

## Corporate Governance: Has the Nigerian Banking Sector Learnt Any Lesson?

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### ABSTRACT

*The period between 1994 and 2003 witnessed an avalanche of bad corporate governance in the Nigerian Banking Sector culminating in the collapse of 36 banks altogether. This ugly situation forced the Central Bank of Nigeria to embark on the policy of 'Bank Consolidation' which reduced the number of banks in Nigeria to 25 and strengthened their capital and asset bases as at 31<sup>st</sup> December, 2005. The period between 2005 and 2009 has also witnessed horrible form of governance which led to the immediate sacking of the Chief Executives and Executive Directors of 9 banks in the country. The objectives of this paper therefore were to examine corporate governance issues and challenges in the Nigerian banking sector, to observe the role of the insiders with respect to corporate governance practices, to determine the extent to which poor corporate governance has affected the Nigerian banking sector and to investigate whether the Nigerian banking sector has learnt any lesson as a result of incessant systemic crisis which had bedeviled the sector. Both primary and secondary sources of data were made use of. The primary data collected through the use of questionnaire were analyzed using simple descriptive statistics while the secondary sources included journals and textbooks. Findings from the study showed that the Nigerian banking sector is yet to learn from the sad consequences of poor corporate governance of the period between 1994-2003 in particular. It therefore recommended that high quality financial disclosures and total avoidance of insider abuses should be the hallmark of the Nigerian banking sector.*

**Keywords:** Corporate Governance, Banking Sector, Disclosures, Insider Abuses, Directors,

**JEL Classification Code:** G34

### 1 Introduction

There has been renewed interest in the corporate governance practices of modern corporation since 2001, particularly due to the high-profile collapses of a number of large corporation, most of which involved accounting fraud. The recent collapse of these high profile institutions around the world have shown that no company can be too big to fail. A common trend that ran through these monumental failures was poor corporate governance culture, exemplified in poor management, fraud and insider abuses by both management and board members, poor asset and liability management, poor regulations and supervision among others. Thus, the celebrated Enron case in the United States of America, Baring Bank in the United Kingdom, Parmalat in Italy, HIH, and One Tel in Australia, the financial crisis in the South East Asian countries and a host of others attest to the significance of good governance in the public and the private sectors of the economy (Sanusi 2004). Nigeria as a developing country is not excluded as there have been official recklessness and financial scandals that have brought monumental and damaging effect to many Nigerian financial institutions leading to their downfall and eventual extinction. The list includes Rims Merchant Bank, Abacus Merchant Bank, Victory Merchant Bank, Credite Bank, Progress Bank, Republic Bank to mention just a few (Babalola, 2010).

It is instructive to note that there is hardly any sector of the economy that has not suffered the consequences of lack of good corporate governance practice. This is underscored by the on-going efforts of the Federal Government of Nigeria at entrenching accountability and transparency in both the public and private sectors. Sanusi (2004) observes that "we have witnessed the collapse of many public corporations as well as private

business organizations and the attendant negative implications for economic growth and development. Such perverse consequences tend to become extremely worrisome when one realizes that the banking sector has been the worst hit especially since the 1990. From the early 1990's up to 1996, the financial conditions of many banks and non-bank financial institutions worsened significantly and this compelled the regulatory authorities to take decisive steps to restore public confidence in the financial system. During this period the number of banks classified as distressed increased from 8 to 52 (CBN, 1997). The Central Bank of Nigeria (CBN) revoked 4 licenses (3 in 1994 and 1 in 1995). Also, the CBN took over the management of 17 distressed banks in 1995 while one additional one was taken over in 1996. The Bank, in exercising its powers under Banks and Other Financial Institutions Act 1991, (as amended), announced the revocation of the banking licenses of 26 banks with effect from 16<sup>th</sup> January 1998 which was necessitated by their grave financial conditions. This has been the precarious situation of the sector up till July 2004 when the current Central Bank governor came up with the N25 billion recapitalization policy for banks in Nigeria.

