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Corporate Governance and Bank Failure in Nigeria: Issues, Challenges and Opportunities

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Abstract

The paper is set out to investigate issues, challenges and opportunities associated with corporate governance and Bank failure in Nigeria and to see if a significant relationship exists between corporate governance and Banks failure. Relevant data were collected from the staff of eleven randomly selected commercial banks based in Lagos, using a well structured questionnaire. The statistical technique for data analysis and test of hypothetical proposition is Pearson product coefficient of correlation(r.) The result of the findings revealed that the new code of corporate governance for Banks is adequate to curtail Bank distress and that improper risk management, corruption of Bank officials and over expansion of Banks are the key issues why Banks fail. The study concluded that Corporate Governance is necessary to the proper functioning of banks and that Corporate Governance can only prevent bank distress only if it is well implemented. Finally the study recommends: that corporate governance should be used as a tool to help stem the tide of distress, as it entails conformity with prudential guidelines of the government; the Central Bank and NDIC should enforce the need for all banks to have approved policies in all their operation areas and strong inspection division to enforce these policies; that government owes the country a patriotic duty to establish and sustain macroeconomic stability in order for the banking system to perform at its optimum capacity , economic and political stability can help prevent bank distress and more importantly, is the need for qualified staff in the banking system as this will enable the utilization of expertise, skill and care in the performance of duties by staff, this will lead to better performance.

Key words: Corporate Governance, Bank failure**,** Bank distress

1.0 Introduction

Due to so much distress in the banking sector, consolidation was made to lead to enhanced services and deepening of financial intermediation on the part of the banks. On July 6th 2004, the Central Bank of Nigeria reformed the financial system by increasing the capital base of banks to N25billion. The reform led to a withdrawal of public sector funds amounting to N74 billion. The reform also led to mergers and acquisitions, which reduced the number of banks in Nigeria from 89 to 25. The consolidation however, led to a review of the existing code for the Nigerian banks, which led to the development of the 2006, Code of Corporate Governance for Banks in Nigeria Post Consolidation. This was made to complement and enhance the effectiveness of other policies in the Nigerian Banking Sector.

The distress syndrome was first observed in 1989 when there was mass withdrawal of deposit by government agencies and other public sector institutions which revealed the financial weakness of certain banks like the National bank of Nigeria and the Commercial trust bank Limited which was bedevilled by boardroom cries and inside abuse. (Osuka, Bernado & Chris Mpamugoh)

The consistent bank failures and financial crisis during the last two decades has raised questions on the consistency of the Corporate Governance practices in the banking system.

Measures taken to regulate banks during this period include the establishment of the first banking ordinance of 1952 which proved inadequate to curtail bank failures; the establishment of the Central bank of Nigeria (CBN) in 1958 to serve as the regulatory body of banks and also, the development of the structural adjustment program in 1986 which led to the proliferation of more banks.

However, the political instability between 1992 and 1993 put the entire financial system into a state of chaos as there were "RUNS" on the banks and this led to a prolonged crisis in the banking sector. The resultant effect of this crisis led to the introduction of the consolidation policy in 2004 by CBN to alleviate the effect of the crisis.

The most recent bank distress in the Nigerian economy can be traced to the global financial crisis which began in the United States of America and the United Kingdom when the global credit market came to a standstill in July 2007 (Avgouleas, 2008). The crisis, brewing for a while, really started to show its effects in the middle of 2008. Around the world, stock markets have fallen, large financial institutions had collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. This had significantly been related to Corporate Governance issues.

The turmoil in the Nigerian banking system has required the Government to set up some policies in form of corporate governance to stem the tide of bank failures and distress in Nigeria. Therefore the CBN in conjunction with other supervisory institutions has decided to place emphasis on the monitoring of credit risk and provide incentives on prudent management of banks to aid transparency in the banking system, so that the Nigerian economy can forge ahead.

Corporate Governance in the banking system has assumed heightened importance and has become an issue of global concern because it is required to lead to enhanced services and deepening of financial intermediation on the part of the banks and enables proper management of the operations of banks. To ensure this, both the board and management have key roles to play to ensure the institution of corporate governance.

Governance and performance should be mutually reinforcing in bringing about the best corporate governance. Transparency and disclosure of information are key attributes of good corporate governance which banks must cultivate with new zeal so as to provide stakeholders with the necessary information to judge whether interest are being taken care of.

1.1 Theoretical and conceptual framework

1.1.1 Overview of Corporate Governance and Bank Distress

Corporate governance has been part of research into the business profession since Adam Smith's (1776) seminal publication of An inquiry into the nature and causes of the wealth of nations and undoubtedly given impetus through Berle and Mean's (1932) classic publication of the separation of corporate ownership from control.

Corporate governance is aimed at reducing conflicts of interest, short-sightedness of writing costless perfect contracts and monitoring of controlling interest of the firm, the absence of which firm value is decreased (Denis and McConnell, 2003).

Good corporate governance can also be considered as the diligent way in which providers of corporate financial capital guarantee appropriate rewards in a legal and ethically moral way. There are both internal and external ways of achieving this (Jensen, 1993). The first is through the structure of ownership (shareholding concentration and voting rights), and board of directors or supervisory board in some regulatory regimes (who monitor firms and are supposed to work in the interest of shareholders). The second is through the market for corporate control (takeover threats), regulatory intervention, and product and factor markets. Corporate governance codes that serve as templates of achieving value to shareholders (and stakeholders) have been written in several countries.

Corporate governance, as a concept, can be viewed from at least two perspectives. The narrow view is concerned with the structures within a corporate entity or enterprise receives its basic orientation and direction. The broad perspective is regarded as being the heart of both a market economy and a democratic society (Oyejide and Soyibo, 2001) the narrow view perceives corporate governance in terms of issues relating to shareholder protection, management control and the popular principal-agency problems of economic theory. In contrast. Sullivan (2000), a proponent of the broader perspectives, uses the examples of the resultant problems

of the privatization crusade to prove that issues of institutional, legal and capacity building as well as the rule of law are at the very heart of corporate governance.

