relationships amongst the independent variables used in the models. The result is a mixture of positive and negative correlation. The correlation between BCFE and ACS is negative (-0.0486) and associated with a value of (0.0000). The correlation coefficients are relatively small with the highest value of (0.2691) which suggests that there is no multicollinearity.

However, in order to double check and confirm the result of the absence of multicollinearity, further residual diagnostic test of variance inflation factor was carried out. The results of the centred VIF of the explanatory variables in table 7.3.1 below shows values less than the benchmark of 5.

Table 7.4: Pearson's Correlation Matrix Table

	ACI	ACS	BCFE	BCS	FBCM	MS	ROA
ACI	**1.000000**						
ACS	0.269054 **	**1.000000**					
BCFE	0.015160	-0.048642	**1.000000**				
BCS	0.011581	0.026960	0.298488**	**1.000000**			
FBCM	0.079486	0.067366	-0.126709	0.266352 **	**1.000000**		
MS	-0.071836	-0.059067	-0.042301	-0.079917	-0.058335	**1.000000**	
ROA	0.062369	-0.141130	0.044290	0.090333	-0.045061	-0.092824	**1.000000**

*Source: Author's Computation, 2021 (** means significance at 0.01, * means significance at 0.05)*

To further strengthen the result of the absence multicollinearity, this study tested residual diagnostic of variance inflation factor. The generally accepted cut off value is 4; as such I checked the variance inflation factor and any variable above 4 would connote the presence of multicollinearity and not be used. The results of the centred VIF of the explanatory variables in table 7.5 below shows values less than the benchmark and as such a further confirmation of absence of multicollinearity is required.

Table 7.5: Result of Variance Inflation Factor

Variance Inflation Factor		
Variables	**Centred**	**Uncentred**
ACI	1.23	0.8134
ACS	1.16	0.8607
BCFE	1.14	0.8741
BCS	1.09	0.9190
FBCM	1.09	0.9208
MS	1.01	0.9852

Author's Computation, 2021

Table 7.6: Correlation Matrix Table

	ACI	ACS	BCFE	BCS	FBCM	MS	ROA
ACI	**1.000000**						
ACS	0.269054**	**1.000000**					
BCFE	0.015160	-0.048642	**1.000000**				
BCS	0.011581	0.026960	0.298488**	**1.000000**			
FBCM	0.079486	0.067366	-0.126709	0.266352**	**1.000000**		
MS	-0.071836	-0.059067	-0.042301	-0.079917	-0.058335	**1.000000**	
ROA	0.062369	-0.141130	0.044290	0.090333	-0.045061	-0.092824	**1.000000**

*Source: Author's Computation, 2021 (** means significance at 0.01, * means significance at 0.05)*

To further strengthen the result of the absence multicollinearity, the study carried out a residual diagnostic test of variance inflation factor. The generally accepted cut off value is 4 as such we shall go on to check the Variance Inflation Factor and any variable above 4 would be dropped connoting presence of multicollinearity. The results of the centred VIF of the explanatory variables in table 7.7 below shows values less than the benchmark which further confirm absence of multicollinearity.

Table 7.7: Result of Variance Inflation Factor

Variance Inflation Factor		
Variables	**centered**	**Uncentered**
ACI	1.23	0.8134
ACS	1.16	0.8607
BCFE	1.14	0.8741
BCS	1.09	0.9190
FBCM	1.09	0.9208
MS	1.01	0.9852

Author's Computation, 2021

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7.5 Regression Analysis

In this section, dependent variables are regressed using all the identified independent variables, to ascertain the most influential independent variables to determine whether the data fits a random effect model or fixed effect model.

The Hausman test was carried out to determine which model is appropriate for the panel regression. The Hausman test rule states that if the individual regressors are correlated and significant with other regressors in the model, the fixed effect model is consistent and the random effect model is inappropriate. On the other hand, if the individual effects are not correlated with other regressors in the model, both random and fixed effects are consistent and efficient and therefore, any can be used. If the P-value is statistically significant, accept the alternative hypothesis (fixed effect model). If the p-value isn't statistically significant, accept the null hypothesis (random effect model or fixed effect model).

H_0: Random effect model is appropriate.

H_1: Fixed effect model is appropriate.

From the analysis, it is seen that the P-value is (0.471) > 5% significance level; therefore, the null hypothesis is accepted. The random effect model was applied for the analysis to examine the effect of corporate governance on the financial performance.

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.594	5	0.471

Author's Computation, 2021

7.5.1 Result of Regression Analysis

The table below reveals the results of the random effect model regression analysis. The dependent variable is regressed using the independent variables to ascertain the relationship and the impact on corporate governance. The results of the random effect model, help to explain the relationship between dependent and independent variables. The Hausman test revealed a preference for the random effect model having reported a probability value of 0.471. The explanatory power of the random effect model shows that the explanatory variables ACI, ACS, BCS, BCFE, FBCM and MS account for about 27% of the cross-sectional variation in the dependent variable of ROA. The Durbin Watson statistic of 1.656828 is significantly close to 2.00 and signifies the absence of auto correlation. The F statistic of 0.834935 and the associated probability value of 0.544753 are not significant and depict a non-linear relationship between the dependent and the independent variables.

Hypotheses One

H_0: There is no significant effect of Audit Committee Independence (ACI) on ROA

H_1: There is a significant effect of Audit Committee Independence (ACI) on ROA

The t value of 1.424068 and probability value of 0.0323 reported by the variable ACI are beyond the likelihood of chance. This reveals that there is a significant effect of audit committee independence and ROA; the positive relationship is premised on the fact that the audit committee, if allowed to perform their task without interference, would increase ROA by 1.42. According to agency theory and resource dependence theory, the independence of the audit committee plays a significant role in ensuring quality of the financial reports, which leads to improved performance of the company. This study assumes a positive dependence of ROA on independence of the audit committee. This result is supported by the Sarbanes Oxley Act (2002), Abbott, Peters and Raghunandan (2003) and the Cadbury Commission in the UK, as well as the Jordanian Corporate Governance Guidelines, which point out the role of the audit

committee as being very important to the implementation of adequate control and providing necessary checks and balances in an organisation. This is very important to the banking industry because of the role the sector plays in the economy.

Therefore, we can conclude that there is significant effect of ACI on ROA. Abbott and Parker (2000) argue that firms whose audit committees consist of independent members are less sanctioned by the Securities and Exchange Commission. According to Beasley and Salterio (2001), audit committees should comprise of a majority of outside independent directors to ensure their independence. Carcello et al. (2011) conclude that financial institutions with more independent directors on their audit committee performed better during the global financial crisis. Chan and Li (2008) reported that performance of companies is positively related to the presence of expert independent directors on the audit committee.

Hypotheses Two

H_0: There is no significant effect of Audit Committee Size (ACS) on ROA

H_1: There is a significant effect of Audit Committee Size (ACS) on ROA

Audit committee size had no significant effect on ROA with a t-statistic -1.580910 and p-value of 0.1160; also, the larger the audit committee, the lower the ROA; however, this was not statistically significant. Based on the statistical results of the current study, there is no impact of size of the audit committee on ROA. This result is consistent with some previous studies that found a negative relationship between the size of the audit committee and organisational performance (Bozec, 2005). However, this finding is not consistent with previous studies conducted by Wei (2007) and Abdurrof (2011) who found a positive relationship between audit committee size and organisational performance. Kyereboah-Coleman (2008) argues that the size of the audit committee has a negative impact on performance. Large audit committee size may make decision making more difficult and reaching a consensus cumbersome, despite the claim of some researchers that the size of the

audit committee positively influences the performance of a firm. For example Pincus et al. (1989) reported that firms with larger audit committees would be expected to devote more resources to monitoring the process of accounting and financial reporting. Also, Anderson et al. (2004) argue that large audit committees have a better protection and better control of the process of accounting and finance committees, through introducing greater transparency in dealing with shareholders and creditors, which is expected to have a positive effect on corporate financial performance. Since the p-value was greater than 0.05 therefore we can conclude that Audit Committee Size (ACS) has no significant impact on the performance of Nigerian banks as measured by the Returns on Assets (ROA).

Hypotheses Three

H_0: There is no significant effect of Board Size (BS) on ROA

H_1: There is a significant effect of Board Size (BS) on ROA

It has been argued that board structure is very important to effective implementation of good corporate governance, especially if the board membership is well diversified (Filatotchev and Toms, 2003). This study reveals no correlation between Board Size and bank performance. The negative relationship is premised on the fact that larger boards require huge overhead cost which may reduce the profit of the organisation. As shown in the study, increase in the board size would reduce the profit of the organisation by -0.053601. It has been suggested that as board size increases, the problems of coordination and communication increase, and this reduces the ability of board members to monitor management conduct and thereby increase agency problems and leads to poor firm performance (Bektas and Kaymak , 2009; Pathan et al., 2007; Stancic et al., 2012 2009). This lack of effective monitoring of management behaviour will encourage managers to pursue their own interest at the expense of the principal. The finding corroborates the report of Amran (2011) who also found a negative relationship

between board size and organizational performance. This is consistent with the arguments of Jensen and Meckling (1976) and Lipton and Lorsch (1992), that large boards are less effective and are easier for the CEO to control. It is believed that it is often difficult to coordinate activities of larger boards and that accountability of individual directors can be enhanced with smaller boards. Also, research in this area suggests that large boards are prone to slow decision-making (Yermack, 1996) and rather than being effective, board members look after their own interests at the expense of shareholders and could even go to the extent of fighting each other without adding any useful value to the performance of the organisation.

Another reason that could be attributed to board size negative relationship with bank performance is that boards of these banks are mostly relatively large and overloaded, with directors that are imposed by powerful majority shareholders without due process and any consideration for skills, proficiency and competencies that are required for boards of banks. This could also reflect the concentrated ownership structure which is one of the major problems of the banking industry in Nigeria. Researchers have argued that high ownership concentration and inadequate protection of shareholders' rights are prevalent in developing countries. (Shleifer and Vishny, 1997; La Porta et al., 1999). This is the case in Nigeria, where banks are largely controlled by a few individuals who could be members of the same family or a small cohort of public officials. This usually leads to board and management appointment based on government connections, friendship, cronyism and nepotism instead of experience, capabilities and skills (La Porta et al., 1999), Ehikioya,2009 and Belkhir (2009) report an absence of empirical validation of agency or stewardship theory's suggestion about the impact of board composition on firm's performance (Ehikioya,2009 and Belkhir,2009). This negative relationship between board size and profitability agrees with the findings of Yermack (1996), Eisenberg et al., (1998) and Loderer and Peyer (2002), who all conclude that there is a significant negative relationship between board size and the performance of a firm. However,

a positive relationship is found in the study of Babatunde and Olaniran (2009) and Adams and Mehran (2012). The findings of this thesis also agree with the work of Stepanova and Ivantsova (2012), that more directors could improve the bank's performance by adding more experience and knowledge. In the same vein, Lehn et al. (2009) and Miller (2003) argue that larger boards are better than smaller ones in improving firm performance. Their argument assumes that small boards can easily be manipulated by a powerful CEO who could jettison the decisions of board members to pursue personal interest, leading to increased agency cost and weakening the performance of the firm. However, Busta (2008), Henry (2008) and Adam and Mehran (2012) found a positive relationship between large board size and organisational performance which supports resource dependency theory, in that more external resources can be onboarded and consulted on with large and heterogenous board.

Since the p-value was greater than 0.05 therefore we can conclude that Board Size (BS) has no significant impact on ROA in Nigerian banks.

Hypotheses Four

H_0: There is no significant effect of Board Financial Expertise (BFE) on ROA

H_1: There is a significant effect of Board Financial Expertise (BFE) on ROA

Discussions on corporate governance revolves around the composition of the board of directors (Guner et al., 2008), and there has been a call for more financial experts on boards in the wake of the financial scandals across the globe. This thesis reveals that board committee financial expertise have a significant effect on ROA with a t-statistic of 0.287516 and p-value of 0.0003, indicating that a financially expert board will help to improve the bank's return on assets (ROA). The study found that ROA improved during the period studied with the presence of board committee members who were experts in accounting within the Nigerian banking sector. According to Kim, Mauldin, and Patro (2014), board member financial acumen is important in a highly regulated financial sectors, such as banking, and sound accounting helps

to promote stewardship and supply decision-making information to internal and external users. Consequently, accounting and finance expertise on the board are seen to be associated with high-quality reporting, as well as improved investor confidence (Defond, Hann, and Hu 2005; Kim, Mauldin, and Patro 2014). Harris and Raviv (2008) argue that financial expert on banking boards imply reduced costs in acquiring information about the complexity and risks of certain financial transactions, which will help to mitigate any inefficiencies in monitoring senior management. It is believed that having accountants as financial experts on boards underscores the importance of financial information reporting to various stakeholders such as creditors, shareholders, and potential investors (Watts and Zimmerman, 1986). This view is also shared by Agrawal and Chadha (2005), who find that having directors with professional qualifications, such as CPA or CFA for example, in the audit committee amounts to fewer earnings reinstatements.

As most of the financial experts on the boards are non-executive directors, it has been found that non-executive directors impact bank performance positively and their appointment to boards of banks has been seen as encouraging good corporate governance practice, as this is meant to improve the independence of bank boards and its decisions (Erkens et al., 2012; De Andres et al., 2005; Wier and Laing, 2001; Al-Sahafi et al., 2015; Bino and Tomar
, 2007). The finding is inconsistent with the work of Ame (2013), Wild (2008), Defond, Hann, and Hu (2005) and Hoitash and Bedard (2009), who find only weak evidence that financial expertise of the board directors affects corporate results in a significant manner.

Since the p-value was less than 0.05 therefore we can conclude that there is significant effect of Board Financial Expertise (BFE) on ROA in Nigerian banks.

Hypotheses five

H_0: There is no significant effect of Frequency of Board Meeting (FBM) on ROA

H_1: There is a significant effect of Frequency of Board Meeting (FBM) on ROA

Some researchers argue that for a board to effectively perform its duties, it must meet frequently (Vafeas, 1999). However, others opine that it's not only the meeting, but it is the quality of such meetings that counts (Oyerinde, 2014; Ntim and Osei, 2011). However, frequency of board committees reveals no significant relationship with ROA within Nigerian banks. The negative relationship may stem from the fact that too much energy and time are dissipated on trivial issues in board meetings. The finding corroborates the report of Amran (2011) and also the work of Johl (2006), both of whom report a negative relationship between frequency of board meetings and firm performance. Johl et al. (2015) also report a negative relationship of the frequency of board meeting on performance of firms which shows that the more frequent the board meets, the more negative the impact on firm performance. These studies, however, deviate from the positive relationship established by Babatunde and Olaniran (2009) and are also at variance with the study conducted by Godard and Shatt (2004) which argues that an increase in the number of board meetings has a positive impact on the financial performance of French companies. Also Francis et al. (2015) argue that firms with poor board meeting attendance perform significantly worse than boards which have good attendance, during a financial crisis. In addition, Ntim and Osei (2013) conducted a study in South Africa and concluded that the frequency of board meetings enhances corporate performance and tends to generate higher financial performance. Their conclusion was also supported by Bokpin (2013).

Since the p-value was greater than 0.05 therefore we can conclude that there is no significant effect of Frequency of Board Meeting (FBM) on ROA in Nigerian banks.

