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EFFECTIVENESS OF CORPORATE GOVERNANCE PRACTICES IN NIGERIA: A COMPARATIVE ANALYSIS OF SELECTED FIRMS

Prof. C.M. Ekwueme
Professor of Accounting, Nnamdi Azikiwe University, Awka, Anambra State, Nigeria
Paul Akhalumeh
Lecturer, Department of Accountancy, Auchi Polytechnic, Auchi, Edo State, Nigeria
E-mail: paulakhalumeh@yahoo.com
(Tel: +2438035363143)

Abstract

This study examines the effectiveness of corporate governance practices in Nigeria, focusing on a comparative analysis of selected firms. The study uses a sample of selected banks against some selected non-bank companies. The study uses both primary and secondary data, relying more on secondary data for the comparative analysis. The main objective of the study is to examine how effectively the principles of corporate governance are applied in the banks vis-a-vis the non-bank companies. A major stated and tested the hypothesis is that corporate governance practices in Nigeria firms have significant affects in attracting investments. Amongst the findings of this study are: there are better disclosures in Nigerian banks than non-bank companies; the application of the principles of corporate governance is higher in the banks than the non-bank companies in Nigeria, and corporate governance practices have significant effects in attracting investment in Nigeria. The study recommends, amongst others: that non-bank companies in Nigeria should adopt more effectively the principles of corporate governance; minimum standards should be set for disclosures by corporate entities in Nigeria; and the Nigerian Stock Exchange should improve it oversight function of corporate entities in Nigeria with a view to promoting better corporate governance practices.

Keyword: Corporate Governance, Board of Directors, CEO Duality, Independent Auditors, Audit Committee, Accountability, Transparency

1.0 Introduction

In the last few years, global attention has focused on business practices and corporate cultures. This has been prompted by the incidence of corporate scandals and business collapse. This is so because of high-profile scandals involving abuse of corporate power and, in some cases, alleged criminal activities by corporate officers (searchfinancialsecurity.com, 2009). Many businesses have collapsed due to poor management styles and approaches; others have done so because of accumulated debts thus shaking business confidence. The very tenets upon which capitalism is built have been called to question therefore.

Capitalism presupposes that economic activities are self-regulating through the invisible hand, thus suggesting that when inadequate practices exist, the system has sufficient inbuilt mechanisms to remedy the wrongs however, the corporate scandals and business collapse of the recent past have made a case for a rethink not only of the ideals of regulation but also the overall approach to the way business is done. Over the years, businesses have grown in complexity and ownership has become increasingly devoiced from management and control of businesses. These have raised higher the stakes of corporate governance and the need to protect the interests of all stakeholders. Modern businesses are operated through a web of relationships between executives, directors and stakeholders' monitoring.

Recent cases of corporate scandals/failures have shown a trend of failings on the part of directors in achieving their de facto function of protecting the interests of shareholders, even if they are minority shareholders. This has prompted increased focus on directors' and executives' roles and responsibilities which require systematic frameworks for implementing critical corporate governance principles on ethics, code of conduct, compensation, financial policy, and financial reporting (metricstream, 2009).

Another key aspect of corporate governance is the engendering of confidence in the investing public. A major component of corporate governance is accountability and transparency. Corporate governance principles highlight the separation of functions between the functionaries of an organization and a reporting system in which all the operations and activities of management and top officials can be clearly seen and appraised by all. This is why auditing is a vital aspect of best practices advocated in corporate governance principles.

Hussey (1999) observes that, the topic of corporate governance gained increased importance in 1992 with the publication of the Cadbury Report in the UK. It was in the post-structural adjustment programme (SAP) era that the topic gained relevance in Nigeria. This was the era that witnessed the growth of private ownership of productive resources and the multiplication of banks and financial institutions in Nigeria. Because of the weak corporate culture in these banks and financial institutions, the nation witnessed a very high incidence of corporate mortality and banking distress. To help establish stability and regain the confidence of the public, the Securities and Exchange Commission (SEC) set up a committee in 2000 whose report was the first to articulate a code of best practices for public companies in Nigeria (Report of the Committee on Corporate Governance of Public Companies in Nigeria, 2003). This was followed by a similar code by the Central Bank of Nigeria (CBN) in 2006 to address the corporate governance practices in Nigerian banks (Central Bank of Nigeria, 2006).

