Investment Climate and Business Environment (ICBE) Research Fund

Corporate Governance Practices in the Nigerian Banking Industry

By

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ICBE-RF Research Report No. 05/11

Investment Climate and Business Environment Research Fund
(ICBE-RF)
www.trustafrica.org/icbe

Dakar, May 2011

This research study was supported by a grant from the Investment Climate and Business Environment Research Fund, jointly funded by TrustAfrica and IDRC. However, the findings and recommendations are those of the author(s), and do not necessarily reflect the views of the ICBE-RF secretariat, TrustAfrica or IDRC

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ABSTRACT

Corporate governance is particularly of importance in the Nigeria banking industry where a number of financial failures and questionable business practices had negatively impinged investors' confidence.

This study examined corporate governance practices in Nigerian banks with regards to board characteristics, performance, culture and processes, and impact on board effectiveness. It also attempted to identify the level of compliance of Nigerian banks to the Central Bank of Nigeria (CBN) code of corporate governance for banks operating in Nigeria.

Empirical findings indicate that boards of Nigerian bank frequently undertake evaluation of their activities as a means of improving performance. From the Nigerian bank directors' perspective, the most important determinant of effective boards is the directors' competence. It was also revealed that almost all the banks have been compliant with nearly all of Central Bank of Nigeria (CBN) corporate governance guidelines.

This paper also draws a number of conclusions and recommendation and highlights some limitations that can be improved upon in future research.

Keywords: Banks, Board Appraisal, Board Culture, Board Processes, Board Characteristics and Performance Board Relationships, Board Strategic Role, Corporate Governance.

INTRODUCTION

The issues of corporate governance continue to attract considerable national and international attention. Corporate governance is about effective, transparent and accountable governance of affairs of an organization by its management and board. It is about a decision-making process that holds individuals accountable, encourages stakeholder participation and facilitates the flow of information. Governance of financial institutions should therefore aim at protecting the interests of all stakeholders, which include shareholders, depositors, creditors, regulators and the public.

The corporate governance of banks in developing economies has been almost ignored by researchers (Caprio and Levine, 2002). Even in developed economies, the corporate governance of banks has only recently been discussed in the literature (Macay and O'Hara, 2001).

The corporate governance of banks in developing economies is important for several reasons. First, banks have an overwhelmingly dominant position in developing economy financial systems, and are extremely important engines of economic growth (King and Levine 1993a, b). Second, banks in developing economies are typically the most important source of finance for the majority of firms. Third, banks in developing countries are the main depository for the economy's savings and provide the means for payment.

Given the importance of banks, the corporate governance of banks now assumes a central role In view of the peculiar contractual form of banking, corporate governance mechanisms for banks should encapsulate depositors and shareholders.

There is substantial evidence to show the positive link between finance sector development (FSD), and economic growth and poverty reduction (King and Levine, 1993), (Levine and Zervos, 1998), and (Rajan and Zingales, 1998). The Nigerian banking industry therefore has a significant role to play in the development of the country's economy. Banks have been the main sources of financing in the Nigerian financial market and bank loans were the predominant sources of debt financing in the economy.

Corporate governance is particularly important in the Nigerian banking industry because a number of financial failures, frauds and questionable business practices had adversely affected investors' confidence. The financial health and performance of banks are important for the economic growth of Nigeria. This is why the regulator of the industry in Nigeria, the Central Bank of Nigeria, has decided to reform the industry for global competitiveness.

This study looks at the level of compliance of Nigerian banks to the Central Bank of Nigeria (CBN) corporate governance guidelines. It also attempts to evaluate the key determinants of good boards in the Nigerian banking industry.

THE NIGERIAN BANKING INDUSTRY DYNAMICS

In 2005, there were 89 deposit banks operating in a highly concentrated market with the top ten banks accounting for over 80 per cent of the total assets/liabilities. The statutory capitalization requirement was N2 billion and the small size of these banks had an adverse effect on their cost structure thus making the cost of intermediation high. The total capitalization of all Nigerian banks then stood at N293 billion, which was just the size of the fourth largest bank in South Africa -*Nedbank is one of the largest banks in South Africa, however it is one of the newest banks to be incorporated in South Africa. It is headquartered in Johannesburg. Nedbank is listed on the JSE Stock Exchange under the code NED. Market capitalization was R46.5bn (6.5bUSD; NGN87.24b) as of 28 August 2006*[1]. No Nigerian bank could finance major transactions in the growing oil and gas, and telecom sectors. No Nigerian bank was in the top 1000 in the world – *the Banker.*

Prior to 2004, the Nigerian banking system could not deliver on its defined roles and was characterized by:

- Low aggregate banking credit of the domestic economy (18.4% as percentage of GDP)
- Systemic crisis – Banks were frequently out of clearing
- Inadequate capital base – for financing mega deals/projects in certain industries such as oil and gas, telecommunications etc.
- Oligopolistic structure – 10 out of 89 banks accounted for over 80% of total banking system assets
- Gross insider abuses that resulted in huge non-performing insider related activities
- Over dependency on public sector deposits
- Poor corporate governance
- Low banking/population density – 1: 30,432

[1] Nedbank information retrieved from http://en.wikipedia.org/wiki/Nedbank on 22nd April, 2009.

- Payment system that encouraged cash-based transactions.

These factors led the Central Bank of Nigeria (CBN) to undertake a massive transformation of the banking industry to achieve the following objectives:

- Establish a banking system that will rapidly drive Nigeria's economic growth and development.
- Integrate the Nigerian banking system into the global financial system.
- Target at least one Nigerian bank in the top 100 banks in the world within 10 years.
- In the long term make Nigeria Africa's financial hub.

As a first step in actualizing these goals, the CBN on July 6, 2004 announced that all banks operating in Nigeria should have a minimum capitalization of N25 billion on or before December 31, 2005. This recapitalization can be achieved by either injection of new funds or mergers and acquisitions.

At the end of the consolidation exercise, the number of banks reduced from 89 to 25 as at January 2006. In March 2006, the CBN issued a guideline to strengthen corporate governance across the industry.

The outcomes of the transformation have been impressive. Asset base of Nigerian banks grew by about 277 per cent between 2003 and 2007. By the end of February 2008, there were 11 banks with over $1 billion in tier 1 capital; several Nigerian banks are operating in 16 African countries and in 7 other countries outside Africa – *USA, UK, Caymans Island, France, India, UAE (Dubai) etc*. As at 2007, the total branch network was about 3,900 (*both domestic and international branches*) as against 2,600 in 2005. These banks are universal banks offering all banking services and product range to corporate and individual customers. Twenty two of these banks are public owned and listed on the Nigerian Stock Exchange (NSE).

Industry returns (both return on asset and equity) have declined as a result of increased capitalization but profitability is still good compared with other industries in Nigeria. Cost to income ratio is high (when compared to banks in the sub region) due to poor infrastructure and inadequate security systems that have made the cost of doing business high.

Credit penetration is still low at 13.4% of GDP relative to the world average of 132%. In order to reduce concentration risk in the industry, the single obligor limit has been reduced by the

CBN from 35% to 20%. Most of the banks are seeking growth through retail banking and long-term lending in infrastructure finance and investment banking.

OVERVIEW OF BANK CORPORATE GOVERNANCE

Effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the banking system, which are critical to proper functioning of the banking sector and economy as a whole. Poor corporate governance may contribute to bank failures, which could lead to a run on the bank, unemployment and negative impact on the economy.

Effective corporate governance is likely to give a bank access to cheaper sources of funding through improving their reputation with rating agencies, customers and investors.

The corporate governance landscape in Nigeria has been dynamic and generating interest from within and outside the country. In 2003, the Securities and Exchange Commission (SEC) adopted a Code of Best Practices on Corporate Governance for publicly quoted companies in Nigeria. At the end of the consolidation exercise in the banking industry, the CBN in March 2006 released the Code of Corporate Governance for Banks in Nigeria, to complement and enhance the effectiveness of the SEC code. The three major governance issues that attracted the attention of the regulators are related party transactions, conflict of interest and creative accounting.

Globally, corporate governance practices in the banking industry have attracted special attention because of the importance of the industry to most economies. This led to the Organization for Economic Co-operation and Development (OECD) playing active role in defining guidelines for corporate governance in the banking industry through its Basel Committee on Banking Supervision. According to the Basel Committee on Banking Supervision (2006), corporate governance from a banking industry perspective involves the manner in which the business and affairs of banks are governed by their boards of directors and senior management, which affects how they:

- Set corporate objectives;
- Operate the bank’s business on a day-to-day basis;
- Meet the obligation of accountability to their shareholders and take into account the interests of other recognized stakeholders;

- Align corporate activities and behaviour with the expectation that banks will operate in a safe and sound manner, and in compliance with applicable laws and regulations; and
- Protect the interests of depositors.

The Basel Committee on Banking Supervision came up with the following principles, which are viewed as important elements of an effective corporate governance process.

***Principle 1* –** Board members should be qualified for their positions, have a clear understanding of their role in corporate governance and be able to exercise sound judgment about the affairs of the bank.

This is because the board of directors is ultimately responsible for the operations and financial soundness of the bank. In addition the board and individual directors can strengthen the corporate governance of a ban when they do the following:

- Understand and execute their oversight role;
- Approve the overall business strategy of the bank;
- Avoid conflict of interest in their activities;
- Commit sufficient time and energy to fulfilling their responsibilities;
- Periodically assess the effectiveness of their own governance practices;
- Avoid participation as the board of directors in day-to-day management of the bank.

For effective corporate governance boards are expected to function with specialized committees which include Audit committee, Risk management committee, Compensation committee, and Nomination/corporate governance committee.

***Principle 2* –** The board of directors should approve and oversee the bank's strategic objectives and corporate values that are communicated throughout the banking organization.

This implies that the board must set the "tone at the top" and build a corporate culture that will drive good corporate governance. The board of directors should ensure that senior management implements the agreed strategy of the bank and strategic policies and procedures designed to promote professional behavior and integrity in the bank.

Principle 3 – The board of directors should set and enforce clear lines of responsibility and accountability throughout the bank.