According to Sanusi (2010) "we all know that the functioning of the financial system matters to everyone –to the economy at large and also to each one of us. The Nigerian economy has huge potential for growth. To realize that potential, it is imperative that we learn lessons from the crisis and take steps to not only fix the problems, but also introduce measures to establish financial stability, enable a healthy evolution of the financial sector and ensure the banking system contributes to the development of the real economy. The country, like many others hit by financial crises, is already feeling the pain of financial meltdown, most evident in the slowdown of credit to the economy. This is a natural consequence of bad lending decisions by banks leading to huge provisions and erosion in their capital, as well as challenges resulting from lack of progress in reforming the macroeconomic environment".

Although so many factors may have accounted for the instability and the distress syndrome which had engulfed the Nigerian banking sector, the issue of bad corporate governance took the center stage. Most of these banks were owned by individuals whose interest must be protected at the expense of the numerous depositors, creditors and other stakeholders. Unwarranted intervention in the internal management of these banks very often contributed to the banks' financial distress (Ogundina, 1998). Frequent board room squabbles, insider abuses, frauds and forgeries, weak/ineffective internal control systems have all reared their ugly heads under corporate governance (Babalola, 2010).

### **1.1 Statement of the Problem**

Corporate governance has become a major concern to both the public and the private sector of the Nigerian economy. In the immediate past two decades the financial services industry has experienced fluctuating fortunes leading to high profile cases of corporate failure and consequent near loss of public confidence. The implication of this on our tottering economy is obviously negative. The industry's problems are consequences (directly or indirectly) of bad corporate governance (Chukwudire, 2004). Unfortunately banks in Nigeria are still found wanting in the area of corporate governance. Most of the Nigerian banks were owned by individuals who occupy the positions of Chief Executive Officers or Executive Chairmen prior to the consolidation era. The calibre of people on the board of most banks may not necessarily be of proven integrity and as a matter of fact they are often not independent of the chairman or any other director who may turn them to mere rubber stamp.

Although the governance of banks ordinarily rests with the board of directors; the boards however, do not live up to their expectations in discharging their responsibilities. Even where the responsibilities of the board are clearly spelt out, banks do not comply with all legal requirements and regulatory standards. Banking business are not conducted with high ethical standard; there are gross insider abuses such as granting of insider-related credits resulting in large quantum of non-performing credits. The internal control and operational procedures are often not followed thus rendering the system very weak and allowing fraudulent and self-serving practices among members of the board, management and staff.

According to Anya (2003), lack of transparency has obscured the way many financial and economic activities are conducted and has contributed to the alarming proportion of economic/financial crimes in the financial industry. Trust and fiduciary principles, which was the cornerstone of banking, has been completely jettisoned as banks now engage in all forms of sharp practices. Some of these sharp practices involve the deliberate manipulation or distortion of records to conceal the correct and true statement of affairs. These records which form the bedrock of supervisory oversight by the regulatory authorities in monitoring the soundness of the system has thus been undermined. Such distortions therefore, would necessarily result in wrong information being sent to these

authorities, which should have been in a position to take adequate necessary measures to prevent further deterioration of the bank's position. The regulatory authorities are thus handicapped by such concealment until the bank hits the irreversible point of total collapse. This requirement of disclosure is often flouted more so that the sanctions for such violation are inconsequential to the offences committed.

Yahaya (1995) posits that "the management environment of the Nigerian banking industry is characterized by instability in tenure of office, ineptitude, sheer incompetence or even interpersonal disagreement and hostilities within one board which often leads to polarization of the rank and file of staff. Board members and top management staff often take advantage of the polarization by building empires, engaging in arbitrage opportunities and rent seeking activities rather than planning for corporate profit and survival strategies all of which have systemic bandwagon negative effect on the industry". Agreeing with him, Ebhodaghe (1996) states that the new generation banks are characterized by boardroom quarrels, insider abuses, frauds and forgeries, weak internal control systems as well as occasional contravention of well intended statutory regulations.