The Central Bank of Nigeria (2006) traces the need for a new code of corporate governance in the Nigerian banking industry to the poor corporate governance practices in the banks which it identifies as one of the major factors in virtually all known instances of corporate collapse of financial institutions in the country. The CBN (2006) identifies weaknesses in the corporate governance practices of banks in Nigeria (these weaknesses are also very evident in the non-bank sectors) as: Disagreement between board and management, giving rise to beard squabbles; Ineffective board oversight functions; Fraudulent and self-serving practices among members of the boards, management and staff; Overbearing influence of chairman or MD/CEO, especially in family-controlled banks; Weak internal controls; Non-compliance with laid down internal controls and operations procedures; Ignorance of and non-compliance with rules, laws and regulations guiding banking business; Passive shareholders; Poor risk management practices resulting in large quantum of non-performing credits; Abuses of lending, including lending in excess of single obligor limit; Sit-tight directors - even where such directors fail to make meaningful contribution to the growth and development of the bank; Succumbing to pressure from other stakeholders, e.g shareholders and appetite for high dividends and depositor's quest for high interest on deposits; Technical incompetence, poor leadership and administrative ability; Inability to plan and respond to changing business circumstances; and ineffective management information system.

These weaknesses in corporate governance practices by banks are even more pronounced in the largely unregulated non-bank sectors where ownerships of corporate entities are not as diffused as the banking sector.

The scenario painted above has a way of discouraging investments - particularly, foreign investments. Investors want to be sure that there will be timely returns on their investments. This can only be guaranteed by transparency, accountability and a general corporate culture in which the interest of every stakeholder is adequately catered for. This study therefore seeks to examine the extent of the application of corporate governance principles by Nigerian firms, and to assess the effectiveness of the application of the principles of corporate governance.

To achieve the objectives of this study, the remainder of this paper is organized as follows. The remaining part of this section identifies the problem statement, objectives of the study, the scope of the study, the research questions and the significance of the study. Section 2 examines relevant literature on the subject matter. Section 3 specifies the methodology of the research. Section 4 presents and analyzes data and section 5 presents relevant conclusions and recommendations.

The hypotheses of this study are

(i) Corporate governance principles are applied by Nigerian banks more than other firms.

(ii) Corporate governance practices in Nigerian firm have positive and significant effects in attracting investments.

2.0 Literature Review

2.1 Corporate Governance

Over the past two decades, many corporate entities have collapsed, due more to unethical practices than inadequate funding or shortage of skilled personnel. The recent situation in the Nigerian banking sector tells the whole story. Bank facilities were given to customers, who more often are cronies, relations and accomplices of management/directors of the banks without going through the proper procedures. In the end such loans become non-performing and uncollectible. The current global economic crisis emphasizes the consequences of breaches in corporate governance practices by actors. There is a lag in the transparency of actors. Corporate reports are shrouded in manipulations, (creative accounting and window-dressing are constantly employed by management to create the impression of sound financial positions). The case of Enron - the world energy giant is still very fresh in memories around the globe. The effect of such unhealthy practices is that business failures are inevitable with attendant implications. The idea of corporate governance is deeply rooted in the principal-agency theory; contemporary businesses are such that ownership and control of businesses are detached.

Audu (2007) defines corporate governance as “the relationship between the stakeholders and management of an organization as defined by the corporate charter, bye laws, formal policies and rule of laws.” According to him the fundamental concerns of corporate governance include:

- Ensuring that conditions apply whereby directors, and principal officers of the (entity) act in the interest of the (entity) and its stakeholders, and
- Ensuring that the means exists to hold managers accountable to stakeholders and employees for the use of the resources at their disposal.

This view is also maintained by Committee on Corporate Governance of Public Companies in Nigeria (2003) which sees corporate governance as "the system by which companies are directed and managers are held accountable for the performance of the organization". Thus, corporate governance refers to the structure of relationships for decision making and action, and the evaluation of such decision making and actions within a corporate entity. It seeks such structural arrangements within the decision-making organs of an entity that will foster effective stewardship accountability through the protection of the interest of all stakeholders in decision making process through transparency and verifiability in the process of stewardship reporting.

Rogers (2006) sees corporate governance as "building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that would foster good corporate performance." He identifies three basic tenets of corporate governance to include transparency, disclosure and trust.