This means that the authorities and key responsibilities of the board and senior management are very clear to avoid confusion.

Principle 4 – The board should ensure that there is appropriate oversight by senior management consistent with board policy.

Principle 5 – The board should ensure that compensation policies and practices are consistent with the bank's corporate culture, long-term objectives and strategy, and control environment.

Principle 6 – The bank should be governed in a transparent manner since transparency is essential for sound and effective corporate governance.

The Basel Committee recognizes that primary responsibility for good corporate governance rests with the board of directors and senior management of banks.

CORPORATE GOVERNANCE PRACTICES IN THE NIGERIAN BANKING INDUSTRY

The banking business is based on trust and public confidence and as such it is important to enthrone good corporate governance practices in the industry. In Nigeria the banking industry is very critical to the country's economic growth because of its role in the mobilization of funds, the allocation of credits to the various sectors of the economy, the payment and settlement system, and the implementation of monetary policy. Effective corporate governance practices are therefore essential in achieving and maintaining public trust and confidence in the banking sector. A stable and healthy banking system is critical to the long-term growth of the Nigerian economy.

A research study was undertaken, between September 2007 and June 2008, to understand and assess corporate governance practices in the Nigerian Banking Industry.

Research Objectives

The research objectives are:

- To assess the state of the level of understanding of the CBN corporate governance guidelines amongst Nigerian banks.
- To evaluate the level of compliance amongst the banks and problems encountered.

- To understand the following corporate governance issues in the Nigerian banking industry:
    - The composition and procedures followed by the board of directors.
    - Issues upon which the board of directors is/should be appraised.
    - The involvement of the board of directors with the company's strategy.
    - The relationship among the board of directors, the top management team and the CEO.
    - The relationship among the board of directors and the company's stakeholders.
    - Views regarding the future development of corporate governance.

Significance of the Research

Nigeria cannot afford to have an under-performing banking industry, which is seen as the heart beat of the economy. Since the banking industry in Nigeria has undergone many recent changes, understanding the governance of Nigerian banks is arguably more important than ever before. The practice of good corporate governance makes a bank to conduct its business in an ethical way. This builds a good reputation for the bank and makes investors always willing to invest in it. This is important as about 22 of the 24 banks in Nigeria are now publicly quoted in the Nigerian Stock Exchange. In addition, if Nigerian banks are perceived to have imbibed international best practices in corporate governance, they will be in good positions to attract more foreign capital and at the same time be strongly positioned to operate in foreign markets.

A sound banking industry will be in a strong position to drive the economic reforms of the Federal Government of Nigeria and provide the support to grow the private sector.

Most of the 22 Nigerian banks now publicly quoted transformed from private banks to public banks. It is important to find out how this transformation is being handled on the governance side.

Research Methodology

The methodology used in this research included a combination of questionnaires and interviews, and was in three stages;

Stage one involved desk research to collect as much information as possible on all the Nigerian banks and also information on corporate governance practices in South Africa and Kenya. It also included interviews with officials of the Central Bank of Nigeria, the regulatory body of the banks.

Stage two involved mailing structured questionnaires to the chairmen and directors of all the banks in Nigeria. The questionnaire was in two parts, one part was based on a Likert 1-7 scale which was used to investigate board processes. The second part was based on open-ended questions which were used to identify the key factors for effective boards. 250 questionnaires were mailed to bank chairmen and directors who are resident in Nigeria in October 2007. After 4 months and two reminder letters, a total of 108 valid responses were received. This represents 43.2 percent response rate.

In the second part of the questionnaire respondents were asked to list 10 factors they consider important to board effectiveness. They were also asked to rank these factors in order of importance, with 1 being the most important and 10 being the least important. Ideally this information could have been obtained by focus group discussions. However, it is very difficult to get directors of banks in Nigeria to participate in focus group discussions that will last several hours. One-on-one interviews were conducted with 20 directors, chosen at random, to further understand and clarify factors that were mentioned in their responses. Only 78 of the 250 questionnaires sent out had valid responses for the section that deals with "key determinants of effective boards". This represents 31.2 percent response rate.

Stage three entailed in-depth interviews and discussions with the chairmen and managing directors of two banks (one of them is private transformed to public and the other originally a public bank) that led to case studies being written about them.

RESULTS

Board Structure and Characteristics

Board Size

Board size refers to the total number of directors on the board of any corporate organization. While a number of authors have recommended large board size, there are others who believe that a small board size is the ideal thing for any firm that wants to sustain improved performance. Determining the ideal board size for organizations is very important because the number and quality of directors in a firm determines and influences the board functioning and hence corporate performance.

To the proponents of large board size, they believe it provides an increased pool of expertise because larger boards are likely to have more knowledge and skills at their disposal. They are also capable of reducing the dominance of an overbearing CEO (Forbes and Milliken, 1999). Board's monitoring and supervising capacity is increased as more and more directors join the board (Jensen, 1993). Besides, there are authors who believe that large board size adversely affects the performance and well-being of any firm. Larger boards are difficult to coordinate, and are very prone to factionalizations and coalitions that will delay strategic decision making processes (Forbes and Milliken, 1999). Research has found out that larger boards are inversely related to firm's performance (Singh and Davidson III, 2003). Hilb (2004) however, recommended a small, legally accountable, and well-diversified board comprising a maximum of seven members (including an independent chairman, independent members and the CEO) as the ideal board size for publicly quoted firms.

Results from the research show that the average size of the boards of Nigerian banks is 14 directors, with the smallest having 8 directors and the largest 20 directors. A board size of 16 directors is the most popular. The Central bank of Nigeria (CBN) corporate governance code for banks operating in Nigeria recommend a maximum board size of 20 directors. All the banks are compliant. However, United Bank for Africa Plc has applied to the CBN for approval to increase their board size to 24.

Board Leadership (Duality)

CEO duality exists when a firm's CEO also serves as the chairman of the board of directors. Holding the highly symbolic position of chairman would provide the CEO with a wider power base and control. He will have access to information on the firm and would be in a position to decide on what information to pass on to the board.

A couple of decades ago, organizations across the globe usually fuse together the position and functionality of the chairman and CEO of the board of directors. In recent times however, moves aimed at separating the roles and functioning of these two positions have received considerable attention in the UK, USA and Australia.

The research results show that the boards of all the banks have separate chairman and chief executive officer. This implies that all the banks comply with the Central Bank of Nigeria corporate governance guideline, which stipulates that the chairman and CEO must be separate.

Board Independence

Board independence is dependent on the composition of the board in terms of the distinction between inside and outside directors, which is traditionally shown as the percentage of outside directors on the board.

About 64% of directors on the boards of Nigerian banks are non-executive directors. This means that the boards of banks in Nigeria can be said to be independent, which is in line with the CBN guideline that the number of non-executive directors should be more than that of executive directors. The number of executive (inside) directors on the boards of banks range from 3 to 8 with the average being 5, while the number for non-executive (outside) directors range from 4 to 13 with an average of 9. Among the non-executive directors, about 6 are truly independent while about 2 are affiliates. Again this is in line with the CBN guideline that states that at least two non-executive directors should be independent. The total number of affiliates and executive directors is slightly more than that of truly independent directors on the boards of banks in Nigeria. This will affect the true independence of the boards in practice.

Board Diversity

Diane Grady (1999) pointed out that problems with boards arise in three areas: the way boards are run (processes); the personal and professional backgrounds of board members (diversity); and the relationship between boards and management. For effectiveness, boards need diverse perspective to challenge the thinking of management.

Results of our survey show that directors of Nigerian banks believe that their boards are quite diversified (with a score of 5.9 on a 7-point scale) in terms of having a mix of people with different personality, educational, occupational and functional background.

Only 16 banks have female directors on their boards with 12 of them having a female director each, two have two directors each, one has three directors and one has four directors.

However, the four most dominant occupational background of members of the board of directors are: banking and financial services, accounting and finance, law, and general management/business administration.

In spite of the diversity the directors see the skills of the board members are quite complementary with a rating of 5.9 on a 7-point scale. They also see their members as being very knowledgeable and experienced in business and financial matters in general and in the banking business in particular, with a score of 6.1 on a 7-point scale.

Board Committees

The CBN guideline specifies that boards of banks should have, as a minimum, the following board committees – Risk Management, Finance and General Purpose, Audit, and Credit.

Our results show that the following board committees are in existence in the Nigerian banking industry: Audit, Succession, Nomination, Remuneration, Risk Management, Personnel/Human Resources, Finance, and Credit. This meets the CBN guideline.

Table A1: Existence, Age and Composition of Committee Types

Committee Type	**% Having committee Type**	**Average Years of operation**	**Average No. of Members**		
			Insider	**Affiliates**	**Independent**
Nominating	38.7	3.57	1.89	2.13	2.50
Remuneration	54.7	11.48	1.82	2.35	2.95
Audit	96.2	11.48	1.86	1.93	2.87
Succession	15.1	4.00	3.67	1.67	1.60
Risk Management	85.8	9.37	2.19	2.24	2.85
Human Resources	50.0	8.31	1.97	2.11	2.29
Finance & General Purpose	50.0	9.97	2.76	2.20	3.00
Credit	95.6	11.59	2.80	2.57	3.22
Others	23.6	9.62	3.32	4.25	4.09

Audit Committee

96 per cent of the boards in the Nigerian banking industry have established audit committee, which is in line with global best practices and in compliance with the Central Bank of Nigeria (CBN) code on corporate governance for banks. The audit committee, whose main function should include audit, financial reporting and internal control, should be made up of non-executive directors.

On the average the audit committee is made of 2 internal and 4 external directors. Best practice does not encourage having inside directors as members of the audit committee. However, the audit committee is also made up of representatives of shareholders. The Nigerian code recommends a composition of 2 or 3 directors and 2 or 3 representatives of shareholders.

However, it was found that some banks have two audit committees, board audit and statutory audit committee. The banks that have two audit committees claim that they are not satisfied with the caliber of the shareholders' representatives on their statutory audit committees.