According to the Central Bank of Nigeria (2006). The weaknesses in the corporate governance for banks in Nigeria among others include

- Disagreement between board and management giving rise to board squabbles
- Ineffective board oversight functions
- Fraudulent and self-serving practices among members of the board, management and staff.
- Overbearing influence of Chairman or MD/CEO, especially in family-controlled banks
- Weak internal controls
- Non-compliance with laid-down internal control and operation procedures
- Poor risk management practices resulting in large quantum of non-performing credits including insider-related credits.
- Abuses in lending, including lending in excess of single obligor limit
- Technical incompetence, poor leadership and administrative inability

The CBN's Code of Corporate Governance for banks in Nigeria states that "poor corporate governance was identified as one of the major factors in virtually all known instances of financial institutions' distress in the country. However, while Anya (2003) focuses on lack of transparency as a bane of the Nigerian financial sector, he did not consider other factors. Ebhodaghe (1996) on the other hand narrows his study to new generation banks even though he raised the issue of insider credits. None of the authors did conclusively see corporate governance as the major factor in the Nigerian banking sector crisis. The question then, is, has the Nigerian banking institutions learnt any lesson from the myriad of crisis which had engulfed the sector and threatened the stability and growth of the banking system in Nigeria.

### 1.2 Objectives of the Study

The objectives of the study are to: - (i) examine corporate governance issues and challenges in the Nigerian banking sector (ii) observe the role of the insiders with respect to corporate governance practices (iii) determine the extent to which poor corporate governance has affected the Nigerian banking sector (iv) investigate whether the Nigerian banking sector has learnt any lesson as a result of incessant systemic crisis

### 1.3 Concept of Corporate Governance

Corporate governance is a uniquely complex and multi-faceted subject. Devoid of a unified or systematic theory, its paradigm, diagnosis and solutions lie in multidisciplinary fields i.e. economics, accountancy, finance among others (Cadbury, 2002). According to Morck, Shleifer and Vishny (1989), among the main factors that support the stability of any country's financial system include: good corporate governance; effective marketing discipline; strong prudential regulation and supervision; accurate and reliable accounting financial reporting systems; a sound disclosure regimes and an appropriate savings deposit protection system. Corporate governance describes all the influences affecting the institutional processes, including those for appointing the controllers and/or regulators, involved in organizing the production and sale of goods and services. Described in this way, corporate governance includes all types of firms whether or not they are incorporated under civil law. The phrase corporate governance is often applied narrowly to questions about the structure and functioning of boards of directors' (Blair 1995). This view is found amongst some business school scholars and management consultants.

Corporate governance is 'the structure whereby managers at the organizational apex are controlled through the board of directors, its associated structures, executive incentive, and other schemes of monitoring and bonding' (Lex Donaldson, 1990). This view was reflected by his colleague, a former McKinsey consultant, in *Strictly Boardroom* (Hilmer 1993). Corporate governance is concerned with a clear distinction between the top management's operational processes, and the highest-level policy-based structure of an organization. The governance structure formulates policies and gives general road-map for the organization, while the top management breaks down these policies into implementable bits and follows-through same in the course of its daily operations. (Owoh, 2006).

Machold (2004) discusses corporate governance from both the conceptual model and theoretical dimensions. She notes that corporate governance dates back to the 18<sup>th</sup> century when Adam Smith, in his treatise, *The Wealth of Nations*, remarked on the problem associated with self-interested managers, pursuing their own interests rather than that of the shareholders of the companies. She notes further that the conflict of interest between the shareholders and the managers have been investigated in the principal-agent theory. The theory postulates that, by entrusting the management of companies to agents, the owners (principals) have to create mechanisms to align the agent's interests with their own. This consequently, gives rise to agency costs in terms of monitoring costs, bonding costs and potential residual losses.

Adenikinju (2005) observes that very narrowly, corporate governance can be conceived as a set of arrangement internal to the corporation that defines the relationships between managers and shareholders. However, Rossouw (2002) draws a distinction between corporate governance in the broad and narrow senses of the word. In the broad sense, he says corporate governance refers to control exerted over companies externally, examples being the state and the judiciary exercising external control over companies as well as the various governmental and economic reforms in Nigeria. The state may also opt for delegating some of its controlling functions over companies to regulatory bodies like the National Agency for Food and Drugs Administration Control (NAFDAC). This type of arrangement forms the landscape of broad corporate governance. The objectives of such controls over the affairs of companies are:

- (i) to set ground rules that will ensure the protection of all stakeholders in corporation
- (ii) to prevent the market from falling, due to malpractices

Corporate governance in the narrow sense is concerned with the internal governance of companies. It relates to the processes by which companies are directed and controlled (Rossouw, 2002).