Hypotheses Six

H_0: There is no significant effect of Managerial Share (MS) on ROA

H_1: There is a significant effect of Managerial Share (MS) on ROA

It has been observed that ownership structure has an influence on the performance of a firm and is an effective tool of corporate governance that raises the fears of stakeholders (Brickley, et al., 1988; Dixon et al., 2017). Management Shares was found to have no significant effect on ROA, with a t-statistic -0.650689 and p-value of 0.5163, which means that having people with extra voting rights in the company's general meetings does not improve the ROA in Nigerian banks.

This supports the argument of Bourke (1989) as well as Molyneux and Thornton (1992) that ownership structure is irrelevant in explaining bank profitability. Bokpin (2013) reports a positive but statistically insignificant relationship between ownership structure and bank/s profitability. He also argues that banks with inside ownership are more susceptible to inefficiency in both cost and profit, even though a strong relationship is not found in the case of profit efficiency. However, from the agency theory viewpoint, the conflict of interest between the owner and the manager is considered a principal–agent problem that causes the management to fail to optimise the welfare of the owners (Shleifer and Vishny, 1997). Moreover, according to Jensen and Meckling (1976), in order to manage agency problems, managerial ownership acts as an internal control tool and as a stabiliser. Equally, this has been seen as a way to make board membership more interesting as board members will be able to show more commitment and interest in the activities of the firm. They will be making more

value-adding decisions that protect the interests of stakeholders, because they now have a stake in the firm. This idea assumes that this will enable them to express more interest in the growth of the firm and the performance of the firm's shares, as well as taking actions that will enhance the performance of the firm. This assertion was supported by McConnell et.al (2008) and Loderer and Peyer (2002), who found a positive relationship between director ownership and firm performance. In addition, Francis and Smith (1995) argue that managerial ownership has a positive relationship with firm performance because agency cost is reduced, aligning the interest of shareholders and managers.

7.6 Summary and Conclusion

Various hypotheses have demonstrated the effect of some corporate governance variables or proxies on performance of banks. From the results presented by Hypothesis 1, it has been established that an independent audit committee does not lead to better performance in Nigerian banks. The result clearly shows that if the audit committee is allowed to do their work without interference, average profit will increase by N5.8m, as expressed in the regression analysis.

Hypothesis 2 measures the relationship between audit committee size and bank performance and finds no relationship between size and profitability. According to agency theory, the size of the audit committee could have a negative impact on performance as large audit committees may make decision making difficult, especially where consensus needs to be reached on issues, while a committee with adequate size can reach decision quite easily.

Hypothesis 3 measures the impact of board size on banks' performance and establishes a negative relationship. It is believed that larger boards require huge overhead costs, which may have a negative impact on the profit of an organisation; the result shows that an increase in board size would reduce profit of banks by an average of 334K over a period of ten years.

Hypothesis 4 reviewed the impact of board financial experts on the performance of banks and found a positive relationship. It established that presence of accounting and finance expertise on the board are seen to be associated with high-quality reporting, as well as improved investor confidence, which leads to improved profitability.

With Hypothesis 5, the study reveals that there is no significant relationship between frequent audit committee meeting and firms' performance. However, it's believed that if ACs meet often to deliberate on firm performance and how to improve the firm's effectiveness in terms of monitoring and management, the performance of the organisation could improve.

Hypothesis 6 reviewed the impact of frequent board meetings on performance and found no significant relationship. Frequent meetings by the board may increase the banks' expenses in organising such meetings and sitting allowances. Such meetings may also be monotonous and ineffective, such that too much energy and time are dissipated over trivial issues.

Hypothesis 7 reveals no correlation between Managerial share ownership and profitability. However, the ownership structure and profitability relationship depend on the theoretical analysis. For example, agency theory, as presented by Jensen and Meckling (1976), suggests that ownership structure and corporate governance structure influence banks' performance and that banks with more stringent and value-based owners or private owners are likely to have better profitability than state-owned banks.

Aside from all these proxies tested in the hypotheses, profitability of banks depends on some other factors which could be endogenous (internal) or exogenous (external). Internal factors are associated with the quality of the management team, management decisions and policies on strategic issues, such as source and use of funds, capital and liquidity management, as well as expense management, which are measured by different ratios such as income ratio, liquidity coverage ratio (LCR), Capital adequacy ratio (CAR), income expense ratio, leverage

ratio, return on capital employed (ROCE), asset-liability ratio and high-quality liquid assets (HQLA) among others. All these will be reflected in the financial statements of the bank and reflect in the way risks are managed, and they should be measured and managed proportionally and effectively in a good mix to enhance profitability. An adequate level of capital must be maintained as high or low level may affect the business negatively. High capital adequacy ratio could mean that the bank is taking a cautious risk approach and avoiding lucrative investment opportunities, even though with high level of capital the cost of capital is reduced and the cost of doing business is equally reduced, creating a positive impact on profitability. On the other hand, a low level of capital puts banks in a risky situation and could impact bank's profitability negatively (Berger, 1995). Banks are expected to maintain an adequate level of liquidity to be able to meet short term obligations or liabilities. Effective liquidity coverage ratio (LCR) should be kept at all times to avoid liquidity risk and squeeze, which could arise if banks are unable to meet short term payments when required. Rasiah (2010) argues that banks are required to hold a certain level of liquid assets by the regulators.

The external factors that could affect profitability are variables that are beyond the control of the management of banks, mostly macroeconomic and environmental variables, such as the global economic outlook and major developments around the globe. All these could impact bank's profitability. Banks, like any other industries, are exposed to socio-economic and environmental challenges instituted in the society and this could impact banks' performance and activities. For example, the global financial meltdown, the Covid -19 pandemic, economic booms and recession, inflation and Gross Domestic Product (GDP), all impact the profitability of banks. Competition, banking regulations and market growth will also have an impact on the bottom-line of banks. Regulations may prohibit banks from doing some business or selling some products, interest rates could be cut or there could be spiralling inflation. High economic growth and economic boom will encourage banks to lend more and

take more calculated risks, which will impact the profitability positively. Increase or decrease of interest rates will affect money supply and demand for loans and funding. If interest rate increases, demand for loan will decrease and profit will decline. Other determinants of profitability that have to be considered are size of the bank, ownership structure, branch network and the level of information technology. For example, bigger banks have competitive advantage and economies of scale. They are able to generate more revenue and are cost-efficient which lead to improved profitability. The Nigerian banking sector has gone through various consolidation exercises and other changes in the last two decades with the aim of stabilising the industry.

This chapter has been able to substantiate the findings of the qualitative approach as demonstrated in interviews conducted and questionnaires administered. In an effort to measure profitability of banks against various proxies, this chapter employed data from banks over a period of ten years (2006-2016) and used regression models to demonstrate the relationships between the dependent and independent variables.

With all the results now articulated, the next chapter summarises the findings and contribution of the thesis.

Chapter 8 – Summary, Discussion, Reflections and Conclusion

8.0 Introduction

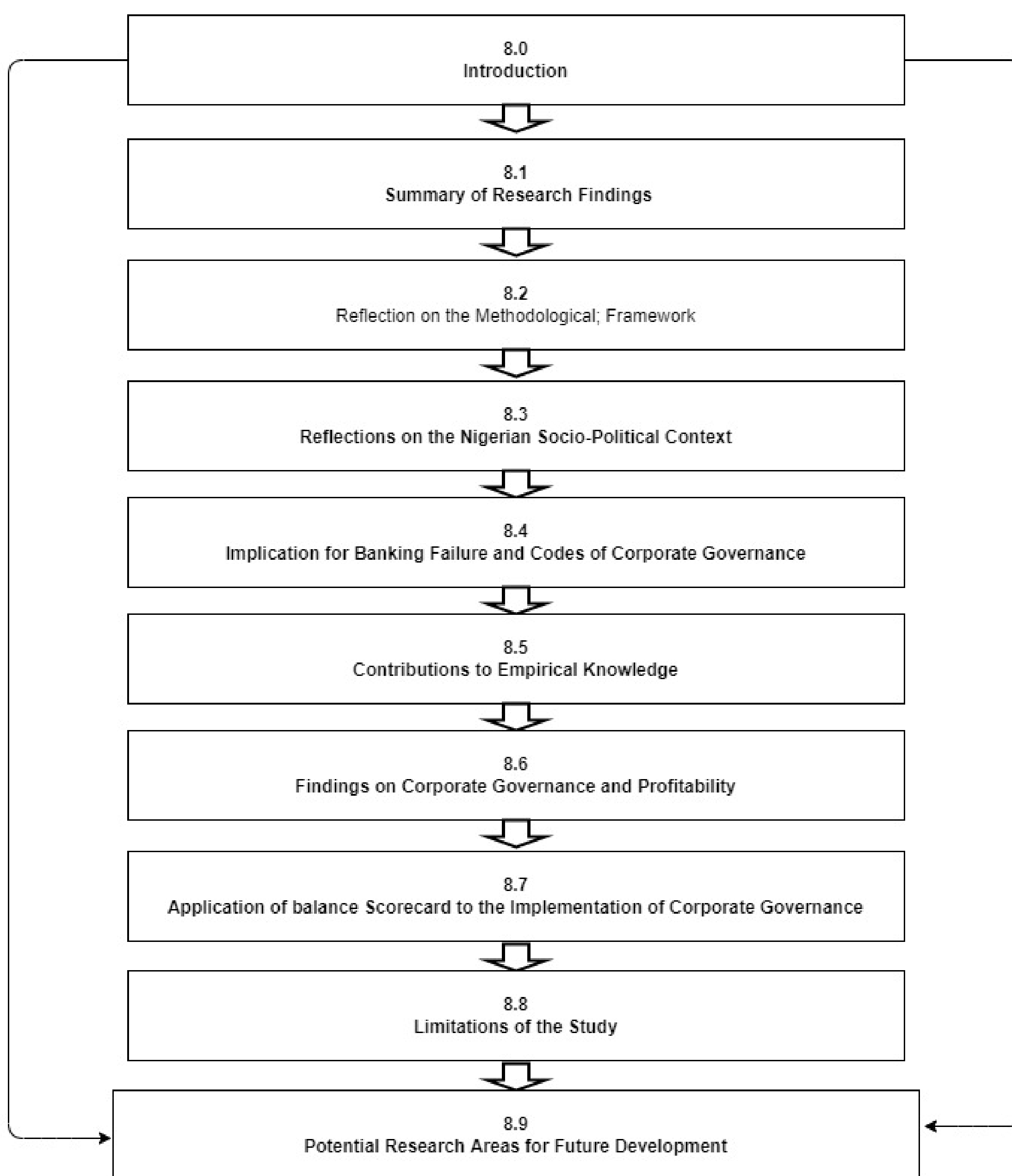
This thesis sets out to examine the relationship between corporate governance practices and performance of banking institutions in Nigeria. The evidence provided has shown that the global neoliberal capitalist system, into which the Nigerian economy has arguably been integrated, has impacted the operational activities of the Nigerian banking institutions. This seems to suggest that any understanding of the methodological framework of neoliberal capitalist system, which is adopted in this thesis, is akin to understanding the performance of

the Nigerian banking sector. In addition to the methodological framework of neoliberal capitalism, data were collected through interviews, questionnaires, archival documents and other secondary sources such as banks' financial reports.

Studies on the impact of corporate governance practices in Nigeria have adopted competing quantitative and qualitative theories to understand corporate governance practices globally. While these theories may have enriched our knowledge and understanding of the effect of corporate governance practices on banking institutions in Nigeria, they have not however sufficiently situated the practices of corporate governance in the socio-political context of the global neoliberal capitalist economy, which has shaped and continues to shape banking institutions practices in Nigeria. It is in this context that this thesis has added to the literature by filling this gap. In doing so, this study focussed on colonial and postcolonial Nigeria to gain an understanding of the evolution of regulations and the banking system in Nigeria and also banks' financial information for a period between 2006 and 2016 and reflected upon the evidence and analysis obtained to reach a conclusion.

In order to address the gap in the literature, by adopting a mixed method approach, this thesis carried out an investigation to establish the correlation between corporate governance and performance of financial institutions, with an emphasis on Nigerian banks. Since data for measuring corporate governance practices for banks in Nigeria was difficult to obtain and/or poorly maintained, documented and reported, I used a combination of primary and secondary data to investigate corporate governance practices of financial institutions in Nigeria. The Structure of chapter 8 is shown in figure 8.0.

Figure 8.0 – Structure of Chapter 8



8.1 Summary of Research Findings

The need for effective corporate governance in the management of financial industry in order to regain investors' confidence has attracted more interest and concern following the corporate scandals of Enron, WorldCom, Parmalat, etc. in the late 1990s and 2000s, combined with 2008 financial crisis. The problem of corporate governance arises because of the separation of ownership and control, the principal-agent relationship and protection of minority interest, as presented by Berle and Means (1932), Fama (1965; 1980) and LaPorta, et al. (2000).

Modern corporate governance practices have evolved from historic capitalism, which led to the US crash in 1929 (Berle and Means, 1932) and the recent global financial crisis of 2007-2008. This has created food for thought within the circle of scholars, corporate experts and policy decision makers. This thesis has addressed the impact of corporate governance on financial performance of 14 banks in Nigeria over the period 2006 to 2016. In line with the literature on the empirical works already carried out, this study utilised the framework of global neoliberal economic policies to examine the impact of corporate governance measurement on the Nigerian banking industry, and used a mixed methods approach, incorporating both qualitative and quantitative methodologies. From the qualitative perspective, the impact of corporate governance within the neoliberal framework was examined using interviews and questionnaires, measuring performance on some corporate governance proxies such as board of directors' size and structure, board composition and the presence of NEDs on the board, chief executive duality, number of financial experts on the board, composition of audit committee and frequency of audit committee meeting. Interviews and questionnaires were

conducted among various stakeholders to obtain the primary data used in this thesis. The proxies selected represent the various dimensions of corporate governance across the banks. On the other hand, quantitative method measures the relationship or correlation between corporate governance variables and financial performance. The data set used to measure these governance mechanisms was extracted from Nigerian banks' annual reports and their websites. The study reviewed data from 14 banks from 2006 to 2016 in order to form an opinion and make useful contributions that extend the frontier of corporate governance literature. The summary of the research is thus divided into two elements: the qualitative part and the quantitative part.

8.2 Reflection on the Methodological Framework

The methodological approach of neoliberalism and globalisation adopted in this study helps in the understanding of how principles of corporate governance were structured along the lines of the corporate governance regulations that the Western world imposed on the global economy, without considering its appropriateness to the cultural, social-political and economic environment of vulnerable developing countries such as Nigeria. This has led to the failure of such policies and the attendant impact on the performance of banks in Nigeria. The study shows how Nigeria has been encouraged by international agencies, notably the International Monetary Fund (IMF) and the World Bank, to embrace neoliberal policies in the management of its economy as a condition for loans and other financial support. I have demonstrated how neoliberalism has created tension, hardship, conflict and suspicion between the government

and the citizens. For example, the Structural Adjustment Programme implemented in 1986 led to protests across Nigeria, which demonstrates that such imposed policies may not be compatible with the reality of the Nigerian cultural, socio-political and economic context.