Busman and Smith (2003) note that:

> *Corporate governance structures serve (1) to ensure that minority shareholders receive reliable information about the value of firms and that a company's managers and large shareholders do not cheat them out of the value of their investments and (2) to motivate managers to maximize firm value instead of pursing personal objectives.*

In corporate governance much emphasis is placed on information and transparency, and the existence of arrangements that allow decisions to be made in the overall best interest, not of individuals or segments, but of the entity. This ensures that the interests of the weak minorities are protected.

The Central Bank of Nigeria (2006) in the Code of Corporate Governance for Banks in Nigeria Post Consolidation sets out principles and that promote good corporate governance. These are reproduced here.

- The establishment of strategic objectives and a set of corporate values, clear lines of responsibility and accountability.
- Installations of a committed and focused board of directors which will exercise its oversight function with a high degree of independence from management and individual shareholders.
- A proactive and committed management team.
- There should be adequate procedures to reasonably manage inevitable disagreements between the board, management and staff of the bank.
- The board should meet regularly at a minimum of four (4) regular meetings in a financial year, there should also be adequate advance notice for all board meetings as specified in the Memorandum and Articles of Association.
- The board should have full and effective oversight of the bank (company) and monitor its executive management.
- There should be a well defined and acceptable division of responsibilities among various cadres within the structure of the organization.
- There is balance of power and authority so that no individual or coalition of individuals has unfettered powers of decision making.
- The Articles of Association should clearly specify those matters that are exclusively the right of the board to approve apart from those for notification.
- The number of non-executive directors should exceed that of executive directors.

- All directors should be knowledgeable in business and financial matters and also possess the requisite experience.
- There should be a definite management succession plan.
- Shareholders need to be responsive, responsible and enlightened.
- Culture of compliance with rules and regulations.
- Effective and efficient Audit committee of the board.
- External and internal auditors of high integrity, independence and competence
- Internal monitoring and enforcement of a well articulated code of conduct/ethics for directors, management and staff.
- Regular management reporting and monitoring system.

These principles and practices are clearly meant to protect minority shareholders, depositors, creditors and other stakeholders, through the prevention of frauds, and making of efficient and effective decisions.

Skully (2007) recommends the following principles of corporate governance with emphasis on the Board of Directors.

- The chair must be an independent, non-executive director.
- There should be at least five directors with a majority of independent, non-executive directors. At least one of these must have financial expertise
- The Board must have an audit committee, board risk committee and a dedicated internal audit function.
- All directors should be “fit” and “proper”
- Smaller boards of directors are better than larger boards.
- The more independent directors on the board, the better.
- The CEO should not chair bank (or company) boards.
- More qualified directors result in better boards.
- Boards with a more diversified expertise are better boards.

Central in the discussions on corporate governance are the following points:

- No CEO/Chair duality,
- Independence of the board, and
- An efficient audit committee of the board,

The Report of the Committee on Corporate Governance of Public Companies in Nigeria (2003) notes that: “The combination of the role of the chairman and chief executive is a considerable concentration of power and could endanger the effectiveness of the chairman and the whole board, with the potential adverse effects on the interests of the other stakeholders”.

Skully (2007) also observes that “The concept of splitting the roles of the board of directors chair and the CEO is well established as the chair is expected to supervise the CEO’s performance. It is difficult to supervise “one’s self”. It is in light of this observation that one wonders why the Report of the Committee on Corporate Governance of Public Companies in Nigeria (2003) should tolerate such a practice when it recommends that “where the chairman is also the chief executive, it is important to have a strong independent element on the board”, instead of out-rightly condemning the practice.

The audit committee represents an opportunity for shareholders to make an input into the “true and fair position” of the financial reports. According to the Report of the Committee on Corporate Governance of Public Companies in Nigeria (2003), “Effective audit committees provide assurances to shareholders that the auditors, who act on their behalf, are in a position to, and do safeguard their interests".

Key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. Of importance is how directors and management develop a model of governance that aligns the values of all corporate participants and then evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interests, and disclosure in financial reports.