#### 1.4 Literature Review and Theoretical Framework

Shleifer and Vishny (1997), Vives (2000) and Oman (2001), stress that there is a broader approach which views the subject as the methods by which suppliers of finance control managers in order to ensure that their capital cannot be expropriated and that they can earn a return on their investment. There is a consensus, however that the broader view of corporate governance should be adopted in the case of banking institutions because of the peculiar contractual form of banking which demands that corporate governance mechanisms for banks should encapsulate depositors as well as shareholders Macey and O'Hara (2001). Arun and Turner (2002) support the consensus by arguing 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. They further argued that, the unique nature of the banking firm, whether in the developed or developing world, requires that a broad view of corporate governance which encapsulates both shareholders and depositors, be adopted for banks. They posit that, in particular, the nature of the banking firm is such that regulation is necessary to protect depositors as well as the overall financial system. Some of the relevant issues relating to corporate governance are:-

**Separation of the Chairman from the Chief Executive Officer:-** According to Adedipe (2004b), it is an important issue in corporate governance. This was initially adduced as the possible explanation for the extent of abuse of office in the United States of America, where the combination of those offices is prevalent-usually in the President of the organization. But the corporate failures and frauds that occurred in the rest of the world weakened the argument. Indeed, the European common business model of separation of these offices and the two-tier Board that is common in Germany have not insured against poor corporate governance. It then brings the argument down to the individuals concerned. Some have combined both offices effectively and ensured strict observance of the ethics of their professions, while some others abused the privileges of such executive powers. In his own view, Sanusi (2003), contends that combining the position of the Chief Executive with that of the Chairman of the board, could lead to the problem of moral hazard and thereby threaten financial sector stability.

He further argues that to limit the control which one person has in the operation of a bank, several voting rights must be instituted. According to CBN (2006), no one should combine the post of Chairman/Chief Executive Officer. The office of the Chief Executive should be held by different person other than the Chairman.

**Board Responsibilities:** Sanusi (2002) contends that the governance of banks rest with the board of directors for this reason the board should ensure that the bank is run with integrity, complies with all legal requirements and regulatory standard and conduct its business in accordance with high ethical standard. Diplock (2004), opines that effective corporate governance is all about boards performance. The task of governing a corporate entity is the work of board of directors. For a board to function effectively, it should be composed of members who are independent, skilled, knowledgeable, experienced and of diverse perspectives. Chukwudire (2004), contends that Nigeria has had a high profile cases of corporate failure which are traceable to weak and ineffective boards. In some cases, the board appears to have been dormant members of such boards-being satisfied with having business cards that identify them as board members. In a number of cases, the boards become a part of management rather than an active monitor of its performance.

**Internal Controls:** Sanusi (2002), opines that the primary responsibility of keeping individual banks sound lies with each bank's owners, managers, and the board of directors. Together, they must establish a framework of internal controls and practices to govern the operations of the bank and ensure that it functions in a safe and sound manner. Poor internal governance has been identified as a major factor in virtually all known instances of banking unsoundness. One basic requirement is that persons who control and manage the business of banking must be men of integrity, above board, trustworthy and must possess appropriate skills and experience. Nnanna (2004) opines that the primary responsibility for maintaining financial sector stability lies largely with the owners, directors, and managers of the financial institutions. They must work together to establish a framework of internal controls and practices to govern the operations of the institutions as well as ensure that the institutions function in a safe and sound manner. The internal control systems must include accounting procedures that adhere to generally accepted standards. Poor internal governance is a serious factor in many instances of unsoundness of financial institutions.

**Disclosure and Transparency:** Sanusi (2002), posits that disclosure and transparency are key pillars of a corporate governance frame work, because they provide all the stakeholders with the information necessary to judge whether or not their interest are being served. He sees transparency and disclosure as an important adjunct to the supervisory process as they facilitate banking sector market discipline. For transparency to be meaningful, information should be accessible, timely, relevant and qualitative. According to Anameje (2007), transparency and disclosure of information are key attributes of good corporate governance which banks must cultivate with new zeal so as to provide stakeholders with the necessary information to judge whether their interest are being taken care of. Sanusi (2003), opines that lack of transparency undermines the ethics of good corporate governance and the prospect for effective contingency plan for managing systemic distress.