Oyejide and Soyibo (2001) defined corporate governance as the relationship of the enterprise to shareholders or in the wider sense as the relationship of the enterprise to society as a whole. However, Mayer (1999) contends that it means the sum of the processes, structures and information used for directing and overseeing the management of an organization.

The organization for economic corporation and development (OECD)(1999) also defined corporate governance as a system on the basis of which companies are directed and managed. In another prospective, Arun and Turner (2002) contend that there exist a narrow approach to corporate governance, which views the subject as the mechanism through which shareholders are assured that managers will act in their interest. However, Oman(2001) observed that there is a broader approach which views the subject as the methods by which suppliers of finance control managers in order to ensure that their capital cannot be expropriated and that they earn a return on their investment.

There is a consensus, however that the broader view of corporate governance should be adopted in the case of banking institutions because of the peculiar contractual form of banking which demands that corporate governance mechanisms for banks should encapsulate depositors as well as shareholders (Macey and O'Hara, 2001). Arun and Turner (2002) joined the consensus by arguing that the special nature of banking requires not only a broader view of corporate governance, but also government intervention in order to restrain the behaviour of bank management. They further argued that, the unique nature of the banking firm, whether in the developed or developing world, requires that a broad view of corporate governance, which encapsulates both shareholders and depositors, be adopted for banks. They posit that, the nature of the banking firm is such that regulation is necessary to protect depositors as well as the overall financial system.

The adoption of various economic reform programmes in Africa in the 1980's in which privatization of government-owned enterprise forms a major plank, has heightened the corporate governance debate in the continent. The bitter experience of Asian financial crisis of the 1990's underscores the importance of effective corporate governance procedures to the survival of the macro-economy. This crisis demonstrates in no unmistakable terms that "even strong economies, lacking transparent control, responsible corporate boards, and shareholder rights can collapse quite quickly as investor's confidence collapse" and emphasizes the need to ensure effective corporate governance with a view to ensuring the development of market-based economies and democratic societies based on the rule of law (Soyibo et al,2002). For the financial industry, the retention of public confidence through the enthronement of good corporate governance remains of utmost importance given the role of the industry in the mobilization of funds, the allocation of credit to the needy sectors of the economy, the payment and settlement system and the implementation of monetary policy.

As seen from the above, corporate governance is not a concept that could be subjected to a watertight definition. The 1992 Cadbury Report saw it as "systems by which companies are directed and controlled." Without disputing the validity of this definition, the concept extends beyond systems for directing and controlling a company and is also "concerned with holding the balance between economic and social goals and between individual and communal goals the aim is to align as nearly as possible the interests of individuals, corporations and society." Thus, the concept implicates rules and regulations that ensure that a company is governed in a transparent and an accountable manner such that the enterprise survives and meets the expectations of its shareholders, creditors and stakeholders of which society forms a large part of. The overall effect of corporate governance should be the strengthening of investors' confidence in the economy of a particular country, sub-region, or region.

Recent occurrences in the international corporate environment have refocused the world's attention to concerns for effective domestic corporate governance initiatives that would ensure credibility on how companies conduct business in our post modern globalised world. The Enron and the WorldCom saga in the United States, the Vivendi and the recent Parmalat scandals in Europe are the most recent of such disturbing failures of credible business practice. Nigeria has also had its share of inelegant business practices that have resulted in failed corporate giants that once stood firm like the Iroko tree without any overt sign of trouble, for example Telkom which was a telecommunication company failed. Thus, within Nigeria's domestic corporate setting, the effect of the unwholesome international corporate governance climate engendered a renewed emphasis on effective corporate governance standards. The recent launch of Code of Best Practices on Corporate Governance in Nigeria (Corporate Governance Code) lays credence to this emphasis.

The financial sector with special reference to banking has come under the searchlight in recent years not only because of its strategic role as mediator of funds between the surplus and the deficit units but also as a result of the problem rocking the industry in terms of failure and eventual bankruptcy.

Although, the banking sector serves as the nerve centre of any modern economy, being the repository of people's wealth and supplier of credits which lubricates the engine of growth of the entire economic system. The failure experienced in the sector over the years can be captured by the number of failed banks, the debt and extent of required capitalization, the proportion of non-performing credits, loss of depositor's funds and the general impact on the economy all of which underscores the importance of the sector.

While the targeted end result of banking business are to be achieved through adherence to laid down rules and regulations, the causes of the unhealthy deviation from set rules have been discussed found to include Inadequate Supervision Weak Management and offensive government policies. Ogunleye (2002) classified the causes of bank failure into Institutional, Economic and Political factors as well as regulatory and Supervisory inadequacies while Ebhodaghe (1995) attributed bank failure to economic downturn, inhibitive policy environment and management problems. All, these are the specific opinion of most analyst, and i do agree with them as well.

The impact of ill health in the banking sector left nobody untouched ranging from the government, the regulatory authorities the bankers as well as the general public. It is in this spirit that predicting the potential of failure in the sector becomes imperative if these actors/players are to be rightly guided in their decision making ventures.

A good manager therefore must be conversant with such tools that will enable him measure performance and trend over time for the achievement of the desired organizational and decision making objectives especially in an unstable economic environment like ours. In this connection therefore, the use of bankruptcy prediction model for determining the current and potential business failure proves handy and appropriate. This will afford effective resource management instead of distress classification that amounts to medicine after death.

In recent years, there has been great concern on the management of banks' assets and liabilities because of large-scale financial distress. The experience of many countries indicates that regulation and supervision are essential for stable and healthy financial system and that the need becomes greater as the number and variety of financial institutions increase. The banking sector has been singled out for the special protection because enforcement of rules and regulations, but also judgments concerning the soundness of bank leads to healthy banking industry. To maintain confidence in the banking system, the monetary authorities have to ensure banks play by the rule. The Deposit insurance scheme and prudential guidelines were evolved to improve the assets quality of banks, reduce bad and doubtful debt, ensure capital adequacy and stability of the system, and protect depositors funds (Oladipo,1993).