The Governors of the Commonwealth Central Banks (2001) in a News Release assert that the benefits of good corporate governance include:

- *Improvements in the quality and efficiency of all boards of directors, under the policy supervision, and monitoring of the national regulatory Commissions, backed by the weight of the government and parliament.*
- *Increased performance and profitability of private companies, leading to increased export, higher rate of GDP growth and thus to increased share prices in listed companies, and*
- *Increased inflow of investment which will in turn lead to higher growth, employment and poverty reduction.*

The Governors noted:

> *The increasing evidence that good corporate practices are a prerequisite for domestic and international investment in particular the recent Mckinsey investors' opinion survey, which identified that institutional investors would pay a premium of 10 percent in Europe and up to 28 percent in south American and East Asian Markets for companies which could demonstrate good corporate governance*

Jane (2003) identifies two approaches to corporate governance. The first is narrow - the view of this is the relationship between a principal and the agent. In this regard, the financiers - shareholders and banks - are the principals, while the managers with both formal rules and procedures are the agents. The major focus of corporate governance in this approach is to ensure maximum returns to investors. The threat of a hostile take-over provides the ex-ante incentive for the manager to fulfill this goal as well as disciplining managers if they are under performing or diverting too large a share of net value to themselves. The agent is expected to always act in the interest of the principal.

The second approach is somewhat broader, is called the stakeholders approach. It focuses on the entire network of formal and informal relationships which determine how control is exercised within corporations and how the risks and returns are distributed between the various stakeholders. The focus of this second approach is that companies should be made to serve a number of groups rather than treat the interest of shareholders as overriding all others. The system of controls, adequate for the first approach to corporate governance is the outsider and arm's length control. The system of control appropriate for the second approach is a whole network of controls. Both systems of control require the monitoring of managerial performance, and poorly performing managers being punished but they differ in the ways these are done.

2.2 Structures of Corporate Governance

Parties involved in corporate governance include the regulatory body (e.g the chief executive officer, the board of directors, management, shareholders and auditors). Other stakeholders who take part include suppliers, employees, creditors, customers and the community at large.

In corporations, the shareholders delegate decision making powers to the manager to act in the principal's best interest. This separation of ownership implies a loss of effective direct control by shareholders over managerial decisions. Partly as a result of this separation between the two parties, a system of corporate governance controls is implemented to assist in aligning the incentives of managers with those of shareholders.

A board of directors often plays a key role in corporate governance. It is their responsibility to endorse the organization's strategy, develop directional policy, appoint, supervise and remunerate senior executives and ensure accountability of the organization to its owner and authorities. The company Secretary, known as a corporate secretary in the US and often referred to as a chartered Secretary if qualified by the Institute of Chartered Secretaries and Administrators (ICSA), is a high ranking professional who is trained to uphold the highest standards of corporate governance, effective operations, compliance and administration.

All parties to corporate governance have an interest, whether direct or indirect, in the effective performance of the organization. Directors, workers and management receive remunenrations, benefits and reputation, while shareholders receive capital return. Customers receive goods and services; suppliers receive compensation for their goods or services. In return these individuals provide value in the form of natural, human, social and other forms of capital.

A key factor in an individual's decision to participate in an organization e.g through providing financial capital and trust is that they will receive a fair share of the organizational returns. If some parties are receiving more than their fair return then other participants may choose to not continue participating leading to organizational collapse.

By design, the board of directors is the representative of the shareholders and so by the position and function as having an oversight on the management, the board is positioned to install and maintain good corporate governance in the organization. Comford (2004) observes that:

> *A fundamental role in the achievement of good corporate governance is attributed to actors in the board of directors and independent auditors. Key functions of the board of directors which were particularly relevant in the case of Enron, include selection, and remuneration of executives, being alert to potential conflicts of interest adversely affecting the firm, and ensuring the integrity of the company's systems of accounting and financial reporting.*
>
> *… The role of the board in the areas of conflicts of interest clearly includes the monitoring needed to avoid self-dealing by management.*

The role of the board of directors in Enron collapse is clearly evident. The United States' Senate (2002) notes that:

> *The Enron Board of Directors failed to safeguard Enron shareholders and contributed to the collapse of the seventh largest public company in the United States, by allowing Enron to engage in high risk accounting, inappropriate conflict of interest transactions, extensive undisclosed off-the-books activities, and excessive executive compensation. The board witnessed numerous indications of questionable practices by Enron management over several years but chose to ignore them to the detriment of Enron's shareholders, employees and business associates.*