**Insider Abuses:** Sanusi (2002) observes that our recent experience in Nigeria with financial sector crises gives cause for great concern. While political interference complicated the problem of corporate governance in state owned banks, private ownership has not wholly guaranteed good governance as the ownership structure has, in some cases promoted incentives to operate the banks in unsafe and unsound manner. According to Oluyemi (2005), a critical review of the nation's banking system over the years have shown that one of the problems confronting the sector had been that of poor corporate governance. From the closing reports of banks liquidated between 1994 and 2003, there were evidences that clearly established that poor corporate governance led to their failure. A further revelation showed that many owners and directors abused or misused their privileged positions or breached their fiduciary duties by engaging in self-serving activities. The abuses included granting of unsecured credit facilities to owners, directors and related companies which in some cases were in excess of their banks' statutory lending limits, in violation of the provisions of the law. The magnitude of insider abuse in some of the failed banks is presented in the table below.

Table I: Highlight of Facilities Granted to Owners and Directors of Some Selected Banks in.. Liquidation

| Period | Bank (in-liquidation)       | Ratio of Insider Loans to Total Loans |
|--------|-----------------------------|---------------------------------------|
| 1      | ABC Merchant Bank Ltd       | 50.66                                 |
| 2      | Alpha Merchant Bank Plc     | 55.00                                 |
| 3      | Commerce Bank Plc           | 52.00                                 |
| 4      | Commercial Trust Bank Ltd   | 55.90                                 |
| 5      | Credite Bank Nig Ltd        | 76.00                                 |
| 6      | Financial Merchant Bank Ltd | 66.89                                 |
| 7      | Group Merchant Bank Ltd     | 77.60                                 |
| 8      | Kapital Merchant Bank Ltd   | 50.00                                 |
| 9      | Nigeria Merchant Bank Ltd   | 99.90                                 |
| 10     | Prime Merchant Bank Ltd     | 80.70                                 |
| 11     | Republic Bank Ltd           | 64.90                                 |
| 12     | Royal Merchant Bank Ltd     | 69.00                                 |
| 13     | United Commercial Bank Ltd  | 81.00                                 |

Source: Closing Reports, Receivership and Liquidation Dept, NDIC

The banks were being classified as unsound and unhealthy and were terminally distressed. The distress syndrome in the banking sector therefore culminated in the revocation of licenses of about 36 banks during the period 1993-1998. In 1994, Financial Merchant Bank, Kapital Merchant Bank and United Commercial Bank all failed and their affairs wound up. In 1995, it was only Republic Bank that was so unlucky. With the persistence of distress trend in Nigeria, the year 1998 marked the exit of 26 banks, en masse from the banking sector Dr Paul Ogwuma, the then CBN Governor, in exercise of its powers under the provision of BOFIA No 25 of 1991 (as amended) announced the revocation of the banking licenses and the commencement of the winding up of the affairs of the 26 banks (13 commercial banks and 13 merchant banks).

Nevertheless, the trend continued and in September the same year (1998), Alpha Merchant Bank that had been distressed for quite some time was also liquidated. It was the turn of Ivory Merchant Bank, Premier Commercial Bank and Rims Merchant Bank in the year 2000. Savannah Bank and Peak Merchant Bank also went under in 2002 and 2003 respectively. The study therefore observed that weak corporate governance which accounted for the persistent crisis in the Nigerian banking sector and ultimately led to the demise of 36 banks between the periods 1994 - 2003 was one of the major reasons advanced by the Central Bank of Nigeria to embark on the policy of consolidation in the sector.

Although the banks have had their minimum shareholders funds increased to N25billion with effect from December 31, 2005, at least to solve the problem of inadequate capital base, events unfolding in the sector have shown that the issue of poor corporate governance is far from being resolved. 9 out of the Nigeria's 24 banks had their Managing/Executive Directors sacked with immediate effect and replaced by a new set of experienced personnel by the regulatory authority. Their offence was that they exhibited a high degree of poor corporate governance in their various banks which culminated in the granting of huge non-performing loans and persistent illiquidity. The current apex bank governor claimed that one of them, who was supposed to be a net placer of funds in the inter-bank market, became a net taker. Even the Expanded Discount Window created because of these ailing banks could not solve their grave liquidity problem. The Central Bank was compelled to embark on a bail out policy by injecting about N600billion into the banks to take care of their negative capitalase and prevent another round of bank failure in the country.

