TITLE PAGE

BARRIERS TO EFFECTIVE CORPORATE GOVERNANCE IN THE BANKING INDUSTRY

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A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (MBA) IN MANAGEMENT IN THE FACULTY OF BUSINESS ADMINISTRATION UNIVERSITY OF NIGERIA,

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CERTIFICATION

This is to certify that this project was carried out in the department of management under the faculty of business administration. In partial fulfillment of the requirement for the award of the degree of masters of business administration.

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Project Supervisor Head of Department

DEDICATION

This project is dedicated to the Almighty God in Heaven.

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To Him alone be all the glory.

ABSTRACT

Research into corporate governance in Nigerian Bank was born out of necessity to investigate the frequent collapse of some banks. Bank failure is so disturbing because it sits at the center of the economy. The first chapter discussed the causes of bank failures, Barriers and faults centralization of management, misreporting, insider abuses and fraud, violation and non-compliance of internal controls put in place, etc. Review of literature historically traced back bank distress in Nigeria from pre-independence to date. Reasons for the recorded failures were also identified. The procedures adopted in data generations, data collection, measurement criteria, analysis and interpretations were highlighted in chapter three. The empirical approach adopted in the research gave the work a scientific outlook. Sufficient data generated were tabulated so as to aid analysis. Pictorial analytic tools graphs were employed in analyzing the data. In data analysis, a comparative study of the values given to various stakeholders of banks, insurance, conglomerates, breweries, food and beverages were done so as to determine their fairness or otherwise. Before arriving at a result data of various companies under review as contained in value added statement in the past six years were carefully analyzed. The analyzed data presented in graphs simplified the analysis. Conclusively, the study criticized the returns given to shareholders of banks and recommended a comparative review.

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Chapter One

1.0 INTRODUCTION

Corporate failure today is a global issue. In 2010, we saw the collapse of large companies like Bank of Credit and Commerce International (BCC1), Enron and WorldCom (www.cnn.com/worldnews:2010). In Nigeria, corporate failure is very rampant in the financial and non- financial services sector.

Soludo (2005) hinted that by 1998, a total number of 26 banks have been liquidated and at the time of consolidation, 11 banks were already dead literally.

John Clutter Buck in Al-Faki (2006) highlights that companies that failed shared some common characteristics and they are:-

a. Leadership of the company is vested in an individual who combines the office of chairman and chief Executive with domineering tendency.

b. Persistent violation and non-compliance with internal control of the company by the chief Executive.

c. Optimistic (or even distorted) rather than prudential financial reporting.

d. Irregular board meetings often without adequate information given in advance.

e. Minimal disclosure in the accounts of the company.

It is the combination of these factors that undermine the ability of companies to withstand economic downturns thus, leading to a collapse.

In the Nigerian banking scenario, issues such as lack of probity, transparency, integrity, accountability, inflation of balance sheet with unearned income, weak capital base, unskilled and inefficient management also contributed to the death of many banks . Such, also identified the reasons of early indigenous bank failure as mismanagement, and accounting incompetence.

What then is the adequacy of bank legislations in controlling and regulating the banking practices in the sector? The question is relevant because in spite of the exiting legislations, a number of failures and distresses have been recorded in the industry . In an attempt to design codes that

will be appropriate to quell these irregularities, a global phenomenon termed corporate governance came into being. Today it has become a contemporary issue, which has dominated the interest of all business, legal and government circle world wide. In the Nigerian scene, the provisions in the code of corporate governance was designed to augment the provisions of Company and Allied Matters Act (CAMA)1990 ; Bank and Other Financial Institution Decree (BOFID) 1991; Failed Banks and Financial Malpractices in Banks Decree, 1994; Nigeria Deposit Insurance Corporation Decree, 1988; Money Laundering Decree, 1995; Prudential Guidelines and other relevant banking codes.

1.1 CORPORATE GOVERNANCE: AN OVERVIEW

Corporate governance is a topical issue that gained prominence in United Kingdom towards the end of the last century. Many reports have been issued on this subject matter in the UK and around the globe. Some of these are Greenbury report, the Hampel Report , the Turnbell committee Report, the king's report (south Africa), Sarbanes-Oxley Act (USA)

and OECD Report (Oki, 2005). Then in Nigeria we have Peterside Report , Bankers committee Report and CBN Report, each of these reports came up with different suggestions on the subject matter but shared almost similar definitions. Oki (2005) noted that Cadbury Report defined corporate governance as the system by which companies are directed and controlled. While in 1995, Greenbury code went beyond Cadbury Report to stipulate that director's remuneration and detailed disclosures are to be given in the annual reports . Hampel report made little modifications in the areas of duties of executive and non-executive directors , share holders and AGM , accountability, audit and reporting.

Turnbull (1997) described corporate governance as all the influence 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.

Bob Tracker in Al-faki (2006) defined it as ‘essentially the exercise of power over the modern corporation (large and small), holding company and subsidiary” .

Wofensohn (the former world Bank president) defined corporate governance in terms of what have come to be generally considered as the principle of corporate governance. To him, corporate governance is all about promoting corporate fairness, transparency and accountability (Abbey, 2005).

Peter side committee (2003) accepted the definition of the subject matter as “the way and manner in which the affairs of companies are conducted by those charged with the responsibility. And which has a positive link to national growth and development”. Given to the peculiarity and fragility in the banking business, a special code of corporate governance for Banks and other financial institutions in Nigeria was drafted by the bankers.

1.2 STATEMENT OF THE PROBLEM

Banks in Nigeria ever since the emergence of the early indigenous banks in 1927 have witnessed series of

systemic distress and failures. The collapse is quite particular with indigenous banks while foreign banks established in the colonial days have all survived the turbulent Nigeria economy . Example of those banks of foreign origin are Bank of British West African (BBWA) (now union bank plc) and British and French Bank of Commerce and Industry (later to become United Bank for Africa) were established in 1925 and 1948 respectively (Uche, 2001a). So why did more indigenous banks fail in spite of the recipes of G. Paton in 1958. Uche (2001b) summarily insinuated that incidence of fraud and unethical practices were behind the debacle of these banks. Persistent fraud and unethical issues are then the indices of weak corporate governance.

Weak corporate governance has been a hydra- headed problem to the industry ever since the emergence of indigenous banks. Many recipes have also failed to strengthen the integrity and enthrone ethical practices. More still, poor banking cultures, unethical practices, centralized ownership (though practically addressed by consolidation), incompetence

in management culminate into weak corporate governance. Weak corporate governance is the most disturbing issue in the industry today. Now that mega banks have emerged from the consolidation, more challenges are posed to corporate governance.

1.3 THE RESEARCH QUESTION

The following research questions will guide the conduct of this study:

1. Does corporate governance enhance efficiency in the organization?
2. How equitable is the returns to shareholders of Nigeria banks over the years.
3. Does corporate governance restore investors' confidence?
4. Is there a proper code of corporate governance in the industry ?
5. Do government agencies oversee the implementation of corporate governance?

1.4 OBJECTIVES OF THE STUDY

i To investigate the extent to which corporate governance enhances efficiency.

ii To highlight the criteria and parameters which feasible corporate governance must follow.

iii To determine the fairness of returns given to shareholders of Nigeria banks.

iv To perform a comparative study of how value added is distributed to the various stakeholders.

v. To ascertain how Nigeria banks have provided for the future business expansion and growth.

vi To perform across the border comparism with the returns made to shareholders of other foreign banks.

vii To establish equity in the values given to the employee of Nigeria banks.

viii To examine the relationship if any between corporate governance and investors' confidence.

ix To establish relationship if any between share price in the secondary market and the retained earnings and reserves of the banks over the years.

1.5 SIGNIFICANCE OF THE STUDY

Sound corporate governance is not, and ends in itself but a means. It is not about strict policing of the managers,

who are the company agents; the bottom line is about superior corporate performance based on a rescannable cost. This study celebrates the sprit of corporate governance instead of the letter of corporate governance. When managers and boards understand the relevance of their positive effort towards the promotion of corporate governance, the enforcement of the code becomes easier.

This study will positively change the banking attitude of Nigerians and improve the international perception of Nigerians banks. For students and researchers, this study will serve as a stepping stone in their work. This study will serve also as the writers own contribution to the

improvement of corporate governance in both public and non- public quoted organization.

1.6 SCOPE OF THE STUDY

The subject matter is a very deep and broad topic. The depth lies in the secrecy of the real account of what actually happens at the management. The insider alone knows the depth.

The cases abound of creative account, which is made available to the regulatory bodies and to the public. This level of misreporting conceals the extent of bank mismanagement, which may not be apparent to the whistle blower and to the regulator. Fact finding in this study will not go beyond the published reports of banks.

The study will draw its conclusion based on 6 years comparative analysis of samples drawn from Nigeria and Non- Nigerian banks, Insurance, Conglomerates, Breweries, food and Beverages Companies. The criteria for the selection will be discussed in chapter three. This study will not employ judgmental approach instead it will adopt a more pragmatic approach of financial and situational analysis.

1.7 LIMITATIONS OF THE STUDY

More thorough analysis of the subject matter will require the availability of undiluted financial and non- financial details about the industry. In the Nigeria case, banks are known for misrepresenting facts and figures so as to conceal

abuses and unprofessional practices inherit in some

banks. Therefore, total reliance on the published facts may limit the chances of optimum result in the research.

Research such as this is very cost intensive and requires good time for more diligent study of the subject matter. Time constraints and financial bottleneck were important limiting factors to this research.

1.8 ORGANIZATION OF THE STUDY

This project is a five- chapter research work. The first chapter sets direction for the entire work. It builds a firm background for the study, sets the objectives, determine the scope , and establish the bounds and limits of the study. The work of other researchers will be reviewed in chapter two.

Chapter three will simply outline the research Methodology used, while chapter four will concentrate on the data presentation and analysis of some important variables necessary in answering the research question. The fifth chapter will aptly give the summary of the findings, recommendations and conclusion.

At the end of every chapter, reference of all books, articles, journals, newspapers, codes and websites, cited will be alphabetically arranged.

1.9 DEFINITION OF TERMS

Corporate:

That which belongs to body collectively or in general. It is also defined as something, which is owned by a group of persons or bodies.

Governance:

Although the term governance is often used synonymously with the term government, it tends rather to be used to describe the proves and systems by which a government or governor operates. The term government and governor describe the institutions and people involved. It is often use

by corporate organizations to describe the manner in which a corporation is directed and laws and customs supplying to that directions.

Efficiency:

According to Collins dictionary the term efficiency is defined as being capable, able to perform duties well, competent.

Privatization:

This means a shift of individuals involvement from the whole to the part that is from public action to private concerns.

Executive Director:

A director involved in the day- to- day management and / or in the full time employ of the company, or any of its subsidiaries (king II).

Non – Executive Director : A director not involved in the day to day management of the company and not a full time salaried employee of the company or any of its subsidiaries.

Non – Executive Independent Directors:

Directors who do not represent any particular shareholder interest and hold no special business interest with the bank and are appointed by the bank on merit (CBN, 2006).

Also defined by the banker's committee as such director who has other relationship with management which could materially interfere with the exercise of no significant financial or personal management, he is free from any business or his/ her independent judgment, and receives no compensation from institution other than directors remuneration or shareholders dividends.

King II defined a non- executive director as director who is not a representative of a shareholder and who has not been employed by the company in any executive capacity for the preceding three financial years and has no significant contractual relationship or interest in the company or group.

The new code/ CBN code of corporate governance. This work recognizes code of corporate governance in Nigerian banks in the post consolidation period by central bank of Nigeria as the new code.

Shadow Directors: Individuals who are not directors but who instruct, direct and guide the directors in their decision making. They work at the background while the directors are at the forefront (Aniemena, 2005).

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CHAPTER TWO

LITERATURE REVIEW

2.0 REVIEW OF THE RELATED LITERATURE

This chapter is theoretical presentation of the concepts and assumptions surrounding the topic and areas of study

Through most of the reviews in this study were mainly on banking industries but it is pertinent to note their similarity according to Anyakwo, L.P.C one should not build a new business without a complete plan that covers all aspects of the firm's establishment.

2.1.1 DEFINITION OF CORPORATE GOVERNANCE

Governance could be conceptualized as the manner in which power is exercised in the management of economic and social resources for sustainable human development. It addresses the leadership role in the institutional framework. According to kwakwa and Nzekwu (2003), governance is a 'vital ingredient in the maintenance of the dynamic balance between the need for order and equality in society; promoting the efficient production and delivery of goods and services, ensuring accountability in the house of power

and the protection of human rights and freedom." Governance is therefore, system, practices and procedures that govern institutions, the manner in which these rules and regulations are applied and followed, the relationships created by these rules and nature of the relationships.

Corporate Governance on the other hand, refers to the manner in which the power of a corporation is exercised in accountings for corporate total portfolio of assets and resources with the objectives of maintaining and increasing shareholders value and the satisfaction of other stakeholders while attaining the corporate mission (kwakwa and Nzekwu 2003). In other words, Corporate Governance refers to the establishment of an appropriate legal, economic and institutional environment that allows companies to thrive as institutions for advancing long-term shareholder's value and maximum human centered development.

Thus, Corporate Governance is also concerned with the creation of a balance between economic and social goals and between individuals and communal goals.

David Smith (2002), president and CEO of the Canadian Institute of Chartered Accountants sees Corporate Governance as a ‘culture that has a common understanding of the roles of management and the board’. To him, “Corporate Governance is a culture of mutual respect that both parties have for each other’s role”. It is a culture of continuous open dialogue and communication. In rounding up his views on corporate governance, smith noted that it is about people “people doing not just what the rules say but about doing what is right”.

In a keynote address presented by chief (Dr) J.O Sanusi said that corporate governance is about accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance” he against understood that it is also about how to build trust and sustain confidence among the various interest groups that make up an organization.

Toyin Phillips (Ph.D.), in “Issues in corporate governance in the banking sector”(2010) said that corporate governance is an internal system encompassing politics,

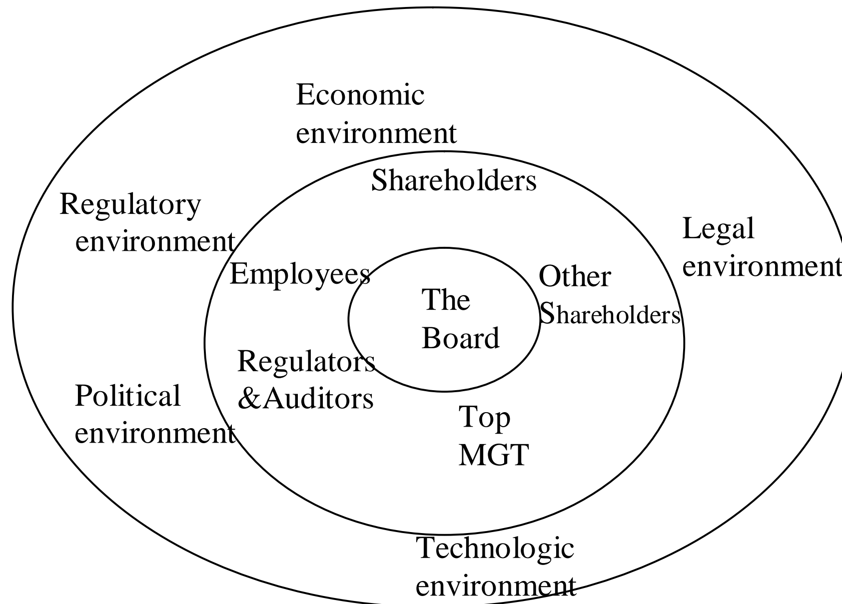
processes and people which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy objectivity and integrity. Corporate governance (According to the Cadbury committee of UK) “Is a set of rules that define the relationship between shareholders, managers, creditors, the government, employees and other internal and external stakeholders in respect to their rights and responsibilities , or the system by which companies are directed and controlled”. Corporate governance according to chief Ikechi Emenike, “The role of the media in promoting good corporate governance”(2010) deals with the way corporate bodies utilize their funds to generate financial wealth for shareholders, and social wealth for the community in which they are located.

Corporate governance according to (O.I Mala) is the system of Internal controls and procedures by which individuals companies are managed.

Corporate governance in Nigeria is concerned with the processes by which corporate entities particularly public liability companies are directed and controlled. (Alhaji G.A

Yakasai Corporate Governance in a Third world country with particular Reference to Nigeria".