It is because of this vital role of the board of directors in furthering good corporate governance that the composition of the board of directors is so vital. Skully (2007) recommends that "there should be at least five directors with a majority of independent, non-executive directors. At least one of these must have financial expertise". He further notes that "the more independent directors on the board the better. More qualified directors result in better boards".
Citing the current version of the Combined Code of Corporate Governance; Cosh, Guest and Huges (2007) recommend the following about the board of directors:

- *A single board of appropriate size with members collectively responsible for leading the company and setting its values and standards and taking decisions in the interest of the company.*
- *A clear division of responsibilities for running the board and running the company with separate chairman and chief executive.*
- *A balance of executive and independent non-executive directors for large companies at least50% of the boards members should be independent non-executive directors, small companies should have at least two independent directors*
- *Formal rigorous and transparent procedures for appointing directors with all appointments and re-appointments to be ratified by shareholders.*
- *Regular evaluation of the effectiveness of the board and its members*.

At the heart of implementing good corporate governance practices is the creation of the audit committee. The Sarbanes-Oxley Act 2002 of the United States was in direct response to the collapse of Enron, the U.S energy giant that failed due to the failure of its corporate governance system. This Act strengthened the audit committee. According to the provision of CAMA (1990), Section 359 (4) that: "An audit committee … shall consist of an equal number of directors and representatives of the shareholders of the company (subject to a maximum of six members). The responsibility of the audit committee is to receive the audit report from the external auditors, examine the audit report and make recommendations thereon".
The reason most often cited for the failure of Arthur Andersen at Enron is the lack of independence. Lindstrom (2009) notes that, "the external audit firm, Arthur Andersen, failed to act, in part, because it made more money providing consulting services for Enron than it did providing auditing services". Because of the various involvements with the company, Arthur Andersen was precluded from exercising independent, objective judgements in his dealings with the company as an auditor. The Commission of the European Communities (2002) notes that:

> *The independence of statutory auditor is fundamental to the public confidence in the reliability of statutory auditor's reports. It adds credibility to published financial information and value to investors, creditors, employees, and other stakeholders in EU companies. This is particularly the case in companies which are public entities…*

The Commission therefore recommends tha*t"*

> *When carrying out a statutory audit, an auditor must be independent from his audit client both in mind and in appearance. A statutory auditor should not carry out a statutory audit if there is any financial, business, employment or other relationship between the statutory auditor and his client.*

The internal audit function, which is a part of the internal control process, is also very crucial to the attainment of good corporate governance. It helps to ensure the proper internal working of the system and most often than not, the opinion of the internal auditor, impacts on the work of the external auditor. It is in this regard that the Central Bank of Nigeria (2006) requires that:

- *Internal auditors should be largely independent, highly competent and people of integrity.*
- *The head of internal audit not be below the rank of AGM and should be a member of relevant professional body. He should report directly to the Board's audit committee but forward a copy of the report to the MD/CEO of the bank (or company). Quarterly reports of audit must be made to the audit committee, and made available to examiners on field visits.*
- *Internal audit units should be adequately staffed.*

Souleau (2003) identities some challenges facing internal auditors, viz: the increased need to view business from the top-down; many frauds involve major weaknesses in the tone at the top and the control environment. Another challenge is the development and monitoring of a management risk process, the Enron management risk process is an example. Souleau notes that "despite the definition of internal auditing, some audit departments have not played any significant role in assisting organizations to achieve defined goals and objectives that support the business plan". He therefore recommends that:

> *Since the majority of frauds of late have been failure of corporate governance systems, audit committee should demand audits at the executive level. Such audits of executive management should become mandatory and include reviews of:*
>
> - *Conflict of interests to determine if executive have interests in competitors, suppliers, or customers of the company;*
> - *Executive expense reports to ensure that the executive management is complying with polices and making a statement that there are no exceptions to the rules, and*
> - *Compensation and benefits to make sure that all compensation and benefits provided to executives have been approved by the compensation committee of the board of directors.*

Corporate governance mechanisms include both internal and external controls. Internal corporate governance controls monitor activities and then take corrective action to accomplish organizational goals. Examples include:

Monitoring by the board of directors: The board of directors, with its legal authority to hire, fire and compensate top management, safeguards invested capital. Regular board meetings allow potential problems to be identified, discussed and avoided. Whilst non-executive directors are thought to be more independent, they may not always result in more effective corporate governance and may not increase performance.