Also, the study shows the role that colonialism and imperialism played in the evolution of statutes and corporate governance principles and practices in Nigeria, which mirrored UK laws at different times, even after independence. For instance, the 1912, 1971 and 1948 acts all mirrored the UK Companies Acts, and this trend continued even after independence, as reflected in the 1968 Companies Act and the Companies and Allied Matters Act (CAMA, 1990) which has created conflict and confusion. This study enables an understanding of the role colonialism played in Nigeria and the ambiguities surrounding the evolution of governance processes in the country. Another impact of colonialism was felt in the establishment of banks in Nigeria. During this period, the Nigerian banking space was dominated by foreign banks which were largely managed by foreigners and were mainly set up to advance the course of foreign businesses, with little or no support for Nigerian businessmen, who could not access credit because it was assumed that Africans were not creditworthy. This isolation of Nigerians in the banking industry led to agitation for indigenous banks in the country to cater for Nigerian business entities. This, however, did not enjoy the blessing of the colonial administration, which resulted in mass failure experienced by indigenous banks that were set up. The discriminatory approach of the colonial administration led to agitation and aspiration for the establishment of a central bank in Nigeria. Eventually the colonial administration had to bow

to pressure from nationalists and Nigerian businessmen by agreeing to the setting up of the Central Bank of Nigeria.

It follows therefore that the framework adopted in this study enabled us to understand various intricacies and complications associated with the establishment of governance processes in the country, which were based purely on the dictates of the colonial administration and the powerful foreign businessmen as well as foreign corporations. This did not take into consideration the Nigerian socio-political context, which suggests that adopting corporate governance codes applicable to developed countries may not be suitable to the situation and agency issues in developing countries. This calls for a review of the Nigerian socio-political context, as discussed in section 8.3.

8.3 Some Reflections on the Nigerian Socio-Political Context

This study employed the Nigerian socio-political context to locate the process and evolution of corporate governance principles in Nigeria. The political economy of corporate governance in Nigeria can be explained by the events in the country pre- and post-independence. The country has been managed with impunity, with vast majority of people living in abject poverty, which has fuelled a lot of discontent among the populace. Public funds and resources were massively embezzled and misappropriated for intra-party and inter-party-political purposes at the expense of important public infrastructure. Most of these problems arose in various developing countries, including Nigeria, because of the impact of globalisation on the management of their economies, which has weakened both their political and economic

systems. Globalisation has subordinated local economic and human development to the whims and caprices of the transnational corporate powers, especially the World Bank and IMF, which have consistently encouraged poor nations to embrace neoliberal policies and mostly dictate the lines they should tow, regardless of whether this conforms to their social, political and economic systems. According to Haynes (2003, pp. 48–76), post-independent African governments have been forced to work with international and domestic structures that undermine attempts to deliver changes to their economic and social systems. There is little doubt that neo-colonial interests and domestic clients have always benefited from the state's primitive task of organising production for external profit. This process has been exacerbated since the 1980s by market reforms (Khadiaghala 1990, p. 348). Corporate governance of the banking industry in Nigeria has been embedded in extensive political intervention, which has been assumed to be due to the need to protect the entire economy from failing or due to government participation in ownership, but the political class usually manipulate the process to their advantage. As identified by La Porta et al. (2002), government ownership has been a common feature in many developing economies; the intention may be to create a level playing field and to solve informational problems inherent in developing financial systems (Arun and Turner, 2002), but it has led, in most cases, to failure in the banking industry, which is examined below.

8.4 Implications of Banking Failure and Codes of Corporate Governance

The evidence from this thesis has exposed the flaws in corporate governance principles and practices in the Nigerian banking sector, which were associated with poor management,

weak supervision and oversight, ineffective monitoring and skewed ownership structure, among others. All these flaws point to the conclusion that corporate governance practices in Nigerian banking sector are very weak. Most of these codes were not implemented because powerful directors and politically connected persons interfered in the operational and strategic decisions to intentionally conceal vital information; for example, carrying out insider trading and market manipulation at the expense of other stakeholders.

Also, the implementation of the Code of Corporate Governance is hindered by deficiencies in the roles of independent directors. Most of them are mere proxies of powerful CEOs/Chairmen and BODs. They do not voice their concerns at the board annual general meetings, and AGMs are manipulated and skewed towards majority shareholders at the expense of the minority shareholders and the general public. Another factor to consider is weak institutions such as legal and regulatory authorities. The court process is confused and inadequate with regards to banking legislation, including lengthy and unending legal processes and biased judicial processes and procedures.

In order to address these issues of poor implementation of corporate governance, the following are suggested to strengthen corporate governance processes within the Nigerian banking sector and market. Firstly, efficient corporate governance is premised on marketplace or business environment acceptability and a sound board culture that promotes healthy policies. This should be supported by adequate legislation to provide a framework of business ethics and a set of rules and regulations. Secondly, the culture of best practice should be incorporated into the strategic development of the organisation. The trend of failure of banks in Nigeria indicates that corporate governance structure and processes need to be reinforced and improved. There must be a determination across the banks to a have a change of culture in order to rise above fraudulent activity and unethical behaviour. Another area that corporate governance can be strengthened is to align management interest with those of the company

and stakeholder at large, in order to have a common ground in the overall best interest of the economy. This will prevent short-termism and myopic views in decision making at the expense of the long-term interest of the bank, reducing or removing senseless and excessive risk-taking and allowing the banks to embark on long-term projects that will take the future of the organisation into consideration. Furthermore, boards of banks in Nigeria should have more independent non-executive directors who can challenge the managements of these banks, act as a check and ensure that they toe the line of good governance. This has been a major problem in the Nigerian banking system, an example being the recent event at First bank of Nigeria where the board, in their oversight function, deemed it fit to remove the bank's CEO, who was reinstated within two days by the Central Bank of Nigeria, who also sacked the entire board of the bank (*This Day* newspaper, April 29, 2021). This has eroded the independence of the board and cast aspersions on the integrity of the corporate governance mechanism. Also, it is important to note, that a fair and equitable society starts with a good corporate governance and accountability. I therefore recommend that the board should be accorded more independence and given power and support to carry out their responsibilities, which is one of the recommendations of the CBN and the emphasis of the Financial Reporting Council of Nigeria (FRCN) in their Combined Corporate Governance Code of 2018. From all indications, and in line with findings of this research, investors will be willing to invest in shares of companies that demonstrate good corporate governance. The market value of such companies will also improve, and investors' confidence will be restored, given that firms should always endeavour to safeguard investor value (Groves, 1999).

Overall, this study strengthens the idea that nations should not just bow to pressure of global convergence of corporate governance principles as a result of globalisation of trade and finance, without appreciating the dichotomy in the socio-cultural environment in which businesses operate (Okike 2007). They should rather embrace general principles of good

corporate governance applicable to their cultural, socio-political, economic and legal environment (Adegbite 2010; Bakre 2007).

In conclusion, considering different perspectives and based on the failure experienced by financial institutions in Nigeria and across the globe, it seems that there was inadequate corporate governance, as a result of which many organisations suffered financial loss, and some collapsed. For example, in 2003 only 40% of quoted companies in Nigeria had approved operational codes of corporate governance, including only 7 of the 84 banks at the time (CBN, 2006). The flaws identified in the governance system led the CBN to come up with various policies such as the CBN Code of 2006 for banks, CBN Code of Corporate Governance for Banks in Nigeria, 2012 and the 2010 Prudential Guidelines and Financial Reporting Council combined code, 2018. The provisions of these policies included specifications on board structure, size and composition and aimed at ensuring good governance. In a developing country like Nigeria, corruption is prevalent, and the legal system is ineffective and can easily be manipulated by the powerful political elite; there should therefore be a regular monitoring of compliance with a view to ascertaining the level of effectiveness and any improvements required.

It seems, however, that these policies were treated as mere window dressing activities and not enforced as unethical behaviours were the second nature within the banking sector in Nigeria, which suggest that the corporate governance codes have not worked efficiently. It is therefore necessary to raise awareness among various stakeholders to better understand the risks a poor governance framework poses and find ways to mitigate them.

8.5 Contributions to Empirical Knowledge

Analysis of banking performance is an important research topic and there is a broad sweep of literature to explain failures in bank performance in both developed and developing countries. It should be noted, however, that research on the banking sector in developing

countries such as Nigeria is limited compared to that of developed countries. Little research has been conducted on the banking sector in Nigeria and thus this empirical research adds to the body of literature by locating corporate governance within the Nigerian environment. This dearth of research in corporate governance in developing countries has taken its toll on them as it hinders scholarship in these countries and could prevent a proper understanding of corporate governance challenges facing them. From the earlier observations, this study contributes to the existing body of knowledge in four major areas. In the first instance, the thesis contributes to the identification of profitability gap withing the Nigerian banking sector. By carrying out regression analysis on a dataset of 14 banks, the evidence from the research proves that corporate governance principles and practices are not effective within the Nigerian banking sector. Secondly, the research did not just identify weaknesses in corporate governance but also factors responsible for such failures. The research was, for the first time, able to establish trends in corporate governance performance by investigating both qualitative and quantitative data to solve research problems and provide a strong understanding of the empirical data. It thus creates a bridge across various methodological frameworks. The interviews and questionnaires showed, for the first time, that lack of adequate application of corporate governance principles, especially oversight functions, is the main cause of failure and poor performance in Nigerian banks. In addition, the research for the first time used the theoretical framework of neoliberalism and political economy to explain corporate governance within the Nigerian context in order to provide a synergy between efficiency and profitability.

Previous studies have generally used quantitative analysis to explain the relationship between corporate governance and profitability, without distinguishing between financial and non-financial factors. This thus suggests that stability within the banking industry is not determined by churning out rules and regulations, as this has not mitigated failure in the industry. Instead, there must be an awareness of both internal and external factors influencing governance within the industry. The evidence from the study suggests that in most cases, Nigeria seems to have developed the necessary legal infrastructure and regulatory instruments to successfully promote good corporate governance, but the major problem is the implementation and enforcement, which has eluded the industry for a long time.

With this mindset, the intensity and comprehensiveness of data set used in this research makes it unique among the body of relevant literature. This research covers financial information for 10 years from 2006 to 2016, providing great detail and deep coverage, ensuring homogenous data, leading to consistent results. It shows that over the years there have not been adherence to the principles of corporate governance in Nigeria and this has affected performance and efficiency. The study also makes other contributes to the body of knowledge, as examined in section 8.5.

8.5.1 Other Contributions to the Body of Knowledge

As noted earlier, studies on corporate governance have been limited in scope, but this work provides a robust corporate governance curriculum within the banking industry for policy makers and academics alike. This is important as there have not been adequate academic programme in corporate governance in Africa, and especially Nigeria. This study also offers a

new perspective and empirical evidence from the socio-political context of Nigeria, where the majority of previous studies have concentrated on developed nations. This suggests that corporate governance can be studied in accordance with the socio-political and cultural heritage of each society, which will determine the establishment of an appropriate framework of corporate governance for such society.

8.6 Findings on Corporate Governance and Profitability

8.6.1 Evidence from the quantitative data

The quantitative method measured profitability by considering 7 dimensions or proxies of corporate governance, using data from 14 banks for the period 2006-2016, employing simple regression analysis. The results suggest that corporate governance principles and practice have not had any positive impact on bank's performance because it has been embedded in neoliberal principles and lacks originality. The outcome of the study suggests that on the whole, independence of audit committees would improve bank's performance, as indicated by ROA. This suggests that the more independent the audit committee is, the more efficient and better the performance by the organisation. On the contrary using the same data, the study established that the size of the audit committee has no impact on return on assets and in fact if the size is too large it could lead to additional costs and reduce efficiency. Also, from the analysis the study reveals a negative correlation between board size and profitability, instead finding an efficiency gap in board size and performance as an overly blotted board could be less effective, expensive to maintain and could easily be manipulated by the CEO. This suggests that smaller boards could be more effective, which agrees with the agency theory proposition "that due to communication problems and internal conflicts among directors, bigger boards are inefficient (Jensen, 1993)". In view of this, smaller boards with high quality skills and experience should be encouraged within the Nigerian banking system as board effectiveness has an impact on corporate performance (Higgs, 2003).

Applying regression analysis, the proxies for financial experts on the board found a positive correlation between the board financial expertise and profitability. Thus, the study established that board committees enhance performance in banks as measured by ROA. This suggests that committees are important component of the structure of banks in Nigeria, providing diverse professional oversight on the activities of banks to protect shareholders' interests (Harrison, 1987). Consequently, committees such as risk, remuneration, audit and others, provide necessary checks and balances on management to minimise agency problems within an organisation. Also, the study founds a positive relationship between board committee and financial performance, as demonstrated in the ROA during the period from 2006 to 2016, which is consistent with the work of Laing and Weir (1999), who argued that the monitoring function of the board committee impacts positively on firm performance. This is also consistent with the assertion of Harrison (1987), that the establishment of board committees leads to more responsible behaviour by boards and enhances the protection of shareholders' interests. As board NEDs are outside directors, the study suggests a positive relationship between board composition and bank performance, especially NEDs, which is consistent with agency theory and suggests that boards comprised largely of outside directors are able to monitor the self-interested actions of managers and thus minimise agency costs (Fama and Jensen, 1983).

The study finds that frequency of audit committee has no effect on organisational performance, even though it suggests more oversight on the activities of the banks. In the same vein, the analysis finds that frequency of board meetings does not lead to increased bank profitability. This implies that frequent meetings should not be encouraged and should be based on the objective requirements of the organisation and in line with the number stipulated by regulatory bodies as well as corporate governance codes, in order to minimise the cost of holding such meetings and to ensure efficiency. Also, the study reveals that managerial shareholding has no impact on profit after tax even though it is believed that banks with insider

ownership are prone to inefficiency. These results suggest that performance of Nigerian banks defies various indices or proxies of corporate governance. The probable reasons for worsening performance and failure of banks in Nigeria are empirically investigated and critically discussed in sub section 8.6.2.

8.6.2 Reflection on the Interview and Questionnaire Responses

This section sheds light on the semi-structured interviews and questionnaires that elicited the correlation between various corporate governance indices and performance within the Nigerian banking sector. This is based on 42 interview responses that explain the reasons behind bank performance in the corporate governance arena. Various corporate governance themes and characteristics were considered. One of the most significant findings to emerge from this study is that ownership concentration, which has been the bane of Nigerian banking system with its attendant negative impact on banks' financial performance, has stifled growth within the industry and gives a bad image to corporate governance. Li (1994) argues that ownership structure has a significant impact on corporate governance practices. The issue of ownership concentration dates back to the colonial period, when bank ownership was concentrated in the hands of a small number of foreigners. Such ownership concentration led to the collapse of many banks as decisions were made by a handful of people at the expense of other stakeholders, with information asymmetry between majority and minority shareholders, akin to what has been championed by agency theory between the principal and agents. Most of the owners of these banks are influential and connected people who enjoy political patronage and in return grant loans to politicians to run for political office, and also to

political parties and bureaucrats, without adequate collateral. This eventually leads to defaults and write-offs and commensurately lower profit. In order to ameliorate this problem, the CBN came up with a code in 2006 which required that an individual must be approved by CBN to hold 10% or above in any bank, in order to reduce the power of individuals and reduce ownership concentration and family dominance.