CORPORATE GOVERNANCE AND ITS ENVIRONMENT



2.1.2 DISTRESS IN NIGERIAN BANKS : (History)

The history of bank distress syndrome and eventual collapse date back as early as 1930 when the first indigenous bank named Industrial and Commercial Bank died, one year after it was set up in 1929 (Uche, 2001). This was followed by another bank called Nigerian Merchant Bank that was established in 1931 and collapsed in 1936. This bank only managed to exist for five years before it failed. The rate of emergence and exist of banks in the pre- colonial days was too frequent. Another incidence of bank failure was in 1946 when

Nigerian Penny Bank folded up. Could the cause of the debacles be attributed to the economic downturn or the likes? The answer may not be in the affirmative since banks set up by the colonial masters even before the emergence of the first indigenous bank survived the bad times , A flash back on the evolution of banking in Nigeria is a true evidence .

The evaluation of banks in Nigeria actually started in 1892, when African Bank Cooperation opened a branch in Lagos (Uche, 2001). This was followed in 1894 with the establishment of the British Bank of West Africa. (Which later metamorphosed to First Bank of Nigerian Plc). And then Barclays Bank Ltd (now Union Bank of Nigeria Plc.) which became operational in 1917. These banks which were established by the colonial foreigners in the pre-independence period survived up till this day; where as the indigenously established banks collapsed as soon as they were established. Consequent to these series of failures, the British government in 1948 empowered Mr. G.D .Paton to investigate the causes of banks failures in Nigerian (Uche 2001). Its findings and recommendations formed the basis of

Banking Ordinance of1952, which was the first banking legislation in Nigeria. Banks failure continued even after the institution of the first Banking Regulation; in 1954 only 16 banks failed (Uche, 2001).

During the regime of Ibrahim Babaginda, banking in Nigeria developed a hydra- headed problem due to the clamp down on his government by international monetary fund (IMF) to adopt Structural Adjustment Programme (SAP) the programme embraced bank deregulation as one of its agenda and this resulted into proliferation of banks. Banks established under this programme was characteristic by weak structure and poor governance. The primary aim of establishing banks deviated grossly, as incompetent family members and groups moved into the business. The high level of proliferation was hinted in (Uche 2001) , where he stated that between 1985 and 1992 the number of licensed commercial Merchant Banks in the country increased form 40 to 120, and most of these banks were no more than bureau de change. The unmanaged proliferation led to the eventual collapse of so many banks. The list of some of the dead banks includes, ABC

Merchant Bank, Alpha Merchant Amicable bank, Continental Merchant Bank ICON Ltd. (Merchant Banker) and Capital Bank. Others are the Nigeria Merchant Bank, Pan African Bank, Royal Merchant Bank, Rims Merchant Bank, Abacus Merchant Bank , North- South Bank Century Merchant Bank, Prime Merchant Bank, Allied Bank, Credited Bank, Premier Commercial Bank, Progress Bank, Highland Bank and Lobi Bank (Ogunleye, 2005). The systematic failure in the industry is not a thing of the past. In the recent times as evidence in Soludo (2005), it was revealed that prior to consolidation process that eleven banks were dead literally. This is not a far- fetched claim as the truth unfolded itself in consolidation exercised where 14 banks were not able to meet up with the capital requirement. The reason for not meeting up with the reform requirement was that there was a total loss of confidence on these banks both by their fellow banks who were in the position to acquire them and the investors who would have bought these banks. These banks are today facing liquidation. Ecobank plc, has bought the asset and taken over the liabilities of All State Trust Bank plc.

In the did to maintain a high level of decorum in the industry, CBN announced bank post- consolidation reform agenda as "the introduction of commercial court, electronic system payment reform currency reform and institutionalization of micro finance," (The guardian, 2006). The effect of this agenda is that it will boost the practice of good governance in the Nigerian banks. Also zero tolerance policy of the CBN is another recipe to ensure the enthronement of sound corporate governance.

Before the consolidation exercise, there was an urgent need to renew the face of banks in Nigerian. The need was imperative, as the recurrence of bank collapse had some ugly effects on the confidence of stakeholders in the industry. Furthermore, in Unegbu (2004) it was noted that inflow of foreign private investments experienced a halt , as no foreign investor will take the risk of investing in an unstable and volatile economy.

What then are the causes of this widespread debacle in the banking industry?

2.1.3 CAUSES

The effects of bank failures on the economy have become so enormous that the interests of the stakeholders have been attracted towards discovering the cause of the frequent failure . In Unegbu (2004), weak corporate governance was identified as the major cause of crisis in Nigerian banks. Weak corporate governance was evidenced in the way banks were ran and controlled by the owners who controlled both the management and the board poor governance allowed connected lending, poor risk management incompetence, poor succession plans and misreporting to soar. The list is long, but this work will appropriately summarize them under the following headings.

2.1.4 OWERSHIP

Going back to the early indigenous banks on the circumstance that surrounded their establishment, it has been identified that there is something wrong with their ownership structure. The ownership of many banks was centered on one individual. Aniemena (2005) asserted that "one of the main reasons for the new shareholding

requirement is to remove the syndrome of one man ownership of banks, in Nigeria which is traced to have caused collapsed of too many banks due to non adherence to the tenets of best practices by such owners." Aniemena (2005) also hinted that the available statistics indicted that 33 out of the 89 banks in the country are wholly or substantially owned by one person or a family, 43 have multiple ownership while 13 have no clearly identifiable form of ownership . The deduction is that the higher percentages of banks in Nigeria have absolute ownership. Default ownership structure of banks in Nigeria is also evidenced in the leadership of many banks, where it has been vested in an individuals who combines the office of chairman and chief executive officer with domineering tendency. Many other malpractices that are common in the bank are built around over domineering, by the owners of the bank. Such malpractices may include mismanagement, violation of banking regulations, non- compliance with existing internal control, insider abuse and poor credit management. Another negative effect of the combination of ownership and

management is that knowledge base for the operation of the banks is highly narrowed. This is because business ideas that owners of the banks are restricted to only one individual or is centered on the owners of the bank. This does not give room for injection of fresh ideas.

The new code of Corporate Governance in Nigeria has addressed non retroactive equity holding in banks.

2.1.5 MISREPORTING:

Let us briefly look at misreporting across the border. Structural inadequacies in Enron corporation enabled Kenneth Lay (CEO and Chairman of Enron Energy Trading company) to manipulate, conceal and misreport facts about the true financial conditions of the corporation . Unwieldy power of Ken Lay enabled him to have an unrestrained control over the number one American Energy Trading Company. Very outstanding in his case was his ability to hide losses that amounted to hundreds of millions of dollars by fraudulently manipulating Enron's business segment reporting. He adopted structural transactions (prepaying and the hedging arrangement called Raptors) to

misstate its financial results (www.swlearningcom/blawanderson.html).

Also in 2004, SEC IN American announced cases of misreporting in Royal Dutch Shell who overstated its oils reserved and US Food Services who overstated its revenue by $800 million (www.swlearning.com).

Misreporting within and across the border has devastated many corporations. It is a global phenomenon. The technicalities involved in the misreporting are so crafty that the apex banks has not been able to fully combat it with its legislation. To this effect, it has adopted some regulatory and moral suasion approaches in the past. The moral suasion approach can be elicited on the face of October 2005 CBN Bulletin, where in it appealed to all stakeholders to "keep adequate record of their performance in order to assist in effective monetary policy implementation" (The Tide News, 2005).

It should be noted that the effectiveness of monetary policy largely depends on the quality, adequacy and timeliness of

statistical information available to it. Misreporting on the contrary leads to wrong decisions and undesirable outcomes.

Uche (2001) opined that misreporting was a common and devastating factor that caused the failure of many banks in Nigeria. The Director - General of Nigeria Securities and Exchange Commission (SEC,)AI-Faki (2006) equally concurred with the above statement by saying that “minimal disclosure in accounts of company indicates lack of transparency and probity, integrity san accountability; and they are the major abuses that are prevalent in Nigerian banks. Another variant of misreporting very popular among the Nigerian banks is the preparation of three different financial accounts by banks for themselves (internal use), regulatory authorities and shareholders (Adejokun, 2005) In the post- consolidation banking reforms, Soludo announced that the apex bank will employ strict supervision and zero tolerance approaches in its statutory functions. (The Guardian , 2006).What this translates into is that, there will not be ‘business as usual’ for banks that is every violation

of CBN Regulations including misreporting which will be appropriately penalized.

2.1.6 INSIDER ABUSES

In Uche (2001) and Obinna (2005), it was emphasized that incidences of distress experienced by most banks in Nigeria, have been attributed to insider fraud. The absence or the relaxation of risk management policies, lending to directors and their friends is one of the factors that have fuelled the mammoth insiders credits. Connected lending manifested also in the extension of credit facilities to members of the group without adequate collateral. These fund sometimes are used recklessly to fund very risky businesses. Other lending issues are excessive funding, currency mismatch and undue political influence in the lending decisions.

According to report of CBN and NDIC in Obinna (2005), it was stated that about 80% of distressed banks' non-performing loans were insider related loans of bank's directors and their friends. As at December 2002, the insider non- performing loans amount to N29.4 billion. This is in

spite of the provision of section 18 (1) Banks and Other Financial Institutions Acts (BOFIA) of 1999 that stipulates that banks must adequate security on loans.

2.1.7 FRAUDS

Incidence of fraud in the banks is a reflection of fraud in the wider Nigerian society. Just as fraud destroyed the image of Nigeria so did fraud in the banking industry. It has undermines the safety, soundness and stability the banking industry is known for. Common fraudulent practices that are perpetrated are fraudulent withdrawals suppression of entries, armed robbery attacks (sometimes with insider-collaboration), clearing fraud (fraudulent handling of financial instrument) etc. The prevalence of fraud in the industry portrays a serious weakness in the bank's internal control system . This translates to very weak corporate governance in the financial institution. Uche (2001) noted that the level of fraud in banks as reported by NDIC has been on the rise; in 1990 it was N804m while it rose to N3, 199m in 1998. From this statistics, within eight years the increase in the level of fraud has risen by 398% in spite of

the promulgation of the Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Decree of 1994 (Failed banks Decree).

Heavy reliance on technology for services delivery has a lot challenges to the financial institutions because chances are high that fraud will also be technologically driven as well. This is a lot of risk for the industry because fraud will escalate. Data from the Financial Institutions Training Center (FITC) as in Umunna (2005) shows that the volume of fraud in banks rose by 48% from 222 cases in the first quarter of 2005 to 329 cases in the second quarter. This is an indication that a lot of work needs s to be done in tackling fraud especially in the post- consolidation era: the failure of which will impact negatively on the business integrity in the industry.

2.1.8 REGULATIONS

In Nigeria the banking industry is the most regulated of all the sectors of the economy. There are many institutions that exercise various statutory powers and

functions over the establishment, operation and winding-up of banks in order to infuse sanity in the system .E ach of the regulatory authorities is concerned with the maintenance of highest ethical standards in banks . These regulatory authorities are Central Bank of Nigeria (CBN) and Nigerian Deposit Insurance Commission (NDIC).

Albeit the regulations by the apex institutions a number of regulations have been rolled out ever since the emergence of indigenous banks to arrest the distress that is prevalent in the industry. The embarrassing collapse of early indigenous banks attracted the interest. The embarrassing collapse of early indigenous banks, attracted the interest of British government in 1948 to appoint a commission headed by Mr. G.D .Paton, to investigate the causes of bank failure in Nigeria. The commission also was to recommend policy and operational guidelines for the prevention of further deterioration of the banking industry. The commission's findings and recommendations formed the basis of Banking Ordinance of 1952, which was the first banking legislation in the country . The ordinance set out to

regulate and control the business of banking in Nigeria by imposing conditions for establishment and making provision for sound banking practice. This first ordinance could be said to be a precursor of the principle of corporate governance of banks in Nigeria.

Other regulations that targeted the restricting of the industry are Banks and Other Financial Institution Acts of 1990 (BOFIA), Failed Bank Act of 1994, and Code of Corporate Governance for Banks in Nigeria. All these regulations are to checkmate the incidences of sharp practices and the resultant crash.

2.1.**9 SOLUTIONS**

The culmination and modification of all regulations are centered on Corporate Governance. It is the only code that will comprehensively address the structural and ethical deficiencies in the industry. With the enthronement and enforcement of the Code of Corporate Governance in the Nigerian banks , it is hoped that banks will measure up to international expectation in showcasing transparency, integrity, fairness and defined ownership structure.

2.1 AIMS/PRINCIPLES OF GOOD CORPORATRE GOVERNANCE

The global aim of corporate governance is the restoration of the ailing corporate institutions that have been devastated by the way and manner the affairs of the companies are being piloted by the board and management. Once the corporate firms enthrone sound corporate governance practice, it is anticipated that interest of the stakeholders will be held supreme and will no longer be sacrificed for the selfish interest of the management thus making corporations to be more profitable . Also, the code principally focused at instituting a sound, efficient and competent board of directors that will check the excesses and direct the management towards ensuring efficient resources utilization for the economic benefits of all stakeholders in particular and economy in general . Further it aims at installation of proactive, well- structured and committed management team. The way and manner this code is structured will make it more flexible for self-induced regulation by banks themselves.

PRINCIPLES

Since Corporate Governance is contemporary and global issue, there is need for the Nigerian code to imbibe the basic principles, with a view to harmonizing the Nigerian code with the internationals best practices. The principles are the same but the practices vary with jurisdictions. Organizations for Economic Cooperation and Development (OECD) in May 1999 came up with what it called the principles of Corporate Governance. As in Unegbu (2004) ,OECD recommended five core principles which, covered five main areas, and they include;

i protection of the rights of the shareholders,

ii Equitable treatment of shareholders,

The corporate governance framework should ensure equitable treatment of all shareholders including minority and foreign shareholders. All shareholders should have opportunity to obtain effective redress for violation of their rights

iii The role of stakeholders in corporate governance,

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage

active cooperation between corporation and stakeholders in creating wealth, jobs and sustainability of financially sound *ent*erprise.

iv Disclosure and transparency,

The corporate governance formwork should ensure that timely and accurate disclosure is made on all material substance regarding the corporation, including the financial situation, performance, ownership and governance of the company.

v The responsibilities of the Board,

The corporate governance framework should ensure the strategic guidance of the company effective monitoring of management by the board, and the board's accountability to the company and the shareholders .

Implementing the global principles of corporate governance enhances the confidence of international investors and makes the economy attractive for foreign investment. The problem of dwindling inflows of foreign private investments in Nigeria, in spite of immense incentive packages could partly be traced to poor corporate

governance and poor management of the financial services industry .

The first code (Peterside's Committee) covered this principles while the latest code released in April 2006 for banks in the post consolidation period aims complimenting the earlier ones and enhance their effectives for the Nigerian banking industry .

2.2 ISSUES IN THE PROVISION OF CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The practice of good corporate governance rest on the level of competence and integrity that is prevalence in the board. That the board is the driver of the goals of sound governance does not imply that they are police who may in turn stifle the entrepreneurial drive of the management. Before proceeding with he analysis of the provisions of the duties of the board, a brief look at the quantities a board should possess will be a better springboard. Millstein in Unegbu (2004) highlighted that a board should have an

independent and Active oversight over the management; should be contestable and have good Agenda and Strategy.

An independent minded and active board of directors plays a major role in positioning corporations to compete effectively, by selecting, monitoring and motivating the management . When boards of directors become active and align themselves more closely with shareholders interest, management will be induced to increase residual earnings. The level of independence of the board is a function of the make- up of the board. Where the board is constituted mainly by non- management directors, has an independent leadership, and has a defined selection process then that board may likely be independent . In the light of the above mentioned criteria, the provisions of the Code of corporate governance on board responsibilities will be examined. The independence of the board cannot be over- emphasized. Unegbu (2004) is of the opinion that a test of board's independence is whether it is free to fire the Chief Executive Officer. Another index for board's independences is that the board is sufficiently independent of management, to

interested in their personal well- being , less likely to tolerate managerial strategies that are static, and are more likely to replace under- performing managers especially in enterprise with controlling shareholders.

As mentioned above, another factor necessary for keeping management focused on performance is Contestability- the mechanisms that empowers those better suited to a task to take over the task from those less capable. Simply, if the management does not perform, the board should remove it. In fact the threat of takeover or step down should always spur management to perform.

A performing and focused board should enable to craft strategy and Agenda for the business enterprise. To give meaning to the board's participation in the crafting of strategies , the board must thoroughly understand its company's core businesses, how they interrelate as well as how they are run. In order to craft an independent strategy, the board has to set its own agenda and not to always rely on the matters raised by the management.

Albeit independence and board performance another importance aspect of the board that should be brought to light are the compositions, remuneration and performance appraisal of the board .

COMPOSITION

It is clearly stated in Peter side's Report that the position of the chairman of the Board and the CEO should be separated as to ensure complete independence of the board . It is thus stated in Code of Corporate Governance (Peterside 2003) that'

The head of the board, that is chairman be clearly separated from that of the Head of Management that is MD/CEO, such that no one individuals or related party has unfettered powers of decision making by occupying two positions a t the same time.