In Nigeria, the rising cases of bank distress have also become a major source of concern for policy makers. It is not surprising to find banks to have non-performing loans that exceed 50 per cent of the bank's loan portfolio. For instance, the Nigeria Deposit Insurance Corporation (NDIC) in its 1996 annual report put the number of distressed banks loans, N40 billion or 79 per cent of which were classified as non-performing credits. The recent deregulation of the financial system embarked upon from 1986 allowed the influx of banks into the banking industry. As a result of attractive interest rate on deposits and loans, credits were given out indiscriminately without proper credit appraisal (Phillip, 1994). The resultant effects were that many of these loans turn out to be bad. For instance, in the merchant banks between 1989 and 1992, the ratio of classified assets to total loans and advances rose from 14.7 per cent to 37 percent and peaked at 63.9 per cent in 1994. For commercial banks, the ratio rose from 47.4 per cent in 1989 to 50.9 per cent in 1990 and fell to 38.10 per cent in 1994(NDIC Report, 1995). Asset quality degenerated, as classified assets increased from N11.91 billion in 1990 to N18.82 billion in 1992, moved to N46.9 billion in 1994 and further to N94.8 billion in 1999. It is in realisation of the consequence of deteriorating loan quality on the banking sector and the economy at large that this paper is motivated. The regulation and supervision of banks is expected to bring order to the chaotic situation that had developed in financial sector since the late 1980s

1.12 Corporate Governance in Nigeria

Recently, Nigeria has put in place the pillars of corporate governance by sponsoring a series of legislative, economic and financial reforms that intended to promote transparency, accountability and the rule of law in the economic life of the country. Managerial inefficiency and accounting scandals alert the legislators', government and management of banks and big corporations to the danger involved in the absence of constraints governing corporate governance. The lake of constraints was viewed as being conductive to definite losses by the

shareholders and those who hold interests in these enter parties, to destabilize the national economy and investment climate. All of that have reinforced interest in consolidating the foundation and principles of corporate governance in the Jordanian economy.

Over the years, Nigeria as a nation has suffered a lot of decadence in various aspects of her national life, especially during the prolonged period of military dictatorship under various heads. The political and business climate had become so bad that by 1999 when the nation returned to democratic rule, the administration of Obasanjo inherited a pariah state noted to be one of the most corrupt nations of the world.

For a developing country such as Nigeria corporate governance is of critical importance. In its recent history, the lack of corporate governance has led to economic upheavals. Two examples illustrate the point being made. In the late 1980 and early 1990s the country witnessed a near collapse of the financial sector through the phenomenon of failed banks and other financial institutions. In consequence, the Failed Banks (Recovery of Debt) and Financial Malpractice in Banks Act was promulgated to facilitate the prosecution of those who contributed to the failure of banks and to recover the debt owed to the failed banks. Secondly, the privatization and commercialization programme of the Nigerian Government was a reaction to the failure of corporate governance in state owned enterprises (SOE). According to El-Rufai: Data obtained from various government department estimates reveal that in 1998, Nigerian PEs [Public Enterprises] enjoyed about N265 billion in transfers, subsidies and waivers, which could have been better invested in our education, health and other social sectors. There is virtually no public enterprise in Nigeria today that functions well. While they were created to alleviate the shortcomings of the private sector and spearhead the development of Nigeria, many of them have stifled entrepreneurial development and fostered economic stagnation. Public enterprises have served as platforms of patronage and the promotion of political objectives, and consequently suffer from operational interference by civil servants and political appointees. Our experience in the last four years has shown many examples that clearly establish the poor levels of corporate governance in public enterprises, including the banking industry.

In this programme the Federal Government sought to divest its equity shareholding in some of these firms through privatization on the one hand and through commercialization on the other. It sought to enable some of these enterprises to be operated on a profit- oriented basis.

Privately owned companies did not fare any better than state-owned enterprises regarding their corporate governance practices. A few examples will suffice. The first example is Savannah Bank. The Central Bank of Nigeria withdrew the banking license of Savannah Bank on Feb 15, 2002 because of a number of reasons. In a press release dated 18th February 2002, The CBN listed the reasons as the ineffectiveness of the board as well as the ineptitude and instability of the management; the false and unreliable returns to the regulatory authorities; the insolvent and deteriorating financial position of the bank; and the urgent need to protect the interest of depositors, both existing and prospective and the banking system and the inability of the bank to respond to various regulatory initiatives. Onwuka Interbiz is the second example. This company was a wholly owned Nigerian company, which was listed on the second-tier securities market of the Nigerian Stock Exchange on 9th September 1991. Six years later, it was de-listed and folded up. The third example of the failure of corporate governance in privately owned companies is the recent revocation of the banking license of Peak Merchant Bank by the Central Bank of Nigeria. In a press release dated 28th February 2003, the apex bank noted that the bank had been licensed on 15th February 1991 and that it was revoking its license because of weak and incompetent management; insolvency; the over bearing influence of the Chairman who was also the majority shareholder of the bank; persistent liquidity problem; poor asset quality; significant insider abuses; poor track of profitability; un-seriousness, inability and unwillingness of shareholders to recapitalise; reckless granting of credits; complete absence of focus and lack of corporate governance.(Nigeria Deposit Insurance Company annual report 2005 and Corporate Governance and firms performance.)