Succession Committee

Succession planning is believed to help organizational governance structures prepare for executive turnover in an orderly and thoughtful manner, evaluate internal resource needs, and train qualified candidates for appointments to executive positions (Bruce et al, 2005).

This committee is not a mandatory one as per the CBN guideline but an essential one in terms of global best practices. A vibrant succession committee is vital to the future of an organization as it helps to ensure proper continuity of top management.

Our results show that only 15 per cent of the boards have succession committee, which is not in line with global best practice. The average age of this committee is about 4 years and so it is still a relatively new committee for many boards.

On the average, the succession committee is made up of 4 internal and 3 external directors.

Nomination Committee

The nominating committee is principally designed to provide checks and balances; avoid situations where the CEO or chairman or both of them do the selection, to inject a greater degree of independence in the board itself. The process of nominating and selecting directors is one of the critical factors in determining how effectively a corporation is governed. If the process is handled well, a strong board will be built, but if the process is poorly handled, as it too often is, the organization ends up with a weak, insulated and self-perpetuating board.

The research results show that 39 per cent of the boards of banks in Nigeria have nomination committee. This is not a mandatory committee by the CBN but is an essential committee for global best practice. On this score, the Nigerian banking industry is not compliant with global best practice as the nomination committee is mandatory in most codes around the world.

The average size of the nomination committee is 6 directors made of 4 external and 2 internal directors. The average age of this committee is about 3.6 years and so it is a relatively new committee for the industry.

Remuneration Committee

One of the main functions of the remuneration committee is usually to review the terms and conditions of employment of senior management as a means of fostering good corporate governance. Its absence throws up an avenue or opportunity for senior executives to award themselves pay raises that are not congruent with shareholders' interest. The role of remuneration committee is therefore to ensure that executive-level compensation systems function effectively and equitably from the viewpoint of shareholders.

The research results show that about 55 percent of boards of Nigerian banks have remuneration committee. This is not a CBN mandatory committee but the CBN guideline specifically states that a committee of non executive directors should fix the remuneration of the CEO and other executive directors. This is an essential committee for global best practice.

The average size of this committee is 7 and is made up of 2 inside and 5 out directors. Global best practice demands that the committee be made up of only external directors.

However, for banks that do not have remuneration committees, the committee's role is performed by the *Human Resources (Personnel) committee.* About 50 percent of boards of banks have Human Resources committee and so in effect more banks, than stated have functional remuneration committee.

Risk Management Committee

Risk management committee is a CBN mandatory committee, whose main role is the evaluate and mange the risks faced by the bank The risks include financial, operation, reputation, human capital, environmental, social and technology. About 86 per cent of the boards of Nigerian banks have risk management committee, which is an indication of the importance attached to risk management by banks. However, the industry is not yet fully compliant with the CBN guideline.

The average size of the risk management committee is 7 and is made up of 2 inside and 5 outside directors. The committee is a fairly old one with an average age of 9.4 years.

Credit Committee

The board credit committee is a CBN mandatory committee, whose main responsibility is to manage the credit risk of the bank through well articulated credit policies and guidelines. In addition, the committee reviews and approves large credits that are above the approval level of management. About 99 per cent of the boards of Nigerian banks have credit committee. Only one respondent claim that their bank does not have a credit committee. It is most likely that the finance committee in this bank also carries out the function of board credit committee.

The average size of the credit committee is 9 and is made up of 3 inside and 6 outside directors. Some directors claim that the reason for the relatively large size of this committee is because that is usually different to get all the directors to attend committee meetings and they need a good number of directors at each meeting to review credit requests.

Finance and General Purpose Committee

This is a general purpose committee, for the banks that have it in place. 54 per cent of boards of banks operating in Nigeria have finance and general purpose committee. The main functions of this committee include, recommending strategic initiatives to the board, reviewing the budget and the audited accounts, and other functions that are not assigned to other board committees.

The average size of the finance and general purpose committee is 8 and is made up of 3 inside and 5 outside directors.

Board operation and processes

Board Meetings

The modal average frequency of holding board meetings among the survey sample is every three months or quarterly. This is the minimum standard prescribed in the CBN code and as such the banks could be said to be in substantial compliance with the code.

According to the respondents, board meetings are conducted with openness and transparency.

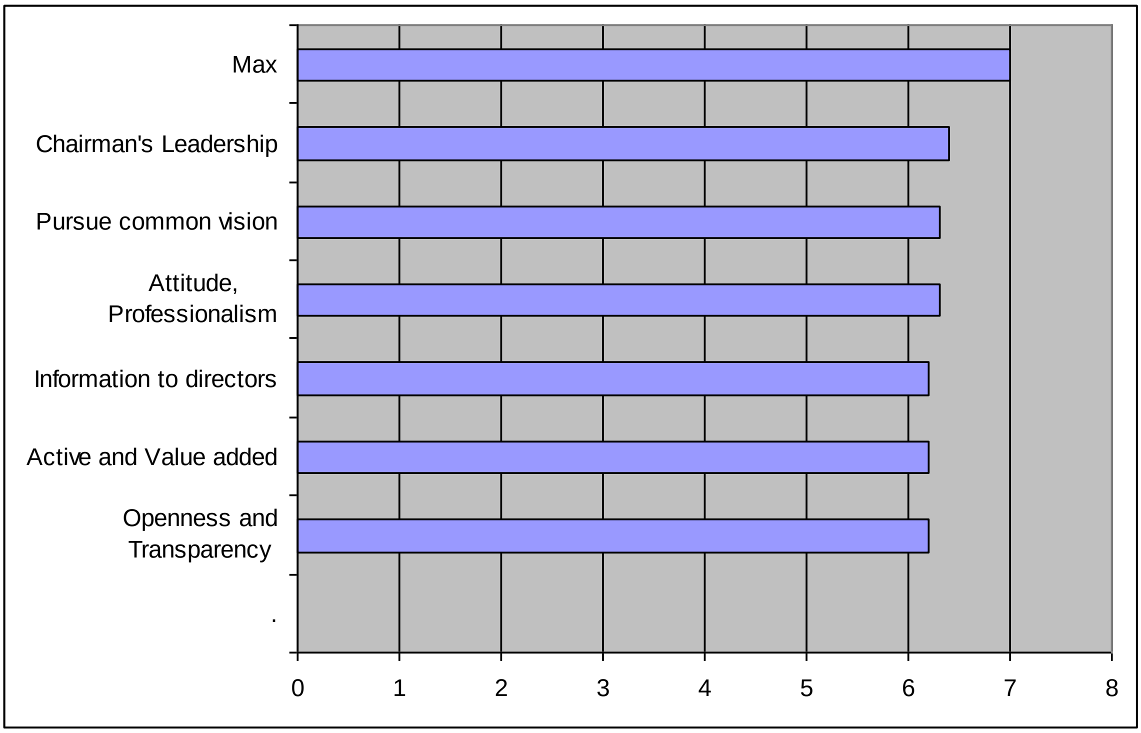
Board Culture

In this case culture means the set of informal unwritten rules which regulates board and the directors' behavior. The results of the survey (see figure 1) show the following cultural characteristics of boards of Nigerian banks:

Most of the directors agree that their chairmen show strong leadership and keep control without being dominant. And on a scale of 1 to 7 this issue was rated 6.4.

The directors also agreed that most of their boards pursue a common vision and that the conduct of the board's business is pervaded with sense of humor, positive and constructive attitude, and professionalism. These issues were rate 6.3 on a scale of 1 to 7.
The directors strongly agree that the boards have sufficient information that allows directors to take decisions with full knowledge during board meetings. They also claim that the business of their boards is conducted with openness and transparency and that director are active and interested in the affairs of their bank. These three issues are rated 6.2.

Figure 1: Boards of Nigerian Banks Characteristics



Appraisal of Board of Directors

Boards of banks in Nigeria have to do more to ensure the effectiveness of their over-sight function. They must therefore be concerned with more than organizational and management performance; they also need to review their own performance. Behavioural psychologists and organizational learning experts agree that people and organizations cannot learn without feedback and so, no matter how good a board is, it's bound to get better if it's reviewed intelligently. Board evaluation and directors' appraisals are now being regarded as tools that can enhance board effectiveness.

Board evaluation can therefore provide a process for boards to identify sources of governance failures. They will allow board to take a closer look at areas of concern before they reach crisis point. However, board evaluations are not a universal panacea for all board ills, but when used correctly and regularly, they may play a major role in averting governance failures.