The code of corporate governance in Nigeria as recommended by peterside committee provided for an exception in part A (2c),

In exceptional circumstances where the position of the chairman and Chief Executive Officer are combined in one individual, there should be strong non- executive independent director as vice chairman of the board.

As to the board capacity, Peterside provided that ‘the board should comprise of a mix of Executive and non-executive director.. as not to exceeded 15 person or less than 5 persons in total’. As regards the appropriate mix of executive and non- executive , the code remained silent.

The bankers’ Committee suggested a board structure where non- executive directors should be in the majority. In section 2.1 it submitted that;

The board should include non- executive directors of sufficient caliber and number for their view to carry significant weight in the Board’s decisions. Non- executive directors should comprise a majority of the members of the board.

The committee recommended in section 2.2, that not less than 20% of the board should be independent directors. This is in its view is to establish and independent board that will oversee the activities of the management.

The most recent codes of Corporate Governance for banks in the post- consolidation recommended a maximum board size for 20 directors, with the number of non-executive directors exceeding the number of executive directors. The code recommended that at least two non-executive board members should be independent that at least two non- executive board members should be independent directors appointed by the bank on merit. Its definition of independent directors, is a director that does not represent any particular shareholder interest and hold no special business interest with the bank. The code cancelled the idea of one person occupying the office of the CEO and Chairman at the same time . Furthermore, the code cancelled the idea that members of the extended family should occupy the position of chairman and that of the CEO of a bank a t the same time.

King II (2002) enjoined 'South African Companies to have a unitary board structure. This should comprise executive and non- executive directors, preferably with a majority of non- executive director, of whom a sufficient number should be independent of management in order to ensure the protection of minority shareholders' interest". On the functions of the CEO and chairman of the board, King II prescribed that the board must retain full and effective control over the company and be responsible for monitoring management in respect of implementation of board plans and strategies. The chairperson is to be responsible for the effective functioning of the board and the chief executive officer is responsible for the running of the company's business. There should be a clear distinction between these roles. On the size of the board, it recommended optimal board size of 15-20 members, thus requiring that the independent directors should be in majority.

Hong Kong Monetary Authority recommended a minimum number of three independent non- executive directors to be on the board to ensure that there is

sufficient pool of independent directors to sit on various committee of the board and to cover absence (Carse, 2000).

EQUITY OWNERSHIP

The new code abolished the practice of free, non- restrictive equity holding by individuals and their family members as well as government. Prior to consolidation, it has been a common practice for an individuals or government to own a substantial equity of a bank; thus reducing banking business to a personal business that is beclouded with monopoly of ideas. CBN in its New Code limited direct and indirect equity holding in banks it 10% by the end of 2007 while the equity holding of above 10% by any investor is subject to CBN's prior approval . this thesis sees this exemption clause as a loophole which should be properly managed. To avoid the administration bottleneck, the criteria for the exemptions should be clearly and objectively spelt out; otherwise there may be a bottleneck in the administration process.

APPOINTMENT

Bankers' committee report on Corporate Governance provided that 'there should be a formal and transparent procedure for the appointment of new directors to the board'. The report prescribed that Nomination committee (having non- executive directors in majority and same as chairman) should recommend to the board on all new board appointment. The directors so appointed by the Committee should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter as prescribed by CAMA 1990.

CBN Code of corporate governance (2006) maintained that existing CBN guideline on appointment to the board of financial institutions should to be observed. The code also provided that regulatory authority has the power to impose sanctions or remove erring director from the board if he fails to adhere strictly to the existing code of conduct for bank directors. Still on appointment of removal of director the code provided that in order to inject fresh ideas in the board; non executive directors should not remain on the

board continuously for more than 3 terms of 4 years. Finally, it recommended that banks should have a clear succession plan for their top executives. The code also forbids the practice of bard chairman serving simultaneously as chairman and member of any of the board committees. This is to grant the committee the necessary independence.

On the appointment of the non- executive director the peterside Committee recommended that non- executive directors should be "appointed for a specified period and that re- appointment should be dependent on performance". It should be 'a matter for the entire board and a defined formal selection process should be utilized'.

On the appointment of Company Secretary, the peterside committee specifically submitted that company secretary should be appointed or removed by the board. The duties reposed on the office are to ensure that the board procedures are followed and that applicable rules and regulations are complied with.

In King Report, it was provided that the "board as a whole within its power selects and appoints directors

including the CEO and the executive directors on the recommendation of the Remuneration Committee. The appointment is to be confirmed by the shareholders at the General Meeting before it becomes effective.

MEETINGS

Peterside Committee Report provided that the board should meet regularly, and not less than once in a quarter with sufficient notices and have a formal schedule for matters specifically reserved for its decision. The meeting provision is not limited to the board meeting; it also included the meeting of directors and the shareholders. On that note, Peterside Committee Report stated that enough time should be given to shareholders to enable them contribute effectively during the General Meeting.

Bankers' committee report insisted that the board should meet at least once every quarter and the board should have formal schedule of matters.

APPRAISAL

This is the formal assessment of the effectiveness of the board as a whole and the contribution by each individual director (including chairman) to the effectiveness of the board.

Bankers' committee specified that issue to be evaluated are attendance at meetings, contributions to discussion at board meetings business referrals and public standing of the director and the beneficial effect of this to the business of the institution.

In addition to the provisions of Bankers Committee, the New Code for banks provided that the board review be carried out by an outside consultant; also that review report should be presented at the General Meeting and a copy sent to CBN.

REVIEWS

Peterside Committee Report prescribed that the Remuneration Committee should fix the remuneration of the Executives Director. The committee is to be wholly or mainly made up of non-executive directors. On the board disclosure requirements, the Code insisted that the directors'

remunerations and other highest paid directors should be disclosed and that relevant information about stock options, pension contribution and future service contract should be properly disclosed. These disclosure requirements are not incorporated in the new Code of Corporate Governance for Nigerian bank in the post consolidation period, but on the premises that 'the new code (Code designed for banks in the post consolidation) was developed to compliment the earlier ones and enhance their effectives for the Nigerian banking industry', it may be assumed that the provision is still effective. If the new code has rendered the provision redundant then it is should be reviewed to incorporate that.

Bankers' Committee Report proposal agreed with the provisions of peterside committee, on the board composition but included that the board should recommend, to the General Meeting the remuneration of non- executive directors, including members of the Remuneration Committee.

CBN Code of Corporate Government is more specific as to what makes up the non- executive remuneration as

directors' fees and reimbursable, travel and hotel allowances.

The provision that there should be Annual Board Review/ Appraisal covering all aspects of the Board's structure and composition, responsibilities, processes and relationships, as well as individual member's competencies and respective roles in the Board's performance should be upheld. This no doubt will enhance the performance of the board. Not only that the board should be reviewed, but also, it should be done by an outside consultant so as to ensure a quantum of independence. It is a good idea for the review report to be presented at the shareholders and to CBN as well. Presentation to the shareholders and CBN directly will go a long way to shore up level of independence of the consultant and quality of the report to be presented. Another good side of it is, that it will make directors to be awake to their responsibilities.

The problem with laws in Nigeria has been that of implementation and not the appropriateness of the legislation. On that note, in the course of implementation, problem may

arise on what the definition of the basis for the assessment of the board. Consequentially, it may breed subjectivity in judgment. This thesis is recommending that clear, definite and objective parameters be established for the measurement of the board's performance.

To boost implementation, the New CBN Code provided that "Banks" Chief Compliance Officers (CCO) should, in addition to monitoring compliance with money laundering requirements, should also monitor the implementation of the Corporate Governance code. Creation of liability makes the responsible individual to sit up and face the challenges of his responsibilities. Just as accounts are audited and reported, so will Corporate Governance be reported in the Annual Reports by the Chief Compliance officer (CCO) and CEO. This is a way of casting liability on Chief Compliance Officer and Chief Executive Officer and thereby making them to carry out their work more diligently and responsibly. Monitoring the implementation of Corporate Governances is an onerous responsibility; and as such in appointing the CCO, care should be exercised to ensure

that the officer is a man of skills, knowledge, experience, diligence and integrity.

On the relevance of the whistle blowers' the provision provided that, "banks should also establish 'whistle blowing' procedures that will encourage all stakeholders (staff, customers, suppliers, investors etc) to report any unethical activity / breach of the Corporate Governance code using, among other, a special email or hotline to both the bank and the CBN". Reliance on the alarms raised by whistle blowers should be with highest level of caution and dexterity so as to sniff out false alarms, which may be an instrument in demarcating competitors . As a matter of fact, on the issue of de-marketing CBN in its circular tilled. *The unethical and unprofessional practice of de-* spreading *marketing colleagues/ other banks in the industry by spreading false rumours (2010).* CBN further warned in the circular that, "any bank officer (s) involved in the exercise will be dismissed and blacklisted for unethical and unprofessional behavior; and the banks ' MD/CEO will be issued with a letter of warning by Governor of the CBN and the letter will be made public,

while a re- occurrence could also lead to such CEOs receiving a stiffer sanction, The weight of the penalty demonstrates the seriousness of CBN on the issue of de-marketing or raising false alarm. Many banks in Nigeria today are publicly owned and all have multiple stakeholders (Peter side's Report) On that note, the provision in the code granting power of appointment and removal to the bard is a contradiction of what we have in CAMA and ought to have been reflected in the new code for banks. Finally, for banks' secretaries to execute their duties as the custodian of legal personality of the bank in the enforcement of legal requirements of the operation of the bank, they should be granted some sought of independence. This independence will come when the removal of the secretaries is made the matter for the General Meeting and not of the board. This thesis is submitting that amendment be made in that regards.

Aniemena (2005) argued that the role of shadow director is still crucial on the ground that the uses it to input liability or impose duties and obligations on the

appropriate quarters. Burt this thesis is emphatically toeing the line of though of the provisions in the CBN code of corporate governance, by insisting that the provision for shadow directors are no longer fashionable. To accommodate the shadow director implies that those on the board are not independent and competent enough into make good decisions for the organization. The reliance on the shadow directors may tend to shift liabilities off the shoulders of he directors thus making them to be passive and less responsible .

Corporate Governance is a global phenomenon with internationally accepted standards and practices. Since the code is in its fledgling stage it will be appropriate to align our code with the international best practices, thus bearing in mind the peculiarity of our case in Nigerian. To this end a comparative analysis of the Nigeria code, South African and Malaysian Codes will carried so as to determine the level of transparency and confidence we are talking about in Nigeria . In practical terms, they agreed in many respect but vary greatly on the level of disclosure in the

annual reports on vital issues connecting the directors. King II requires disclosure of the following;

1. Disclosure of the capacity of the directors of the board in the annual reports and it should be categorized as follows: Executive director, Non-executive director and independent non- executive director. Reports such as this will always assist the stakeholders to develop their individuals opinion and confidence on the structure of the board and management .

2. King II requires a Statement of Remuneration Philosophy to be published in the annual report and it must support the firm's remuneration policy . In addition to the remuneration philosophy, banks are required to disclose the remuneration of directors on individual basis in the Annual Report. This report should include executive directors fixed remunerations, bonuses, share options grants, fringe benefits, and service contracts.

3 Furthermore, performance of individuals director (including their attendance to the meetings) is expected to be disclosed in the annual reports.

4 In King II, it was recommended that all board committee be chair by an Independent Director. This is shore up the level of independence of the committee.

5 King II recommended that the composition of the committees (especially the remuneration, audit and nomination committees) be detailed in the annual report, together with information containing a description of the committees responsibilities, the number of meetings held and any other information that may be of relevance to shareholders .

Disclosures such as this will make the directors to be fitted properly into the right committee.

Other suggestions by king II

6. King II stated that 'a listed company must have a policy and practice restricting its directors, officers and other employees form dealing in the company's securities prior to any formal announcement in respect

of its financial results or during nay other period where such dealings may be considered sensitive'. If such policy has been in pace, Ken Lay and his men would not have disposed their shares, for capital gain when they knew that Enron was about going under. Therefore, bank staff who have access to price sensitive information should be precluded from dealing in the bank's share some months before the release of banks interim and final result. The directors are required to report on this too.

7. Incorporating a provision that "a listed company should also have a practice in place where the dealings of directors are to be regulated and monitored" will prohibit directors trading on their share with inside information .

2.3.2 BOARD COMMITTEES

Board committees should be established to aid the board in giving maximum attention to specific areas of the directors duties and responsibilities. The board of directors is solely responsible for the actions and decisions of these committees.

The New Code for banks suggested that there should be a minimum of the following board committees Risk Management Committee, Audit Committee, and the Credit Committee. Other include, Remuneration Committee, Nomination Committee etc.

a. Audit Committee

An Audit Committee is an operation committee of a publicly owned company, which is normally drawn from members of the company's board of directors usually comprising more of non- executive directors. Audit committee for any organization is a key element in the Corporate Governance process of the organization. Many corporate firms have failed because the Audit committees failed in their duties . Healy and Paepu (2002) noted consequent to this failure of many corporate firms; Audit committees have been placed under closer scrutiny. This is because their role in the enthronement of sound Corporate Governance is enormous. More so, a lot of demand is place on them by the investors and regulators who seeks more quality information from them. Lorsch (2002), in describing its indispensable role

noted that the Audit committee is board's vehicle to monitor all the controls and financial reporting. To accomplished this role, Audit committee must have the leadership, independence, financial literacy and information to oversee the auditors and their relationship with the management ; scrutinize the financial reporting process, and monitor the internal control process.

Role

The role of Audit Committee in the substance of sound corporate governance is quite outstanding indispensable and uncompromising. The Audit Committee should review the following;

- the functioning of the internal control system;
- the functioning of the internal audit department;
- the risk areas of the company's operation covered in the external and internal audits;
- the reliability sand accuracy of the financial information provided to management and other users of financial information and whether the company

should continue to use the services of the current internal and external auditors;

- any accounting or auditing concerns identified as adult of the internal or external audits;
- the company's compliance with legal and regulatory provisions ,its articles of association, code of conduct, by- laws and the rules established by the board.

COMPOSITION:

Peterside recommended a formation that is in accordance with the CAMA section 359 (3&4), with not more than one executive on them . The committee on the majority should have more non- executive directors with the chairman of the committee a non- executive member. As regard the tenure, peterside recommended a fixed tenure for the member of the committee and any member is eligible for re- election after his tenure.

The CBN Code of Corporate Governance for banks made a little departure from the recommendation of peterside committee. On the composition, it suggested that the "members of the Audit committee should be non-

executive directors and ordinary shareholders appointed at AGM; and that some of them should be knowledgeable in internal control processes . One of such appointed ordinary shareholders should serve as the chairman of the committee". The task confronting the committee is enormous and as such need some level of independence for it to carry on with its duties . The idea of adopting an ordinary shareholders as a member of the committee and more still as the chairman of the committee will go a long way boosting the independence and integrity of the committee. Achieving independence will make the audit committee to operate optimally.

ATTRIBUTES OF MEMBERS OF AUDIT COMMITTEE

Peterside's Report suggested that the committee members should be able to read and understand basic financial statements and should be capable to making valuable contribution to the committee. In line with this, Oladehinde (2006) suggested that members should also have a good understanding of Generally Accepted Accounting Principles and Standards. They should also

possess experience preparing, auditing, analyzing or evaluating financial statements. Further they should understand internal controls and procedures for financial reporting. Summarily, this recommendation implies that members should be financially literate.

MEETING OF THE AUDIT COMMITTEE

The code requires that the audit committee should be meeting regularly and also conduct regular executive sessions with the external auditors and the management. The purpose of an executive session is to ask questions of various kinds in the meeting of the management team and the external auditors in a safe environment. Oladehinde (2006) opinionated on how the executive session is to be conducted so as to enhance easy and open relationship in the meeting. It is further recommended that executive sessions, be conducted with key members of the financial management team and external auditors on one on- one basis. In asking question during the executive session it is recommended that audit committee should take cognizance of the

history of the organization, the environment in which it operates, the current economic climate, the competitive environment in which it operation , the current economic climate, the competitive environment, and other factors. Audit committee is expected to explore how a function or role is accomplished, and compose question accordingly. Oladehinde (2006) concluded by recommending that the committee should be alert to sniff problems where they exist and demand that the people involved be ask to meet with audit committee.