### 1.6 Theoretical Framework

**The Simple Finance Model:** In the finance view, the central problem in corporate governance is to construct rules and incentives (that is, implicit or explicit 'contracts') to effectively align the behaviour of managers (agents) with the desires of principals (owners)(Hawley & Williams 1996). The rules and incentives in the finance model refer to those established by the firm rather than to the legal/political/regulatory system and culture of the host economy or the nature of the owners. The finance view represents a sub-section of the political model of corporate governance. The political model interacts with the 'cultural', 'power' and 'cybernetic' models raised in the following section. It is the nature of the owners which exacerbates corporate control problems found in Anglo countries like the US, Canada, UK and Australia. In each of these countries, institutional investors own the

majority of the shares in most of the largest publicly traded firms unlike in continental Europe and Japan (Analytica 1992). The problem with institutional ownership is that their investment managers are fiduciary agents of the beneficial owners and so the situation is created of agents representing agents.

The problem of agents being responsible to agents is that it compounds the agency costs identified by Jensen & Meckling (1976). A basic assumption is that managers will act opportunistically to further their own interests before shareholders. Jensen and Meckling showed how investors in publicly traded corporations incur costs in monitoring and bonding managers in best serving shareholders. As a result, managers obtain the right to make decisions which are not defined or anticipated in the contract under which debt or equity finance is contributed (Grossman & Hart 1986). This raises the 'principal's problem' (Ross 1973) and 'agency problem' (Fama & Jensen 1983). In any event, small shareholders may lack the power and influence to extract information which could reveal expropriation or mismanagement. This theory therefore supports the genesis of the systemic crisis pervading the Nigerian banking sector.

## 2. Methodology

This study relied essentially on primary data. Structured questionnaire was used to collect the data from the respondents drawn from the staff of the Central Bank of Nigeria, Nigeria Deposit Insurance Corporation, Securities and Exchange Commission and Nigeria Stock Exchange. The study was carried out in Lagos, the commercial city of Nigeria and the choice of these institutions was informed by the role they play in the Nigerian financial system. In all, a total of 60 questionnaire were administered to 15 staff selected from each of the four organizations. The respondents were randomly selected from the senior staff of each of these organizations. Out of the 60 questionnaire administered, 52 were properly filled and returned. In addition to the primary data secondary sources which include journals, textbooks, speeches were contacted.

### 2.1 Research Hypothesis

- 1 Nigerian banking sector has been seriously affected by poor corporate governance
- 2 Nigerian banking sector has not learnt any lesson from the effect of poor corporate governance

## 3. Data Presentation and Hypothesis Testing

### Hypothesis 1

Table 2: Effect of Poor Corporate Governance on the Nigerian Banking Sector

| Corporate Governance Issues  | Full (w=3) | Partial(w=2) | None (w=1) | x    |
|--|------------|--------------|------------|------|
| Insider Abuses   | 29         | 20           | 3          | 2.50 |
| Inadequate Disclosure  | 25         | 19           | 8          | 2.33 |
| Lack of Transparency   | 31         | 19           | 2          | 2.56 |
| Weak Internal Controls   | 23         | 21           | 8          | 2.29 |
| Ineffective Board  | 21         | 21           | 10         | 2.21 |
| Fusion of the Post of the Chairman and that of the Managing Director | 23         | 20           | 9          | 2.27 |
| Non-Separation of Ownership from Management                          | 24         | 21           | 7          | 2.33 |

Note w = weight x = mean

Comment: Hypothesis 1 tested the effect of poor corporate governance on the Nigerian banking sector. Relevant corporate governance issues were weighed, ranging from Full Effect (3) to No Effect (1). The result showed that the mean score for each of the issues is in excess of 2.0 which means the effect is more than partial carrying a weight of 2. Since the effect of these issues on the banking sector range between 2.0 and 3.0 that is, between partial effect and full effect, and these issues are symptoms of poor corporate governance, the hypothesis that Nigerian banking sector has been seriously affected by poor corporate governance is accepted.