Internal control procedures and internal auditors: Internal control procedures are policies implemented by an entity's board of directors, audit committee, management, and other personnel to provide reasonable assurance of the entity achieving its objectives related to reliable financial reporting, operating efficiency and compliance with laws and regulations.

Balance of power: The simplest balance of power is very common; require that the president be a different person from the treasurer. The application of separation of power is further developed in companies where separate divisions check and balance each other's actions. One group may propose company-wide administrative changes, another group review and can veto the changes, and a third group check that the interests of people (customers, shareholders, employees) outside the three groups are being met.

Remuneration: Performance-based remuneration is designed to relate some proportion of salary to individual performance. It may be in the form of cash or non-cash payments such as shares and share options, superannuation or other benefits. Such incentive schemes, however, are

reactive in the sense that they provide no mechanism for preventing mistakes or opportunistic behaviour, and can elicit myopic behaviour.
External corporate governance controls encompass the controls external stakeholders exercise over the organization. Examples include:

- Competition
- Debt covenants
- Demand for and assessment of performance information (especially financial statements)
- Government regulations
- Managerial labour market
- Media pressure
- Takeovers (Wikipedia, 2010)

The regulators play a tremendous role in promoting corporate governance practices. Such regulators include various agencies of government such as the Securities and Exchange Commission of Nigeria (SEC), the Central Bank of Nigeria (CBN), the Corporate Affairs Commission (CAC), National Insurance Commission of Nigeria (NICOM), and Nigerian Deposit Insurance Corporation (NDIC).
As stated in an OECD paper:

> *Good corporate governance helps to bridge the gap between the interests of those that fund a company and those that run it, increasing investor confidence, and making it easier for companies to raise equity capital and to finance investment (Diplock, 2003)*

The Securities and Exchange Commissions world-over are mainly saddled with the responsibilities of creating, monitoring and enforcing good corporate governance practices among listed companies. Diplock (2005) identities three core duties of the commission with regards to corporate governance, that is, developing guidelines and principles on corporate governance, monitoring compliance with laid down guidelines and principles among listed companies, and enforcing rules and regulations on corporate governance. For this purpose the Securities and Exchange Commission of Nigeria has initiated a code of corporate governance to guide corporate entities in Nigeria.
The Central Bank of Nigeria, as in every market economy, bears special regulatory oversight over the banks. They are usually concerned with regulating the activities and operations of the banks. It is the desire to protect both investors and depositors that the former the governor of CBN engaged the commercial banks on the consolidation and recapitalization exercise, and the current governor has also taken steps to reform the banking sub-sector, sacking the directors of eight (8) commercial banks and bailing out the banks to the tune of more than $3 billon on the ground of poor corporate governance practices and poor risk management practices. The governor of the Central Bank of Egypt, Ayoun (2003) says

> *I would like to emphasize that the Central Bank of Egypt's main point of interest concerning corporate governance in general is to ensure a high degree of integrity in the banking sector… these measures are within the legal and regulatory framework of the role of the Central Bank in the area of prudential regulation and effective surveillance of the daily operations of banks… I need to clarify here that the Central Bank has a role to play and that is to ensure that the members of the board of directors of a bank should not be among the banks creditors and shareholders at the same time. Certainly there will be a conflict of interest between your position as a shareholder who wants to pursue maximum profit and a borrower.*

Transparency is a key pillar of corporate governance. Transparency involves not only "to be seen" but to "be seen through". It is not just disclosure of facts; it is the disclosure of material facts in an understandable manner. The Central Bank of Nigeria (2006) identified the following among the challenges of corporate governance for banks in the post consolidation era.

- *Rendition of false returns to the regulatory authorities and concealment of information from examiners to prevent timely detection of unhealthy situations in the banks may continue as a result of transparency and pressure to boost income.*
- *Continued concealment of material issues discovered by banks during their pre-merger due-diligence will also compromise good governance.*

The CBN notes that:

> *These (transparency and adequate disclose of information) are key attributes of good corporate governance which the merged banks must cultivate with new zeal in order to provide stakeholders with the necessary information to judge whether their interests are being taken care of. Currently there are many deficiencies in the information disclosed, particularly in the areas of risk management strategies, risk concentration, performance measures, etc.*

It is therefore not surprising that many of the banks had the problem they recently had that prompted the CBN to intervene, when they were accused of poor corporate governance and risk management.