REVIEW

It is clear that audit committee has a critical and enormous role to play in the sustenance of Corporate Governance in every organization. Their job is critical and enormous because it resolves round the financial control of the enterprise. Furthermore, they have the role of satisfying the stakeholders who expect transparency in their functions. Since their key role revolve round financial of every organization. Healy (2002) is of the opinion that audit committee should be given new charter to take a

greater role of providing information to investors about the financial health of the company, that is reporting on the financial health of corporate firms, I quite agree with him because if they carry out their role as prescribed by the code, they stand a better chance of identifying financial illness of the enterprise. But an important question to be answered is how can this be achieved? It will be achieved by scrutinizing the financial statements assessing the effectiveness do controls and disclosing the company's main performance indicators. The indicators will then help investors understand the company's value proposition and strategy, and how its risk factors are being managed. One may argue that the charter will favor only the investors and not other stakeholders, No the practice will favor all the stakeholders, because it will build up a strong and reliable corporate firm. It will be strong in the sense that once any risk or potential risk is identified, effort will be made at once to find a solution to it. Also, incidences of creative accounts will be annihilated. More so,

the practice will shore up the level of transparency expected of corporate organizations. The organization will be transparent to both insiders and outsiders alike.

Audit Committee operate optimally only when they are totally independent in their judgment. The independence of a member of the committee may negatively impact on the decision of the Audit committee.

b. <u>Remuneration committee</u>

The Bankers' Committee had a principles that institutions should established a formal and transparent procedure for developing police on executive remuneration and for fixing the remuneration packages of individual directors and that no director should be involved in approving his or her own remuneration . In both the peterside's and Bankers' Committee Report it was recommended that the board should establish a remuneration committee wholly or mainly made up of non- executive / independent directors and chaired by a non- executive director. The new CBN code did not say anything about the remuneration committee, therefore it

is presumed the provisions of the Bankers' Committee rules. The Bankers' Committee further proposed that the board should recommend to general meeting, the members of the Remuneration Committee and the non-executive directors. Ordinarily, some kind of allegiance is usually paid to one who determines the other's remuneration. In order to grant the Remuneration Committee and the non- executive directors some level of independent that well enable them to freely perform their statutory function, the code provided that their remuneration be ratified at the general meeting.

On the size of remuneration, Bankers' Committee suggested that the size of remuneration should be sufficient to attract and retain the directors needed to run the company successfully. but institutions should avoid paying more than is necessary for this purpose.

2.3.3 INTERNAL AND EXTERNAL AUDITING

In Aguolu (2002), he defined Internal Auditing as an independent appraisal of the functions and quality of

performance of an organization by a specially assigned staff as part of the internal control system. An employee of an organization who reports to the management carriers out this audit.

External Auditing is also an independent examination of the financial statements of an organization by an auditor who is appointed by the shareholders. Though he may perform the same procedure with the internal auditor, but he is responsible to the shareholders who appointed him (Aguiolu, 2002). External auditors should observe the highest level of business and professional ethics and, in particular, their independence should not be impaired in any way. They should be objective and consciously aware of their accountability to the shareholders.

Provision

The recent released code of Corporate Governance by CBN it maintained that Internal Auditors should have integrity, independence and competence. The code stipulated that the Head of Internal Audit should not be

below the rank of AGM and should be a member of a relevant professional body. This is to ensure that efficiency and competence is brought to bear on the internal audit department. Internal Audit department reports to the Board Audit Committee and forwards a copy to chief executive officer and the chairman of the board.

CBN Code of corporate governance also made some outstanding provisions on the roles of an eternal auditor. It re- iterated that external auditors should maintain arms- length relationship with the banks they audit and that the appointment of External Auditors will continue to be approved by the CBN. Still on the appointment, a radical provision has been made to dilute the monopoly enjoyed by some audit firms in the audit of banks. It is the tenure restriction of auditors in a given bank to a maximum period of ten years after which the audit firm shall not be reappointed in the bank until after a period of another ten years. This provision will go a long way to

reduce the level of monopoly that exist in the industry and shore up auditors independence .

In order to eliminate the conflict of interest in the course of his duties, external auditor is restricted from providing the following services to their clients;

- *Bookkeeping or other services related to the accounting records or financial statements of the audit clients:*
- *Appraisal or valuation services, fairness opinion or contribution –in- kind reports.*
- *Actuarial Services*
- *Internal Audit Outsourcing Services;*
- *Management or human resources functions including brokers or dealer, investment banking services and legal or expert services unrelated to the audit contract.*

As a tool of controlling the practice of external auditor in the industry ; the code stipulated that Quality Assurance Auditing should be engaged whenever the CBN suspects a cover- up by auditors, and where cover ups are proved, erring firms would be blacklisted from

being auditors of banks and other financial institutions for a length of time to be determined by the CBN.

Review

If banks and regulatory authorities are to learn from the collapse of indigenous banks and Enron Energy Corporation, they must look more closely at the relationship between auditors, managers and the audit committee of these firms. Accountants and auditors of these firms are known to have compromised their responsibility and integrity for pay cheques. There were a lot of accounts misreporting in these firms. Lorsch (2002) observed that accountants sell creative accounting to their client, just as they sell tax services and consulting. This breeds unethical competition and encourages cheap audit services among the auditors, all in the name of maximizing profit for themselves. Lorsch (2002) also made a more radical suggestion that appears to be workable and practicable in the Nigerian case. He suggested that the legislation should create an independent Self- Regulatory Organization (SRO), to oversee the accounting firm. This

(SRO) will fairly involve the government in its affairs. The SRO will have the rule- making, supervisory and disciplinary powers similar to those of Securities and Exchange Commission (SEC).The SRO will be to auditors what SEC is to Nigerian Stock Exchange. This suggestion will be a good and workable solution to the monitoring the performance of the auditors.

2.3.4 RISK MANAGEMENT

King II defined Risk Management as the identification and evolutions of actual and potential areas of risk as they pertain to a company, followed by a procedure of termination, transfer, acceptance (tolerance) or mitigation of each risk. Risk management is therefore, a process that utilizes internal controls as a measure to mitigate and control risk.

All sorts of risks are inherent in the banking practices today due to rapid changes brought about by globalization, deregulation and technological advances. Sound corporate practices cannot be said to be in practice if banks do not properly manage their risks.

Carse (2008) identified difference kinds of risk in the banking industry as credit, interest rate, market, liquidity , operational, reputation, legal and strategic risks. In addition to the above mentioned king II cited other risk which management should always assess as human resources risks, technical risks and compliance risks.

On the Risk Management, CBN Code mandated banks to institute a risk management framework, which include risk management unit that will assert the effectiveness of risk management and internal control. As a matter of policy, “the board is responsible for setting risk tolerance and related strategies and polices. It is also the board’s responsibility to review the effectiveness of these politics on a regular basis and in a manner in which its objectives are clearly defined for the benefit of management to guide them in carrying out their responsibilities “. Ultimately, the new code stated that the board should disclose/ report how the company has dealt with risk and control in its annual report.

Similarly, the Code also provided for the formation of Board Credit Committee and that neither the chairman of the board nor the MD is legitimate e to be the chairman. The member of Board Credit Committee should be composed of members who are knowledgeable in credit analysis.

Review

There is something wrong with the risk management reports of banks, which are disclosed in the financial statement. The report is usually too brief to inform stakeholders the extent of risk management in banks. Also, other relevant information like the members of committee in charge of risks and the terms of reference is not disclosed to users of financial information. In king II, the disclosure is mandatory. This thesis is of the opinion that full disclosure of risk management information is very essential as well as the disclosure of compositions of the committee. The competence of members of the Risk Management Committee could

improve the image banks and as such , the board will prefer fronting their best brain for risk management.

Furthermore, this thesis is recommending the disclosure of risk ratings of banks in the financial reports. Risk rating being an informed opinion on the quantum of risks depositors will bear when it deposits his money with a bank (Eyiyien, 2004). The rating is usually done using CAMEL test and other parameters.

Today, banks have invested so much on IT infrastructures just to enjoy that benefits that accrue form IT driven services. This culminates to what we know as e-banking today. The board of the banks will need to consider and put into effect policies that will minimize the incidences of risk inherent in e-banking . Unegbu (2004) stated that "the environment of operations should be an important factors as e- banking systems may expose banks not only to transaction, strategic, reputation and compliance risks, but to other risks as well like credit risk for banks that grant lending services

online". Proper Management of these risks will usher in a sound corporate governance practices.

2.3.5 DISCLOSURE AND TRANSPARENCY

As was stated earlier, 'Disclosure and Transparency' is one of the principles of Code of Corporate Governance recognized by OECD. Furthermore, CBN code refers to them as 'the core attributes of sound corporate governance practices that are essential to installing stakeholder confidence. They are the attributes that ensure timely and accurate disclosure of all material matter regarding the corporation (including the financial situation, performance , ownership and governance of the company). Why should the board be transparent? They should be transparent because they are accountable to multiple stakeholders, namely shareholders, investors, employee, trade unions, tax authorities, suppliers and other public authorities (Unegbu, 2004). These stakeholders have various interests, which have to be balances by the board of directors. These interest may be in conflict and at variance with one another. Even though these

stakeholders have no ownership interest in the company, the member of the board of directors representing the owners are accountable to the various stakeholders for their actions. Disclosure and accountability are properly integrated that you cannot have one without the other. Barley A. in Unegbu (2004) emphasized the importance of disclosure by saying that it is at the heart of accountability.

The new CBN code of Corporate Governance outlined some of these disclosure and transparent measures;

1 *Where board directors and companies/ entities / persons related to them are engaged as services providers or suppliers to the bank, full disclosure of such interests should be made to the CBN.*

2 *Chief Executive Officers and Chief Finance Officers of banks should continue to certify in each statutory return submitted to the CBN that they (the signing officer) have reviewed the reports, and that based on their knowledge;*

- the report does not contain any untrue statement of a material fact.

- the financial statements and other financial information in the report, fairly represent, in all material respects the financial condition and results of operations of the bank as of, and for the periods presented in the report.

3. Any director whose facility or that of his/ her related interest remains non- performing for more than one years should cases to be on the board of the bank and could be blacklisted from sitting on the board of any other bank 4

Banks should also establish whistle blowing procedures that encourage (including by assurance of confidentiality) all stakeholders (staff customers suppliers applicants etc) to report any unethical activity/ breach of the corporate governance code using among others a special email of hotline to both the bank and the CBN.

5. The CCO shall make monthly returns to the CBN on all whistle blowing reports and corporate governance related breaches .

6. The CCO together with the CEO of each bank should certify each year to the CBN that they are not aware of any other violation of the corporate governance code.

7. The corporate governance compliance status report should be included in the audited financial statements.

King II on the other hand demand a stricter and more detailed reporting they include;

1 *Companies must report any additional information in the annual report to assists in the understanding of the company's risk management processes and system of internal control.*

2 *The board should disclose how the company has dealt with risk and control in its annual report.*

3 *The composition of the committees (especially the remunerations, audit and nomination committees) should be detailed in the annual report, together with information containing a description of the committees' responsibilities, the number of meetings held and any other information that may be relevance to shareholders.*

4. *Companies should also provide full disclosure of director remuneration on an individual basis in their annual reports*
5. *Membership of the remuneration committee must be disclosed in the annual report.*
6. *A formal and transparent remuneration policy must be developed by the company in respect of director remuneration. A Statement of Remuneration Philosophy published in the annual report must support this policy.*
7. *In the company's annual report, the capacity of the directors of the board should be categorized as follows: Executive Director, Non- Executive Director, and Independent Non- Executive Director.*
8. *Companies should disclose in their annual reports whether or not the audit committee has adopted formal terms of references and, if so, whether or not the committee has satisfied its responsibilities for the year, in compliance with its terms of reference.*
9. *Membership of the audit committee should be disclosed in the annual report and the chairperson of the*

committee should be available to answer questions at the annual general meeting.

10 *Reporting on the development of human capital is important because it provides both a public account of past performance and more importantly, an indication of future prospects of the company.*

11 *Companies should disclose in their annual reports the criteria by which they propose to measure human capital developments and their performance in terms of such criteria.*

12 *Every company should report at least annually on the nature and extent of its social, transformation, ethical, safety, health and environmental management policies.*

2.5 SHAREHOLDERS AND CORPORATE GOVERANCE.

The shareholders' role in ensuring good Corporate Governance cannot be overemphasized. Shareholders statutorily are equity holders who have entrusted their wealth and investment in the hands of the management who manages and make returns to them. Because

management crafts strategic business idea and maximize return for the stakeholders, so many shareholders have decide to go to sleep thus abandoning their investments in the hands of the board and management. CBN Code of corporate Governance identified this class of shareholders as passive shareholders. In spite of the provision of the CAMA, Code of corporate governance, many shareholders have always neglected their rights and responsibilities. As a result of their non- responsiveness, corporate governance practice in the Nigeria banks has been seriously undermined. The essence of instituting an enduring, efficient and functional corporate governance in every organizations is to increase the wealth of all stakeholder. To achieve this wealth creation, shareholders have to be stronger in excising their rights. Firms with stronger shareholders who exercise their rights achieve higher firms value, higher profits, higher sales growth, lower capital expenditures and fewer cases of acquisitions or liquidation. There is no gainsaying to the fact that

actively involved owners are likely to help find solutions to some challenges, being faced by many corporate organization . Also, it is obvious that more vigilant shareholders are likely to be more socially responsible. In what Oladahonde (2005) described as *hedge fund investor* (i.e. short term investors or stock traders) and *mainstream investors* (long term investors who are not traders) he warned that responsible shareholding should go beyond merely investing in companies for "trading" purpose, but rather for the keen interest in ownership. It is only when the shareholders have long term interest of the firm that they will be out to monitor the affairs of the companies and develop close relationship with the directors and other stakeholders in the companies. Well, the issue of short or long term interests may not be legislated nor controlled because each investor is at liberty to choose the option he prefers. But then, management should be awake to recognize these type of investors exist and should be able to sieve out short

term interest of hedge investors in accepting the proposals of shareholders .

Provisions

The CBN Codes of Corporate Governance suggested that shareholders needed to be responsive, responsible and enlightened. To this end, the code reposed on them more duties towards the enthronement of corporate governance. One of such provision is the appointment of ordinary shareholders to be members of the Board Audit Committee. The code went ahead to recommend that one of the shareholders in the Audit Committee to be the chairman of the committee . This is a way of making them very active in monitoring the performance and activities of the management .

Another enabling provision is the requirement for the review or appraisal covering all aspects of the board's structure and composition, responsibilities, processes and relationship as well as individuals members competences and respective roles in board performance by an outside consultant . The appraisal report is required to

be presented to the shareholders in the AGM. Such a vital report will enable the shareholders to cast their votes rights in electing the board members.

Other rights given to shareholders by CAMA so as to make them more alert and active in following up the activities of the management include right to information, rights to elect company's directors and external auditors, and right to dividend.

Review

Statutorily, directors and external auditors are at the services to the shareholders and should remain accountable to them. Therefore, shareholders have right to information and to decision- making. Incidentally, many shareholders are not aware that the law requires the directors and external auditors to be accountable to them. The moment shareholders realize these rights and are willing to exercise them, management will sit up knowing fully well that they are under closer scrutiny.

They are supposed to renders the account to them at the General Meeting. It then becomes imperative that

shareholders should be present at the general meetings, of the company so as exercise their rights of election and right to receive reports, from all the groups that are supposed to report to them. General Meeting also is supposed to be an interactive session between the shareholders and all the groups that are accountable to them. This thesis is of the opinion that shareholder' activities should be encouraged so as to enable them to be responsive to the performance of the management. This thesis will round up this section citing the simple model in Corporate Governance that typifies the place of shareholders in the enthronement of corporate governance as contained in Sullivan (2001);

Shareholders elect the shareholders to represent them. Directors vote on key matters and adopt the majority decision.

Decisions are made in a transparent manner so that shareholders and others can hold directors accountable. The company adopts accounting standards to generate the

information necessary for directors, investors and other stakeholders to make decisions.

2.6 REGULATIONS

In the enforcement of corporate governance in Nigerian banks, this thesis will recommend two approaches namely Self- induced and Statutory Approaches. While discussing regulation, reference will be made to compliance to the *forms* and *substance* of Corporate Governance (ABSA, 2004) Forms of corporate governance is synonymous with the letters of the law while the substance of corporate governance is similar to the spirit of the law. When corporate governance is self- induced or internally motivated the board lays greater emphasis on ensuring compliance with the substance of governance. At any time the substance of governance is complied with, then the form is complied with as well, but not vice versa. This preface will usher this thesis to the discussion of self–induced, statutory regulations and the role of the regulatory authorities in the institutionalization of corporate governance.

SELF-INDUCED REGULATION

This is a bid to maintain the substance of corporate governance by the board who by its composition, decisions, strategies, polices and operations ensure that the banks are properly managed and, adequate information and return renditions made to the stakeholders. The board makes polices that abides with the code, not necessarily because the law requires them to do so but because it deems it fair and just to do that. In the period of post consolidation for banks in Nigeria, it is very unlikely that banks will enthrone the rule of corporate governance, if the statutory regulations are not augmented by the self- induced regulation. Afolabi (2006) on self regulation says, "self regulation and self discipline are likely to be more effective than regulation by government agencies because it is based on self-conviction". Nevertheless, self-regulation does not and should not eliminate the regulatory controls and supervisions of the regulatory authorities.