**Hypothesis 2**

Table 3: Nigerian banking sector has not learnt any lesson from the effect of poor corporate governance

| Response          | X | f  | Fx  | X    | S    | %     |
|-------------------|---|----|-----|------|------|-------|
| Strongly Agree    | 5 | 32 | 160 |      |      | 61.54 |
| Agree             | 4 | 10 | 40  |      |      | 19.23 |
| Hardly Agree      | 3 | 6  | 18  |      |      | 11.54 |
| Disagree          | 2 | 3  | 6   | 4.33 | 1.11 | 5.77  |
| Strongly Disagree | 1 | 1  | 1   |      |      | 1.92  |

Comment: Using a 5 point Likert scale, Table 3 shows a simple descriptive statistics with a mean score of 4.33 and a standard deviation of 1.11. This indicates that majority of the respondents agree with the view that the Nigerian banking sector has not learnt any lesson from the effect of poor corporate governance.

Table 4 : Descriptive Statistics

|  | N  | Mean | Standard deviation | Percentage |
|--|----|------|--------------------|------------|
| Nigerian banking sector has not learnt any lesson from the effect of poor corporate governance | 52 | 4.33 | 1.11               | 80.77      |

Comment: This hypothesis is tested with the total number of respondents being 52 and a cumulative percentage of about 80.77% of this respondents, at least, agreeing that Nigerian banking sector has not learnt any lesson from the effect of poor corporate governance which has engulfed the sector. Thus with a mean score of 4.33 from a maximum point of 5 using the Likert scale and a cumulative percentage of about 80.77%, the hypothesis is accepted. Hence, Nigerian banking sector has not learnt any lesson from the effect of poor corporate governance.

**3.1 Further Findings and Discussions**

The widespread bank failure between 1994-2003 did not only lead to the extinction of 36 banks, it also brought about untold instability to the sector. The sector therefore became unsafe for bank customers and potential investors. The recapitalization policy embarked upon by the Central Bank of Nigeria in July, 2004 to arrest the low capital base of Nigerian banks did not appear to have made any appreciable impact on the growth and stability of the sector. Nevertheless, Sanusi (2010) opines that the Nigerian banking sector witnessed dramatic growth post consolidation. In spite of this, neither the industry nor the regulators were sufficiently prepared to sustain and monitor the sector's explosive growth. Prevailing sentiment and economic orthodoxy all encouraged this rapid growth, creating a blind spot to the risks building up in the system. Prior to the crisis, the sentiment in the industry was that the banking sector was sound and growth should be encouraged. The IMF endorsed the strength of the banking system to support this growth. However, this sentiment proved misplaced.

These banks were over exposed to the troubled downstream oil sector and the nose-diving capital market. Because of the low perception of risk by the management of these banks, their banks got their fingers burnt and became perpetually illiquid and were desperately taking inter-bank funds at any rate. When the other banks were no longer willing to do business with them, the CBN had to be guaranteeing them. The Expanded Discount Window introduced by the apex bank could not arrest the liquidity crisis faced by the sector. Sanusi (2010) observes that the owners and managers of banks, the rich borrowers and their clients in the political establishment are one and the same class of people protecting their interest, and trampling underneath their feet the interest of the poor with impunity.

**4. Concluding Remarks**

The study was carried out primarily to investigate whether or not the Nigerian banking sector is yet to learn any lesson from the incidence of poor corporate governance which has been the bane of the sector since the early 90s till date. In the course of this study, corporate governance issues such as insider abuses. Inadequate disclosure, lack of transparency, weak internal controls, ineffective board, fusion of the post of the Chairman and that of the Managing Director and non-separation of ownership from management were identified. The data collected were centered on the corporate governance issues and appropriate weights were assigned to each of



the frequencies of these issues to determine their mean scores. It was observed that each of these issues has a mean score ranging between 2 and 3. This, in essence, means that the effect of poor corporate governance on the Nigerian banking sector is significant. The result of the study as shown in hypothesis 2 also indicated that the Nigerian banking sector has not learnt any lesson from the incessant manifestations of poor corporate governance.

To this end therefore, the authors are of the opinion that high quality financial disclosure coupled with total transparency, remarkable accountability and avoidance of insider abuses would be essential complement to sound corporate governance financial disclosure would help to strengthen the accountability of directors and senior management and enhance the incentive for risk management. Such disclosure would also allay the fears of small depositors and creditors and give them the guarantee that their interests are adequately protected.

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