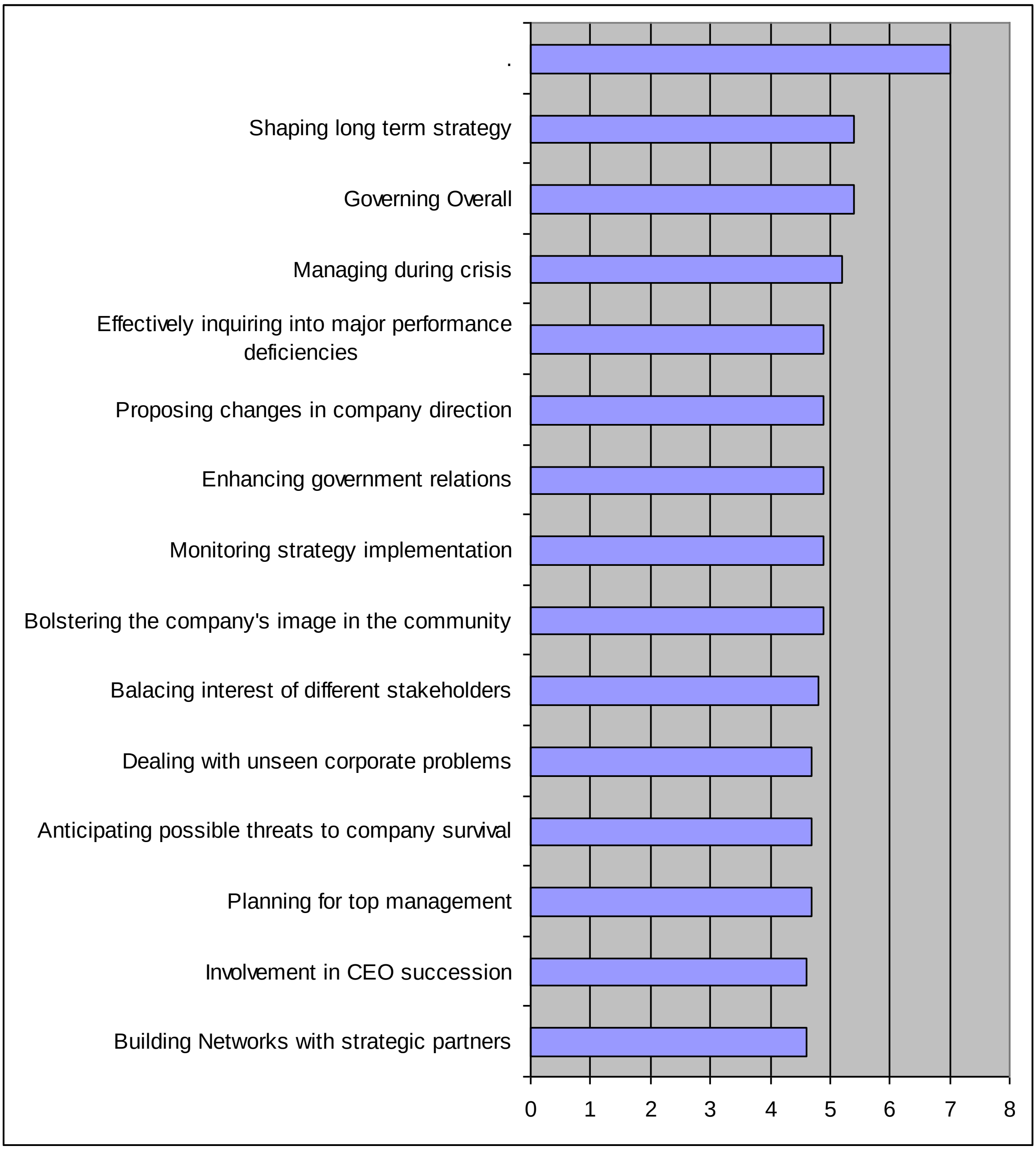
76 percent of respondents claim that their boards are appraised, 65 percent claim that individual directors are appraised, while 59 percent claim that the chairman is appraised. The most common appraisal frequency is yearly with 73 percent of the respondents and the appraisal is conducted by mainly external consultants (73 percent).

Respondents were asked to rate 14 issues on which the board of directors is appraised on a scale of 1 to 7, where one is strongly disagree and 7 strongly agree. The three most important issues upon which board of directors are being appraised that have ratings of over 5 are: *overall governing of the bank, shaping the long-term strategy of the bank, and managing the bank during crisis*. The long-term future and the survival of the bank are therefore seen as the most important responsibilities of the board.

Other important issues on which the boards are evaluated include: monitoring strategy implementation, effectively inquiring into major performance deficiencies, proposing changes in the bank's direction, bolstering the bank's image, enhancing good government and regulator relations, and balancing the interest of different stakeholders.

The directors are also of the view that boards should be appraised on how well they deal with unforeseen corporate problems and possible threats to the bank's survival, and how well they handle CEO and top management succession.
Board appraisal is an annually event for most of the banks and for about 73 percent of the respondents it is conducted by external consultants. However, for about 6.6 percent of the respondents, appraisal is conducted by the CEO.

Figure 2: Appraisal of Board of Directors



Involvement in the Bank's Strategy

The results show that boards are moderately involved in their banks strategy development as the average ratings for the eight factors used in determining involvement are between 4.7 and 5.8 on a 7-point scale (see figure 3). The most important factor, with a rating of 5.8, is the determination of the bank's vision and mission to guide and set the pace for its operations and future development. This shows the degree of importance directors' place in shaping the future of their bank. This will even become more important in the future because the Central Bank of

Nigeria will hold the directors of banks in Nigeria responsible for the performance and state of affairs of their bank. The least important factor, with a rating of 4.7, is the determination of the business units' strategies and implementation. This is because the directors expect their management to be more involved in the activities of business units.

Directors expect to be involved in determining and enforcing company policies for effective running of the bank. In addition their involvement in the bank's strategy process should include the determination and review of the bank's objectives to match its mission and values; the review and evaluation of opportunities, threats and risks in the external environment, and strengths, weaknesses and risks of their bank. Directors also see their involvement in ensuring that their bank's organization structure and capabilities are appropriate for implementing its chosen strategies.

The table below shows the correlation (Pearson's) matrix between the dependent variable (board involvement in strategy) and independent variables (board size and board independence) and reveals that there is a statistical significant relationship between the variables.

Table A2: Correlation matrix between the Board's Involvement in Strategy and Board Size and Board Independence

Variable	**Mean**	**SD**	**1**	**2**	**3**
Board Size	13.59	4.47	1		
Board Independence	4.33	2.68	0.051	1	
Board Involvement Strategy	5.9	0.24	0.009	-0.196	1

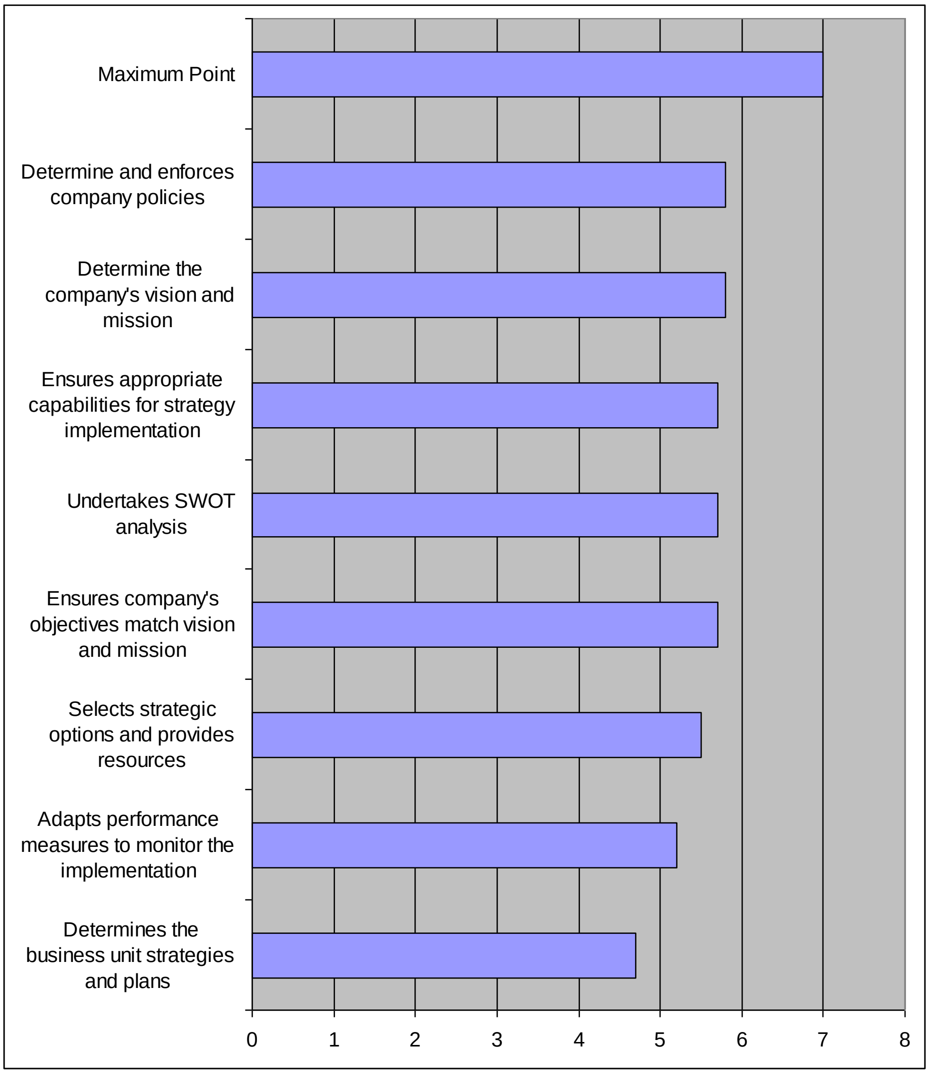
The implied functional relationship between these variables specifies Board Strategy Involvement as our endogenous variable, while Board Size and Board Independence as the exogenous or explanatory variables.

From the above correlation matrix for the various explanatory variables, there is a measure of degree of linear association between Board Size (total board members) and Board Strategy Involvement. This is represented by the Pearson correlation coefficient of 0.009, indicating the existence of positive degree of linear association, which points to the fact that Board Size and Board Strategy Involvement move in the same direction. This simply means that what affects board size directly affects board strategic involvement. Therefore if the board wants to improve on their board strategic involvement, there is need to have the required the board size.

Also from the table of correlation matrix, the existence of a degree of linear association between Board Independence and Board Strategy Involvement is shown. This is represented by the Pearson correlation coefficient of 0.196. Though reported as a negative linear association between the two variables, it simply tells us that Board Independence and Board Strategy Involvement move in opposite direction. We can confidently infer from the table above that there is a higher magnitude of statistical linear association between Board Independence and Board Strategy Involvement than the statistical linear relationship between Board Size and Board Strategy Involvement.

The result so far indicates that the boards attach much importance to the independence of the board and also participate in their strategic roles. Therefore, both board size and board independence are so important in affecting the degree of board involvement in strategic decision making of an organization.