Tapscott and Ticoll (2003) define corporate transparency as "the accessibility of information to stakeholders of institution, regarding matters that affect their interest".

Virgnia, Eleni, Dimitrios and Chrysoula (2008) observe that:

> *The 21st Century must be the century of corporate integrity. A wave of corporate scandals in recent years has eroded public investor confidence and the need for improved financial reporting and for higher levels of transparency in the development of the world financial markets has become urgent. More and more countries have focused on corporate governance reforms to strength the protection of the interests of investors with transparency being a necessary ingredient of good corporate governance*.

3.0 Methods and Data

Both primary and secondary sources of data were used in this study. The primary source was the use of questionnaire while the secondary source was primarily the use of published audited financial statements. The population of the study comprises of firms quoted in the Nigerian Stock Exchange (NSE).the Chi-Square (X^2) and the Z- test procedures were used in testing the stated hypotheses.

4.0 Analysis of Data

4.1 Descriptive Statistics of Corporate Boards

From the published annual reports and accounts of the selected companies the following analysis on the corporate governance practices is done.

Table 4.1 Number of Directors on the Board

	Board Banks	Non-banks
5-9	1 (11.11%)	15(53.57%)
11-14	3 (33.33%)	12(42.86%)
15-19	3(33.33%)	1(3.57%)
20+	2(22.22%)	-
Total	9	28

Sources: Various Annual Reports and Accounts (2005-2009)

From Table 4.1 above it is seen that most of the studied non-bank organizations have less than ten (10) directors. The Report of the Committee on Corporate Governance of Public Companies in Nigeria recommends 5-15 directors. 53.57% of the studied companies have 5-9 directors, 42.86% of the companies have 11- 14 directors and only 3.57% have 15-19 directors, showing a very high level of compliance with the code. On the other hand, up to 22.22% of the studied banks have up to twenty (20) directors, 33.33% of the banks have 15-19 directors and 33.33% of the banks have 10-14 directors and only 11.11% of the banks have less than ten (10) directors.

While it may be difficult to fathom why the code restricts the number of directors to 5 – 15, it may be said that the high numbers of directors in the banks may have been for the desire to ensure sufficient diversity of experience.

Table 4.2: Characteristics of Boards of Directors

	Banking	Non – banking
Possibility of Assessing	100%	75%
Proportion with Non-executives beings in majority	100%	75%
Proportion of directors being non-executive (Average)	59.85%	63.13%
Possibility of assessing separation of Chairman/CEO	100%	96.43%
Chairman separation from CEO	100%	92.86%
Possibility of determining no. of committees from Annual Reports	75%	39.29%
Average number of committees	6	3
Existence of audit committee	100%	96.43%
Probability of determining composition	100%	67.86%
Proportion of members being Non-executives	100%	59.34%
Existence of Risk management Committee	80%	24.28%
Possibility of determining composition	50%	14.28%
Proportion of members being Non- executives	34.48%	73.68%
Existence of Remuneration committee	100%	50%
Possibility of determining the composition of the committee	29.75%	25%
Proportion of committee being non-executive	85.71%	80%

Sources: Various Annual Reports and Accounts (2005-2009)

Table 4.2 above shows that it is possible to distinguish between executive and non-executive directors in all the studied banks, while it is possible to do so in only 75% of the studied non-bank companies. The table also shows that in all the studied banks non-executives are in majority while in the non-bank companies; only 82.14% have their non-executive directors in majority in the boards.

On the overall average, the table shows that in the banks, non-executive constitute 59.85% of the board while in the studied non-bank companies the constitute 65.13% of the board.

The table shows that while it is possible to assess the separation of the office of the chairman of the board and the CEO of all the banks, there is no enough information to assess this in 3.57% of the studied non-bank companies. The table also shows that in all the banks, the office of the chairman of the board is separate from the office of the CEO, while, in 7.14% of the studied non-bank companies, the two offices are vested in the same person. It is important to note that the code recommends that these offices be separate but permits otherwise if there is a strong independent vice-chairman.

The table shows that the reports of banks are more explicit in terms of the use of committees by the boards of directors. 75% of the studied banks clearly indicate the numbers of committees used by the boards of directors. Only 39.29% of the non-bank companies present clear information about the number of committees used by the boards of directors. On the number of committees used by the board, Table 4.4 shows that the banks use more committees. On the average the boards of directors of the studied banks have six (6) committees, while the non-bank companies have only three (3) committees. This implies that the companies are not well developed yet in terms of the use of committees for decision making.