Analysis in this study shows that a blotted board will lead to additional cost and reduce efficiency, while a small board will reduce agency problems and mean that the firm's activities can be better managed. Having said that, a large board can provide more independent directors with diverse skills and experience. However, opinion suggests that boards, whether small or large, have not had a positive impact on the performance of banks in Nigeria. This study further reveals that there is little or no board independence in the Nigerian banking sector, and this has caused the collapse of many banks in the country, with board of directors indicted for complicity and often compromising their position by taking loans and colluding with bank management to perpetrate atrocities. An effective board should align the interests of stakeholders with those of managers (Miller, 2010; Wahab and Holland, 2012; Adegbite, 2015). The lack of truly independent directors has had a negative influence on the financial performance of banks, coupled with other boardroom politics and disagreements. Also, there seems to be no legal framework to support the position of the banking system; hence the independence of directors is not guaranteed, and they can be manoeuvred and manipulated at will. Prowse (1994) suggests that the level of transparency, as well as the power and

responsibility of the board tends to be dependent on a country's legal framework and the incentives of the controlling shareholders, since the latter can use the board to fulfil their own interests at the expense of the minority shareholders. The Nigerian legal framework does not seem to protect the board and the minority shareholders, and this has compromised the position of the board, who must always dance to the tune of the management and protect the interests of the majority shareholders.

This study demonstrates that CEO duality has negative impact on the performance of banks in Nigeria because it hinders separation of duties, and the decisions will always be to the benefit of the powerful CEO at the expense of other stakeholders. This agrees with agency theory, which suggest that duality has a negative impact on organisational performance. To this end, corporate governance codes across the world recommend that the position of Chairman and CEO should be separated (CBN Code, 2006; FRC, 2018; UK Corporate Code 2012). This will help to reduce agency costs and prevent self-evaluation, by separating management decision making from decision control (Kyei, SM, 2019).

This study further suggests that what is obtainable in Nigeria can best be described as pseudo-CEO duality, where the CEO handpicks the Chairman or vice versa, and one only acts as a rubber stamper at the bidding of the other. This has prevented normal checks and balances and has led to the collapse of some of the failed banks in Nigeria. This shows that management of these banks only paid lip service to the policies of the CBN and other regulatory authorities by appointing their cronies as either Chairman or CEO. CEO duality can cause inadequate

disclosure and lack of transparency. In order to ameliorate the dangers associated with the deficiencies of CEO duality, the CBN recommended 10-year tenure for CEOs of banks. This study reveals that committees, which should have consistently assisted the board on the one hand to ensure good governance and improve performance, and on the other hand to protect various stakeholders, was not effective and failed to stop manipulations and inappropriate behaviour of management. This has been attributed to either inexperience on the part of members of the committees or collaboration with management to perpetrate such unethical behaviour. Furthermore, the study establishes that committee size did not play any role in a firm's performance, contrary to the view that a more diverse audit committee will be more effective and improve organisational performance. The failure of the audit committee could be attributed to the composition of such committees in Nigeria, as members were frequently not selected on merit and lacked adequate power to carry out their activities, regardless of their number or composition.

The study establishes that independent directors, meant to curb excesses of the management, were not independent after all because they were not appointed by independent agencies such as Central bank of Nigeria, Securities and Exchange Commission, NDIC, Financial Reporting Council or a Shareholders' Association. This problem was exacerbated by the ownership structure and collaboration between management and independent directors, which has consistently affected bank performance negatively. Thus, independent directors have not been able to provide necessary oversight on management activities, as a result of which it

is suggested that their appointment should be scrutinised by regulatory bodies and in line with corporate governance codes to ensure that they are indeed independent of the organisations and their management and should also possess the necessary skills and experience to protect the interests of stakeholders.

External auditors have received a lot of backlashes as a result of celebrated cases of negligence in recent times, which has lent credence to the understanding that external auditors have not helped in strengthening governance principles and practices which has reduced the level of reliance and credibility that can be placed on their work. Owning to lack of independence of auditors and unethical behaviour, auditors tend to compromise their position, overlook account manipulations and corrupt practices, and provide favourable reports to curry favour with their clients and retain their positions. An example is the indictment of Akintola Williams and Deloitte (AWD) for the falsification of accounts of Afribank Plc. Also, recently KPMG has been sued for their role in the fall of Carillion in March 2020. The position presented here is equally reflected in the questionnaire which is examined below.

8.6.3 Reflections on questionnaire responses

This study highlighted from the questionnaire the atmosphere of distrust and suspicion and the conflicts of interest that existed within the banks due to concentration of ownership in the hands of a few individuals who controlled these banks and took major decisions at the expense of other stakeholders. Analysis of the questionnaires shows that these few individuals impose their opinion on the majority, and this has hindered performance and profitability. The

questionnaires back up the findings above that banks in Nigeria have consistently failed to comply with CBN rules on CEO duality and finds that the audit committee structure and the number of meetings had no impact on the performance of banks and could not ensure good corporate governance, because in most cases they colluded with management. Thus, it is no wonder that some of these banks failed to deliver adequate dividends to shareholders, and by extension to deliver what was promised to other stakeholders.

This study further demonstrates that the Nigerian banking sector has been confronted with a lack of adequate disclosure and transparency about banks' financial positions and a weak regulatory framework, which led to the collapse of some of these banks. The questionnaires also suggest that the CBN's Code of Corporate Governance for the banking sector is yet to achieve the desired result, and that corporate governance principles have not been followed in the banking sector in Nigeria as unethical behaviour persists. This study therefore suggests that for corporate governance to be effective, the board of directors must have sufficient information in order to make sound decisions. What happens in most cases is information asymmetry, where information is hidden from the board, and this prevents them from making informed decisions. This is one of the reasons for 2008 Financial meltdown.

The analysis of the questionnaires also indicates that there is no optimal board, and the number of non-executive directors does not really matter and has nothing to do with efficiency and effectiveness within Nigerian banks. For example, the CBN recommends at least two independent directors on the board while the SEC recommends at lease one. The CBN code of

2006 suggests an efficient mix of Non-Executive Directors and Executive Directors. Also, that NEDs should be more than executive directors in order to strengthen control and governance. However, this study finds that this did not help to salvage the banks as NEDs colluded with management in most cases, because they were handpicked by the CEO or Chairman. This research agrees with other studies that performance of the banking sector in emerging markets is influenced by ownership structure, market concentration and social political factors, and this is very prevalent in the Nigerian marketplace.

8.6.4 Research contribution to Nigeria's policy making processes

In Nigeria, like any other developing country, implementation of corporate governance will face obstacles from various interest groups. Coupled with a weak and compromised legal system, having corporate governance codes published and brandished does not guarantee effective performance in banks. There is therefore a need for an all-round change of culture and mindset while fit for purpose governance mechanism are put in place to guide the management, board of directors and other stakeholders. This research makes the following recommendations to make corporate governance effective. Scalability of corporate governance codes should be encouraged within the industry. Even though there are many codes and guidelines, their implementation has been poor and that has created break or gap between the expected compliance and set standards. In order to manage this problem, corporate governance codes and practices should be reviewed and be adaptable to the needs of various banks based

on size, adaptability and affordability. This is even more pertinent with the stratifying of banks into regional, national, merchant and commercial banks. The needs of various stakeholders within the industry must be considered, rather than a blanket enforcement. Many of the respondents to the interviews suggested that awareness should be created among banks to ensure that they understand the importance of robust corporate governance, as it is believed that this will propel them to implement the rules willingly, without being pushed. Policy makers should do more to sensitise all stakeholders and update the codes in line with the current best practice. Interviewees also suggest that the culture of turning a bank into a family legacy business should stop, as this has created situations in the past where children of directors automatically become board members, regardless of their level of experience and exposure. Coordination of CG codes among policy makers must be embraced, and policy makers such as CBN, SEC and FRC must articulate codes and regulations in such a way that operations will not be confused. One of the respondents raises the issue of non-uniformity in the corporate governance codes, which can easily cause confusion during implementation. It is therefore recommended that all regulatory bodies should come together to harmonise rules and codes before sending them out to stakeholders.

Appointment and monitoring of the board of directors should be more robust and appointment of members of the board should be based on merit and experience. This should be based on strict requirements, instead of being based on personal relationships. This will provide board with the required technical expertise and allow for effective checks and balances. It will

also prevent corruption and any other unwholesome behaviour from members of the board, as has been witnessed within the banking system in Nigeria. Also, independent directors should not only be named as independent, but they must also be genuinely independent and not mere instruments in the hands of a powerful CEO, chairman or BOD. At the same time, independent directors should be given free rein to perform their responsibilities and be made accountable to stakeholders. Their remuneration, as well as that of other BOD members, should be streamlined and commensurate with market rates in order to motivate them and allow them to concentrate on discharging their responsibilities effectively.

An effective legal system and compliance monitoring is essential, and the legal system needs to be more visible, transparent and free from interference to be able to enforce compliance and punish any infractions. This will help to minimise inappropriate and dishonest behaviour among stakeholders. The Nigerian banking system has witnessed a lot of corrupt and dishonest activities over the years due to ineffective legal system and political interference. Regulators such as the CBN should provide more oversight functions to enforce compliance. As this research focusses on all stakeholders, training and retaining of staff at all levels and also the board should be ensured at all levels. There is a need for continuous training of players in the banking industry, and this should form part of the mandatory Continuous Professional development (CPD) and should include an awareness programme for employees and board members. Some of the respondents suggested regular training for the employees, management and the board to sensitise them on current and new global developments, as well as best

practices in corporate governance. There should be collaboration among regulatory bodies such as the CBN, SEC, NDIC and FRC, and professional bodies such as ICAN, CIBN etc., as well as government and academia, to put relevant courses and training in place and set up a complaint and whistle blowing process to deal with any infractions and enhance transparency and accountability. In the same vein, governance framework of banks should be designed to align executives' interests not only with those of stakeholders but also with those of debtholders (including depositors) and regulators (Acharya, et al., 2009; De Haan and Vlahu 2016).

To strengthen corporate governance practices within the banking industry, independent non-executive directors should be empowered to promote good governance principles (Arun and Turner,2003). They should be ringfenced from any form of compromise and influence which may undermine their position and authority, so that they can bring the required checks and balances to the board. Respondents equally felt that adherence to corporate governance codes would be enhanced when stakeholders realised the importance of good governance, and banks would then apply them without being forced to do so. This is expected to come with effective communication, training and persuasion, as proposed by Causey (2008), who argues that in order to achieve good corporate governance there must be open and effective communication, transparent policies and practices, precision with regards to terms of authority, board independence, and effective internal controls and audit functions (Causey,2008).

A new amended code "Bank and Other Financial Institutions Act (BOFIA) Cap B3 Laws of the Federation of Nigeria 2004" (Amendment) Bill, 2020, has just been signed into

law and its main objective is to strengthen governance process within the industry. One of the provisions of the new act, contained in section 19(1)(c), is the prohibition of banks from granting unsecured credit. As laudable as this provision may be, only time will tell if the rule will be complied with, meaning loans will not be granted with fake collateral or the same collateral being used to obtain multiple credits in different banks because of lack of central database to monitor such activity. Also, it is doubtful if bank executives will stop being influenced by their cronies and the political elite to circumvent such rules. Considering the weak institutional framework of the Nigerian system, compliance should be at all levels and not limited to bank operations alone but also to the board and top management. Since this study is centred around shareholders and other stakeholders, efforts must be put in place to meet their needs; as investors they will be interested in the safety of their investments and bank management must place their banks in positions that will enhance their ability to attract the required liquidity from stakeholders.

8.6.5 Research implications for board and management

The findings of this research present another policy framework for the board and management within the Nigerian banking industry. In implementing appropriate and effective corporate governance, boards and management should consider the inter-relationships and inter-dependency of various concepts and precepts of governance such as the board structure, ownership, board committees, bank size and financial performance. This study confirms that those banks that implement good corporate governance practices are more likely to improve their financial performance. This should be the cardinal objective of the board and management

of banks. The study further suggests that good corporate governance should be encouraged in the banking sector in order to attract and keep potential investors as well as sustain public confidence. Also, the board should be well diversified and be made up of more external directors and majorly of non-executive directors for independence and effectiveness. External directors are expected to bring independent and fresh idea to strategy formulation in the running of banks, and assist in improving firm performance (Cadbury, 2002). The board serves as the link between the investors and the managers, supports in setting up the company's aims and strategies, developing and monitoring plans and policies to achieve the goals of the firm (Mallin, 2004). Mallin also suggests that board evaluation can help to establish performance criteria that can otherwise be used to achieve the corporate objectives and align performance of the directors with the interest of the shareholders.

8.6.6 Research implications for the banking Industry

Contextually, this study focusses on corporate governance and performance in the banking industry and has demonstrated that corporate governance mechanism impacts activities and performance of banks in Nigeria. The study provides a clearer awareness of the operating and control environment in which banks operate, and clearly proved that if banks implement good corporate governance practices, their performance will improve. Moreover, implementing good governance will enhance public confidence in the activities of banks and provide assurance to other stakeholders and policy makers. Banking activities should be managed in a way that will give positive signals to potential investors and customers. Good governance will reduce bank failure and will enhance ability to source both local and foreign funds as well as investments needed to support businesses to grow.

This study clearly demonstrates that corporate governance requirements and mechanisms differ among banks, and this depends on considerations such as ownership structure and size of the bank. This suggests that the complexities of each bank will determine the level of flexibility and judgement in the enforcement of corporate governance, since small banks will be able to spend less on compliance. The principle of corporate governance has to be rethought, in line with the new regulations and laws across various jurisdictions. Globally the most prominent legislation that has impacted corporate governance in response to corporate failures in early 2000s, have been the Sarbanes Oxley Act (2002), CBN Codes (2003, 2006) and, according to Rao,et.al,(2011), the last financial crisis led to development of the Dodd-Frank Wall Street Reform and Consumer Protection Act (2010). Internationally, the Basel Committee on Banking Supervision has started issuing accords to provide guidance to banks on how to safeguard their assets since 1988 (Basel,1998).

Another area covered by this study is the application of corporate governance to all aspects of the organisation and not just to a particular function or group, by applying the principle of balanced score card to the implementation of good corporate governance. I believe that what is more important in achieving all-round effectiveness, efficiency and successful implementation of corporate governance principles and practice is to have an all-embracing governance framework, such as presented in the principle of the balanced scorecard as discussed in sub-section 8.7, below.

8.7 Application of Balanced Scorecard to the Implementation of Corporate governance

One big contribution of this thesis, which has never been seen before in corporate governance studies and literature, is the application of balanced score card framework to examine the implementation of corporate governance codes and practices, in order to make it fair and equitable across organisations and stakeholders. It has been suggested that corporate governance is built on four major pillars and philosophies: purpose, process, people, and performance, otherwise known as the "4Ps of corporate governance". This helps to understand the connectivity of corporate governance components in understanding the balanced score card. 'People' are viewed as the most important element of corporate governance and its implementation. People are at the heart of various theories of corporate governance. People play an important role across the spectrum as owners, staff, consumers, board and committee members, analysts, shareholders etc. At different levels, people design, implement, and review corporate governance principles. They provide direction and set the objectives and policy direction for the organisation against which performance is measured. As a result, everything starts and ends with people.

In terms of purpose, every corporate organisation or entity is set up for a purpose, which drives the direction and the path it follows. The mission statement of the organisation drives its purpose and the actions it takes to achieve its goals. Also, corporate governance principles and practices are set up for a purpose, which in most cases is to protect the organisation and its stakeholders, to steer effectiveness and efficiency in the firm and ensure optimal performance

and returns. Purpose drives actions, projects and activities and organisations will always aspire to ensure that nothing stop them from achieving their purpose.