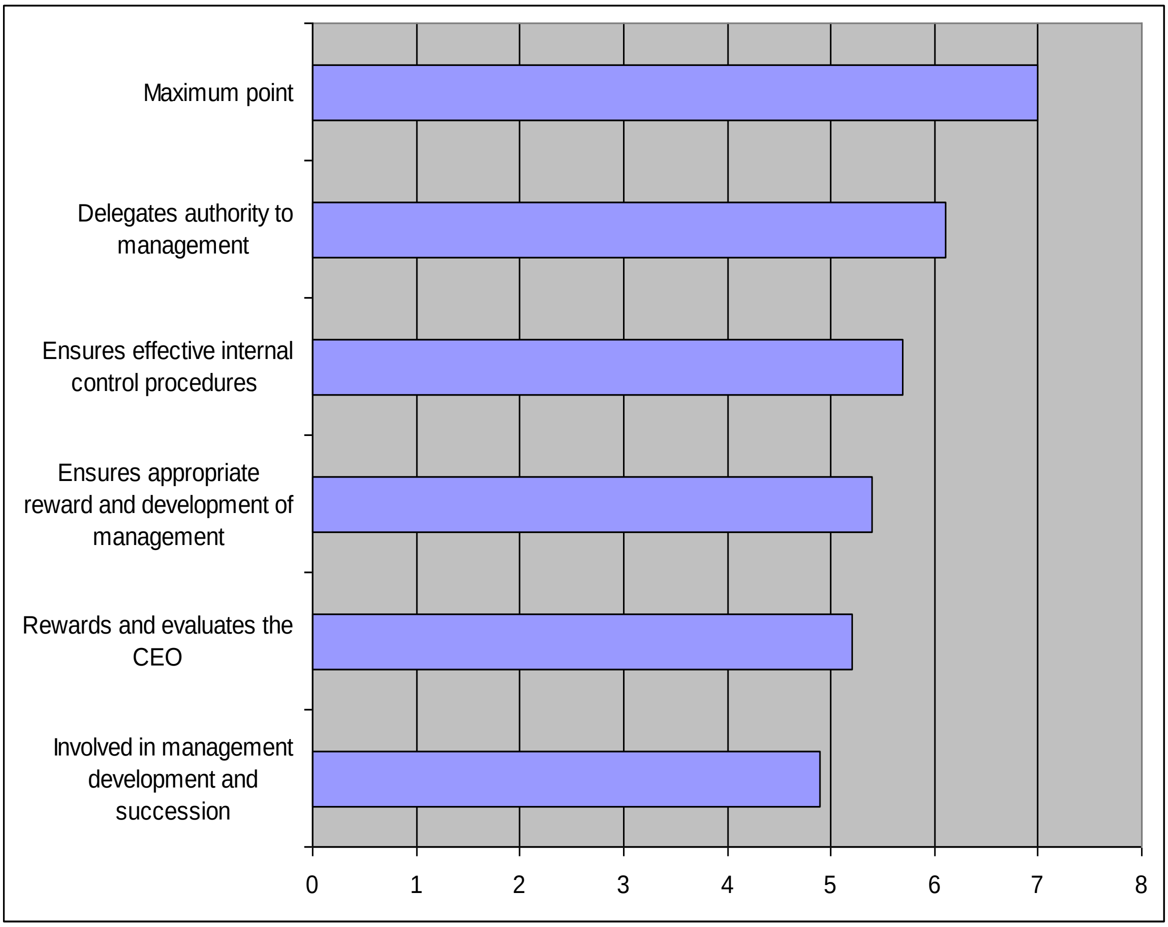
Figure 3: Board involvement in the Bank's Strategy



Board Dynamics

Our results show that good relationship among the board, top management team and the CEO is important to the directors. This is being achieved by delegating authority to management and monitoring its implementation of policies, strategies and business plans. This is rated as the most important factor (6.1 on a 7-point scale) in ensuring good relationship between the board and management. The second most important factor, with a score of 5.7, is ensuring that internal control procedures provide valid and reliable information for monitoring the operations and performance of the bank. Other factors that enhance good relationship between the board and top management are: communicating performance of management to them and aligning rewards and sanctions with performance; well defined evaluation process for the CEO and appropriate reward that is linked to performance; good management development programme; and succession planning.

Figure 4: Board Dynamics



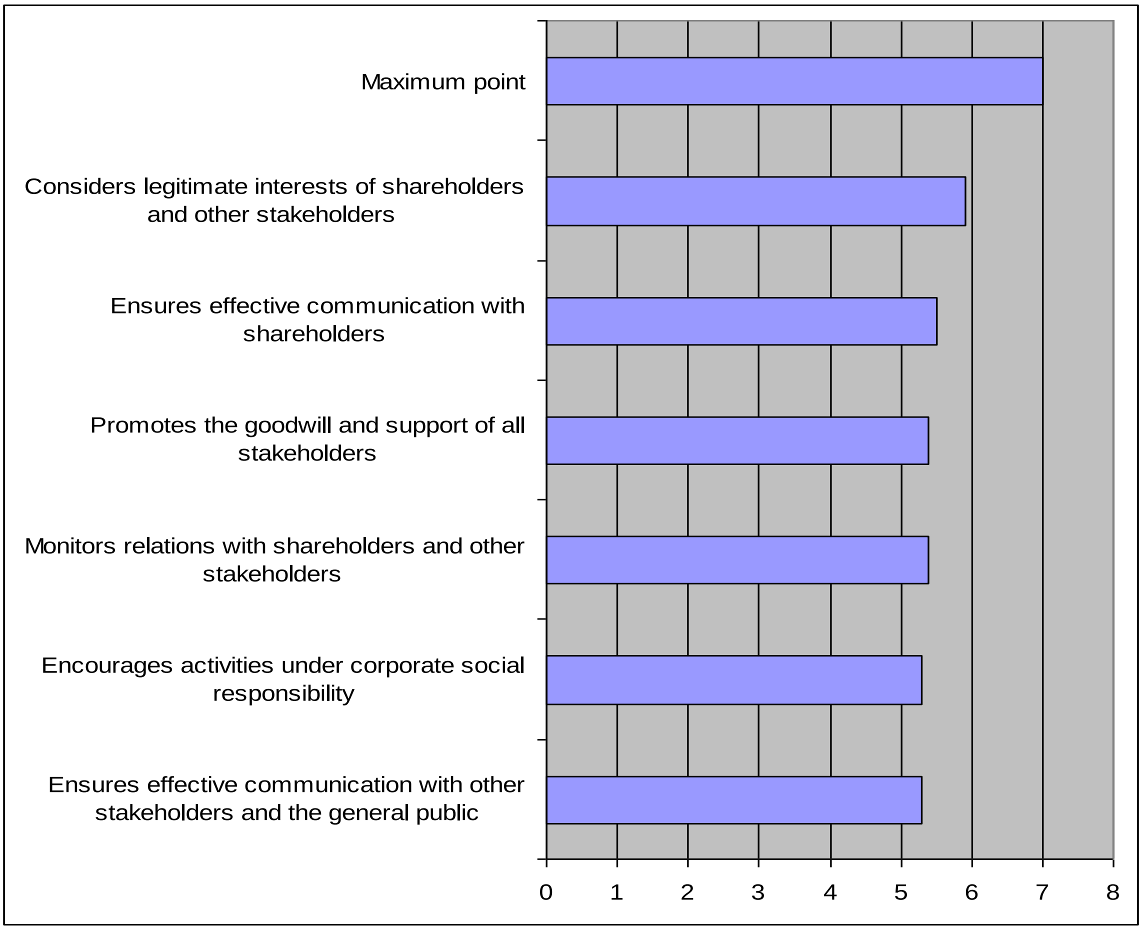
Relationship between the Board and Bank's various Stakeholders

Directors of Nigerian banks are of the view that good relationship between the board and the bank's various stakeholders is important. The key factors that enhance this cordial relationship include, corporate social responsibility programmes that are of value to the bank's communities and understanding the legitimate interests of shareholders and other important stakeholders and working towards meeting these interests that affect attainment of the bank's objectives.

Other relevant factors are effective investor (shareholder) communication; conscious promotion of goodwill and support of shareholders and other key stakeholders; and ensuring effective communication with other stakeholders and the general public.

It is important to put in place a process for monitoring relations with shareholders and other stakeholders so that appropriate corrective actions can be taken at the right time.