On the advantages of self- regulation, Chizea (2006) noted 'that when good governance becomes the order of the day amongst banks, the job of banking supervision is made very easy". This still emphasizes the need for harmonizing the externally induced regulation with the self indeed regulation. Finally, self- regulation requires probity, transparency and accountability.

STATUTORY REGULATION:

Much greater challenges of breaking Nigeria away from the list of countries notorious for prevalence of weak corporate governance and poor controls lies heavily on the shoulder of the regulatory authorities. Marshaling out relevant facilities – legislation and cohesive apparatuses, can surmount these challenges. Over the years in the banking industry, a lot have been done in area of statutory regulations from 1952 till date. As early as the pre- independence period, the first banking regulation was introduced to arrest the embarrassing crises in the industry. This regulation marked the first Banking Ordinance. Since then, it has passed through

series of amendments and modifications, and it has metamorphosed to what we have today as Bank and Other Financial Institution Act (BOFIA) 1999 as amended. Others are Failed Banks Act of 1994, Company and Allied Matters Decree 1999 as amended, NDIC Act, Prudential Guideline of CBN Circulars and the Code of Corporate Governance e in Nigeria for Banks in the post- consolidation regime . So many sections of these laws provided for ethical practices in the industry, and the management of banks . Regrettably, these laws were not enforced and that is why there were so much dooms and impending dooms in the industry before prof. Soludo (CBN Governor) pronounced his banking reform agenda.

The regulatory and government agencies have very vital role to play in ensuring that the companies in the country acquire better understanding of the need to extol good corporate governance in their business. Over the years a lot of government regulatory institutions have been insisted to monitor

and control a segment of business in Nigeria. Many polices, rules and regulations, guidelines and odes have been marshaled out by these government agencies . some of them are corporate Affairs commission (CAC),the Nigerian stock Exchange (NSE), the securities and exchange commission (SEC), The Central bank of Nigeria, national deposit insurance commission (NDIC) etc

2.7 CHALLENGES OF CORPORATE GOVERNANCE IN BANK POST CONSOLIDATION.

Banking reform by way of consolidation is a tool for a achieving a coherent sound governance in the banking industries. A governance that is devoid of malpractices, misinformation , forgery, and weaknesses in the internal control, to mention but a few. Nevertheless, this purported solution has its attendant challenges which if not properly addressed may result into a situation more worse that than it was before consolidation. It is a credit to the CBN for being apprehensive and proactive to these challenges.

In the NEW Code, the challenges of Corporate Governance are listed below;

1 Increased level of risk

2 Technical Incompetence

3 Relationships among Directors

4 Infective integration of entities

5 Poor Integration and Development of Information Technology Systems

6 Continued Concealment

7 Insider Related Lending

8 Resurgence of High Level Malpractices

9 Inadequate Management Capacity

10 Rendition of False Returns

11 Relationship between Management and Staff

12 Ineffective Board/ Statutory Audit Committee

13 Inadequate Operational and Financial Control

14 Absence of a Robust Risk Management system

15 Disposal of Surplus Assets

16 Transparency and Adequate Disclosure of Information.

The list is too long and the question is; how will corporate governance be a tool for an improved performance so as to tackle these challenges? But before submitting answers to this question, this thesis will briefly revisit and throw more light into these challenges.

a. Increased Level of Risk:

Risk management has been a pertinent issue in the banking industry, both before and after consolidation. Banks that are not able to manage the risk elements in the course of their business are known to have met with waterloos. The bulk of the crises in the banks are centered around risk management and for that sake, a proper study will be made on this cankerworm that eats deep in the fabrics of the industry. Banks are generally subject to wide array of risks in the course of their operations. These risks have increased especially in recent time as banks diversify their assets in changing markets. In the changing markets such as globalized financial markets, Nnanna (2003) hinted that the activities and

operations of banks have expanded rapidly thus expanding their risk exposure. This is an indication that level of risk changes in direct proportion with the changes in the market. That is why new spectra of risks have come up in the post consolidation of banks.

Various risk that are inherently in the industry as discussed in Nnanna (2003) include but not limited to;

1 *Credit Risk:* Risk that a party to a loan agreement will not be able or willing to service interest or repay the principal.

2 *Liquidity Risk*: Risk of a bank not having insufficient fund on hand to meet its current obligation .

3 *Interest Rate Risk:* Risk of a change in interest rate that will have an adverse effect on a bank's income and/or expenses.

4 *Market Risk or Position Risk*: Risk of capital loss from adverse market price movement related

to investments in commodity, equity, fixed interest or current markets.

5. *Currency Risk:* Risk of adverse exchange rate movement due to the mismatch between foreign receivables and payables.

6. *Legal Risks*: Risk that bank's contact or claims will be unenforceable or that court will impose judgments against them. It also covers the risk of legal uncertainty due to the lack of clarity of laws in localities in which the bank does business.

7. *Reputational Risk*: The risk that problems in a bank can cause customers, creditors, counter parties, or markets to lose confidence.

Other risks according to Unegbu (2004) are;

1. Information System Risks: These are risks resulting from application of technology in the management of information. Details will be discussed in the next section under 'Integration and Development of Information Technology Systems' challenges.

2 Cross Border Risks: These are risks that banks are exposed to in the course of their international transactions arising form differences in legal/ regulatory and jurisdictional ambiguities with respect to the responsibilities of different national authorities.

Suggestions

There is the need to adopt a robust, proactive and sophisticated supervisory process, which should essentially be based on risk profiling of emerging big banks in the post consolidation. To ensure sound governance, the adoption of an appropriate risk based supervisory approach is imperative with consolidation. The approach entails the design of a customized supervisory programme for each bank and it should focus more attention to banks that are considered to have potentially high systematic impact.

The approach should enable the supervisory authorities to optimize the utilization of supervisory resources. That necessarily requires that supervisors should have a clear understanding of risks flowing from the emerging big

banks, and that the risk management processes adopted by the banks are adequate. There is therefore, the need for capacity building in this area.

b. Integration and Development of Information Technology System.

Ours is IT driven age, where majority if not all the activities in the bank is backed up by information systems. After consolidation which was concluded with a lot mergers and acquisition, the integration of information systems of the individuals banks poses a big challenge to the industry. This is because the effectiveness of the integrated IT system might be impaired in the short run after the consolidation. This short run impairment as in Afolabi (2005) may probably be the biggest risk if not properly planned and managed as it may lead to lack of management information, an increase possibility of fraud and incorrect measurement of risk.

In addition to the existing risks as a result Information Communication Technology (ICT),banks will be equally challenged in the long run due to the development of highly

sophisticated IT system that would be of immense advantage in the post consolidation. Some of the existing risks associated with ICT or e-banking a s identified in Unegbu (2004) are;

1 Strategic Risk: The risk that may arise as a result of weak, shallow, corrupt or not- well thought – out IT projects.

2 Operational Risk: This risk takes the form of inaccurate processing of transactions and non-enforceability of contracts; others are compromises in data integrity, data privacy and confidentiality; inadequacies in technology; human factors such as negligence by customers and employees , fraudulent activities of employees and hackers can become potential sources of operational risk.

3 Money Laundering Risk: This is when financial intuitions are exposed to use of their facilities for the receipt and payment of criminal or scam money.

4 Securities Risk: This refers to the unauthorized access or intrusion to a bank's information systems and transactions by attackers. Attackers could be hackers, unscrupulous vendors, disgruntled employees or even pure thrilled seekers. Other IT

challenges includes combating e- mail banking scam'. This is the latest banking fraud that has taken advantage of the massive increase in on line banking. As Information Technology is leveraging banking services so does it leverage fraud. Many banks within and outside Nigeria have been targeted in a sophisticated fraud. Gosling (2003) identified e-mail banking scam to have taken different forms; and it include persuading customers to release details of their accounts, or to confirm details of their account as if the e-mail were from bank, online stealing of credit card from bank customers, and building of fictitious bank websites to deceive bank customers.

Another side of IT challenges in the post- consolidation is system integration. The integration just like human capital integration is quite gradual in the process. On the integration of systems an human capital, Aloa (2006) says, "experience of consolidation form developed counties shows that integration of systems and human capital sometimes takes between 3 to 4 years". The longevity of the integration period

may be attributed to cost and enormity of task and processes involved.

c. Human Capital Integration

The board is highly instrumental to the implementation of corporate governance in every organization. It is heavily laden with responsibilities, which are at the core of good governance. Experiences have shown that where a board fails, the best practices of corporate governance crumbles and consequently the organization goes under. The implications of having a wrecked and incompetent board is very ugly.

The integration of IT and its process is less difficult when compared to the integration of human beings. This difficulty accounts to the failure of so many mergers around the world. Hence, research shows that two- thirds of merger worldwide fail due to inability to integrate personnel and systems as well as due to irreconcilable differences in corporate culture and management, resulting in board and management squabbles (Aloa, 2006) Today, we have banks of more diverse ownership, larger liabilities and assets; the failure of any bank in the post consolidation can easily spark

off systematic distress. A lot needs to be done by the board to resist distress or failure.

The integration of human capital includes the harmonization of cultural differences among the staff of the merged banks. Conflicts of cultures may constitute a challenge in the post consolidation period and it should be properly damaged, otherwise a lot of management time will be spent on peace and reconciliation accords. Human capital integration may arise in the harmonization of roles and salary structures to mention but a few.

d. Transparency and Adequate Disclosure of Information

Transparency and adequate disclosure of information as a matter of act is one of the principles of corporate governance according to Organization of Economic Cooperative and Development (OECD).Currently in the industry, there are many deficiencies in the information disclosed particularly in the area of risk management strategies, risk concentration, performance measures etc.

The board cannot execute the transparency and disclosure functions singly; strict supervision of regulatory

bodies is necessary to ensure compliance. The neglect of the role of the regulatory authorities (CBN, NDIC,SEC) is an invitation to a systemic collapse, CBN will have to ensure the prevention of systemic distress by insisting that the examination reports capture the real situation of banks. Also contingency plan already put in place should be followed up to the letter while risk- based supervision policy should be implemented appropriately.

Having anticipated transparency and disclosure bottlenecks, Soludo (2006) in his 13- point Agenda recommended the use of electronic Financial and Surveillance System (e-FASS) which is an automated system for the rendition of returns from banks and other financial institutions. News from the industry as at may 2006 indicates that only UBA PLC and Oceanic Bank PLC have opened up their transactions for online real time monitoring using e-FASS by CBN. In addition to e- FASS, a hotline and confidential email have been made available for information from public on the operations of any bank. Today every other bank has adopted the system.

The adoption of zero tolerance in the regulatory framework is also another way forward towards facing the challenges of transparency and disclosure requirement.

2.8 ADVANTAGES OF CORPORATE GOVERNANCE

Enthronement of sound governance in the banking industry has multiples of benefits to the stakeholders and the entire economy. These benefits materialize from superior competitive corporate performance which translates to high returns to the stakeholders . Various stakeholders derive different benefits. For example, investors become more satisfied when the market capitalization of the company improves. Market capitalization can only improve when there is positive perception of the company due to the quality of governance imbibed by the management and the eventual financial performance of the organization. Also shareholders become more satisfied when higher returns accrue from their investments.

Other than the benefits to the stakeholders, Oni (2005) opined that nations economic development directly correlate with the level corporate governance enthroned in the private

sector. Another side of the benefits is improvement on the international perception of private investment in Nigeria.

Basically, corporate governance is designed to promote the fundamental imperatives that foster sustainable growth of corporate entities. Such imperatives include transparency, accountability, responsibility and fairness. When these imperatives are strictly adhered to, chances of making good return for the stakeholder will be high.

Another advantage of corporate governance to Nigerian banks is the image re- building. Over the years, the image of Nigeria banks as well as the bankers has declined as a result of sharp practices that are very common in the industry. As a result, they have faced a lot of criticism and have lost the confidence of the investing public. As new governance is ushered in, daily reports from the trading floor of the Exchange shows that banking stocks have maintained its position consecutively as the most highly traded stocks. That is to say that good governance could be the reasons for that performance.

Other benefits of corporate governance include the following;

a. Attraction of Foreign Direct Investment and Line of Credit from Foreign Banks

Foreign Direct Investment can only be attracted in an economy that has enthroned the international best practices for corporate governance. In the banking industry, there is no doubt also that strict adherence to the tenets of corporate governance makes it possible for Nigerian banks to tap from the pool of global resources. The enjoyment of credit from International Finance Institution (IFIs) and International Lending Agencies is dependent on the level of corporate governance adopted by Nigerian banks . Records from CBN statistical Bulletin (1992-2004) shows that loans and advances from other banks outside Nigeria to Nigerian banks stood at N68.8m and N41.6m in 1992 and 1993 respectively. Then between 1994 and 2004, the loans and advances from other banks outside Nigeria was zero. NO sooner than the reform was completed, many Nigerian banks have enjoyed some facilities and

lines of credit from International Finance Institutions (IFIs) like African Development Bank (ADB), the International Finance Corporation (IFC) etc. The plethora of foreign credit could be attributed to the enthronement of corporate governance. Soludo (2006b), opined that Nigeria banks could not get more than $ 10m to $20m, but today one bank alone had received almost $300m from two foreign bank. This is an indication of realignment of governance in Nigerian banks to the international best practices. A testimony to the attraction of the International Financial Institutions is evident in Omoh (2006) where he recounts, "international credit rating for Nigerian banks has improved tremendously as growth in credit lines for some Nigeria banks from aboard has been enhanced by as much as a factor 10 in 2005". This is a pointer to the fact that corporate governance has opened doors for foreign banks to come in. Not only that some foreign banks are now extending line of credits, Soludo (2006b), stated that some foreign banks have signed joint ventures with many of our local banks and are

coming to render services and today our banks are enjoying the dividend of corporate governance.

This benefits justifies a portion in the forward to the codified rules of corporate governance in Nigeria by the SEC which states "… companies perceived as adopting international best corporate governance practices are most likely to attract international investors than those whose practice are perceived to be blow international standard".

b. Protection of Investors

Protection of shareholders and the investing public is one of the tenets of corporate governance. The safest way of achieving this is by minimizing information asymmetry between banks and the investing public. The new code provided for transparency in the information disclosures and announced zero tolerance on issue of misreporting which was very common in the past. The stringent requirement in reporting will enable investors to make informed investment decisions.

Furthermore, adequate information disclosure requirement will forcefully make banks' management run the banks in a

more efficient manner so as to create a good public image. Corporate governance has made it possible through its transparency and empowerment code for shareholders to insist on the delivery of their duties and accountability of the directors.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.0 AN OVERVIEW

Research Methodology outlines the processes or the procedures a researcher adopted in evaluating a given piece of work or study (Aneke, 1998). It x-rays the procedures adopted in the data generation, data collection, measurements and the basis upon which inference is made on the population. These procedures made this research quite scientific, testable and investigative.

This research is designed to evaluate the reflection of Corporate Governance in the wealth distribution among the shareholders, employees, government and retentions over the period of 6 years (2000-2005) among the Nigerian banks. It empirically established the fairness to shareholders of Nigerian banks.

3.1 RESEARCH POPULATION AND SAMPLE

Studying the entire population would rather be a tall order when carrying out a study on a subject matter such as this. Therefore, in order to make a logical inference

about the population, a research sample was designed to cover an idea spectrum of the economy. The industries covered are Banking, Insurance, Conglomerates, Food and Beverages. This research adopted non- probability sampling methods which does not choose sampled subject at random (Aneke, 1998) Further, judgmental approach was used in choosing the samples. However, judgmental approach is known for inherent biases, but then a clear sampling technique for sample selection was designed to minimize and or eliminate sampling biases and errors where they exist.

3.2 SAMPLING TECHNIQUE

Judgmental technique of Non- probability sampling method was used in sampling of the population. Samples of the companies were not randomly selected but were discretely choose by the researcher to satisfy some criteria designed by the researcher.

While choosing samples for the study, the researcher limited sample companies to Banks and Publicly owned companies. What informed the choice of the companies is

the definition of Corporate Governance as given by the peterside committee which included these two types of companies (Banks both private and public, and publicly owned companies). Peterside reports clearly enlisted publicly owned companies and companies with multiple stakeholders as companies that should abide to the code of Corporate Governance (peterside committee Report, 2003).

Specifically, only public companies are mandated by section 375 (1) of CAMA, 1990 to publish their financial reports to the public. As a result of this, financials of private banks were not made available to the public. This condition excluded all private banks from our sample thus forcing down sample size. Also the choice of the period 2000-2005 was based on the fact that the period recorded the highest number of public owned banks in Nigeria and the readily available reports the researcher could lay hands on.