The indigenization programme led to a diffusion of shareholding in Nigeria because of the automatic divestment of foreign shareholding. While the Nigerian shareholding was largely fragmented, the foreign shareholding was intact such that they became the dominant partner in many respects. Thus, while in many instances Nigerians were the owners of the business, foreigners were in control especially with the weighted voting schemes whereby foreign shares had more votes than Nigerian shares. Even though the weighted voting share scheme is no longer possible under the Company Allied Matter Act 1990(as amended), and the indigenization scheme has been abolished, the shareholding typology brought about by the scheme is still in place and the fact remains that a large number of these firms still have dominant foreign shareholders and a diffused Nigerian shareholding. Again, if the listing requirements of the Nigerian Stock Exchange is any yardstick to go by, the fact that public companies on the First Tier Securities Market must have at least 300 members and those on the Second Tier Securities Market must have 150 shareholders and that between the two markets there are 197 companies listed

on the exchange, it can be stated with some measure of confidence that shareholding in Nigeria is largely diffused. Moreover, the process of privatization through public offers, which is largely through the NSE, has led to diffused shareholding especially as there are prohibitions against acquisition of more than 0.1% of offered shares especially if the issue is oversubscribed. However that is not the whole truth. There are significant cases of majority shareholding. Most private companies largely born out of family and social ties have such members as majority shareholders. Again there seems to be a significant presence of Nigerian and foreign institutional shareholders amongst companies listed on the NSE, making it logical to argue that that some of these companies have majority shareholding. More recently, the process of identification of core strategic investor in the privatization programme invariably leads to a dominant shareholder because as the Bureau of Public Enterprises (BPE) states, the process enables the acquisition of "51% or more of the equity of the enterprises which will provide the core investor with management control"

It is therefore in order to conclude that Nigeria is not characterized by one typology of companies. This analysis is important because of the generally accepted corporate governance responses to different typology of companies. Thus, the case of diffused shareholding leads to the classic Berle and Means model where ownership is divorced from managerial control. Consequently there is often the promotion of management's interests to the detriment of investors leading to the so called 'agency costs' on investors. On the other hand, a dominant shareholding is potentially capable of leading to corporate abuse and minority oppression.

In view of the importance attached to the institution of effective corporate governance, the Federal government of Nigeria, through her various agencies have come up with various institutional arrangements to protect the investors of their hard earned investment from unscrupulous management/directors of listed firms in Nigeria. These institutional arrangements was provided in the "Code of Corporate Governance For Best Practices"

The Central Bank of Nigeria in its continuing efforts to enhance corporate governance in the Nigerian banking system has come up with the Corporate Governance Code which is intended to promote international best practice in the corporate governance of Nigerian banks. The Code draws upon international best practice, in particular the Organisation of Economic Corporation and Development (OECD) principles of Corporate Governance and the guidance issued by the Basel Committee on Banking Supervision in their publication: Enhancing Corporate Governance for Banking Organizations. However, it is worthy to note that the interest in corporate governance is not limited to governmental or banking institutions, some private forums and associations have also been established to enhance the adoption of the concept of corporate governance.

The major elements of corporate governance are good board practices, control environment, transparent disclosure, well defined shareholder rights and board commitment. The four pillars of corporate governance are accountability, fairness, transparency and independency (Omeiza Micheal, 2009). Weil et al (2002) conclude that although, corporate governance can be defined in a variety of ways, generally, it involves the mechanisms by which a business enterprise organized in a limited corporate form is directed and controlled. It usually concerns mechanism by which corporate managers are held accountable for corporate conduct and performance.

Following the leadership of Ricardo (2000) and as documented by Oyejide and Soyibo (2001) we review the different provisions of legislation governing corporate governance in the Nigerian banking industry from three perspectives: disclosure and transparency; minority and shareholder right; and oversight management.

An essential feature of a corporation is the separation of ownership from management. To this end, the share holders delegate decision making rights to managers to act on their behalf. However, this separation of ownership from control implies a loss of effective control by shareholders over managerial decisions. Thus, the primary objective of corporate governance is to attempt an alignment of the managerial incentives with those of stakeholders. This is to check the tendency of selfishness by managerial employees especially the top ones to ensure that delegated decisions making powers are not abused to

Banks are the the detriment of shareholders and other stakeholders.

1.13 Corporate Governance and Bank Distress

Centre of business activity, therefore when a bank goes into distress the government usually intervenes by setting up plans to come to its rescue. One component of such is through the implementation of corporate governance.

Bank distress affects not only the bank, but the entire economy as a whole as the banking system is the nerve centre of the economy, or rather, we could say that both the economy and the banking system depend on each other to survive and produce fast economic growth and development.

It has been seen that Bank distress cause ill effects on the economy, for example, it erodes public confidence, results in no granting of loans to finance business, adverse global effects e.tc. It is due to the tremendous adverse effect that bank distress has on the economy that makes the government come into action in order to stem the tide of distress in the banking industry.

Distress resolution could be described as the systematic programmes of action designed to resolve the distress state of an insured institution. The focus of the distress resolution option would be to maintain public confidence and stability in the banking system, ensure fairness, equality, transparency and accountability, instil market discipline while discouraging moral hazards, and achieve minimum disruption of banking services. Which is all what corporate governance is about?

Corporate Governance is majorly to ensure a strong and reliable banking industry where there is safety of depositors' money and also to develop the required flexibility to support the economic development of the nation by effectively performing its functions.

Corporate governance aims to create an atmosphere whereby Nigerian banks will comply with the laid down rules and regulations without compromise. This will in the end lead to transparency in the banking institutions, proper risk management, adoption of best practices in carrying out duties, strong internal control system, restoration of public confidence, rapid economic growth and in all prevent bank distress which might eventually lead to bank failure.

1.14 Conceptual Framework of Distress of Banks in Nigeria

"Distress in Bank" has been defined by many people in different ways; The Central Bank of Nigeria defined it among other things to mean;

a) Inability of a Bank to meet its capitalization requirement.

b) Bank with weak deposit base and are afflicted by mismanagement.

This idea was also supported by Ekpenyong (1994) while Nigeria Deposit and Insurance Corporation in their annual report said it is a state of insolvency and illiquidity in a Bank. It can be obtained from the two views that a Bank can be termed "distress" when it is unable to meet up with her financial obligation especially to the customers. This may be due to weak deposit base. I also agreed with the Central Bank of Nigeria that not only when a Bank is facing liquidity problem that is termed distress but also when there is persistence management tussles resulting to un-conducive operation of the Banking business.