Figure 5: Board External Relationship

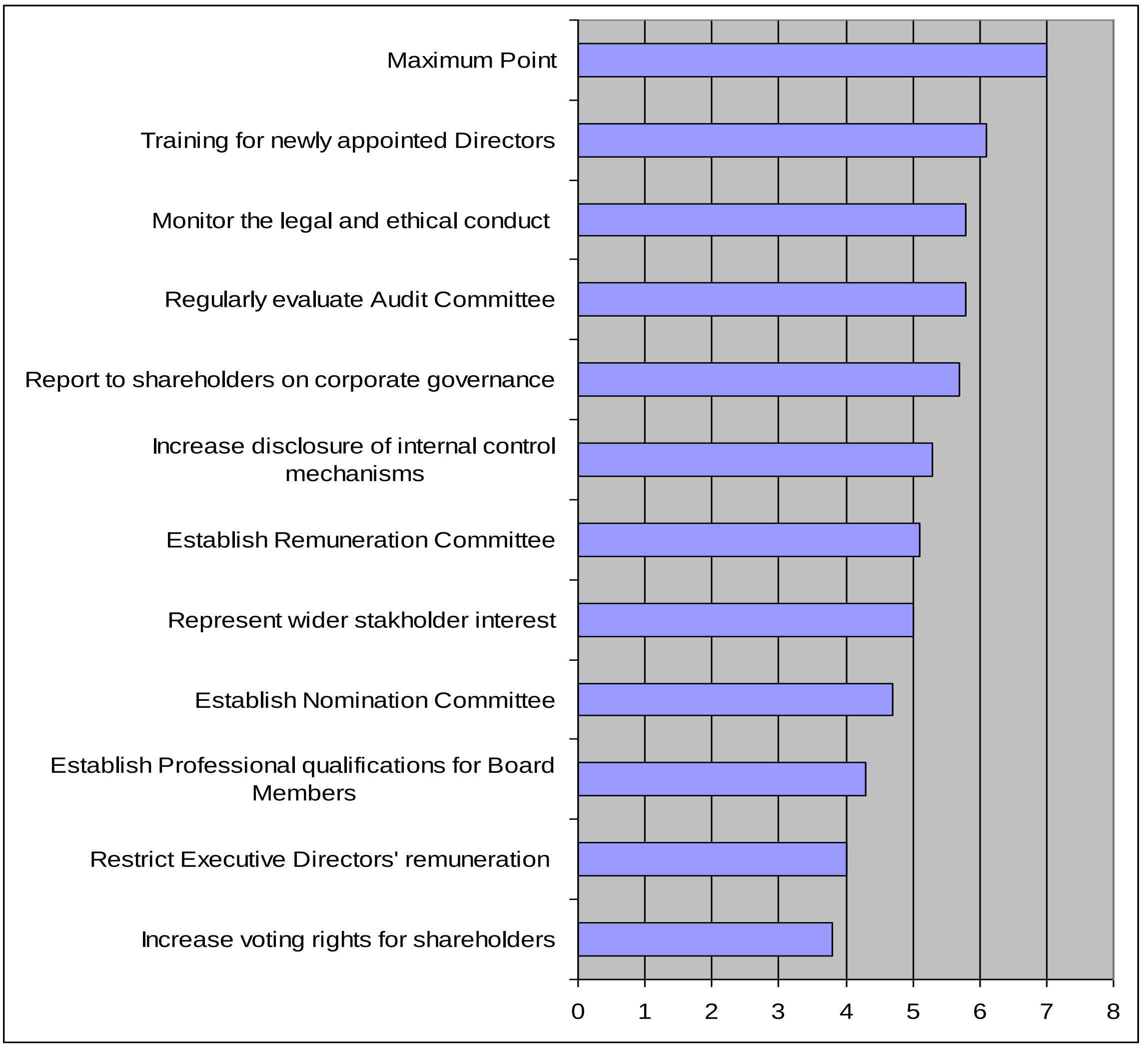


Future Development of Corporate Governance

The views of directors of banks in Nigeria were sought as regards the future direction of corporate governance in Nigeria. The most important areas for improvement are: establishing formal training programme for newly appointed directors and continuous training for directors; monitoring the legal and ethical conduct of the bank; and regularly evaluate the performance of Audit Committee.

Other issues that should be addressed in order to enhance corporate governance include report to shareholders on state of corporate governance in the bank at annual general meetings, establishment of remuneration and nomination committees, and establish professional qualifications for board members as a means of ensuring high level of professionalism and competence.

Figure 6: Future Direction of Boards



Key Determinants of Good Boards

Board effectiveness is defined as the degree the board is able to carry out its strategic and monitoring functions (Levrua and Van Den Berghe, 2006).

Table 1 below shows that the aspects related to the composition of the board are by far most frequently reported by the respondents. Board operations are second and closely followed by board tasks. The less frequently mentioned clusters are board decision-making and board-management relationships. In a similar study carried out by Levrua and van Der Berghe (2006) with Belgian listed companies, they found that the three most frequently mentioned clusters are board composition, board culture and board operations. Their results show that the two less frequently mentioned clusters are board-management relationships and relationships between the board members.

Table 1: Ingredients of a good bank board – directors' perspective

Families	**Number of respondents who mentioned this cluster**	**Number of listing of cluster factors as top 3**
Cluster 1: Board Composition	106	76
Cluster 2: Board Operations	80	44
Cluster 3: Board Tasks	75	55
Cluster 4: Individual Norms	43	34
Cluster 5: Board Culture	34	28
Cluster 6: Relationships between the board members	30	24
Cluster 7: Board-Management Relationship	14	6
Cluster 8: Board Decision-Making	5	4

There are therefore some similarities between the results. However, some significant differences are in the areas of board culture and board decision making. In the Nigerian context board decision-making was the least frequently mentioned, while the Belgians see it as number 5. Board culture is high in ranking in Belgium (number 2), while it is of average ranking in Nigeria (number 5).

Board Composition

This cluster includes the following factors – board size, proportion of inside/outside directors, diversity of the board, social capital and competence of directors.

There is the need to have appropriate board composition that comprises a mix of people having different personalities, educational, occupational and functional backgrounds. This will enrich the quality of perspective brought to the board and also the quality of decisions made. In addition the skills and competence of individual directors, who must have a minimum degree of knowledge of the banking business will reduce board friction and enhance quality of board decisions. A higher proportion of outside directors will also enhance the independence of the board. Social capital is also seen as important in the Nigerian context and this explains why retired military generals and retired top civil servants tend to be appointed to boards of companies in Nigeria.

Board Operations

This cluster includes the following factors – quality of board papers and when they are received, quality of information that gets to the board, conduct of board meetings, attendance and participation at board meetings, director development and leadership style of the chairman.

The level of preparation of directors for a board meeting is important. This will depend on when board papers are received, the quality of information in the board papers and the additional effort made by the directors to understand the bank's operations and the business environment. In addition the agenda of the board meeting will have a bearing on the effectiveness of the board. An agenda that is dominated by operational issues, of less importance, and with the omission of strategic issues will not lead to high level of effectiveness.

The chairman has to be a strong leader but not domineering and should conduct meetings in a constructive and positive way in order to move the board forward. Frequency of board meetings will have some impact on effectiveness. The higher the number of quality board meetings the better.

Board Tasks

This cluster includes – various roles of the board, and support of management.

Drawing on various normative models of boards, particularly Garrett (1997), five board roles are defined: strategic direction and policy making; external accountability and relations with stakeholders; supervising and supporting management; stewardship of the organization's resources; and board maintenance.

For the board to add value to the organization, it must emphasize on its strategic role which entails its involvement in determining the long term strategic direction of the organization. In addition the role of the support of the board to management should include quality advice that will help management to perform better. The monitoring role of the board will help keep management in check.

Individual Director Norms

This cluster includes – personality of individual directors, integrity, ethics, attitude, commitment, and independence.

Behavioural characteristics of directors will have a bearing on the effectiveness of the board. Directors with domineering and overbearing personality are likely to cause disharmony on the board. Integrity of directors, their ethical standard and attitude will likely influence their expectations and behavior on the board. Commitment of individual directors will most likely lead to higher level of interest and will lead to availability at board meetings and in turn will lead to effectiveness.

Board Culture

This cluster includes the following factors – transparency of the board, openness in discussions, level of involvement of directors, atmosphere at board meetings, sharing of common vision by directors and level of team spirit on the board.

Culture in this case is a set of informal unwritten rules which regulate board and directors' behaviour. A vibrant board that works towards adding value to the bank should have a culture of open debate and freedom of thought. It should also have a high level of director involvement in board meetings and activities. The general atmosphere at the board will determine to some extent the way the board operates, a friendlier and open atmosphere will lead to frank and useful discussions and debates. Boards need to pursue a common vision if all directors are going to 'sing from the same song sheet'.

Relationship between Board Members

This cluster includes – interpersonal relationships between the directors, cohesiveness of the board, and informal contacts between directors, teamwork, trust, and respect.

The level of interpersonal relationships between the board members, the right chemistry.

Board – Management Relationships

This cluster includes – quality of management, informal contacts between directors and management, trust, respect, and proper understanding of functions.

Board Decision Making

This cluster includes the following – board decision making process and quality of the debates.

The board should not act as a rubber-stamping body to avoid putting the long-term performance of the organization at risk. The decision making process of the board should include real in-depth discussion and contributions that are objective. Directors should share their knowledge, experience and information available to them for the board to make quality decisions.

Degree of Importance of the Determinants

Our results show that the competence (knowledge and skills) of directors and the diversity of the board with respect to background, experience and age, are considered to be the most important determinants of board effectiveness. Table 2 below shows the 10 most important determinants. Appendix 1 shows the rating of all the factors and the clusters. The most important clusters are board composition and board tasks, while board decision-making and board-management relationship are the least important.

Table 2: Degree of importance of key determinants – directors' perspective

Determinants of board effectiveness	**Number of listing as top 3**	**Rank**
Diversity of the board	25	2
Adherence to code/laws/regulations	25	3
Board independence	20	4
Board transparency and openness	18	5
Level of preparation for board meetings	15	6
Board control functions	14	7
Chairman's leadership style	13	8
Role of board in strategy	12	9
Commitment of individual directors	12	10
Competence (knowledge & skills) of directors	31	1

RECOMMENDATIONS

The issue of diversity of Nigerian boards should be taken seriously as to female representation. Nigerian banks should appoint more women into their boards.

Director development should be taken more seriously and bank should invest in training their directors (both new and old) for better effectiveness. Competency of directors is seen as the most important determinant of effective boards in the Nigerian banking industry.

Formal annual evaluation process should be put in place for evaluating the board and individual directors. A director's retention on the board should be dependent on his/her contributions to and performance on the board.

All banks should have enterprise risk management committee that will look at all possible risks that the bank will face.

Investor relationship issue should also be taken more seriously as more Nigerian banks have foreign and institutional investors.

Greater disclosures and transparency will give a bank competitive advantage in the emerging environment.

CONCLUSION

As the Nigerian banking industry opens up to international investors, they will be expected to operate with world-class standards. The banks that adopt best practices will get the most interest from international investors. The more Nigerian banks reach out to global investors, the greater the pressure will be to adopt corporate governance best practices.

All Nigerian banks have embarked on one or more corporate governance initiatives in response to the mandatory CBN Code. However, adoption of global best practice code is still low.

All banks have created board committees with the audit and credit committees being the most extensive. Most of boards include members with relevant professional experience and educational profile with banking and finance being the most popular background.

Most of the banks have a formal board evaluation process in place which is done by external consultants. Planning for succession is rarely formalized.

Risk management capabilities in most of the banks are yet to go beyond credit risk management to include the full spectrum of risks facing a bank.

One of the factors that have so far hampered the rapid development of corporate governance in the Nigerian banking industry is the lack of a strong institutional investor base that can lobby banks to change their behavior. The time is ripe for a transparent corporate governance rating in Nigeria.

The study of the Nigerian banks shed some light and contributes to the ongoing, emerging and extremely important research stream that relates to financial services. This research highlights some important elements of corporate governance in a dynamic sector that has a strong influence on national economy, particularly in emerging markets.

Further research on corporate governance in the banking industry is needed particularly on the effectiveness of boards and the impact on bank performance. Corporate governance is not just about playing “watchdog” over management, it is about enhancing corporate strategic choices, acknowledging and responding to the interests and concerns of stakeholders, developing and bolstering managerial competencies and skills and ultimately protecting and maximizing shareholder wealth.