Processes are steps taken to ensure that corporate governance purposes are achieved, and this involves analysing and reviewing the present position of the organisation, in order to determine and design what actions must be taken to put the organisation on course to achieve good governance and achieve its purpose and objectives. Such processes are meant to be reviewed continuously to bring corporate governance up to date and make it fit for purpose in the face of ever-changing regulatory environments and business dynamics.

On the other hand, performance is key to corporate governance appraisal. This involves both quantitative and qualitative analysis of the firm's results, looking at financial performance and inherent governance framework in the organisation. This helps to synchronise the purpose, people and process and measure their effectiveness. Performance represents a measure of success for other components of corporate governance framework. This will help in determining actions to be carried out in order to ensure that the firm focusses on its purpose as well as the processes that need to be perfected by people.

A balanced scorecard is an all-round performance measure which translates the organisation's mission and vision into actual actions (Norton and Kaplan, 1992). This model helps our understanding of how corporate governance can be implemented at all levels of the organisation and with all stakeholders in mind. Within the scope of corporate governance, six lenses can be considered as a potential basis for full implementation. The first perspective is

the consideration of the operating environment. Here the social, political and cultural environment, local norms, laws and culture, social policies and practices in an economy is considered in the design and application of corporate governance codes and practices to make them suitable for the environment. This will prevent importation and imposition of governance practices that are alien to the Nigerian environment.

This perspective forbids a one-size-fits-all approach, but codes and practices suitable to different environments without compromising the basic tenets of corporate governance must be implemented, as most of the theories will be legitimate within their respective domains. This is supported by Donaldson (1998) as well as Donaldson and Davis (1991), who suggest that the approach of stewardship theory could be effective in as much as mutually beneficial relationship between the owner and managers is maintained.

The second perspective is the board's structure and functions. Here I look at the composition, structure and size of the board. There should be a balance of independent and non-independent directors, the board should consist of people with varied knowledge, skills and experience; and the board should monitor organisational activities, plan, forecast and design strategies to achieve organisational goals, within the scope of a good governance framework.

The third perspective is the implementation and disclosure phase. Organisations should implement corporate governance codes and practices as provided by relevant regulatory bodies, and such codes should be reviewed in line with current development, best practice and the

socio-political system of Nigeria. There should be faithful disclosure in financial statements and annual reports; material events should be disclosed and properly presented; and regulatory bodies should monitor the application of CG codes through regular supervision and monitoring.

The fourth perspective is the protection of minority shareholders' interest. There must be fair and equitable representation of the minority shareholders on the board and information must be disseminated effectively to avoid information asymmetry. Minority shareholders should be allowed to participate at the annual general meeting, and they should be part of major activities and management decisions in the company.

The fifth perspective is an effective control environment. There should be a robust control mechanism, internal audit framework and risk function, compliance and monitoring team, in order to guarantee that effective governance frameworks are implemented within the system. There should be an effective operating and transparent reporting environment, in order to guarantee protection of the company's assets.

The last perspective is stakeholder engagement. Various stakeholders of the company should be considered in any decision being taken by the bank and also transactions and activities should align with the interests of all stakeholders in accordance with stakeholders' theory. They should be kept updated with developments in the organisation. Stakeholder complaint and redress framework should be instituted to make sure that stakeholders are fairly treated and be given an oversight function within the organisation where necessary. A new requirement on stakeholder engagement is "section 172" of the Companies Act 2006 –

Directors’ Duties and Engagement with Stakeholders, which requires directors to disclose and demonstrate that they have acted in good faith in maximizing the value of company for the benefit of its shareholders and other stakeholders.

Having examined the methodological stance and available evidence from this thesis, it is very important to also state that the analysis and interpretation of this study, like any other study of its kind, has certain limitations, some of which are discussed in sub section 8.8 below.

8.8 Limitations of the Study

It is essential to reflect on the methodological framework of this research. It derives its strength from viewing corporate governance from different lenses, and its new orientation of a balanced scorecard in corporate governance application, which is a brand-new perspective to the study of corporate governance. However, like any other research, this research is not without its limitations. In the first instance, not all banks in Nigeria were selected and the research focussed mainly on commercial banks, as they have the largest share of the banking business in the country. Secondly, the variables explored to assess the relationship between profitability and corporate governance are limited and there are many other variables left unmeasured. The size of the sample was limited in two areas. Firstly, the data was limited to 14 commercial banks over 10 years, meaning that the number of both banks and years is not representative enough. Such limited sample size did not allow for a comprehensive analysis of the issues associated with corporate governance. Other industries were basically excluded because they are managed by a different set of codes and rules. It is possible that additional data and a longer period could have drawn more important variables and conclusions beyond those that are presented. While I tried to obtain enough data, it was difficult getting adequate accounting data on Nigerian banks as a result of the consolidation exercise that brought the number of banks down from 89 to 22. This made it impossible to obtain financial information

from more banks post consolidation and the information from 14 banks as analysed presented the best data set. Other researchers may adopt a broader perspective, obtaining data over a longer period to justify findings and adoption of recommendations, as detailed in the next section.

Another limitation is the number of variables included in the quantitative analysis, which was limited to six proxies: board size (BS), board financial expertise (BFE), audit committee size (ACS), frequency of board meetings (FBM), audit committee independence (ACI), and managerial shares (MS) or ownership, and return on assets (ROA) as the dependent variable. A more detailed analysis of such variables as board diversity, education level, gender and bank size among others, could be established and result in a comparison beyond what has been analysed. Even though few variables were selected, they provided an objective representation of all the banks under consideration and were essential for performance measurement. This study recommends that future research should measure the effects of other board characteristics on bank performance (see section 8.9). Moreover, the data obtained from questionnaire may suffer from subjectivity and bias (McConnell, 1990; Durnev and Kim, 2005). In particular, it could depend on the mood of the respondent and what was occurring in the bank at the time of the interview.

The research designed with the mixed-methods approach of semi-structured interviews and questionnaires were based on a selected group of interviewees and respondents which is limited in scope and not representative of the entire population. There is a danger of leaving out important stakeholders in such a framework, who may have important information and opinions that can move the firm forward. At the same time, some people refused to participate in neither the interview nor the questionnaire. Furthermore, it is noted that this study examined the effect of corporate governance on bank performance, based on historical accounting data. However, historical accounting information suffers from certain limitations. An example of

such a limitation is the difference in the application of various accounting policies, such as depreciation, asset and inventory valuation, income recognition, financial instrument valuation and assessment, as well as interpretation of various accounting standards. Also, the results generated from various research methods are applicable to the Nigerian banking system and therefore country specific and cannot be generalised, as there may be significant differences across the globe. However, other countries around the world can benefit from the research findings in their quest to enhance corporate governance practices in their banking systems. In the same vein, the research sites are limited to banks and associated offices, while other industries and other contributors to social and economic policies and governance advancement, such as academia, were not included.

As this study examines the relationship between corporate governance mechanism and banks performance within the Nigerian socio-political context, it is believed that it has in the process, opened up many other opportunities for further research in this particular section of corporate governance systems in Nigeria. Also, the limitations identified above equally created new frontiers for further corporate governance research. Such potential areas of further research are examined below in section 8.9.

8.9 Potential Research Areas for Future Development

There are always areas for future research, as no research on corporate governance is ever complete. This research has firmly established the importance of effective corporate governance processes in the banking system, but it is still very important to understand other areas and update the data, as the banking industry is moving very fast with the dynamic economic and environmental need. The following arears are recommended for further research to improve corporate governance mechanism in the banking sector while assessing the limitations and impacts of the present study.

In the first instance, this study investigates the impact of socio-political drivers of corporate governance on bank performance using information obtained from 14 banks over a period of ten years; future studies can extend the frontier of the study by examining data for more diverse banks incorporating commercial, merchant and multinational banks, and over a longer period of time. This more inclusive population may reveal different results. It will be more revealing if a mixed methods approach of both the quantitative and qualitative analysis is extended to a wider data set across different banking groups.

Second, whereas this study examined internal corporate governance apparatus, there is equally a need for researchers to investigate how external corporate governance machinery, such as regulatory authorities, supervisors, external auditors, rating agencies and organised labour can impact how banks perform in Nigeria, and better still investigate the relationship and interaction between internal and external governance processes and how this impacts bank performance.

Third, this study examined only one performance indicator, which is return on assets (ROA), measuring profit after tax as a function of assets employed, without considering other performance indicators. Future research should therefore analyse other performance indicators, such as return on equity (ROE), return on investment (ROI), employee productivity, cost efficiency, liquidity coverage ratio, risk management, cost income ratio, earnings per share (EPS) and economic value added (EVA), among others. Also, future research should examine both quantitative and qualitative indicators to investigate performance in banks.

Fourth, future studies can examine the human factor in corporate governance by analysing the dynamics of people’s mindset and culture of resistance, and how this can be resolved by finding a balance between implementing corporate governance codes and creating an enabling and friendly working environment, improving people’s confidence, ethical behaviour , broad and all-inclusive AGMs.

Fifth, due to the dynamic nature of the society, the frontiers of corporate governance keep changing and the horizon is widening and covers more than the board and its structure, therefore other factors, such as market forces, nature of services, regulatory framework and investor protection require future and continuous research and form an important area of future development.

Sixth, for future studies, population of banks should be extended to incorporate both developed and developing countries. This will make the research more representative and disclose how each country perform in implementing good corporate governance systems. Such information could be used to design broad-based governance principles and practices applicable to all and sundry and across borders.

Also, corporate governance is a multi-theoretical discipline and should not be explained by a limited theory; future studies should consider more theories to explain the dynamics of governance in organisations.

Lastly, the frontier of respondents who participate in corporate governance surveys should be extended by selecting more diverse participants from different industries and background should be considered.

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Appendices

Appendix 1: Consent Form

Name and Address of Researcher: Simeon Olufemi Fayemi

Doctoral Researcher

School of Business and Management

Queen Mary University of London

Mile End Road,

London

E1 4NS

Title of Research Project: Corporate Governance Practices as a Reflection of Socio-Political Context: A Case Study of the Nigerian Banks

By answering the questions put to me in this interview:

- I agree to participate in this research project.

- I understand that I was selected to participate in this study due to my position and occupation in the organisation.
- I understand that I was selected randomly from a larger group of people.
- My participation will be for a maximum period of 60 minutes.
- I understand that I am under no obligation to take part in this interview.
- I agree to my responses being used for education and research on condition that my privacy is respected. I understand that my responses will be used in aggregate form only, so that I will not be personally identifiable.
- I understand that I have the right to withdrawal from this interview at any stage.
- I understand that I will not be paid for my participation in this interview.
- I understand that my responses will be treated confidentially, kept by the researcher for research purposes only.
- I understand that this research might be available to readers in a university library in printed form, and also in an electronic form.
- I have read this consent form and the information it contains and had the opportunity to ask questions about them.

Name of Participant:

Signature of Participant:

Date:

The researcher must supply you with an ***information sheet*** which provides his/her contact details, outline the nature of the research and how the information will be used, and explains what your participation in the research involves (e.g., how long it will take, participants' roles and rights-including the right to skip questions or withdraw without penalty at any time)

Has this been provided? Yes/No

Have you received verbal confirmation/ explanation where needed? Yes/No

Appendix 2

Interview Guide

Good morning, my name is Simeon Olufemi Fayemi, a researcher at Queen Mary University of London.

This interview is being conducted to get your opinion and experience as regards the effectiveness of corporate governance and how it impacts organisational performance, with emphasis on the banking sector in Nigeria.

If it is okay with you, I will tape-record our conversation. This is necessary to get all the details from your response correctly and present information from your responses to the questions accurately.

I assure you that all your comments will remain confidential. The report that will come from the interviews will not make any reference to individuals. If you agree to this interview and the tape recording, please sign the consent form.

Appendix 3

Data collection – Interviews

Questions Used for the interviews.

1. Do you agree that poor corporate governance led to failure of banks in Nigeria?

2. Do you think that ownership concentration affects corporate governance and collapse of banks in Nigeria?

3. To what extend do you think the board of directors has influenced performance of banks in Nigeria?

4. Do you subscribe to the suggestion that board characteristics have a role to play in the effectiveness of boards?

5. Do you believe that that boards of directors of Banks in Nigeria are independent of banks' management in providing their oversight functions?

6.To what extent do you think that corporate governance has been effective in the Nigerian banking industry?

7. Do you think that external auditors have been able to check the excesses of the management of banks in Nigeria?

8. What do you think was responsible for ineffectiveness of independent directors in Nigerian banks?

9. Do you subscribe to the suggestion that the separation of the position of chairman from CEO, otherwise known as CEO duality, has not been effective in Nigeria?

10. Do you think that audit committees have been effective in the enforcement of effective corporate governance in the Nigerian Banking system?

11. To what extent do you think that corporate governance in Nigeria has been influenced by foreign laws and practices? Do you think those foreign policies are applicable to the Nigerian socio-political and cultural environment?

12. Do you think that minority shareholders' interests are being adequately protected in Nigeria?

13. Do you support the idea that regulators have failed in their oversight functions in corporate governance failure in Nigerian banks?

14. Are you of the opinion that Nigerian corporate governance process should be overhauled in light of the failures experienced in the banking Industry?

Thank you for your cooperation.

Analysis of the interview

Semi-structured interviews were utilised to collect valuable information from various stakeholders in Nigeria. The interview questions were designed to incorporate common areas of interest in measuring corporate governance perception among the interviewees and the banks. The questions were based on specific areas of corporate governance measurement, such

as board size and composition, dual leadership, ownership structure, audit committee, non-executive directorship in the board, minority shareholders' protection and bank profitability. Aside from answering the questions, interviewees were allowed to discuss any other issues not covered by the questions and to suggest appropriate solutions to the issues they raised if possible. The questions were meant to be open-ended, direct and unambiguous, to elicit answers, from interviewees, follow by further probing questions to gain more understanding about the issues

In selecting the research participants, various stakeholders were considered in order to obtain opinions of a variety of people across society. This cuts across managers, practitioners, professionals, captains of industry, shareholders, policymakers and the general public. This was done to get an in-depth understanding of the problem from across society.

Obtaining people for interviews was the most challenging part of the data collection process, as most of those who initially expressed readiness and commitment to participate were either not available, busy or in another location. The sample was representative with respect to different stakeholders across the economy, with participants selected randomly from various sectors of the economy ranging from policy formulators to regulators, management, employees, shareholders and other professionals.

A total of 62 people were contacted as potential research participants. Out of this number, 42 obliged eventually, while about 20 could not participate owing to a variety of reasons. For example, some people's schedule could no longer accommodate the interview. At the same time, some were afraid to say anything that could pitch them against their companies, and some even wanted to get clearance from their companies before they participated in the interview (see research notes). Consequently, 42 interviews were conducted across different occupations and industries. Prominent among the sectors are Accounting Practice, Central

Bank of Nigeria, Economic and Financial Crime Agency, NDIC, professional bodies such as ICAN, commercial banks, shareholders and independent consultants.

The research was conducted in Lagos, Abuja and Ibadan. Lagos is the commercial nerve centre of Nigeria, while Abuja is the capital city and Ibadan is the biggest city in Nigeria. The table below presents the characteristics and dynamics of the participants. As participants took part in the interview under the condition of anonymity, their names have been removed and all have been referred to as "P" and allocated numbers. Also, the interview has been conducted under the freedom of information act of 2011.