From different ways (The Nigerian Banker 1994) in its editorial said that a Bank examination rating system with acronym "CAMEL". This is Capital Adequacy, Assets Quality Management Competence, Earning strength and Liquidity Sufficiency. It means in essence that a bank's performance is rated from "1" to "5" in any of these areas. That is to say that when any or all of these are lacking, the Bank may be qualified to be branded "Bank Distress". He said basically a bank shows early sign(s) of distress when it is unable to meet its financial obligations that full due such as, interbank indebtedness and depositors' funds. He said that such a situation can be caused by weak deposit base of the bank, its inability to meets its capitalization requirements and poor management. When this happen our alarm signal is raised and the regulatory agencies begin to look for more information. Although he agreed to some extent with the editorial board of the Nigeria Banker (1994) he argued that before a bank is branded distress the regularities agencies (CBN and the NDIC) must take further steps in evaluating some other dimension. These other dimension includes. The state of the asset base of the bank and the effect the liquidity of such bank would have on the economy, says that this is to guide against negative response from the depositors which may result to lack of confidence in the banking industry.

Manifestation and features of ill-health were given by the Central Bank of Nigeria Economic Review (1994) to include: Liquidity problems, distress borrowing, and resort to risky and speculative activities as well as technical insolvency among banks. However, Theodossior (1993) was of the option that the determination of solvency of banks is an obstacle to prompt action since financial distress may not be apparent in the first instance. He asserted that:

Ordinarily as long as a bank can meet all of its Obligations over the long run, it is considered viable. Measuring such stream of income involves calculating the Net Present Value of the expected cash flows and it provides the economic measure of solvency. However, such estimation can be very difficult to undertake and subjective at best. On the other hand, the reliance on the book value solvency or the market value of the bank as a proxy for Net Present Value is a very imperfect measure of its arbitrary nature and the possibility that the bank can manipulate the manner in which such activities are presented.

This deficiency prompted the Central Bank of Nigeria and Nigeria Deposit Insurance Corporation to develop a standard rating system for revealing the extent of distress in any bank in a composition measure categorized into sound, satisfactory, marginally distressed and distressed. The parameters that enabled this categorization are called (CAMEL): Capital Adequacy, Asset Quality, Management Competence, Earning Strength and Liquidity.

Banks adjusted to be distressed by this system are placed on strict supervision or liquidated, but no sooner than later banks rated as sound by this system enters the distress region. This however, translates to mean that distress classification is equally a medicine after death. This therefore calls for preventive rather than curative measures in terms of predicting probability of failure for effective decision making capable of jumpstarting the deteriorating performance of the banking sector.

The current credit crisis and the transatlantic mortgage financial turmoil have questioned the effectiveness of bank consolidation programmed as a remedy for financial stability and monetary policy in correcting the defects in the financial sector for sustainable development. Many banks consolidation had taken place in Europe, America and Asia in the last two decades without any solutions in sight to bank failures and crisis.

Banking distress on our economy was first observed in the mid 1980s according to Dr. I Joe Gold face Irokalibe (1995) upsurge the proliferation of banking painful one. It brings untold hardship to the depositors. The depositors are denied access to their own funds Vincent Ovuakporie (1993). It brings distortion in the economic system (C.B.B 1994) which Layi Afolabi ACIB (1994) said that the failure of a bank has multi-dimensional effects.

The direct effect on the depositors who may lose his money in apart or full is obvious. Even where the deposit is small and recoverable from the National Deposit Insurance Corporation (NDIC) there will be consideration delay, the liquidity of the deposit is thus impaired.

While Olufide E.O (1994) said that bank failure results in loss of confidence by depositors who form the backbone of banks. They troop to banks to make mass withdrawal of their funds for loans. It can also be added that distress in banking industry portends a negative signal to the economy as a whole.

Although the effect of distress in our banking system is so disastrous, plausible solutions have given by different bodies. The need for effective and efficient management has been stressed. Banks need skillful and well qualified managements to head the complex banking system.

Okuduwa B.E (1995) in his book “Management Dialogue” said need for professional in the field of banking and administration to work in the banking sector is very desirable. This will enable people with requisites skills and training to work in the banking industry to enhance the effective and efficient service.

Charles (2000) provides that first comprehensive econometric analysis of the causes of bank distress during the depression. He assemble bank — level data for virtually all Federal member banks and combine those data with country level, state level, and national level economic characteristic to capture cross-sectional and inter-temporal variation in the determinant of banks failure, we construct a model of bank survival duration using these fundamental determinants of banks failure as predictors, and investigate the adequacy of fundamental for explaining banks failure during alleged episodes of nationwide or regional banking panics. We construct upper bound measure of the importance of contagion or liquidity crisis. He also 'investigate the potential role of regional or local contagion and illiquidity crisis for promoting bank failure and find some evidence in support of

such effects, but these are of small importance in the aggregate, he also investigate the 'causes of bank distress measured as deposit contraction, using country measures of bank deposits of all commercial banks and reach similar conclusions about the importance of fundamentals in determining deposit contraction.

Thomas (2000) shows procedures for dealing with banks in distress, the lack of clarity in the policy frame work causes or creates incentive for policy frame work for bank managers, shareholders, depositors and regulators that undercut prompt resolution of financial distress.

The result is often in action, the accumulation of bad debts, and ultimately the assumption losses by the state. He argues that government intervention to relieve financial distress should be institutionalized in a set of regulation that forces the authorities to comply with reporting and decision making process. Only in this way we can inherent disincentives for dealing with distress by curtailed.

Roland (2000) says Banks with low equity positions have more incentives to be passive in liquidating bad loan. He shows that they tend to hide distress from regulatory authorities and are ready to offer a higher rate of interest in order to attract deposits compared to banks that are not in distress. Therefore, higher deposit rate may act as early warning signal for banks failure.