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APPENDIX A

Table 3: detailed overview of elements of Cluster 1

Board Composition	**Number of respondents who mentioned this element**	**Number of listing as top 3**
Diversity	26	25
Competence (knowledge & skills)	45	31
Size	2	-
Independence	31	20
Social capital	2	-
Total	**106**	**76**

Table 4: detailed overview of elements of Cluster 2

Board Operations	**Number of respondents who mentioned this element**	**Number of listing as top 3**
Preparation for meetings	32	15
Board meeting	11	5
Chairman's leadership style	15	13
Board appraisal	2	-
Directors development	9	7
Board committees	11	4
Total	**80**	**44**

Table 5: detailed overview of elements of Cluster 3

Board Tasks	**Number of respondents who mentioned this element**	**Number of listing as top 3**
Strategy	17	12
Adherence to code/law/regulations	35	25
Control	18	14
Support of management	2	2
Support of stakeholders	3	2
Total	**75**	**55**

Table 6: detailed overview of elements of Cluster 4

Individual Norms	**Number of respondents who mentioned this element**	**Number of listing as top 3**
Commitment	17	12
Independence	9	9
Personality	4	3
Preparation	2	-
Integrity	11	10
Total	**43**	**34**

Table 7: detailed overview of elements of Cluster 5

Board Culture	Number of respondents who mentioned this element	Number of listing as top 3
Transparency/Openness	23	18
Common vision	8	7
Atmosphere-climate	3	3
Total	**34**	**28**

Table 8: detailed overview of elements of Cluster 6

Relationships among the Board members	**Number of respondents who mentioned this element**	**Number of listing as top 3**
Cohesiveness	7	6
Teamwork	14	10
Trust	9	8
Total	**30**	**24**

Table 9: detailed overview of elements of Cluster 7

Board-Management Relationship	**Number of respondents who mentioned this element**	**Number of listing as top 3**
Open-minded CEO	5	4
Delineation of functions	1	2
Communication	2	-
Relationship	6	-
Total	**14**	**6**

Table 10: detailed overview of elements of Cluster 8

Board Decision-Making	**Number of respondents who mentioned this element**	**Number of listing as top 3**
Collective decision-making	5	4
Total	**5**	**4**

APPENDIX B: Comparison of Corporate Governance Practices in Nigeria, South Africa and Kenya

Corporate Governance Practices	**Nigeria**	**South Africa**	**Kenya**
Board Size	The Central Bank of Nigeria recommends a maximum board size of 20 members. The board size favored by Nigeria banks is of fairly large with the popular being a board size of 16.	The South African reserve bank recommended a board size of 16 members with a maximum of 4 executive directors. In practices, average boards size is 18 with the largest being 27 and the smallest being 13	Kenya banks have small board size ranging from 10 to 16 and the smallest being 6.
Board Leadership	The responsibilities of the head of the board (chairperson), should be clearly separated from that of the head of management (MD/CEO), such that no one person/individual has unregulated powers of decision making by occupying the two positions at the same time. No one person should combine the post of chairman/CEO of any bank. The board chairperson is an independent director and the CEO is an executive director.	The corporate governance code recommends division of the positions with the chair person preferably be an independent non executive: most of the banks adhere to this principle but where there is a fuse of both positions, the code states that there should be a strong independent non-executive.	There are separate positions of chairperson and CEO. But the code maintains that where there is a fuse of both roles the thereof shall be publicly explained.
Board Independence	Majority of the directors of Nigerian banks are non-executives. This means that the boards of Nigerian banks are independent.	The board is dominated by non-executive directors in line with their code which states that board should comprise of a balance of executive and non-executive directors, preferably with majority of non-executive directors being independent.	The number of non-executive exceeds that of the executive directors thus guaranteeing independence in the board. The code states that a board must contain at least one third of its members as non-executive directors.
Board Diversity	Nigerian banks are diversified in terms of mix of personalities and differences in backgrounds with a number of positions going to women (7%).	Banks consider demographic in relation to composition of the board and 12–18% board comprise of women.	Members of the board are from diverse background with about 10-15% women directors.
Board Committees	The CBN code recommends three board committees: Audit, Risk management, and Credit. In practice the following board committees exist in Nigerian banking industry: audit, succession, nomination, remuneration risk management, personnel/human resources, finance and credit.	The King report II recommends three board committees: Audit, Nomination and Remuneration committees. In practice the following committees exist; audit, risk management, remuneration, credit, finance and director affairs and transformation and implementation.	The code advocates for the following committees: Audit, Remuneration, and Nomination. In practice the Kenya banks have the following committees; asset/liability, audit, risk management, credit, human resources and executive committees.
Roles of the Boards	The board of directors should be responsible for the affairs of the company in a lawful and efficient	The board must give strategic direction to the company, appoint the CEO and ensure	Exercise leadership, enterprise, integrity and sound judgments in directing the corporation so

	manner in such a way as to ensure that the company is constantly improving its value creation as much as possible. The board should ensure that the value being created is shared among the shareholders and employees with due regard to the interest of the other stakeholders of the company. The board's functions should include but not be limited to the following: Strategic planning Selection, performance appraisal and compensation of senior executives Succession planning Communication with shareholders Ensuring the integrity of financial controls and reports Ensuring that ethical standards are maintained and that the company complies with the laws of Nigeria (Culled from SEC, 2003).	that succession is planned. The board must retain full and effective control over the company, and monitor management in implementing board plans and strategies. The board should ensure that the company complies with all relevant laws, regulations and codes of business practices, and that it communicates with its shareowners and relevant stakeholders (internal and external) openly and promptly and with substance prevailing over form. The board should define level of materiality, reserving specific power to itself and delegating other matters with the necessary written authority to management. These matters should be monitored and evaluated on a regular basis. The board should have unrestricted access to all company information, records, documents, and property. The information needs of the board should be well defined and regularly monitored. The board should consider developing a corporate code of conduct that addresses conflicts of interest, particularly relating to directors and management, which should be regularly reviewed and updated as necessary. The board should have an agreed procedure whereby directors may, if necessary, take independent professional advice at the company's expense. Every board should consider	as to achieve continuing prosperity and to act in the best interest of the enterprise while respecting the principles of transparency and accountability; Ensure that through a managed and effective process, board appointments are made that provide a mix of proficient directors, each of whom is able to add value and bring independent judgment to bear on the decision-making process; Determine the corporation's purpose and values, determine the strategy to achieve its purpose and to implement its values in order to ensure it survives and thrives, and ensure that procedures and practices are in place that protect the corporation's assets and reputation; Monitor and evaluate the implementation of strategies, policies, management performance criteria and business plans; Ensure that the corporation complies with all relevant laws, regulations and codes of best business practices; Ensure that the corporation communicates with shareholders and other stakeholders effectively; Serve the legitimate interest of the shareholders and the corporation and account to them fully; Identify the corporation's internal and external stakeholders and agree on a

		whether or not its size, diversity and demographics make it effective. The board should identify key risk areas and key performance indicators of the business enterprise. These should be regularly monitored, with particular attention given to technology and systems. The board should identify and monitor the non-financial aspects relevant to the business of the company. The board should record the facts and assumptions on which it relies to conclude that the business will continue as a going concern in the financial year ahead or why it will not, and in that case, what steps the board is taking to remedy the situation. The board should ensure that each item of special business included in the notice of the annual general meeting, or any other shareowners' meeting, is accompanied by full explanation of the effects of any proposed resolutions. The board should encourage shareowners to attend annual general meetings and other company meetings, at which the directors should be present. More particularly, the chairpersons of each of the board's committees, especially the audit and remuneration committees should be present at the annual general meeting. A brief CV of each director standing for election or re-election at the annual general meeting should accompany the notice contained in the annual report.	policy, or policies determining how the corporation should relate to them; Ensure that no one person or a block of persons has unfettered power and that there is an appropriate balance of power and authority on the board which is, inter alia, usually reflected by separating the roles of the Chief Executive Officer and Chairman, and by having a balance between executive and non-executive directors; Regularly review processes and procedures to ensure the effectiveness of its internal systems of control, so that its decision-making capability and accuracy of its reporting and financial results are maintained at a high level at all times; Regularly assess its performance and effectiveness as a whole, and that of the individual directors, including the CEO; Appoint the CEO and at least participate in the appointment of senior management, ensure the motivation and protection of intellectual capital intrinsic to the corporation, ensure that there is adequate training in the corporation for management and employees, and a succession plan for senior management; Ensure that all technology and systems used in the corporation are adequate to properly run the business and for it to remain effectively competitive; Identify key risk areas and key performance indicators of the business and monitor these factors;

		Every board should have a charter setting out its responsibilities, which should be disclosed in its annual report. At a minimum, the charter should confirm the board's responsibility for the adoption of strategic plans, monitoring of operational performance and management, determination of policy and processes to ensure the integrity of the company's risk management and internal controls, communications policy, and director selection, orientation and evaluation. The board must find the correct balance between conforming to governance constraints and performing in an entrepreneurial way (Culled from King Report, 2002).	Ensure annually that the corporation will survive, thrive and continue as a viable going concern (culled from Sample Code, 2002).

APPENDIX C: Corporate Governance Best Practice Summary

This document outlines a summary of corporate governance best practice as defined in several codes including the UK Combined Code, the King report, the Code of Corporate Governance of Nigeria and the CBN Code of Corporate Governance for Banks.

The goal is to establish:

A governance framework that adequately protects and anticipates the needs of all stakeholders – shareholders, management, staff, customers, and our responsibility to the wider community to be good corporate citizens.

To create a "forward looking" control framework which not only reports and reviews the past (which is largely the current audit and credit committee model); but instead looks to the future to anticipate and address issues early – and to avoid the major pitfalls that may lie ahead. All BoD committees should therefore focus on both the current performance, future needs of the business and how to optimize the interest of all stakeholders. Each committee should hold itself to account against these goals.

It is a high level guide. As such, while the practices outlined below are generally representative, due consideration must be given to the specific circumstances of each company.