Respondent disposition varied, with some not wanting to divulge what they described as sensitive and confidential information and others preferring to respond in a neutral place where they could express themselves more freely than in their offices. The out-of-office option was very helpful as respondents were able to give detailed insight and frank opinions. The approach of the interview differed depending on each respondent's disposition. With the anonymity disclosure in place, interviewees who were initially hesitant to disclose information were more comfortable to discuss the subjects more openly and in a more relaxed mood. Another important aspect was the average duration of the interview, which was about two to three hours, depending on the interviewees' availability. Also, permission was sought from respondents to record the interview and most of them agreed, At the end of the interviews, participants were thanked for their time and support and the anonymity agreement was reinstated.

The profile of respondents is shown in Table 8.1

Table 8.1

Characteristics of the interviewees

Participant	Occupation	Gender	Education	Position
1	Legal Practitioner	F	LLB	Corporate Governance Manager
2	Financial Reporting	F	BSc	Deputy Manager
3	Civil Servant	F	BSc, ACA	Head of Internal Control
4	Banker	M	BSc, MBA, ACA	Senior Manager/Head of Internal Control
5	Banker	M	BSc, FCA	Director
6	Civil Servant	M	BSc, MSc	Head, Public Affairs
7	Consultant	M	PhD	CEO
8	Consultant	M	BSc, MSc	Director
9	Banker	F	MSC	Deputy Manager
10	Registrar	M	PhD, FCA	Registrar
11	Banker	M	BSc, MBA	Senior Manager/Branch Management
12	Banker	M	BSc, MSc	Manager/Branch Management
13	Banker	F	MSc	Manager
14	Legal Practitioner	M	LLB	Partner
15	Banker	F	BSc	Senior Manager/Branch Management
16	Banker	F	BSc	Non-Executive Director
17	Banker	M	PhD	Assistant Director
18	Accountancy Practice	M	MBA, FCA	Partner

19	Banker	F	MBA	General Manager
20	Banker	F	MSc	Senior Manager
21	Accountancy Practice	M	MSc	Manager
22	Banker	M	BSc, ACA	Partner
23	Shareholder	M	BSc	Shareholder
24	Banker	F	BSc	Shareholder
25	Legal Practitioner	M	LLB, BL	Barrister
26	Pharmacist	M	B. Pham	Manager
27	Stock exchange Analyst	F	BSc	Analyst
28	Stock exchange Analyst	M	BSc	Analyst
29	Banker	F	MSc	Deputy Manager
30	Consultant	F	MBA	Consultant
31	Senior Consultant	M	MSc	Partner
32	Shareholder	M	GCSE	Shareholder
33	Ex-Banker	M	BSc	Ex-Banker
34	Compliance Officer	M	MSc	Compliance Analyst
35	Accountancy Practice	F	ACCA	Manager

36	Consultant	F	MBA	Manager
37	Banker/NGO	F	BSc	Officer
38	Auditor	F	MSc, ACA	Chief Internal Auditor
39	Lecturer	M	Prof	Professor of Accounting
40	Registrar	F	BSc	Officer
41	Civil Servant	M	BA	Assistant Director
42	Banker	F	BSc	Assistant Manager

Appendix 4

Data collection – Questionnaire

QUESTIONNAIRE ON THE IMPACT OF CORPORATE GOVERNANCE ON BANK PERFORMANCE

SECTION 1: BACKGROUND DATA

Please, supply the information in 1-5 below. **Date**

1. Name:
2. Name of Company:
3. Please specify your highest educational level:
4. Total number of years of work experience:
5. Your position in the company

SECTION 2

Questions/Statements

The following questions and statements are the issues surrounding corporate governance in Nigeria. Please indicate whether you agree with the statements or not on the structured questions and provide your thoughts on the semi-structured questions.

Q1. The increase in shares that are freely available to the investing public is positively related to good corporate performance. YES/NO

Q2. Separating positions of chairperson and CEO has a positive effect on performance. YES/NO

Q3. Corporate governance enhances the managing body's ability to perform by connecting executive remuneration with finance led conclusions. YES/NO

Q4. Improving corporate governance improves answerability through frequent meetings of audit committee. YES/NO

Q5. Does corporate governance improve performance of banks in Nigeria? YES/NO

Q6. Frequent meetings of the Nomination committee have a positive effect on corporate performance. YES/NO

Q7. A large audit committee can facilitate effective monitoring. YES/NO

Q8. A high percentage of independent non-executive directors in the nominating Committee has a positive impact on corporate performance. YES/NO

Q9. Frequent board meetings allow good monitoring and smooth management of a firm. YES/NO

Q10. An audit committee should contain a high ratio of non-executive directors. YES /NO

Q11. The audit committee should ensure that the primary objectives and functions of the risk management committee are adequate and effective. YES/NO

Q12. A good corporate governance system ensures that the BODs have sufficient information to make sound decisions on important matters. YES/NO

Q13. Increasing the number of non-executive directors is helpful to a firm's management. YES/NO

Q14. The existence of many shareholders with an exceptionally large amount or value of stock sustains a good corporate governance system. YES/NO

Q15. Large boards are impediments to good performance. YES/NO

Q17. An audit committee should ensure that all corporate objectives are adequately mapped against risk. YES/NO

Q18. The degree of ownership concentration has a considerable impact on the behaviour of a risk management committee. YES/NO

Q19. Boards of directors should develop a liquidity strategy consistent with the strategic objectives of the financial institution as a whole. YES/NO

Q20 Nigerian corporate governance principles and practices have largely been influenced by Western countries. YES/NO

Semi-structured Questions

The semi-structured questions are as follows:

1) Since the introduction of the Code of Corporate Governance for Banks in 2006, what changes has the board of directors made to improve the governance practice in your organisation?

2) Are your organisation's governance practices strongly linked to the expectations of the Code of Corporate Governance for Banks and other regulations?

3) Has the Code of Governance improved the performance and the role of the audit committee in your organisation?

4) How do the existing rules and code of best practice affect the disclosure of information or the level of transparency in banks?

5) Is your organisation's corporate governance practice aimed at meeting business objectives?

6) What, in your view, influences the attitudes of employees in relation to your organisational governance practices?

7) How do you think your board of directors affects corporate governance best practice in your organisation?

8) In what areas of the Code of Corporate Governance, or other rules, would your organisation suggest improvements need to be made?

9) In your view, does the achievement of best corporate governance practice in your organisation reflect its performance? Is it a shared value across the banks?

10) How do you feel about the general practice of corporate governance in the banking industry in relation in managing risks?

11) Do you have any additional comments?

Analysis of questionnaire

The overall response to the questionnaire was impressive with 56 out of 65 returning the questionnaire, representing 86% of the data population.

QUESTION	***RESPONSE***

Is an increase in shares that are freely available to the investing public positively related to good corporate performance	The vast majority of participants, about 46 (82%), supported the view that ownership should not be concentrated in a few hands, while 12(18%) responded to the contrary. This suggests that majority believe that if ownership is diversified, this will lead to good governance. This agrees with Agency Theory's prediction of a divergence of interest between the agent(s) and principal(s) due to the separation of ownership and control (Jensen and Meckling, 1976). The agency cost of equity is higher where a company's shares are held by a small number of shareholders (Friedland, 2003). It is believed that broadly held companies are more likely to provide more voluntary information in their annual reports to confirm they are acting in the best interests of shareholders (Depoers, 2000; Ghazali and Weetman, 2006).
Separating the positions of chairperson and CEO has a positive effect on performance	Majority of respondents agreed that CEO duality has a negative impact on organisational performance, with about 75% affirming that separating the position of the chairperson and CEO will have positive effect while about 25% disagreed. This position held by the majority is in line with the provision of the SEC code (2011) in Nigeria in which Section 5.1(b) of the code specifically provides that 'the positions of the Chairman of the Board and CEO shall be separated and held by different individuals' and further stresses that the Chairman should not be involved in the day-to-day operations of the company but should ensure effective operations of the board. The separation of the two positions is to ensure good corporate governance practices (Monks and Minows, 2008; Mallin, 2004). The CBN code proposes that no two members of the same family shall occupy the post of the chairman and CEO at the same time.
Frequent meetings of the audit committee improve corporate governance and organisational performance	As indicated in Table 8.1, majority of respondents agreed that regular meetings of audit committee in their bank would enhance corporate governance and organisational performance, with about 80% (46 people) in favour while the remaining 20% believed otherwise. They believed that the audit committee having sufficient meetings to perform its duties and responsibilities would have a positive impact on

	corporate governance. This aligns with the argument of regulatory bodies and researchers who contend that if audit committees are to perform their responsibilities and duties adequately, they must meet regularly (BRC, 1999; Smith, 2003; Krishnan, 2005; Burke et al., 2008).
Does corporate governance improve performance of banks in Nigeria?	The expectation in any society is that sound corporate governance practice should improve corporate performance by watering down the influence of majority shareholders and enshrining robust decision-making that caters for the interests of all the shareholders and stakeholders. Also, good corporate governance will help to reduce the vulnerability of the organisation to various risks of failure and distress as it builds resilience and continuity in its business operations. In their responses, the majority (about 89%) agreed to the assertion that good corporate governance improved performance of banks in Nigeria, as shown in table 8.1. This is in line with a suggestion that a good corporate governance tends to be the starting point for a fair and just society (Ogege and Boloupremo, 2014), while poor corporate governance creates an avenue for dishonest and fraudulent activities, which will eventually lead to corporate failures. According to Iskander and Chamlou (2000), a limit to the exploitation of minority shareholders and less fraudulent activities in organisations and political power can be a foundation for more equitable income distribution, and this may enhance the value of the company and attract investors.

A large audit committee can facilitate effective monitoring and good governance	As presented in table 1, most respondents (about 73% or 41 people) agreed that a large audit committee facilitates effective and efficient monitoring and good governance. With large members, the audit committee will be able to hold more meetings, which should lead to better performance because audit committees have been seen as an integral part of good governance (Ellwood and Garcia-Lacalle, 2016; DeZoort et al., 2002). A large audit committee can facilitate effective monitoring because larger audit committees are more likely to have a greater diversity of intellectual capabilities, and social and professional backgrounds. In line with the argument of resource dependency theory, the effectiveness of an audit committee increases when the size of the committee increases, because it has more resources to devote to addressing issues faced by the company (Mohd et al., 2009), and thus improve company performance (Pierce and Zahra, 1992). It has equally been argued that audit committees in companies with financial difficulties do not hold meetings as frequently as those without financial difficulties (McMullen and Raghunandan, 1996).
A high percentage of independent non-executive directors in the board have a positive impact on corporate performance	Majority of the respondents agreed that a high percentage of independent non-executive directors in the board will have a positive impact on corporate governance with about 66% or 39 while about 33% felt otherwise. Yet quite a number, about 33% did not believe this statement which is in tandem with the result of the interview in this regard. Many people are of the opinion that Independent non-executive directors are not independent, but their appointment was just box ticking exercise rather than embracing the broader spirit of good corporate governance. (Moxey and Berendt, 2008). The importance of non-executive directors cannot be over emphasised as they are regarded as the guarantee of integrity and accountability of companies in safeguarding the interest of shareholders. According to Fama and Jensen (1983), the effectiveness of the board at monitoring management is determined by its composition. This suggests that the

	composition of the board was more important than the size and this will determine presence of diverse skills and balanced opinion
Frequent board meetings allow good monitoring and smooth management of a firm.	Majority of the respondents representing about 96% agreed with this statement because if board does not monitor management, they are more likely to take self-benefiting actions, and deviate from the interests of other stakeholders. Board meetings have been seen as one of the mechanisms of measuring board's effectiveness. Boards of directors play a major role in mitigating agency problems associated with the separation between ownership and control (Fama and Jensen 1983; Jensen and Meckling 1976). The effectiveness of the monitoring function is anchored on constant meeting of the board. The board of directors is responsible for the compensation and dismissal of the CEO (Adams et al. 2010; Hermalin 2005; Hermalin and Weisbach, 2003) and the effectiveness of these decisions indicate the efficiency of the board's supervisory role in monitoring the CEO and represent the quality of governance. Regular meetings on different issues are also effective measures of how directors fulfil their monitoring obligations, because boards of directors put most of their effort into monitoring various management decisions (Schwartz-Ziv and Weisbach 2013; Stiles 2001).It has been claimed that in order for board members to effectively fulfil their function of strategy setting and management monitoring, there is a need for a frequent meeting from time to time (Vafeas, 1999), hence the diligence of board members is often measured on the board meeting attendance by each of the board members(Ghosh, 2007;Johl et al., 2015;Ilaboya and Obaretin, 2015).

Should an audit committee contain a high ratio of non-executive directors	The majority of participants alluded to this position with 77% or 43 agreeing to the statement as it is believed that increased involvement of INEDs should provide a check and balance on the board. This agrees with CBN code of 2006 for Banks in section 5.3.5 which those states 'the number of NEDs should be more than that of executive director. It has often been argued that an audit committee should contain a high ratio of non-executive directors in order to make it effective. Audit committees with a higher composition of non-executive directors are considered more independent than those with more executive directors. It has been suggested that executive directors would dominate the decision-making process of the company's top management, resulting in less objective decisions if the committee is made up of more executive directors. For instance, Kaplan et al. (1990), Gilson (1990), Shivdasami (1993), and Yermack (1996) find that executive directors reveal only a limited amount of information to non-executive directors in order to prevent stakeholders from getting all the information. In such instance, the control of executive directors' results in weak control mechanisms within the management structure. Therefore, predominance of non-executive directors in the audit committee would increase the independence of the committee.

A good corporate governance system ensures that the Board of Directors have sufficient information to make sound decisions on important matters	The majority of participants overwhelmingly agreed that the board must have sufficient information in order to make sound decisions, with 91% affirming this position, as shown in table 8.1. This is even more important considering the principal-agent theory, which has been pervasive in corporate and public sector governance, and which is premised on the fact that as managers (agents) have more information about day-to-day operations than shareholders (principals), they have an advantage over boards (Miller and Whitford, 2002). And because managers have their own self-interest to protect, there is high risk that they may disseminate unscrupulous or misleading information to the board for their own benefit. This is often referred to as information asymmetry. However, premium has been placed on the significance of relevant and reliable information; recent events around the world such as the corruption at Enron and WorldCom, and the financial crisis of 2008 have changed the dynamics of corporate governance practices across the globe, and this has led to considerable structural changes to boards (Finkelstein and Mooney, 2003), leading regulators to focus on areas such as board recruitment and management controls (Kirkpatrick, 2009). Consequently, efforts have been put in place to ensure that the relationship between the CEO and board is transparent and constructive (Finkelstein and Mooney, 2003). The participants that did not agree with majority on this point held the view of stewardship theory, which suggests that managers may be intrinsically motivated to be good stewards of the organisation and therefore will align with the objectives of the organisation (Davis et al., 1997). A board that views its managers in this way trusts that managers place high value on serving the organisation because of intrinsic needs to make the organisation successful (Donaldson and Davis, 1991).