Joseph (1994) argued that banking panics resulted from depositor confusion about the incidence of shocks and interbank cooperation avoided unwarranted failures. This paper uses individual bank data to address the question of whether banks failed during the panic as the result of confusion by depositors, bank are divided into three *groups;* panic failures, failures outside the panic window, *and* survivors. The characteristics of these three groups are compared to determined whether they share characteristics with other banks that failed, each category of .comparison the market to book value of equity, the, estimated probability or failure or duration of survival the composition of debt, the rate of withdrawal of debt and the interest rate paid on debt, lead to the same conclusion, banks that failed in panic were similar to other that failed and different from survivors. The special attributes of failing banks were distinguishable at least six months before

the panic and were reflected in stock price, failure probabilities, debt composition and interest rate at least that far in advance. He concludes that failure during the panic reflected relative weakness in the face of common asset value shock rather than contagion.

Akpan (1994) says that bank marketing is seen to flourish with the 1989 deregulation of banking business in Nigeria. Unfortunately, the re-introduction of some controls by government has witness a sharp return to conservative marketing of bank services. He recommends urgent revamping of product development, advertising and quality personal services in the banking industry.

In addition vigorous manpower development, treasury management and efficient supervision of the affairs of banks should be instituted so as to eliminate fraud and financial distress and creates a sound environment for the bank market in particular and banking development in general.

Williams through his research has provided proof that by enhancing employee commitment management can increase organization effectiveness in the form of increasing job performance and reducing absenteeism. There is no indication in the literature how the various types of commitment impact on one another or whether there is one single most important type commitment which managers need to focus in to improve organizational effectiveness are commitment to organization, job, profession and supervisors, absence of these commitments may lead to bank distress.

Distress in banking industries can be eliminated if there embark; on advertisement and focus attention in the environment says Nndozie (1994).

1.15 Benefits of Corporate Governance

Corporate governance has become more prominent today than ever before. Becht, Bolton, and Rosell, (2002) identify several reasons for that. Among those reasons is the takeover wave of the 1980s and the 1997 East Asia Crisis. Yoshikawa & Phan (2001) note that intensifying global competition and rapid technological changes

result in lower price/cost margins which in turn force firms to focus on maximizing asset efficiency and shareholder value if they want to access funds to fuel growth opportunities.

Aggarwal et al. (2007) asserts that good governance helps firms to have favourable access to capital markets although this benefit holds little value to firms in under-developed capital markets or for firms with limited growth opportunities. Better governance restricts controlling shareholders' expropriation of minority and this loss of private benefits is even more in countries with low investor protection. Hence, countries that have weak protection for investors are expected to have worse corporate governance and hence enhanced firm level governance can lead to a marked improvement in firm value.

Corporate failures have come about as a result of bad corporate decisions made by its leaders in attempts to expropriate rents. The enactment of good corporate governance across the globe justifies the importance of this topic.

Most studies focus on the link between on or a few corporate governance mechanisms but increasingly, data being compiled by rating agencies has allowed the totality of governance mechanisms to be rated and linked to firm performance, although, most of the rating agencies rank US listed firms. In other advanced economies, some studies have been reported. In Germany, Drobetz et al. (2004) find appositive link between corporate governance and expected stock returns, after constructing a German governance score. Beiner et al. (2006) find a positive link between firm specific corporate governance and firm valuation. Odegaard and Bohren (2003) use Tobin's Q as firm value for firms listed on the Oslo stock Exchange in Norway and report a significant effect of good governance ratings on firm's value.

Elsewhere in South Korea, Black et al. (2006) also find that good governance practices (and very markedly, board independence) positively affect market valuation (Tobin's Q, market to book and market to sales) using listed firms in the Korean Stock Exchange.

Investors and firms are using corporate governance reports to reduce risks and improve market value of firms. Weak governance in a firm does affect the value of shares and yet firms still continue to survive. FTSE ISS CGI Series Research Report for April, 2005 argues that "it is more the risk that poor corporate governance becomes pervasive throughout the firm, and it is this fact that leads ultimately to poor share price performance."

Himmelberg et al. (1999) use capital expenditures to capital stock as a proxy for the link between high growth and opportunities for discretionary projects. Klapper and Love (2004) also proxy future growth as the average of real growth rate in sales for the last three years. They observe past growth to be positively associated with good governance. Seifert et al. (2005) also use sales growth.

Effective corporate governance reduces "control rights" shareholders and creditors confer on manager, increasing the probability that managers invest i positive net present value projects (Shleifer and Vishny, 1997).

Effective corporate governance has been identified to be critical to all economic transactions especially in emerging and transition economies (Dharwardkar et al.,2000). At varying levels of agency interactions, market institutional conditions that reduce informational imperfections and facilitate effective monitoring of agents impinge on the efficiency of investment. Likewise, corporate governance has assumed the centre stage for enhanced corporate performance.

Corporate performance is an important concept that relates to the way and manner in which financial resources available to an organization are judiciously used to achieve the overall corporate objective of an organization, it keeps the organization in business and creates a greater prospect for future opportunities.

1.16 Corporate Governance and Banks Performance

It has been argued that the governance structure of banks has little or no relationship to their financial performance due to the presence of external regulators at both the state and federal level. Consistent with this statement, Simpson and Gleason (1999) found that there was no relationship between the structure of banks' board of directors and subsequent failure. Further, Prowse (1997) argues that the change in corporate control in commercial bank is the result of regulatory intervention. As evidence by the recent crisis, it is apparent that regulatory forces were not effective in promoting a safe and fair allocation of bank resources.

It is important to demonstrate that even in the presence of regulation, weak corporate governance was a contributing factor to the poor performance underlying the subprime crisis and to poor loan quality.

Prior research suggests that banks strongly influence economic development and the efficient allocation if funds resulting in a lower cost of capital to firms, a boost in capital formations, and an increase in productivity (Levine, 2004). The passing of various acts which deregulated the banking industry heightened the importance of internal regulatory mechanisms of banks such as corporate governance. In particular corporate governance is expected to affect bank's valuation, cost of capital, performance and risk taking behaviour (Polo, 2007).