As a result of these restrictions, only 10 banks were included in the sample for the study.

In order to make a cross- sectional comparative analysis, companies in four other industries other than

banks were also considered for the study. Insurance industry was considered as a fellow financial institutions; while Conglomerates and Food and Beverage were chosen because they are fast growing industries. Also many blue chip companies in the capital market belong to these industries. The performance of stocks of the selected companies is an indication of investors' preference for their stocks. Summarily, activity level of the stocks of the sample companies in the capital market, contributed partly to the selection of these companies. (Nigerian Stock Exchange Daily Stock Report, August, 1, 2009).

The size of companies in each industry is quite adequate for us to infer reliably . In the conglomerate, about 44% of the companies were selected (i.e. 4 out of 9 quoted companies).Out of 13 quoted companies in the Food and Beverages, 3 companies were selected, representing about 23%. In Breweries about 29 %(i.e. 2 out of 7 companies) of the entire population of companies quoted were selected.

3.3 METHODS OF DATA COLLECTION

Data collection method adopted for this study includes the extraction and collection of data from the Value Added Statement of the company's Annual Reports. It further involved the critical review of Financial Statement of the sample companies for the period of six years. This method was designed to gather both time – series and cross- sectional data. Aneke (1998), defined times series data as the data that cuts across the period under study and cross-sectional data as the data cuts across industries.

3.4 SOURCE OF DATA

This study heavily relied on data sourced from the secondary sources. The choice of secondary sources is to eliminate bias that characterized primary data sources. Ikeagwu (1998), referred to secondary data as data collected from secondary sources, which are work of other people and bears on the subject matter of the study. The secondary data used were accurately presented without manipulations and sources appropriately disclosed for further enquiry. Such data is

meaningful when it is objectively reported to represent a true situation (Aneke, 1998).

However, all the data used for the analysis were sourced from the Annual Reports of the selected companies. The researcher used data from the company's value Added Statement (VAS) instead of the group VSA. Group (VAS) were sparingly used when minority interest is quite insignificant to affect the result.

3.5 METHOD OF DATA ANALYSIS AND INTERPRETATION

The collected data were analyzed simply by the computation of averages on percentage of values given to various stake holders over the years, while computing the average, exceptional values (extreme and unusual values) were eliminated so as not to affect the overall result of the computation. *Annual Industrial Average* were computed on the values extracted from the Value Added Statements of the companies under study. The Industrial Averages were the basis for comparism across the industries. The relationships between the Industrial Average for values given to various

stakeholders were represented pictorially using a line graph. Graphical method of analysis was very important to this study because it visually highlighted the relationships on distribution of the wealth generated. Making a trend analysis of the wealth distribution was rather easier using graphical representation. Another important means used in this analysis is the *periodic Industrial Average*. This is the mean of the industrial averages of the values given to different stakeholders over the period of six years under study.

Annual Industrial Average = $\frac{\text{sum of companies averages}}{\text{Number of companies in the industry.}}$

Periodic Industrial Average =

$\frac{\text{Sum of companies average for the period, 2000-2005}}{\text{Number of companies in the industry for the period, 2000-2005.}}$

Finally, inferential statistical method was used in summarizing and concluding on the subject matter. Inferential statistics according to Asika (1991) is a modern approach

that is concerned with making generalization from the study of a sample. That is to say that the result from the study of the ten banks will be used to generalize on the entire Banking Industry.

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CHAPTER FOUR

4.1 INTRODUCTION

Data presented below were extracted from the banks' and companies' Value Added Statement for the period of six years (2000-2005). Computations based on the extracted date were tabulated. Analyses in this section were based on the computed percentages and means. As much as possible, naira values were avoided completely in the analysis. Also the total values given to different stakeholders summed up to 100%.

4.2 DATA PRESENTATION

Table 1: Value Added Statements of BANKS for 2000-2005

Year	Value Added		Employee		Government		Dividend		Depreciation		Ret. Profit		Losses Pro
	N'm	%	N'm	%	N'm	%	N'm	%	N'm	%	N'm	%	N'm
First Bank of Nigeria													
2000													
2001	14,648	100	6,961	48	1,525	10	2,114	14	1,486	10	2,562	18	
2002	12,953	100	6,238	48	1,108	9	2.642	20	1.628	13	1,337	10	
2003	23,399	100	8,166	35	3,070	13	3,811	16	1,840	8	6,512	28	
2004	27,477	100	11,464	42	2,642	10	5,429	20	1,907	7	5,667	20	
2005	29,289	100	11,936	41	2,961	10	6,325	22	2,208	7	5,859	20	
Eco Bank Nig. Plc													
2000	1,513.0	100	639	41	206	13	392	25	197	12	139	9	
2001													
2002	1,946.342	100	964.328	49	160.050	8	130,533	7	268.278	14	423.193	22	
2003	2,553.926	100	1,113.658	43	298.749	12	243.662	10	329.704	13	573.153	22	
2004	2,933.642	100	1,198.203	41	422.664	14	0.000	0	418.336	14	894.439	31	
2005	4.895.173	100	1,958.878	40	596.682	12	974.440	20	671.439	14	693.734	14	

Year	Value Added		Employee		Government		Dividend		Depreciation		Ret. Profit	
	N'm	%	N'm	%	N'm	%	N'm	%	N'm	%	N'm	%
Access Bank Nigeria Plc												
2000	394.703	100	164.864	42	36.515	9	90	23	63.245	16	40.079	10
2001	521.363	100	291.147	56	38.388	7	-		114.135	22	77.743	15
2002	617.768	100	433.722	70	37.298	6	-		201.993	33	-55.245	-9
2003	2,840.949	100	735.535	40	254.066	14	135	7	294.775	26	421.513	23
2004	2,365.365	100	896.293	38	314.277	13	300	13	517.322	22	337.473	14
2005	2,619.514	100	1,213.617	45	249.518	9	-	-	666.864	27	501.515	19
Afri Bank Nigeria Plc												97
2000	-80.347	100	400.396	-548	-	-	-	-	259.160	-323	-779.903	1
2001	2,071.824	100	470.857	23	99.393	5	165.623	8	510.664	24	825.185	40
2002	4,166.747	100	1,190.823	29	431.194	10	165.625	4	744.452	18	1,508.937	36
2003	3,178.343	100	1,186.695	37	223.890	7	33.250	10	782.221	24	459.290	14
2004	3,418.093	100	1.201.660	34	323.022	9	441.666	13	750.488	20	525.848	15
2005	2,065.996	100	1,132.860	55	-27.492	-1	-	-	702.575	34	258.053	12
First inland Bank Nigeria Plc												
2000												
2001	1,161.500	100	110.976	10	112.388	10	62.799	5	89.922	8	446.689	38
2002	795.156	100	211.376	27	152.374	19	85.228	11	114.023	14	363.189	46
2003	1,432.815	100	352.884	25	172.875	12	240.341	17	223.383	15	195.870	14
2004	1,903.486	100	548.981	29	158.753	14	0.000	0	338.267	17	604.341	32
2005												
UBA PLC												
2000	8,647	100	3,977	46	850	10	828	9	664	6	2,328	27
2001	6,972	100	4.507	65	413	6	425	6	783	11	844	12
2002	8,726	100	5,486	63	877	10	510	6	1,002	11	851	10
2003	10,342	100	4,903	47	1,148	11	1,307	13	1,143	11	1,841	18
2004	12,606	100	5,864	47	1,204	10	1,530	12	1,353	11	2,655	21
2005												
UNION BANK PLC												
2000 (change of account date)												
2001	19,395	100	9,894	51	2,176	11	1,808	10	1,688	9	3,749	19
2002	19,107	100	8,460	44	3,117	16	3,146	17	1,867	10	2,517	13
2003	20,808	100	9,211	44	3,554	17	3,398	16	1,443	8	3,202	15
2004	23,490	100	11,733	50	2,460	11	4,698	20	1,547	6	3,052	13
2005	26,686	100	12,784	48	2,578	10	6,264	23	1,949	7	3,111	12
Intercontinental bank Plc												
2000												
2001	3,542.303	100	877.970	25	344.994	10	574.530	16	231.725	7	603.755	17
2002	5,297.500	100	1,575.910	30	498.022	9	1,076.595	20	356.145	7	805.676	15
2003	7,525.849	100	2,736.752	36	851.134	11	1,435.460	19	478.554	6	1,127.617	15
2004 (change of account date)												
2005	12,846.127	100	4,736.752	33	1,682.652	13	2,329.986	18	708.917	6	2,693.328	21
GT Bank Plc												
2000	2,087.244	100	449.093	22	292.834	14	495.000	24	326.984	15	523.329	25
2001	3,048.504	100	587.608	19	546.629	18	600.000	20	410.573	13	903.694	30
2002	4,296.021	100	807.466	19	516.294	12	1,495.000	35	381.260	9	1,096.021	25
2003	6,670.885	100	1,168.784	17	591.061	9	1,500.000	22	1,699.621	26	1,711.439	26
2004	8,635.072	100	1,776.361	21	973.168	11	2,100.000	24	1,828.987	21	1,956.556	23
2005	11,182.949	100	2,395.564	21	1,673.447	15	3,585.923	32	1,783.142	16	1,744.873	16

Year	Value Added N'm	%	Employee N'm	%	Government N'm	%	Dividend N'm	%	Depreciation N'm	%	Ret. Profit N'm	%
WEMA Bank Plc												
2000	948.646	100	492.844	52	52.377	6	202.505	21	151.927	16	49.013	5
2001	1,654.572	100	646.401	39	180.513	11	337.508	20	208.044	13	282.046	17
2002	3,562.587	100	946.723	27	812.000	23	700.977	20	322.197	9	780.699	21
2003	4,357.576	100	1,612.006	37	838.252	19	763.655	18	459.543	10	928.104	21
2004	4,754.471	100	2,745.752	58	452.871	10	311.092	6	588.700	12	552.242	18
2005												

Source: *Annual reports of various banks from 2000-2005*

Table 2: value Added Statements of INSURANCE COMPANIES for 2000-2005

Year	Value Added N'm	%	Employee N'm	%	Government N'm	%	Dividend N'm	%	Depreciation N'm	%	Ret. Profit N'm	%
NIGR INSURANCE												
2000	161.849	100	40.468	25	12.514	7.7	72	44.5	8.167	5.1	28.753	17.7
2001	206.678	100	55.905	27	15.473	7.5	75	36.3	11.090	5.4	49.210	24
2002	280.740	100	93.462	33	20.469	7	105	38	11.043	4	50.766	18
2003	298.362	100	95.586	32	20.957	7	120	40	10.616	4	51.203	17
2004	401.304	100	112.300	28	32.957	8	200	50	4.312	1	52.390	13
2005	496.304	100	181.710	37	32.631	7	198	50	1.922	-	205.041	16
ALLCO INSURANCE												
2000	352.297	100	144.467	41	3.000	1.0	10	3.0	62.785	18	132.045	37.0
2001	353.799	100	155.272	43	-	-	-	-	62.877	18	135.549	39
2002												
2003	542.368	100	240.298	44	21.000	4	70	13	97.849	18	113.200	21
2004	425.268	100	231.289	54	2.270	1	0	0	119.190	28	72.519	17
2005	276.955	100	237.222	50	5.137	1	0	0	152.786	32	81.810	17
WAPIC INSURANCE												
2000	62.125	100	16.683	27	11.319	18	20	32.0	6.783	11	1.665	3.0
2001	79.805	100	24.879	31	15.406	19	20	26.0	9.922	13	2.222	2
2002	139.435	100	38.209	27	12.501	9	30	22	15.432	11	29.515	21
2003	393.337	100	68.425	17	33.300	8	87.500	22	16.187	4	137.207	35
2004 (change of accounting year)												
2005	661.642	100	130.756	20	29.622	4	187.500	28	31.397	5	217.621	33
ROYAL EXCHANGE ASSURANCE												
2000	263.407	100	85.264	32.4	24.300	9.2	51.258	19.5	30.590	11.6	71.995	27.3
2001	347.960	100	113.158	32.5	43.234	12.4	102.516	29.5	38.038	10.9	51.014	14.7
2002	420.253	100	145.799	34.7	41.414	9.9	102.516	24.4	38.930	9	91.593	21.8
2003	593.651	100	272.311	45.9	50.762	8.5	128.145	21.6	53.429	9	88.993	15.0
2004	659.686	100	291.270	44.2	50.962	7.7	160.181	24.3	59.245	9	98.541	14.9
2005	600.140	100	361.402	60.2	39.420	6.6	80.090	13.3	66.830	11	54.179	8.9

Source: *Annual Reports of the Insurance Companies from 2000-2005*

Table 3: Value Added Statement of CONGLOMERATES for 2000-2005

Year	Value Added N'm	%	Employee N'm	%	Government N'm	%	Dividend N'm	%	Interests N'm	%	Depreciation N'm	%	Ret. Profit
PZ Nigeria Plc													
2000													
2001													
2002													
2003	5,847.608	100	2,070.361	35	848.832	14	1,150.032	20	379.678	7	540.193	9	858.512
2004	6,988.041	100	2,789.661	40	906.640	13	1,306.854	3	238.45	3	697.287	10	524.672
2005	7,210.897	100	3,082.983	43	897.905	12	1,633.568	33	89.026	1	109.323	2	1,291.179
CFAO Nigeria Plc													
2000	735.375	100	325.563	44	44.301	6	62.400	8	153.496	21	61.704	8	88.911
2001	1,072.101		360.783	34	105.978	10	62.400	6	154.044	14	80.927	7	289.324
2002	1,545.706	100	509.509	33	20.562	1	145.600	9	394.370	26	99.198	6	349.978
2003	1,138.541	100	400.305	35	96.512	9	116.480	10	284.890	25	103.852	9	100.919
2004	623.706	100	468.330	75	48.652	8	0.000	0	425.673	68	113.676	18	-432.648
2005	161.074	100	411.565	256	98.468	273	0.000	0	440.022	107	87.166	61	-876.147
Nestle Nigeria Plc													
2000	3,576.152	100	1,138.399	32.0	619.484	17	1,585.313	44.0	5.577	0	217.509	6.0	19.870
2001	5,259.507	100	1,341.534	25.5	1,172.884	22	2,325.125	44.2	-	-	218.639	4.2	201.325
2002	7,434.374	100	1,444.056	32.8	1,575.996	21	3,170.625	42.7	-	-	235.257	3.2	8.440
2003	9,004.196	100	2,874.244	31.9	2,042.809	23	3,699.062	44.0	-	-	283.029	3.1	105.052
2004	10,346.405	100	3,791.884	36.6	2264.788	22	3704.013	35.8	-	-	454.24	4.4	136.431
2005													
Unilever Nigeria Plc													
2000	2,154.889	100	748.756	35	440.788	20	847.459	10	-114.884	-5	226.237	10	6.533
2001	3,657.002	100	1,024.473	28	543.116	15	1,259.082	7	-330.620	-9	255.919	7	905.032
2002	3,876.233	100	1,541.394	40	481.171	12	1,513.319	8	-28.282	-1	310.028	8	58.599
2003	5,496.237	100	1,878.214	34	907.857	17	1,846.249	8	390.888	7	449.019	8	24.010
2004	6,386.075	100	2.329.103	36	802.798	13	2,118.646	33	615.963	10	470.962	8	48.603
2005													
UAC Nigeria													
2000	2,023.200	100	718.700	35.5	133.000	6.6	60.300	3.0	561.7	27.7	404.100	20.0	105.8
2001	4,002.000	100	1,032.500	25.8	209.400	5.2	112.400	2.8	806.6	20.2	586.600	15.0	870.200
2002	5,178.100	100	1,401.500	27.1	282.900	5.5	318.000	6.1	1,164.900	22.4	868.000	16.8	848.200
2003	6,706.800	100	1,742.100	26.0	481.000	7.2	545.200	8.1	1,157.400	17.2	1,135.011	16.9	1,639.400
2004	6,531.40	100	1956.6	30.0	768.6	11.8	871	14.9	854.700	13.0	1301.3	19.9	599.2
2005	6,698.100	100	2,167.800	32.3	915.600	13.7	1,284.000	19.2	318.9	4.8	1,486.500	22.1	345.300

Source: *Annual Reports of the Companies from 2000-2005*

Note: *if the net interest on borrowings and deposits are positive it stands for receipts of net interest income.*