Is Large boards an impediments to good performance ?	The majority of participants (53%) agreed to this assertion, believing that large boards are not good for the organisation, while 47% supported large boards. What constitutes an optimal board size remains an area of conflict among the codes as opinions differs on what optimal board size and the impact of the size on performance of the organisation. For example, section 5.3.5 of the CBN Code of 2006 stipulates that NEDs should not exceed the executive directors in the board subject to a maximum board of 20 members, while SEC code recommends that board size is between 5 and 15 directors. Proponents of larger board size believe that it provides collective information and eventually will lead to higher performance (Dalton et al., 1999, 2005). They also believe that larger board size will lead to an increasing number of non-executive directors with diverse information and skills which is also valuable for the monitoring function (Lehn, Sukesh, and Zhao, 2004). Therefore, both functions predict an initial improvement in board performance as board size increases and increases in the number of non-executives are expected to have a more positive impact than increases in the number of executive directors. Opponents of large boards believe that there will be problems of coordination and communication as it will be more difficult to arrange board meetings and to reach consensus, leading to slower and less-efficient decision-making (Jensen, 1993).
Is The existence of many shareholders with high-volume of shares or stock in an organisation sustains a goodcorporate governance system	54% of the respondents agreed with the statement, which suggests that the majority believe that banks will be better monitored if a few individuals hold or own a large fraction of the firm's stock. This is expected to increase the level of monitoring and effective risk management as it puts checks on the management and the influence of a single majority shareholder, as more people will now exercise control and provide strategic direction to the organisation. It has been suggested that diffusely held firms are worth less than ones with concentrated ownership (Jensen,1989). Pagano and Roell (1998) argue that other large shareholders will monitor the controlling shareholders and reduce the diversion of resources. This view is also shared by

	Bloch and Hegen (2001) who contend that it is only when the second largest owner is sufficiently large relative to the largest owner that the second largest owner can contest control and reduce diversion. Bennedsen and Wolfenzon (2000) argue that corporate governance only improves when large owners are of comparable size.
Does Increasing the number of non-executive directors enhances corporate governance and firms' management	The majority of participants (about 66%) agreed with the assertion. As NEDs have a fiduciary duty to protect the shareholders, increasing their number in a board will give them more power to provide the required oversight function. The current role of NEDs was part of the regulatory reforms recommended by the Cadbury Report of 1992, which aimed at rebuilding investors' confidence in the financial system and enhancing the position of the board of directors by making NEDs and independent NEDs an integral part of corporate governance. Their role has been seen as very important in aligning the interests of the shareholders and the managers by influencing corporate decisions with outside objectivity (Gunetilleke, 2009). Fama and Jensen (1983) suggest that while the managers make decisions, the NEDs could ratify the decisions and thus become the professional referees. They function in different committees, such as nomination, audit and remuneration committees. However, caution needs to be exercised in just relying on the number of NEDs without looking at their effectiveness. They should not be treated as being in a subordinate position but as executive and playing an active role in checking actions of the management, and they should also be independent. The independence of NEDs is eroded by the manner of their appointment which is usually influenced by the CEO who will appoint friends and people that will do his bidding and support his views and activities. This has been the case in Nigerian banking system as the appointment of NEDs is not

	transparent and is the prerogative of the CEO or Chairman of the bank. NEDs position should be reviewed from to time through fit and proper review and they should also receive frequent training.
Should Audit committee ensure that all corporate objectives are adequately incorporated into risk management ?	The majority of the respondents (about 93%) agreed with this assertion. This is in line with agency theory and resource dependency perspectives. Agency theory suggests that mangers may act in their own self-interest but by aligning the interests of the management with those of shareholders a firm can reduce excessive risk taking by management. This can be achieved, in theory, when the board and the audit committee focus on monitoring the CEO and other executives through some mechanism such as enterprise risk management (Shleifer and Vishney, 1997; Fama and Jensen, 1983). On the other hand, resource dependency suggests that governance parties focus on ensuring that management's risk-related activities are aligned with the strategic objectives the firm is adopting, in order to be successful in the marketplace. It has equally been suggested that company strategies and risks should be more explicitly and transparently disclosed to investors (Adams et al., 2011) and should be explicitly considered by auditors in risk assessment and program planning (Kochetova-Kozloski and Messier, 2011). It is expected that the audit committee should be responsible for the monitoring of enterprise risk

	management (Beasley et al., 2011), since the audit committee may be effective in assessing and monitoring enterprise-wide risks, especially if such risks impact the financial reporting process (Krishnan, 2005).
Frequent meetings of the nomination committee have a positive effect on corporate performance	The majority of the respondents affirmed the position that the nomination committee should meet frequently as this will impact corporate governance positively. This is accordance with the role of the nomination committee which is to define the profiles of directors needed for the board and also to recommend future candidates for the position of directors (Eminet and Guedri, 2010). It is expected that the existence of a NC will reduce agency conflict and cost as, NCs mostly comprise of independent Non-Executive Directors (NEDs). The Higgs Report (2003) suggests that having a higher proportion of independent directors in the nomination committee is important to the setting of proper and transparent procedures of board members' selection and assessment. It has been suggested that in order to make NCs more effective, there must be a formal, rigorous and transparent procedure in place for the appointment of directors (the Combined Code, 2006; The Walker Review, 2009; and Financial Reporting Council, 2014) and by extension they should meet frequently as the need arises to appoint new directors or replace retired and resigned directors, in order

	to ensure that highly resourceful and committed people are appointed as board members. This is particularly important in the banking industry because of its role in the economy and the need to protect it from failure. Thus, the existence of independent directors on the nomination committee will help to institute reliable governance mechanisms to monitor the activities of the CEO in the nomination of board members (Long et al., 2000). They will use their diverse experience to ensure the appointment of competent directors who will bring efficiency to the management of the firm and who will consider the external environment and opportunities.

NIGERIAN BANK CORPORATE GOVERNANCE INDICATORS

YEARS	**firms**	**ACI**	**ACS**	**Board Committee Financial Expertise**	**Frequency of Board Committee Meeting**	**Board committee size**	**MANAGERIAL SHARES (%)**	**ROA**
2006	ACCESS	1	5	7	4	12	0.113783942	0.0042
2007	ACCESS	1	6	6	4	12	0.000160409	0.0185
2008	ACCESS	1	6	6	4	12	0.127081691	0.0156
2009	ACCESS	1	6	6	5	14	0.13622124	0.0339
2010	ACCESS	1	6	7	4	14	0.000109876	0.0178
2011	ACCESS	1	6	7	4	15	0.000109302	0.0055
2012	ACCESS	1	6	7	4	15	0.000980207	0.0240
2013	ACCESS	1	6	8	4	17	0.003871481	0.0154

2014	ACCESS	2	6	8	4	16	0.136962641	0.0202
2015	ACCESS	1	6	7	4	16	0.055557506	0.0244
2016	ACCESS	2	6	7	4	15	0.099156911	0.0207
2006	DIA	1	5	8	4	16	0.25738744	0.0173
2007	DIA	1	5	8	4	16	0.206958324	0.0222
2008	DIA	1	5	8	4	16	1.592572368	0.0196
2009	DIA	1	6	8	4	14	0.116006098	-0.0081
2010	DIA	3	6	8	4	16	0.23768154	0.0119
2011	DIA	3	6	8	4	16	0.240648235	-0.0320
2012	DIA	3	6	10	4	17	0.227058529	0.0218
2013	DIA	3	6	8	4	18	0.227252757	0.0220
2014	DIA	3	6	8	4	16	0.440963307	0.0126
2015	DIA	3	6	8	4	12	0.310280318	0.0025
2016	DIA	3	6	7	4	12	0.310608331	0.0012
2006	ECO	2	4	7	4	14	0.01339556	0.0269
2007	ECO	2	4	5	4	11	0.013551419	0.0239
2008	ECO	3	6	5	4	11	0.004773994	0.0049
2009	ECO	3	6	5	4	15	0.003105196	-0.0129
2010	ECO	3	6	9	4	14	0.000973993	0.0036
2011	ECO	3	6	7	5	18	0.002039595	0.0176
2012	ECO	1	4	8	4	15	0.001506794	0.0059
2013	ECO	3	6	9	4	17	0.001773194	0.0080
2014	ECO	3	6	8	4	15	0.001639994	11.4923
2015	ECO	3	3	8	4	13	0.001706594	3.2765
2016	ECO	3	4	8	4	12	0.001673294	8.7238
2006	FBN	2	6	7	4	11	0.046717602	0.0322
2007	FBN	2	6	9	4	15	0.046690733	0.0215
2008	FBN	3	6	9	4	15	0.034722636	0.0261
2009	FBN	3	6	8	4	17	0.018358705	0.0007
2010	FBN	3	6	8	4	16	0.017299491	0.0164
2011	FBN	3	6	8	4	12	0.00146172	0.0093
2012	FBN	3	6	8	4	11	0.009380605	0.0257
2013	FBN	3	6	8	4	13	0.005421163	0.0183
2014	FBN	3	6	8	4	11	0.007400884	0.0227
2015	FBN	3	6	8	4	12	0.006411023	0.0111
2016	FBN	3	6	8	4	12	0.006905954	0.0141
2006	FCMB	3	6	5	5	10	0.691271518	0.0267
2007	FCMB	3	6	6	5	12	0.051174241	0.0221

2008	FCMB	3	6	6	5	11	0.084876944	0.0295
2009	FCMB	3	6	6	5	13	0.083688709	0.0075
2010	FCMB	3	6	6	9	15	0.029642197	0.0138
2011	FCMB	3	6	4	8	18	0.009678715	0.0002
2012	FCMB	3	6	6	4	11	0.009560567	0.0141
2013	FCMB	3	6	6	4	10	0.010476758	0.0458
2014	FCMB	3	6	6	4	10	0.010626232	0.0410
2015	FCMB	3	6	5	4	10	0.010660919	0.0195
2016	FCMB	3	6	6	4	10	0.011229442	0.0284
2006	FIDEL	3	6	5	4	13	0.734969322	0.0264
2007	FIDEL	3	6	6	4	13	0.058747237	0.0192
2008	FIDEL	3	6	6	4	13	0.035448402	0.0244
2009	FIDEL	3	6	6	9	13	0.03665666	0.0053
2010	FIDEL	3	6	6	9	18	0.045893834	0.0122
2011	FIDEL	3	6	6	4	19	0.047295816	0.0081
2012	FIDEL	3	6	4	8	41	0.03900797	0.0196
2013	FIDEL	3	6	5	4	15	0.044308966	0.0071
2014	FIDEL	3	6	12	4	18	0.044889033	0.0116
2015	FIDEL	3	6	12	4	15	0.016274781	0.0113
2016	FIDEL	3	6	11	4	15	0.016274781	0.0075
2006	GTB	3	6	12	4	18	0.115520812	0.0284
2007	GTB	3	6	12	4	18	0.072278528	0.0272
2008	GTB	3	6	11	5	16	0.044588529	0.0305
2009	GTB	3	6	11	5	16	0.043805845	0.0234
2010	GTB	3	6	12	6	18	0.038538553	0.0342
2011	GTB	3	6	12	5	18	0.020211598	0.0334

2012	GTB	3	6	10	4	14	0.002025163	0.0526
2013	GTB	3	6	10	4	14	0.001944626	0.0449
2014	GTB	3	6	8	4	15	0.00196153	0.0419
2015	GTB	3	6	8	5	16	0.002265917	0.0414
2016	GTB	2	7	8	4	16	0.002283249	0.0103
2006	SKYE	3	5	9	4	18	0.296670747	0.0113
2007	SKYE	3	5	9	4	18	0.296670747	0.0124
2008	SKYE	3	5	9	4	18	0.070585374	0.0193
2009	SKYE	3	6	10	4	16	0	0.0018
2010	SKYE	3	6	11	4	18	0.187533838	0.0138
2011	SKYE	3	6	9	4	16	0.185328	0.0030
2012	SKYE	3	6	9	4	15	0.186430919	0.0119
2013	SKYE	3	6	9	4	17	0.185879459	0.0142
2014	SKYE	3	6	9	4	16	0.186155189	0.0068
2015	SKYE	3	6	9	4	16	0.186017324	-0.0359
2016	SKYE	3	6	8	4	15	0.186086257	0.0000
2006	STERING	3	6	8	4	17	0.408324821	0.0088
2007	STERING	3	6	6	4	12	0.342990109	0.0043
2008	STERING	3	6	6	4	12	0.091800925	0.0276
2009	STERING	3	6	5	4	11	0.343935436	-0.0324
2010	STERING	3	6	4	4	12	0.334766987	0.0161
2011	STERING	3	6	6	4	13	0.441547151	0.0137
2012	STERING	3	6	4	4	11	0.399420114	0.0120
2013	STERING	3	6	6	4	13	0.377502689	0.0117
2014	STERING	3	6	7	4	16	0.281568042	0.0109
2015	STERING	3	6	6	4	15	0.329535365	0.0129
2016	STERING	3	6	6	4	15	0.305551703	0.0062
2006	UBA	3	6	6	4	14	0.078336473	0.0136
2007	UBA	3	6	6	4	17	0.106467184	0.0180
2008	UBA	3	6	6	4	20	0.160287233	0.0263
2009	UBA	3	6	6	4	20	0.065721326	0.0092
2010	UBA	3	6	7	3	20	0.064025175	0.0015
2011	UBA	3	6	9	4	19	0.060133618	-0.0099
2012	UBA	3	6	9	4	18	0.010236359	0.0245

2013	UBA	3	6	7	4	16	0.009978275	0.0210
2014	UBA	3	6	8	6	16	0.054434899	0.0171
2015	UBA	3	6	8	4	16	0.065194178	0.0215
2016	UBA	3	6	7	4	19	0.062140905	0.0187
2006	UNION	3	6	7	4	17	0.004171385	0.0211
2007	UNION	3	6	6	4	17	0.009158054	0.0223
2008	UNION	3	6	6	4	17	0.007526243	0.0273
2009	UNION	3	6	6	4	14	0.002046912	-0.2586
2010	UNION	3	6	7	4	14	0.002038007	0.1396
2011	UNION	3	6	7	4	17	0.000310554	-0.0909
2012	UNION	3	6	8	4	18	0.001351948	0.0089
2013	UNION	3	6	7	4	17	0.001351948	0.0058
2014	UNION	3	6	8	4	18	0.000170607	0.0222
2015	UNION	3	6	8	4	19	0.000170756	18.0174
2016	UNION	3	6	7	4	18	0.000626731	14.1391
2006	UNITY	3	6	4	4	10	0.000398744	0.0105
2007	UNITY	3	6	7	4	14	0.000512737	0.0035
2008	UNITY	3	6	7	4	14	0.150101048	-0.0364
2009	UNITY	3	6	8	4	15	0.153069679	-0.0617
2010	UNITY	3	6	6	4	10	0.253762819	0.0407
2011	UNITY	3	6	8	4	15	0.032814065	0.0072
2012	UNITY	3	6	8	4	15	0.032310776	0.0156
2013	UNITY	3	6	8	4	16	0.034710553	-0.0559
2014	UNITY	3	6	7	4	14	0.301831283	0.0259
2015	UNITY	3	6	8	4	8	0.715972071	0.0106