Agency theory (Jensen and Meckling , 1976) suggests that strong corporate governance leads to better performance and accounting outcomes.

Elyasiani and Jai (2008) reports that banks' financial performance is positively associated with the stability of ownership by institutional investors. Although the institutional holdings of banks may be lower than other firms, evidence suggests that institutional holding promote good financial performance.

Institutional investors such as pension funds, investment trusts, and mutual funds own large blocks of public company stock. Due to these large investments they often play an active monitoring role of corporate managers (Shleifer and Vishny, 1997). Other empirical findings suggest institutional investors promote short term financial performance at the expense of long-term financial performance (Coffee, 1991; Bushee, 1998).

Banking supervision cannot function well if sound corporate governance is not in place, and consequently, banking supervisors have strong interest in ensuring that there is effective corporate governance at every banking organization. Changes in bank ownership during the 1990s and early 200s substantially altered governance of the worlds banking organizations.

In the banking industry, well-functioning banks promote economic growth. When banks efficiently mobilize and allocate funds, this lowers the cost of capital to firms and accelerates capital accumulation and productivity growth. In addition, banks play important roles in governing firm to which they are major creditors and in which they are major equity holders (Caprio, Leaven and Levine, 2004). Thus, if bank managers face sound governance mechanisms, this enhances the likelihood that banks will raise capital inexpensively, allocate society's savings efficiently, and exert sound governance over the firm they fund.

Generally banks occupy a delicate position in the economic equation of any country such that its performance invariably affects the macro economy of the nation. Poor corporate governance may contribute to bank failures, which can pose significant public costs and consequences due to their potential impact on any applicable deposit insurance systems and the possibility to broader macroeconomic implications, such as contagion risk and the impact on payments systems. In addition, poor corporate governance can lead markets to lose confidence in the ability of a bank to properly manage its assets and liabilities including deposits, which could in turn trigger a bank run or liquidity crisis (Inam; 2006)

The economics and functions of banks differ from those of industrial firms. Because of these differences, banks are subject to stringent prudential regulation of their capital and risk. Moreover, these differences are reflected in corporate governance practices observed in the banking sector and in theoretical works on the "good corporate governance of banks". With respect to corporate governance practices, a particularly striking and almost unique feature of banks has been the prevalence of remuneration schemes that provide high-powered incentives, not only for executive directors (officers), i.e., members of the management board in a two-tier system, but also for senior managers at lower levels, and even for more junior employees in some functions, in particular the trading and sales function.

The performance of the individual banks which makes up the banking sector is a function of the decisions of the management governing these banks. In other words, corporate governance has a major role to play in the development of the banking sector. This is in line with the argument of Block, Jang and Kim (2006) and Claessen (2006) that the concern over corporate governance stems from the fact that sound governance practices by organizations, banks inclusive results in higher firm's market value, lower cost of funds and higher profitability.

Commitment to the organization for selfish reasons. No wonder, the banks astronomical growth and all indices used to package their shares are not commensurate to economic growth and transformation. It was obvious that the core banking practices have been traded off and the most beneficial are the CEO's and their loyalties

Methodology

The population for this study is taken from the banking industry. The sampling method used to select eleven Banks out of the population was simple random sampling technique. With this sampling procedure, every bank had an equal chance of being selected out of the population of the study .The statistical technique for data analysis and test of hypothetical proposition is the Pearson product coefficient of correlation (r) , used in analysing and interpreting responses connected with the main variables of the hypothesis. A survey approach was adopted in generating data for the study. This was achieved through the distribution of 110 copies of questionnaires (only 105 were returned) and personal interviews.

Model Specification

The statistical formulae Pearson product coefficient of correlation (r) was used in analysing and interpreting responses connected with the main variables of the hypothesis. The Pearson product moment of correlation is given as:

$$r = \frac{n\sum xy - \sum x\sum y}{\sqrt{\{n\sum x^2 - (\sum x)^2\}\{n\sum y^2 - (\sum y)^2}}$$

From the formula:

n= number of options

x= points allocated to the options

y = number of responses from respondents

Where X and Y are the variables being considered. The dependent variable is denoted as Y while the independent variable is denoted as X

The interpretation of the result of r is that when r=0, there is no relationship between the variables tested. When $0<r<0.4$, there is weak correlation between the variables and when $r\geq0.5$ then there is a strong correlation between the variables. When r is negative the (-) the variables are inversely related and if positive (+) the variables are directly related.

A reliability test was done on the result of the data analysis by means of a test of significance in order to determine the reliability of the findings and further justify the result of the correlation test done.

The test of significance was used to justify the results. The decision rule here is that once the t calculated (t-cal) is greater than the t tabulated (t-tab) value at a chosen significance level and at a given degree of freedom. We would then reject Ho and accept Hi otherwise we accept H_0 and reject H_1. H_0= Null Hypothesis and H_1= Alternate Hypothesis.

The chosen significance level is 95% (P value=0.05) and the degree of freedom (d.f) is given as d.f=n-2= (5-2)=3, therefore the degree of freedom is 3.

The essence of the significance test is to prove the relationship of two variables as it has been argued that a correlation coefficient does suggest a relationship between two variablesreason for this type of data collection was to enable easy clarification of data.

One hundred and fifty questionnaires were administered in this study. The questionnaires that were returned by the staffs of the selected banks were 105.

Results

The data analysis and hypotheses testing are presented below:

Hypothesis Testing

Hypothesis 1:

Ho: Corporate Governance cannot prevent bank distress

H1: Corporate Governance can prevent bank distress

To test this hypothesis, the responses to the statement "the new code of corporate governance is adequate to prevent bank crises "contained in the questionnaire was used

Table 1: Calculation of Correlation

N.B. The options are allocated points ranging from 5-1from strongly agreed to indifferent on that order.