Table 4: Value Added Statements of BREWERIES for 2000-2005

Year	Value Added N'm	%	Employee N'm	%	Government N'm	%	Dividend N'm	%	Interests N'm	%	Depreciation N'm	%	Ret. Profit N'm	%
NIGERIA BREWERIES PLC														
2000	13,961.756	100	2,205.040	16	5,447.818	39	2,985.330	21	401.924	3	1,652.198	12	1,269.446	9
2001	20,819.364	100	4,636.058	22	9,202.782	44	4,253.827	20	773.403	4	1,672.077	8	281.217	2
2002	26,737.931	100	5,096.970	19	8,469.776	31	7,940.528	30	2,329.520	9	1,622.711	6	1,278.426	5
2003	30,060.174	100	7,823.795	26	10,105.958	34	4,159.409	14	2,068.830	7	2,709.304	9	3,192.878	10
2004	35,664.921	100	8,818.661	25	12,077.425	34	3,025.025	8	5,377.630	15	7,404.800	12	2,061.378	6
2005	39,863.005	100	10,454.012	26	13,749.187	34	7,940.691	20	2,556.149	7	4,849.100	12	313.866	1
GUINESS NIGERIA PLC														
2000	7,755.465	100	960.756	12	2,217.223	42	1,699.114	22	-246.230	-3	729.146	9	1,395.456	18
2001	12,343.542	100	1,411.645	11	6,554.395	54	2,123.893	17	-493.597	-4	761.220	6	1,981.986	16
2002	14,046.584	100	1,855.386	13	7,302.896	52	2,654.866	19	-140.066	-1	878.832	6	1,494.670	11
2003	18,469.038	100	2,160.763	12	8,000.740	43	5,604.717	30	171.475	1	1,499.725	8	1,031.618	6
2004	23,296.897	100	3,954.458	17	9,380.533	40	6,194.687	28	219.672	1	1,738.641	7	1,718.816	7
2005	20,578.401	100	4,511.313	22	7,300.133	36	3,539.821	17	1,777.370	9	2,130.566	10	1,319.198	6

Source: Annual Report of the Companies from 2000-2005

Table 5: Value Added Statements of FOOD and BEVERAGES for 2000-2005

Year	Value Added N'm	%	Employee N'm	%	Government N'm	%	Dividend N'm	%	Interests N'm	%	Depreciation N'm	%	Ret. Profit N'm	%
FLOOR MILLS														
2000	3,390.933	100	1,034.341	30	172.295	5	327.600	10	1,070.267	32	511.152	15.0	275.278	8.0
2001	3,586.359	100	1,370.968	38	286.252	8	382.200	11	908.559	25	629.452	17.8	8.625	0.2
2002	7,245.361	100	2,863.317	40	729.369	10	409.500	6	1,188.559	16	927.487	12.6	1,127.604	15.4
2003	3,606.773	100	1,385.601	39	194.668	5	291.200	8	1,002.238	28	590.931	16.0	195.648	5.0
2004	4,751.328	100	1,759.572	37	378.237	8	509.600	11	801.470	17	785.041	17.0	517.508	10.0
2005	6,227.532	100	2,601.184	42	335.450	7	815.360	13	920.378	14	965.855	16.0	489.315	8.0
Nestle Foods Nigeria Plc														
2000	3,576.152	100	1,138.399	32.0	619.484	17	1,585.313	44.0	5.577	0	217.509	6.0	19.870	1.0
2001	5,259.507	100	1,341.534	25.5	1,172.884	22	2,325.125	44.2	-	-	218.639	4.2	201.325	3.8
2002	7,434.374	100	1,444.056	32.8	1,575.996	21	3,170.625	42.7	-	-	235.257	3.2	8.440	0.1
2003	9,004.196	100	2,874.244	31.9	2,042.809	23	3,699.062	44.0	-	-	283.029	3.1	105.052	1.2
2004	10,346.405	100	3,791.884	36.6	2264.788	22	3704.013	35.8	-	-	454.24	4.4	136.431	1.3
2005														
Nigeria Bottling Company														
2000	4,099.457	100	1,433.546	35	206.744	5	265.761	6	516.763	13	1,210.756	30.0	465.887	11.0
2001	7,949.828	100	2,212.886	28	1,178.957	15	974.458	12	268.196	3	1,306.484	17.0	2,008.847	25.0
2002	10,506.463	100	2,904.713	28	1,595.285	15	1,461.687	14	121.141	1	1,721.398	16.0	2,702.239	26.0
2003	11,421.128	100	3,032.172	37	1,643.140	14	1,559.133	14	161.324	1	2,188.715	19.0	2,835.827	25.0
2004	9,838.122	100	3,508.444	36	298.272	3	1,559.133	16	306.885	3	2,698.567	7.0	1,466.821	15.0
2005	10,524.295	100	3,696.426	35	1,249.197	12	1179.566	7	143.929	1	3,120.388	30.0	1,534.792	15.0
7up Bottling Company														
2000	1,534.520	100	722.746	47	53.000	3	131.193	9	174.293	11	208.661	14.0	244.626	16.0
2001	2,176.232	100	1,106.558	51	166.739	8	163.991	7	175.820	8	305.894	14.0	257.230	12.0
2002	3,567.805	100	1,336.475	37	532.210	15	245.987	7	137.597	4	410.130	12.0	905.407	25.0
2003	4,926.179	100	2,144.244	43	626.298	13	307.483	6	193.397	4	580.036	12.0	1,074.721	22.0
2004	5,422.153	100	2,568.808	47	542.566	10	409.978	8	148.978	6	817.807	15.0	734.016	14.0
2005	6,092.320	100	3,254.283	54	565.230	9	512.472	8	319.794	5	998.717	17.0	441.824	7.0

Source: *Annual Reports of the Companies from 2000-2005*

4.1 DATA ANALYSIS

In analyzing research question in this study, percentages, industrial averages, periodic industrial averages and line graphs will be used. As much as possible, whole figures would be avoided because they do not provide common basis for comprises.

Research Questions: H*ow equitable is the return to shareholders of Nigerian Banks over the years?*

The return of the shareholders can come in form of outright dividend distribution and or transfers to shareholders' fund of reserves. The fairness and otherwise of values given to shareholders of banks can be established if the value given to them is comparatively analyses in relation to the values given to shareholders of non-Nigerian Banks. Furthermore, the equity in the returns given to then will be ascertained if compared with the values given to other stakeholders

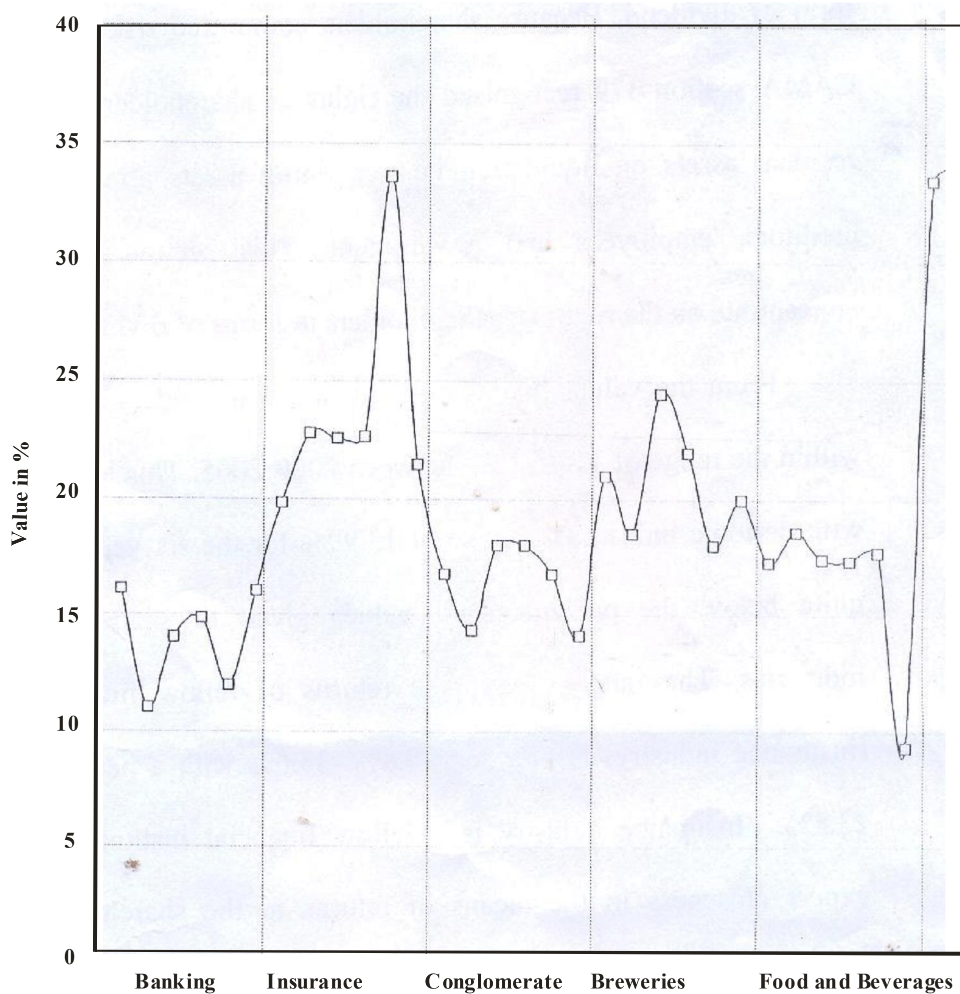
(employees, government, and debt capital providers) in the banking and non-banking sector alike.

Table 6: Computation of Industrial averages and Periodic Industrial averages of dividend values given to shareholders.

	2000	2001	2002	2003	2004	2005	Periodic Industrial average
	%	%	%	%	%	%	%
Banks							
First Bank	14	14	20	16	20	22	
Eco bank	25		7	10	0	20	
Access Bank	23	0	0	7	13	0	
Afri Bank	0	8	4	10	13	0	
First inland Bank		5	11	17	0		
UBA	9	6	6	13	12	13	
Union Bank	14	10	17	16	20	23	
Intercontinental		16	20	19		18	
GTBank	23	20	35	22	24	32	
WEMA Bank	21	20	20	18	6		
Industrial Average	16.13	11	14	14.8	12	16	
Periodic industrial average		-	-	-	-	-	13.99
Insurance:							
Niger	44.5	36.3	38	40	50	40	
ALLCO	3	0	-	13	0	0	
Royal Exchange	19.5	29.5	24.4	21.6	24.3	13.3	
WAPIC	32	26	22	22		28	
Crusader	0	22	6	17	60	26	
Industrial Average	19.8	22.76	22.6	22.72	33.6		
Periodic industrial average		-	-	-	-	-	23.82

Conglomerate:							
PZ				20	19	23	
CFAO	8	6	9	10	0	0	
Unilever	39	34	39	34	33		
UAC	3	2.8	6.1	8.1	14.9	19.2	
Industrial Average	16.7	14.3	18.0	18.0	16.7	14.1	
Periodic industrial average		-	-	-	-	-	16.3
Breweries:							
NB Plc	21	20	30	14	8	20	
Guinness	22	17	19	30	28	17	
Industrial Average	21.5	18.5	24.5	22	18	18.5	
Periodic industrial average		-	-	-	-	-	20.5
Food & Beverages:							
7up	9	7	7	6	8	8	
Nestle	44	44.2	42.7	41.1	35.8		
Coca cola	6	12	14	14	16	7	
Floor mills	10	11	6	8	11	13	
Industrial Average	17.3	18.6	17.4	17.3	17.7	9.3	
Periodic industrial average		-	-	-	-	-	16.3

Chart 1: Dividend Values to Shareholders



The above table and graph represent the relationship between the values shareholders of different industries receive over the period under study in form of divided. Because shareholders committed risk capital or equity, CAMA section 379 recognized the right of shareholders to dividend and residual assets on

liquidation i.e. remaining assets after settling secured creditors, employees and government. This section of analysis will concentrate on the retunes to shareholders in forms of dividend and no other.

From the values given above, banks shareholders received dividend within the range of 11-16.13% between 2000-2005. This leaves the industry with periodic industrial average of 13.99% for the six -year period. This quite below the percentage of values given to shareholders of other industries. The range of average returns of fellow financial institution (insurance industry) is between 19.8% -33.6% with a periodic average of 23.8% insurance industry is a fellow financial institution so one may expect closeness in the means of returns to the shareholders of banks. Unfortunately, there is a wide gap between the averages of the two financial industries. An attempt will be made to explain the reason for the wide gap in the second segment of our analysis. Conglomerates gave back average value in the range of 14.1% to 18% with a periodic industrial average of 16.3% Breweries, Food and

Beverages, and Petroleum industries recorded average values of 20.5%, 16.3% and 28.15%. The periodic industrial average value given to bank shareholders was the least among the industries under review. From the analysis above, the study may conclude that Nigerian banks have not done well in terms of dividend payout. But then, dividend payout alone will not form a conclusive evidence to ascertain the fairness or the equitable treatment of shareholders.

In order to establish the fairness or otherwise of values given to shareholders of Nigerian Banks; a comparative analysis of returns (dividends and retentions) to shareholders of Nigeria banks and non-Nigeria banks will be done. The samples of banks were drawn from other developing economies namely Malaysia, South Africa and India.

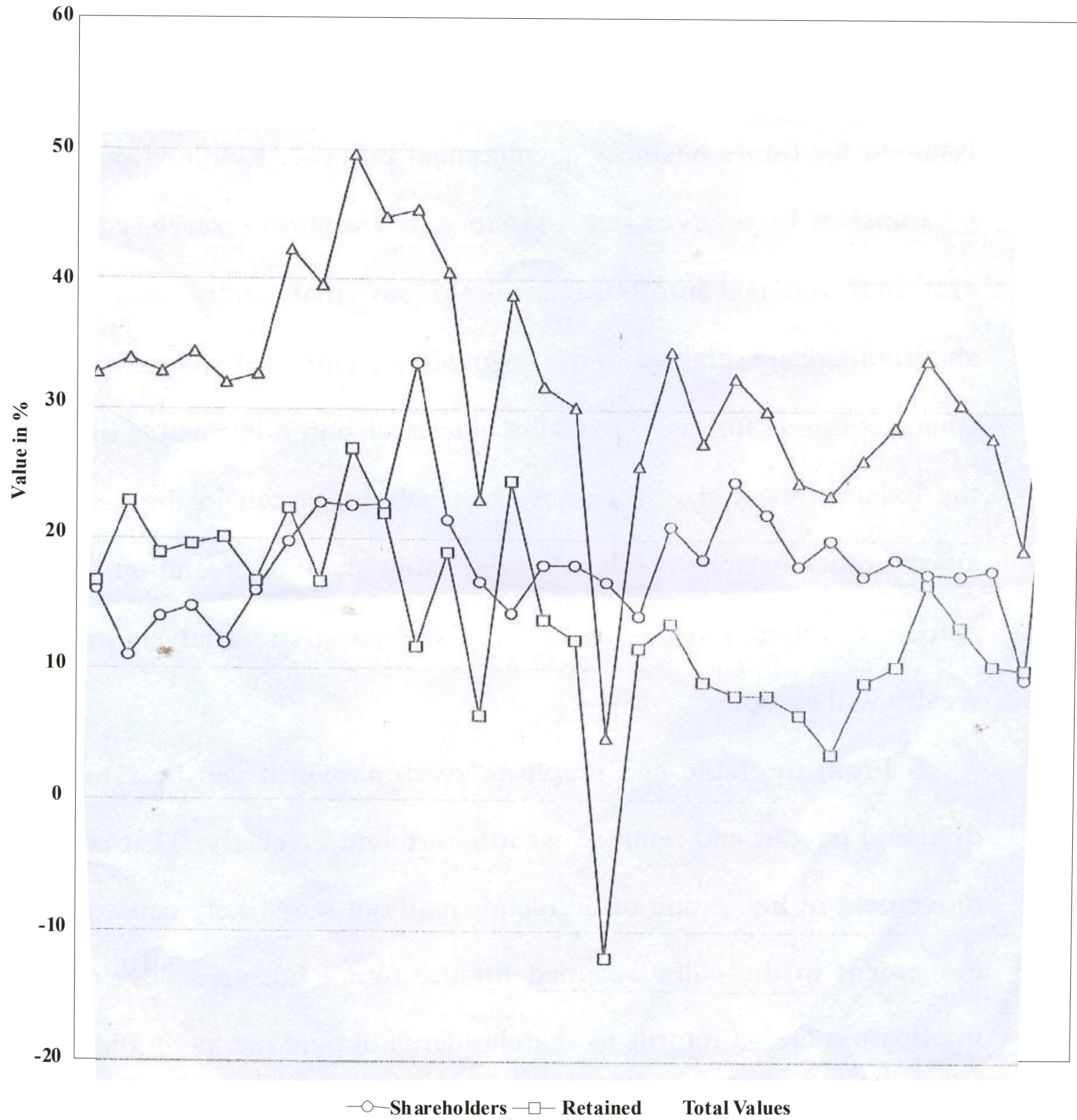
Next will be an analysis using (dividend and retained wealth) to shareholders.