The table shows that there are audit committees in all the studied banks but that for the non-bank companies, there is information to support the existence of audit committees in only 96.43% of the companies. Apart from the fact that audit committee is a requirement by CAMA 1990 and the CBN Code of corporate governance for banks in Nigeria Post consolidation, the high percentage for the banks shows a great commitment in the banking sector to the tenets of corporate governance in order to fit into the global banking sector by Nigerian banks. The table shows that the information provided by the banks is more complete, thus, allowing an assessment of the composition of the audit committees. It shows that the assessment is possible in 100% of the studied banks while it is possible in only 67.86% of the non-banks. About one-third of non-bank companies disclose information providing nothing on composition of the audit committees.

The table also shows that in the studied banks the audit committees of the entire studied banks are wholly made up of representatives who are of non-executive directors. For the non-bank companies only 59.34% of the audit committees of the companies are non-executive directors.

The table shows that the banks have a higher percentage of the existence of risk management committees. The committee exists in 80% of the studied banks and only 24.28% of the non-bank companies. Also it is easier to determine the composition of the committees from the published statements of the banks than the non-bank companies. 50% of the studied banks present reports that clearly show the composition of such committees while for the non-bank companies it is only 14.28%. In terms of the composition of the committees, for those banks where the composition can be determined, the committees are 34.48% non-executives, while for the non-bank companies the committees are 73.68% non-executives.

The table shows that the banks have remuneration committees more than the non-bank companies. All the studied banks have remuneration committees. On the possibility of assessing the composition of the committees from the published reports, the banks and non-bank companies have comparable disclosures, only 29.75% for the banks and 25% for the non-bank companies. Similarly, the compositions of the committees are quite comparable for both the banks and non-bank companies. For those reports where the composition can be ascertained, the committees for the banks are 85.71% non-executives while it is 80% non-executives in the non-bank companies.

4.2 Hypotheses Testing

Table 4.3: Statistical Tests

Hypothesis	Test statistic used	Computed value of test statistic	Critical value of test statistic	Level of significance
I	X^2 test	0.0029	3.841	5%
II	Z- test	8.137	±1.96	5%

Source: Results of statistical tests

Table 4.3 shows that at a 0.05 level of significance and a degree of freedom of (2-1)(2-1) =1, critical X^2 value is 3.841. Since the calculated X^2 value (0.0029) is less than the critical X^2 value, it means that there is no association between the expressed opinions and the class of respondents. Therefore, the alternative hypothesis is accepted that corporate governance principles are applied more by Nigerian banks than other firms.

Table 2.3 also shows that at a level of significance of 5% critical Z-score is ±1.96. This means that the alternative hypothesis should be accepted. That is, corporate governance practices in Nigeria firms have positive and significant effects in attracting investments since price changes for the banks' stocks with perceived better corporate governance practices do significantly differ from those on non-banks with perceived weaker corporate governance practices.

5.0 Conclusions and Recommendations.

From the findings summarized above the following conclusions are drawn up.

(i) The banks have more divergent boards than the non-bank companies.
(ii) The information disclosure of the banks is clearer and more transparent than that of non-bank companies in Nigeria.
(iii) The banks employ the use of committees in decision making more than the non-bank companies
(iv) The committees of the banks are more divergent than those of the non-bank companies
(v) The application of the principles of good corporate governance is better in the banks than the non-bank companies in Nigeria.
(vi) Corporate governance practices have positive and significant effects in attracting investments in Nigeria.

On the basis of the conclusions made above, the following recommendations are made.

(i) The non-bank companies should be made to diversify the composition of their boards more widely.
(ii) Minimum standards should set for disclosures by corporate bodies on corporate governance practices in Nigeria.
(iii) The non-banks companies in Nigeria should be encouraged to adopt higher corporate governance practices.

(iv) Corporate entities in Nigeria should seek to improve on their corporate governance practices through more transparent decision making processes and more transparent disclosures, as a means of attracting investments, both local and foreign.

(v) The Nigerian Stock Exchange should improve its oversight function of the corporate entities, particularly the non-banks, with a view to promoting better corporate governance practices among them.

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