OPTION	POINTS (X)	RESPONSES (Y)	XY	X^2	Y^2
SA	5	58	290	25	3364
A	4	44	175	16	1936
SD	3	0	0	9	0
D	2	0	0	4	0
IN	1	3	3	1	9
∑	15	105	468	55	5309

Source: Research Data, 2010

$$r = \frac{n\sum xy - \sum x \sum y}{\sqrt{\{n\sum x^2 - (\sum x)^2\}\{n\sum y^2 - (\sum y)^2}}$$

$$r = \frac{5(468) - (15)(105)}{\sqrt{\{5(55) - 15^2\}\{5(5309) - 105^2}}$$

r = 0.8684

Decision: since r is 0.8684 and it is greater than 0.4 we reject Ho and accept H1. This means that the new code of corporate governance for banks is adequate and sufficient to prevent bank distress, if it is strictly adhered to.

Significance Test:

$$r\sqrt{\frac{n-2}{1-(r)^2}}$$

$$0.8684\sqrt{\frac{5-2}{1-0.754118}}$$

T calculated =3.03

Final Decision: Since the t calculated of 3.03 is greater than the 2.32 at 95% significance level where degree of freedom is 3, therefore we simply reject the Ho and accept H_1.

From this we conclude that, the new code of Corporate Governance 2006 is adequate and sufficient to prevent bank distress.

Hypothesis 2:

Ho: Good Corporate Governance may not necessarily assist Banks to operate in a safe and sound manner.

H_1: Good Corporate Governance may assist Banks to operate in safe and sound manner.

Table 2: Calculation of Correlation

OPTION	POINTS (X)	RESPONSE (Y)	XY	X^2	Y^2
SA	5	52	260	25	2704
A	4	51	204	16	2601
AD	3	0	0	9	0
D	2	0	0	4	0
IN	1	2	2	1	4
$\sum$	15	105	466	55	5305

Source: Research Data, 2010

$$r=\frac{n\sum xy-\sum x\sum y}{\sqrt{\{n\sum x^2-(\sum x)^2\}\{n\sum y^2-(\sum y)^2}}$$

$$r=\frac{5(466)-(15)(105)}{\sqrt{\{5(55)-(15^2)\}\{5(5305)-(105^2)\}}}$$

r = 0.8576

Decision: From the calculation above, r is 0.8576 and is therefore greater than 0.4. We reject Ho and accept H_1. This means that the implementation of Corporate Governance will allow banks to perform in a safe and sound manner and as such improve the banks performance.

Signifiance Test

T. calculated = $r\sqrt{\frac{n-2}{1-(r)^2}}$

T= $0.8576\sqrt{\frac{5-2}{1-(0.8576^2)}}$

T= 2.88

Decision: the t calculated of 2.88 is greater than 2.32 at 95% significance level when degree of freedom is 3. Therefore, it is sufficient to say that we reject Ho and accept H_1. We conclude that Corporate Governance can allow banks operate in a safe and sound manner.

Findings

Adequate care has been taken in this study to examine how corporate governance can prevent bank distress. The research work also examined the causes and effects of bank distress in the economy as well as the benefits of corporate governance.

Respondents agreed that professionals with requisite technical skill and experience should work and head the banking industry. This idea is to allow professionalism in the industry. The need for strong internal control system was also emphasized, this is to reduce and eliminate the activities of fraudsters. Some respondents agreed that the new code of corporate governance for banks is adequate enough to curtail bank distress.

Also, proper risk management was strongly agreed to by the respondents in preventing bank distress as one of the major causes of distress can be tailored down to improper management of risk which resulted into non-performing loans.

In addition, adequate capital base and compliance with CBN prudential guidelines for banks was also strongly supported by respondents in reducing the exposure of banks to distress. This would enable the banks to have a strong financial base and work in accordance to lay down rules and regulations.

From the research work, ownership of banks by family members, over expansion of banks and corruption of bank officials were agreed to be key factors why banks fail.

Finally from the study, it has been seen that economic and political stability, goes a long way in preventing bank distress while Corporate Governance helps to build a better reputation for banks, increase profitability and thus, instil confidence in the public.

Conclusion

In view of the above analysis it can be concluded that, Corporate Governance is necessary to the proper functioning of banks and that Corporate Governance can only prevent bank distress only if it is well implemented. That is, to prevent bank distress through adequate corporate governance is not just about the government setting rules and regulations but actually ensuring that the laid down rules and regulations are being strictly adhered to in every operation of the bank.

Recommendations

In view of the prevailing bank distress in the economy, corporate governance should be used as a tool to help stem the tide of distress, as it entails conformity with prudential guidelines of the government.

The Central Bank and NDIC should enforce the need for all banks to have approved policies in all their operation areas and strong inspection division to enforce these policies.

The management staffs have important roles to play in ensuring that there exists a sound internal control system in their banks and that laid down procedures are reviewed regularly. This will help to frustrate the activity of the fraudsters. It is also important to stress the need for all banks to comply with statutory requirements of rendering returns for effectiveness of all the policy measures which the government, monetary and supervisory bodies might design to curb distress in the financial industry.

A good manager must be conversant with tools that will enable him measure performance and trend over time for the achievement of the desired organizational and decision making objectives especially in an unstable economic environment like ours. In this connection therefore, the use of bankruptcy prediction model for determining the current and potential business failure proves handy and appropriate. This will afford effective resource management instead of distress classification that amounts to medicine after death.

The government owes the country a patriotic duty to establish and sustain macroeconomic stability in order for the banking system to perform at its optimum capacity as it has been seen from our findings that, economic and political stability can help prevent bank distress. The government must perform this duty without compromise.

More importantly, is the need of qualified staff in the in the banking system as this will enable the utilization of expertise, skill and care in the performance of duties by staff. This will lead to better performance.

It is important to note that all these factors necessary to curtail bank distress sums up to effective corporate governance. Therefore, it is recommended that the new code of corporate governance for banks should be strictly adhered to by all banks in the nation, as this will enable banks to operate in a safe and sound manner and as such, lead to restoration of public confidence in the banking system. Thus, ensuring a better economy.

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