Table 7: Presentation of total returns (dividend and retained wealth) to shareholders

	Year	Dividend	Retentions	Total Values
		%	%	%
Bank	2000	16.1	16.7	32.8
	2001	11	22.9	33.9
	2002	14	18.9	32.9
	2003	14.8	19.6	34.4
	2004	2	20.1	32.1
	2005	16	16.75	32.75
Periodic Industrial Average		*13.98*	*19.16*	*331*
Insurance	2000	19.8	22.4	42.2
	2001	22.8	16.7	39.5
	2002	22.6	27	49.6
	2003	22.7	22	44.7
	2004	33.6	11.7	45.3
	2005	215	19	40.5
Periodic Industrial Average		*23.83*	19.80	43.6
Conglomerates	2000	16.7	6.4	23.1
	2001	14.3	24.5	38.8
	2002	18	13.8	31.8

	2003	18	12.2	30.2
	2004	16.7	-12	4.7
	2005	14.1	11.6	25.7
Periodic Industrial Average		16.30	9.42	25.7
Breweries	2000	12	13.5	34.5
	2001	18.5	9	27.5
	2002	24.5	8	32.5
	2003	22	8	30
	2004	18	6.5	24.5
	2005	20	3.5	23.5
Periodic Industrial Average		20.67	8.08	28.7
Food and Beverages	2000	17.25	9	26.25
	2001	18.55	10.25	28.8
	2002	17.4	16.6	34
	2003	17.3	13.3	30.6
	2004	17.7	10.3	28
	2005	9.3	10	19.3
Periodic Industrial Average		16.25	11.58	27.9

Chart 2: Graphical representation of Dividend, Retained wealth and total returns to shareholders



ANALYSIS

The preceding analysis on the industrial average dividend payout did not give conclusive evidence on the fairness of the value given to shareholders. This is because returns to shareholders not paid out could be retained for business development. Retained wealth is a return to shareholder that is retained for future business development purpose. Retained wealth includes all transfers to reserves (e.g. statutory, redemption reserve, general reserve etc) and retained profit. That is to say that undistributed returns of shareholders are retained in the business. Retention of wealth is a very cheap finance options for every business enterprise and it is capable of swelling up the balance sheet size, thus net asset value. Growth in the net asset value among other reasons is capable of causing share appreciation in the capital market. For these reasons, an in depth comparative analysis of retained wealth will be done.

From the table and graph as given above, it can be established that dividend payout and retained wealth correlate inversely.

That is, an upward movement in line graph of dividends paid out may likely cause a downward movement in the value retained for the future business development. The implication is that returns to shareholders not paid out as dividend would be retained for business expansion or for future use. It is quite evident in the graph that industries in the financial sector retained the highest volume of wealth. Insurance industry retained 19.8% of their wealth, followed by the banking industry with average retained wealth of 19.2% for the period wealth for Conglomerates, Breweries, Food and Beverages, and stood at 9.4%, 8.1%, and 11.7% respectively.

From the table above, it is only banking industry that retained more values than dividend payout. The periodic industrial averages of dividend pay out for banks stood at 13.9% while the periodic industrial average of retentions is 19.2%. the relationship between dividend distributions and retentions for business expansion suggested the dividend policy adopted by the industry. The dividend policy that is common among banks is Residual Dividend Policy. According to Abrade 2005),

residual dividend is a policy where an organization keeps back substantial part of their earnings for financing projects or for business expansion instead of relying on external financing. In this policy also, retentions is prioritized over dividend.

We can infer that retentions of shareholders entitlement in banks is necessitated by statutory reasons-CBN demand for banks for shore up their statutory reserves and shareholders fund over the period.

To conclude on the fairness of the values given to shareholders, we have to look at the composite graph of the returns to shareholders (i.e. dividend payouts and retentions for growth). The reason being that all appropriations after tax in profit and loss account belongs to the owners of the business. The appropriation could take the form of dividend or in form of transfers to reserves. This thesis argues that the fairness or otherwise of values to shareholders could be ascertained by aggregating all transfers or appropriations after

tax. The table below will show the composite value of returns to shareholders over the period.

Table 8: Presentation of aggregate returns to Shareholders (extracted from table 8 above)

Industry	Total Returns %
Banking	33.1
Insurance	43.6
Conglomerate	25.7
Breweries	28.7
Food and Beverages	27.9

Table 8 above presents, the total returns given to shareholders in form of dividend and retentions for business growth. These aggregate values are the sum of the periodic industrial averages of dividend and retained wealth. From the above table, financial institutions ranked first and third among the six sectors under review. Insurance sector gave the highest return to the tune of 43.6% while the banking sector came third in the list with 33.1% of values given to shareholders. Although one may argue that the financial sector has done

well, yet the gap between the insurance and banking is so wide that it cannot be neglected. The wide margin between the two institutions stood at 10.5%

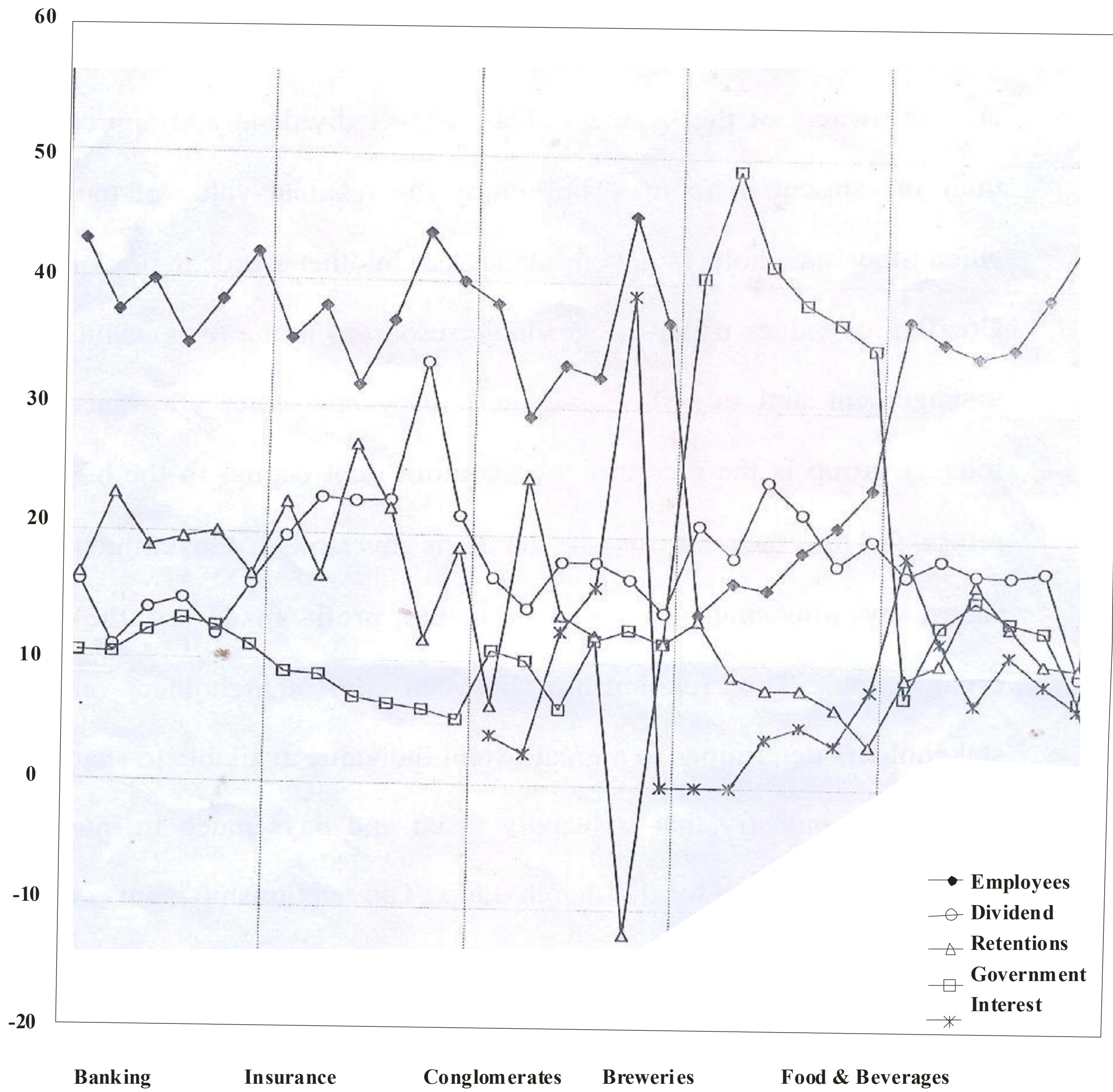
This essay, at this point questions the wide gap in the values given between two industries in the similar sector. Although banking industry ranked third in our analysis, yet there is little more to be desired since banks did not give any value to debt capital providers. The values saved from interest payment would have increased the aggregate values given to shareholders.

Nevertheless, ratio of values given to another stakeholder in other industries is likely going to the answer the research question above.

Table 9: Presentation of industrial and periodic Industrial Average values given to all the stakeholders

		Employee %	Dividend %	Retentions %	Govt %	Interest %
Bank	2000	42.9	16.1	16.7	10.5	-
	2001	37.3	11	22.9	10.4	-
	2002	39.8	14	18.9	12.2	-
	2003	34.8	14.8	19.6	13.2	-
	2004	38.3	12	20.1	12.6	-
	2005	42.1	16	16.75	11.1	-
Periodic Industrial Ave		39.2	14.0	19.2	11.7	-
Insurance	2000	35.3	19.8	22.4	9	-
	2001	37.9	22.8	16.7	8.8	-
	2002	31.7	22.6	27	7	-
	2003	36.8	22.7	22	6.5	-
	2004	43.8	33.6	11.7	6.1	-
	2005	40	21.5	19	5.3	-
Periodic Industrial Ave		37.6	23.8	19.8	7.1	-
Conglomerates	2000	38.2	16.7	6.4	10.9	9
	2001	29.3	14.3	24.5	10.1	2.5
	2002	33.4	18	13.8	6.2	12.5
	2003	32.5	18	12.2	11.8	16
	2004	45.3	16.7	-12	12.7	39
	2005	36.9	14.1	11.6	11.6	0
Periodic Industrial Ave		35.9	16.3	9.4	10.6	12.3
Breweries	2000	14	21	13.5	40.5	0
	2001	16.5	18.5	9	49	0
	2002	16	24.5	8	41.5	4
	2003	19	22	8	38.5	5
	2004	21	18	6.5	37	3.5
	2005	24	20	3.5	35	8
Periodic Industrial Ave		18.4	20.7	8.1	40.3	3.4
Food and Beverages	2000	37.3	17.25	9	7.5	18.7
	2001	35.6	18.55	10.25	13.3	12
	2002	34.5	17.4	16.6	15.3	7
	2003	35.2	17.3	13.3	13.7	11
	2004	39.2	17.7	10.3	13	8.7
	2005	43.7	9.3	10	7.3	6.7
Periodic Industrial Ave		37.6	16.3	11.6	11.7	10.7

Chart 3: Graphical representation of values given to all stakeholders



ANALYSIS

All the stakeholders in the business have varied contributions and as such deserve varied returns from the earnings of the business. Shareholders commit risk capital in form of equity to the business and by so doing they are the owners of the business. They expect dividend and appreciation of their investment in return. They enjoy the residual value of the business when other stakeholders have been settled, in other words their claim is last. Creation of values using the available resources is the responsibility of the management and in return they get salary and other allowances. Other interest group is the creditors who commit debt capital to the business; in return for this they get interest for their investment. Government gets its return by imposing tax on the taxable profit made by the business organization. The relationship between the shareholders determines to a great extent the value available to shareholders. That is, an industry that is heavily taxed and pays much in interest may likely not have much for the shareholders. The relationship is inverse.

From the table above, banks give highest value to their employees. A periodic industrial average return of 39.2% is given to their employees for converting the resources available to income. Insurance and, Food and Beverages gave equal values to the employees for converting the resources available to income. Insurance and, Food and Beverages gave equal values to the employees to the tune of 37.6% while the periodic industrial averages for Conglomerates and Breweries stood at 35.9%, and 18.4% respectively.

Government levied more on the breweries by charging more tax and excise duty. The high charge on the profit of the Breweries accounted to the lower values given to shareholders and employees. The periodic industrial average of the values given to the government stood at 40.3%. Banks, Insurance, Conglomerate and, Food and Beverages gave 11.7%, 7.1%, 10.1%, and 11.7% respectively to government as tax.

The debt capital providers have a share to the wealth generated by the organization. In compensation for their

capital they receive interest. In our analysis, all the companies selected for case study borrowed interest yielding capital with the exception of financial institutions. Conglomerates led by returning 12.3% of value generated to debt capital providers while Food and Beverages and Breweries returned 10.7%, and 3.4% respectively. The implication of the above is that values saved by the financial institutions for not paying interest was made available to other stakeholders for distribution.

Furthermore, banks paid 11.7% in tax and nothing in interest; it is expected that banks will give more value to the shareholders. From our analysis also, industries that gave lesser values to their shareholders gave more values to government and to interest capital providers.

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CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 SUMMARY OF FINDINGS

The importance and urgency of enthroning sound corporate governance in the Nigerian Banking industry especially in the post consolidation period cannot be under estimated. So many issues were articulated under the concept corporate governance namely fairness to shareholders, rights of shareholders, risk management, transparency and accountability and board structure. This study centered its analysis on the equitable treatment of shareholders vis6 a vis other stakeholders. Based on our analysis the following findings were discovered.

Based on the cross-sectional analysis in chapter four, banking sector gave least dividend values to its shareholders when compared to other sectors under review. Banking industry returned an average of 14%, which is the least among the

companies under review. This percentage is quite low when compared with periodic industrial average of 23.8%, 20.7%, 16.3% and 16.3 given to shareholders of insurance, Breweries, Food and Beverages, and Conglomerates respectively. Given to employees of banks. The closest institutions that followed banks are the Insurance, Food and Beverages, and Conglomerates. The periodic industrial average of value to employee for these industries stood at 37.6%, 37.6% and 35.9% respectively.

Furthermore, the analysis in the preceding chapter showed that values not distributed to shareholder were retained for the business development and the retentions form part of wealth to shareholders. From our analysis, this study discovered that values banks saved by not distributing dividend to shareholders were retained for business development. Banking industry retained a periodic industrial average of 19.2% of the wealth created while insurance companies retained 19.8%. Other sectors such as Breweries, Conglomerates, Food and Beverages retained a periodic

industrial average of 8.1%, 9.4%, 9.4%, 11.6% and 9.7% respectively.

From our findings the summation of the dividend distributed and wealth retained made up the total returns to the shareholders. Banking industry scored third among the six industries under review. The range of total returns among the six industries is 25. 7% - 43.6% while the banking sector giving 33.1% of wealth generated to the shareholders.

The preceding analysis revealed that banks averagely gave as much as 11.7% of total value generated to the government; a percentage that is higher than 7.1%, 10.1% and 11.68% given by Insurance, Conglomerates, and Food and Beverages.

Nigerian Banks gives more value to employees than every other industry sampled in the study. A periodic industrial average of 39.2% is

Finally, financial institutions made some savings for not giving values to debt capital providers since they did not utilize debt capital for wealth generations within the period under review.

5.2 CONCLUSION

This study at this juncture concludes that banks have not done very well with respect to the dividend payout over the years. Although the retained value is the wealth of shareholders, in the short run the shareholders deserve fairer dividend for their investment. A periodic industrial average dividend return of 14% is quite low when compared with fellow financial institution namely Insurance industries that returned 23.8% of total wealth generated to the shareholders. Furthermore, financial institutions over the period under review did not utilize debt capital finance option; therefore no interest payment was made. Implicitly, utilizing a cheaper finance option of retaining profit for business development should least give gradual rise in the dividend returned to the shareholders over the years.

The statutory need to beef up the shareholders fund could be a reason for a high percentage of retained wealth over the period. The periodic industrial average of retained wealth of banks and insurance companies is 19.2% and 19.8% respectively. These values are high when compared with retentions in conglomerates, Breweries, Food and Beverages, which stood at 9.4%, 8.1%, and 11.6% respectively. If the retention was necessitated by the CBN order for banks to increase their shareholders fund then one may likely expect less retention in the post consolidation. Consequently, this may likely translate to higher dividend return to shareholders.

5.3 RECOMMENDATION

From the above analysis, Nigeria banks have not paid adequate dividend to their shareholders over the years. But then the total return to shareholders comparatively within the period is within average. As discussed above the banks retain much of this return to satisfy the statutory requirements.

As a result of this, this study is recommending a higher dividend payout to shareholders; an average dividend payout that will improve the current average of 13.96% to about 20%. The Cashless Banking should be encouraged to help fight Barriers to Corporate Governance.

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