2016	UNITY	3	6	7	5	8	0.715972071	0.0044
2006	WEMA	3	6	5	4	11	0.035987146	-0.0550
2007	WEMA	3	6	5	4	7	0.002903949	0.0155
2008	WEMA	3	6	5	4	7	0.019445547	-0.1051
2009	WEMA	3	6	5	4	7	0.000518423	-0.0147
2010	WEMA	3	6	5	4	9	0.000277037	0.0799
2011	WEMA	3	6	5	4	10	0.001017177	-0.0365
2012	WEMA	3	6	5	4	12	0.001017177	-0.0228
2013	WEMA	3	6	6	4	13	4.47265E-07	0.0048
2014	WEMA	3	6	6	4	14	4.47265E-07	0.0062
2015	WEMA	3	6	6	4	14	0.000246179	0.0057
2016	WEMA	3	6	5	4	12	0.045385278	0.0062
2006	ZENITH	3	6	7	4	12	0.079251737	0.0189
2007	ZENITH	3	6	7	4	14	0.079885488	0.0198
2008	ZENITH	3	6	7	4	14	1.261916356	0.0277
2009	ZENITH	3	6	8	4	15	0.124452724	0.0117
2010	ZENITH	3	6	8	4	15	0.113149936	0.0186
2011	ZENITH	3	6	8	4	15	0.003985034	0.0172
2012	ZENITH	3	6	6	4	14	0.003440278	0.0393
2013	ZENITH	3	6	7	4	12	0.00338446	0.0290
2014	ZENITH	3	6	7	4	12	0.09516768	0.0270
2015	ZENITH	3	6	7	4	12	0.095292701	0.0263
2016	ZENITH	3	6	7	4	13	0.095512883	0.0278

Appendix 1

Descriptive	ACI	ACS	BCFE	BCS	FBCM	MS	ROA
Mean	2.772727	5.889610	7.298701	14.56494	4.240260	0.119482	0.372123
Median	3.000000	6.000000	7.000000	15.00000	4.000000	0.044057	0.015589
Maximum	3.000000	7.000000	12.00000	41.00000	9.000000	1.592572	18.01742
Minimum	1.000000	3.000000	4.000000	7.000000	3.000000	0.000000	-0.258559
Std. Dev.	0.599812	0.451022	1.764315	3.549694	0.878614	0.212590	2.172787
Skewness	-2.420610	-3.894155	0.643692	2.435983	4.270589	3.854501	6.442465
Kurtosis	7.171940	20.13391	3.501765	21.37523	21.69300	22.49921	45.18858
Jarque-Bera	262.0727	2272.967	12.25022	2318.889	2710.273	2821.074	12486.18
Probability	0.000000	0.000000	0.002187	0.000000	0.000000	0.000000	0.000000
Sum	427.0000	907.0000	1124.000	2243.000	653.0000	18.40027	57.30694
Sum Sq. Dev.	55.04545	31.12338	476.2597	1927.851	118.1104	6.914770	722.3132
Observations	154	154	154	154	154	154	154

Appendix 2

Unit Root Test

	Unit root Testing	
	T-Statistics	**P- Values**
ACS	36.7891	0.0000
ACI	16.7030	0.0104
BCFE	108.279	0.0000
BCS	90.0465	0.0000
FBCM	42.1704	0.0000
MS	133.695	0.0000
ROA	74.2243	0.0000

Appendix 3

Correlation Matrix Table

	ACI	ACS	BCFE	BCS	FBCM	MS	ROA
ACI	**1.000000**						
ACS	0.269054**	**1.000000**					
BCFE	0.015160	-0.048642	**1.000000**				
BCS	0.011581	0.026960	0.298488**	**1.000000**			
FBCM	0.079486	0.067366	-0.126709	0.266352**	**1.000000**		
MS	-0.071836	-0.059067	-0.042301	-0.079917	-0.058335	**1.000000**	
ROA	0.062369	-0.141130	0.044290	0.090333	-0.045061	-0.092824	**1.000000**

Appendix 4

Result of Variance Inflation Factor

Variance Inflation Factor		
Variables	**Centred**	**Uncentered**
ACI	1.23	0.8134
ACS	1.16	0.8607
BCFE	1.14	0.8741
BCS	1.09	0.9190
FBCM	1.09	0.9208
MS	1.01	0.9852

Appendix 5

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.594	5	0.471

Appendix 6

Random Effect Regression Analysis

Dependent Variable: ROA
Method: Panel EGLS (Two-way random effects)
Date: 04/11/21 Time: 19:01
Sample: 2006 2016
Periods included: 11

Cross-sections included: 14
Total panel (balanced) observations: 154
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ACI	1.424068	0.353537	1.199501	0.0323
ACS	-0.679529	0.429834	-1.580910	0.1160
BCFE	0.033610	0.116899	0.287516	0.0003
BCS	-0.053601	0.057147	0.937955	0.3498
FBCM	-0.135434	0.219139	-0.618029	0.5375
MS	-0.564053	0.866854	-0.650689	0.5163
C	2.814120	2.778769	1.012722	0.3129

Effects Specification

	S.D.	Rho
Cross-section random	0.564771	0.0692
Period random	0.000000	0.0000
Idiosyncratic random	2.071023	0.9308

Weighted Statistics

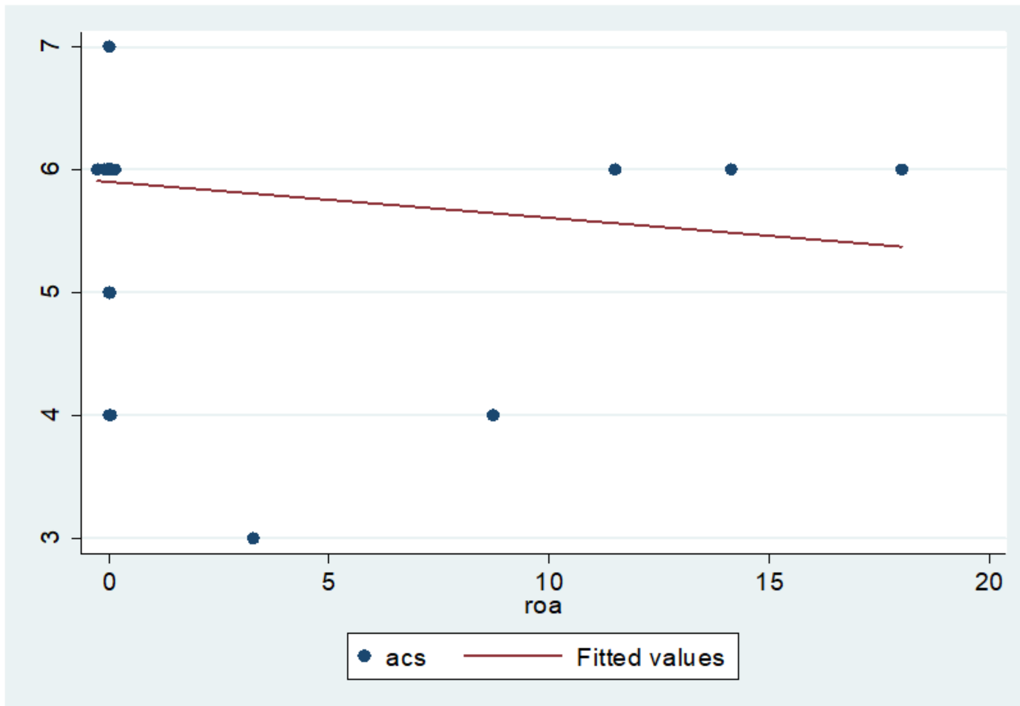
R-squared	0.272956	Mean dependent var	0.275985
Adjusted R-squared	0.296515	S.D. dependent var	2.088151
S.E. of regression	2.094942	Sum squared resid	645.1511
F-statistic	0.834935	Durbin-Watson stat	1.656828
Prob(F-statistic)	0.544753		

Unweighted Statistics

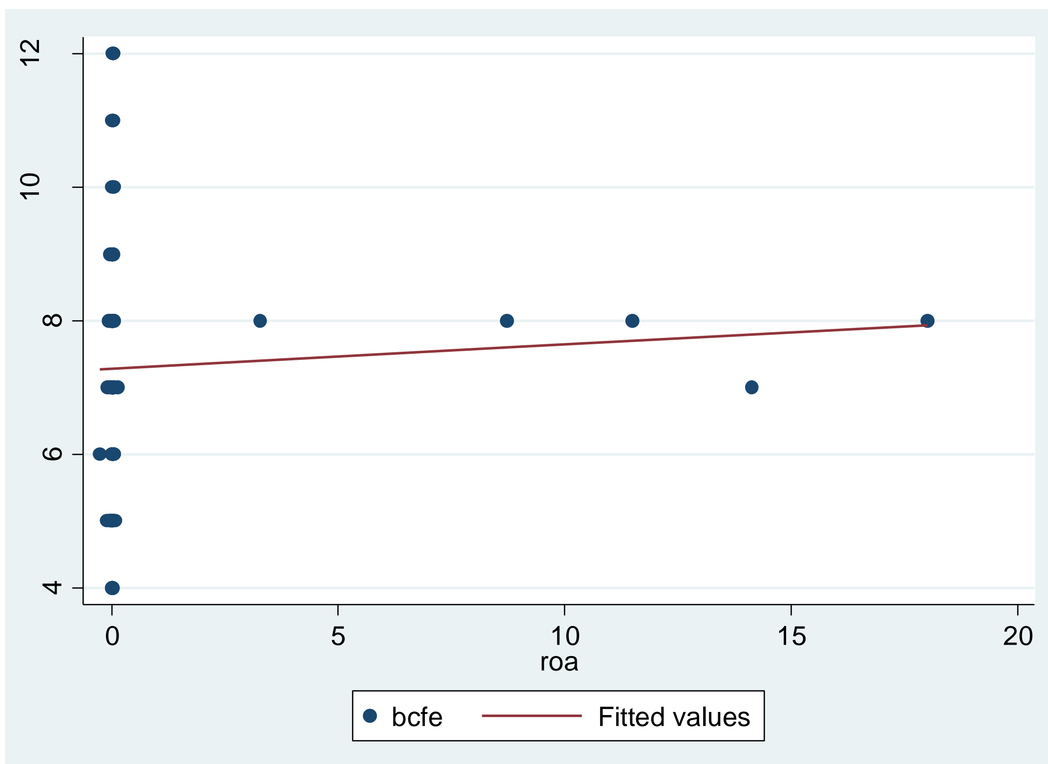
R-squared	0.048792	Mean dependent var	0.372123
Sum squared resid	687.0704	Durbin-Watson stat	0.992349

Appendix 7: Correlation Result

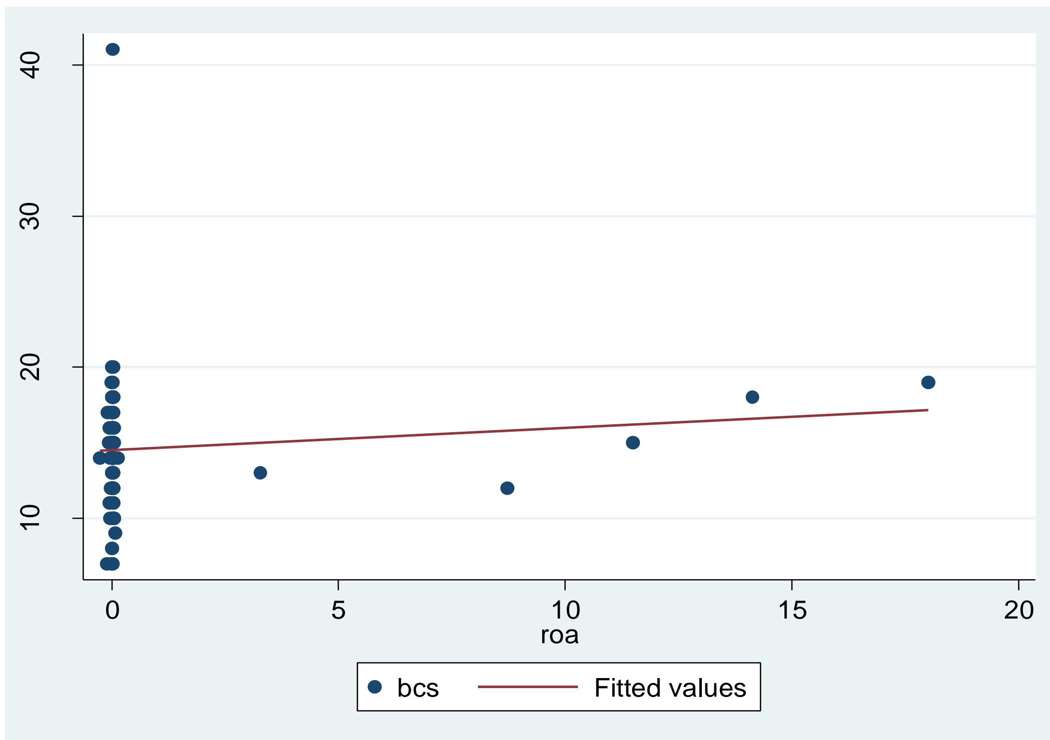
7.1 Return on Assets Vs Audit Committee Size



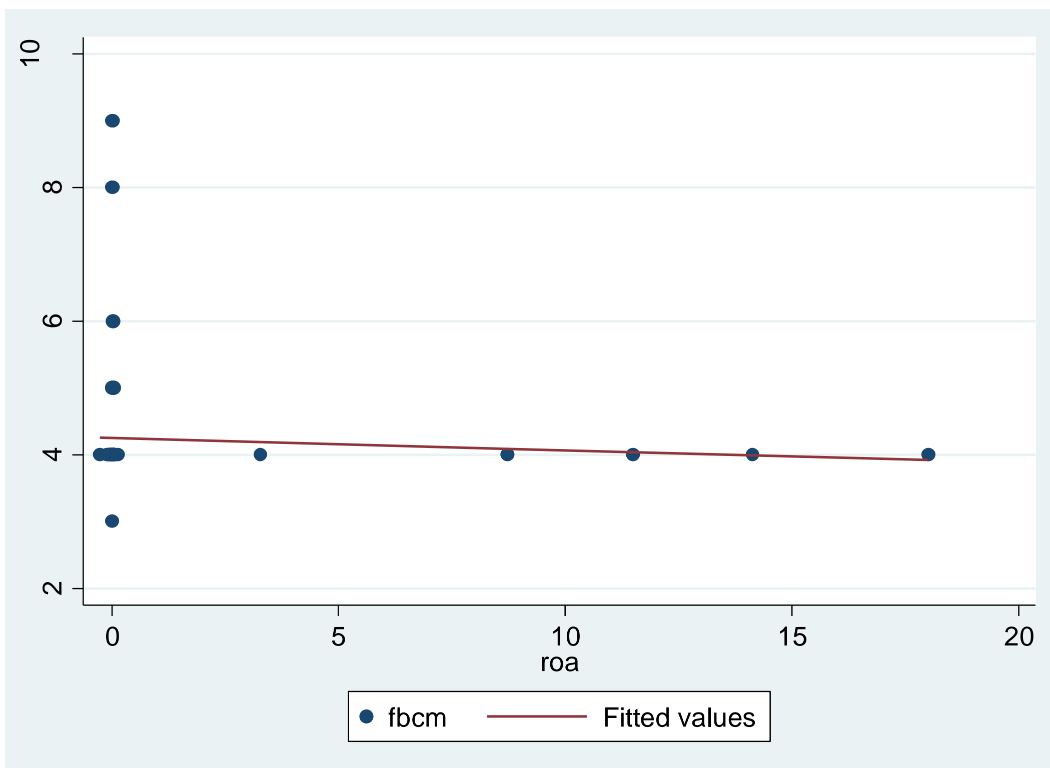
7.2 Return on Assets Vs Board Committee Financial expertise



7. 3 Return on Assets Vs Board size



7.4 Return on Assets Vs Frequency of Board Committee meeting



7.6 Return on Assets Vs Managerial Shareholding