Issue	Best Practice
Role of the Board	• Board roles should be set out in a charter (see appendices), which should be published in AR • Set values, standards, strategic direction and provide entrepreneurial leadership • Identify and monitor risk areas and performance indicators for the company • NEDs should constructively challenge and help develop proposals on strategy • Monitor management's implementation of board plans & strategies • CEO & company secretary appointment & succession process • Succession planning for senior management • Conduct an annual review of the company's internal controls • Define the insider trading policy (to be implemented by company secretary) • Selection, performance appraisal and compensation of EDS, senior executives • Communication with shareholders • Ensuring integrity of financial controls and reports • Ensure auditors are independent – no other business with the company • Ensure ethical standards and compliance with the law
Leadership	• There should be clear distinction between the Chairman and CEO roles • The CEO should not go on to be Chairman (if otherwise shareholders should be consulted) • Where both roles are combined there should be a strong independent NED as vice chairman • The role of executive vice chairman is not allowed • Two members of an extended family cannot hold chairman and chief executive positions simultaneously
Composition	• The BoD should have a balance of EDs & NEDs, with at least 50% (excluding Chairman) being NEDs • EDs should not be NEDs in more than one additional company • EDs should not be chairman of another company • Size – Not less than 5 but not more than 15 (CBN allows a maximum of 20) • Members – ethical, relevant competencies, tangible achievement record, knowledge of board

Issue	Best Practice
	matters, entrepreneurial, strong network • People of integrity and knowledgeable on business and financial matters • At least 2 independent directors • Significant Shareholders should have a board seat • There should be one director representing minority shareholders
Appointments and election	• Should be through a formal, rigorous and transparent procedure as set out in the Charter • Nomination committee should lead director search and make recommendation to full board • Directors should have 3 year fixed term contracts, extensions/renewals should be upon shareholder notification and approval • All directors should be subject to election at the first AGM after their appointment • Re-election intervals should not be more than 3 years • Submissions to shareholders for re-election should have biographical details and any relevant information • NEDs should serve two terms of 3 years maximum, but can serve longer than 9 years subject to annual re-election • NED terms not to exceed 3 terms of 4 years each (maximum of 12 years) - CBN • Notice periods should be one year or less • Any director with a related party NPL for more than one year cannot serve on BoD
Definition of Director Independence	• Not previously an employee • No material business relationship with company in last 5 years • No additional remuneration beyond director's fee and allowances (i.e. no share options, performance related pay) • No family ties with advisers, directors or senior staff • No cross directorships • Not an employee in any executive capacity in the last five years
Committees	• Typically include nomination, remuneration, risk management, audit and credit committees • All committees should have their roles, responsibilities and membership criteria set out in term of reference and have both a control review and forward looking mandate (see appendices) • The chairman of the main Board should not be a member of any committees • Only members of a board sub-committee should attend committee meetings (except expressly invited). Members should have appropriate skills to add material value to the objectives of the relevant committee • Appointments should be made by the BoD on recommendation of the nomination committee • All committees should be chaired by an independent NED
Meetings	• Should meet as required but not less than once a quarter • Sufficient notice to be given • Provide a formal schedule of matters to be discussed • Board papers should be distributed for review by the BoD at least 7 days in advance • Agree a forward 12 to 24 month Calendar of Board meetings and committees with specific dates, core agenda items and special activities such as annual strategy reviews • The agenda and time accorded to discussing each item should be planned and chaired to mirror the importance of that item to the business • BoD committee meetings should be scheduled ahead of the main BoD meeting • There should be at least one meeting of only NEDs
Remuneration	• Remuneration committee to recommend Board pay, with due consideration to market practice • Performance related pay should form the major proportion of CEO and ED pay • Executive share options should not be offered at a discount • NEDs remuneration should be limited to sitting allowance, directors fees and reimbursable

Issue	Best Practice
	travel and hotel expenses • NEDs remuneration should not include share options; if proposed, shareholder approval should be obtained • No ED should play role in setting his income, NEDs to set remuneration of EDs • If an ED serves on another Board, the remuneration statement in the AR should state how much he is paid and if he will retain the income • The cost implications of early termination of Directors should be evaluated • The issue of share options and all decisions surrounding them should be approved by shareholders. Any such options should vest over time • All EDs contracts should have no more than 12 months notice periods
Audit committee	• Should comprise at least 3 members with at least one member with recent/relevant financial work experience • Members should understand the company's business model, its associated risk, be able to read/understand financial statements and contribute to meetings. Where possible they should be knowledgeable about internal control • The committee should set out to ensure the highest possible quality of financial reporting and that insights are properly analyzed and acted upon • Chairman should be a NED and nominated by its members • Membership should be fixed tenure, subject to re-election • Should comprise strong independent persons and not more than one ED • The committee's secretary should be the company secretary or another person it nominates • Members to be NEDs and ordinary shareholders appointed at AGM • Should approve appointment or change of external auditors and their remuneration • Review independence of external auditors and meet with them at least once a year • Should review and ensure proper whistle blowing arrangements • To meet minimum of 3 times a year • Ensure integrity of the bank's financial reporting and independence of external auditors • Should have direct access to external auditors to seek explanations and additional information without management presence • Unresolved disagreements between the BoD and the Audit committee should be reported to shareholders in AR
Remuneration Committee	• Should consist of at least 3 independent non-executive directors and no EDs • Where remuneration consultants are used, a statement of any other roles they have should prepared • Set remuneration for all EDs and the Chairman • Recommend and monitor remuneration levels for senior management (as defined by the BoD, typically first layer below BoD)
Nomination Committee	• Should be comprised mainly of Independent Directors and primarily NEDs • Should prepare job specification for the BoD including expected time commitment • Evaluate proposed Chairman's existing commitments pre appointment and any changes after thereafter on an ongoing basis • Obtain commitment from NEDs that they will have sufficient time to commit to BoD activities • Annual report should describe Nomcom's board appointment process • There should be a clear succession plan for top executives
Risk Management Committee	• Establish risk policies and ensure credit, market and operational risk frameworks are in place, fit for purpose and being rigorously applied • The committee should have explicit responsibility to review future risk assessment and how to mitigate them as well as current risk

Issue	Best Practice
	• Bank should have risk management framework and unit with documented internal controls • External auditor to report to CBN on the bank's risk management, internal control and regulatory compliance
Credit Committee	• Approve all insider related credits (AGM and above) • Should be comprised of members with credit analysis skills • Should not be led by CEO or Chairman of main BoD
Performance Review	• Board (ex Chairman) should review chairman's performance • Review process should be communicated in Annual report • Nomination committee or another specified should evaluate the performance of the BoD and its committees • There should be an annual BoD review/appraisal covering all aspect of board activities and individual members performance by an external consultant • Review report to be presented at AGM and sent to CBN • Chief Compliance Officer to also monitor implementation of corporate governance code
Company Responsibility to Directors	• Insurance cover in respect of legal action against Directors • Provide access to independent professional advice at company expense when requested by the BoD • Access to the advice and services of the company secretary • Regular training of BoD to facilitate their role
Professional development	• All directors should go through a formal and tailored induction program on joining, covering company structure, operations and policies • Developmental and educational training should be provided in respect of their duties thereafter
Board related reporting	• AR to list all directors (identifying independent ones), their roles, remuneration, number of meetings held/attended (full BoD & committees) • AR to explain directors' and auditors' responsibilities; state steps taken towards understanding shareholder views • Disclosure of all board committees, their membership and roles • Full disclosure of all director income (emoluments, highest paid, stock options & pension contributions) • Report on the effectiveness of the company's internal controls in the AR • Report business is a going concern with assumptions in line with CAMA • All business between members of the Board and the bank to be disclosed in the AR • CEO & CFO to certify the accounts submitted by the banks • CCO to report monthly to CBN on whistle blowing and corporate governance breaches • CCO & CEO to certify annually that there is no breach of the corporate governance code • Corporate governance compliance report to be included in annual report
Relations with shareholders	• Company should offer major shareholders the opportunity to meet new directors • Chairman should discuss governance and strategy with major shareholders, with NEDs having the option to attend • SH should be treated equally and should get information at the same time • As a major public company a strong investor relations function should be in place, which responds to the needs/questions of shareholders
AGM conduct	• Meetings should allow free flowing discussions and enough time should be allotted to shareholder comments • The AGM venue should be near and affordable for shareholders • 21 working days' notice should be given to shareholders • Each issue should have a separate resolution, which should be circulated with a full explanation

Issue	Best Practice
	• The Chairmen of the audit, remuneration and nomination committees should be present • Votes cast should be properly received and counted • All directors should be present at the AGM

Ownership structure	• Banks
	  o Government related ownership not to exceed 10%
	  o Any holding above 10% to be approved by CBN

Audit – External	• External Auditors should maintain arms' length relationship • CBN approval has to be obtained prior to appointing external auditors • External auditors' tenure should be maximum of 10 years, after which it may not be reappointed for another 10 years • An external auditor cannot work for a bank where a top official has previously worked with the firm and on that bank's audit
Audit – Internal	• Head to be AGM minimum and member of a relevant professional body • S/he should have direct reporting to the CEO and be a member of the audit committee
Subsidiaries	• NEDs from the parent entity should typically not sit as Chairman or NED of a subsidiary company's BoD • Board should comprise parent company EDs and independent NEDs • All subsidiary performance should be reported separately to the BoD by the Group CEO as part of the regular reporting framework to the BoD

Notations:

- AR Annual Report
- NED Non-Executive Director
- ED Executive Director
- BoD Board of Directors
- SH Shareholders
- CBN Central Bank of Nigeria
- CEO Chief Executive Officer
- CCO Chief Compliance Officer
- CFO Chief Financial Officer

APPENDIX C1: CASES: Corporate governance at ecobank nigeria

INTRODUCTION

Ecobank Nigeria was established in 1986 and commenced business in 1989. It is a subsidiary of Ecobank Transnational Incorporated (ETI), which is a Pan African Bank with Head Office in Lome Togo. ETI, which is the holding company of Ecobank Group, was incorporated in 1985 and it is the leading independent regional banking group in African. It currently operates in 25 African countries namely: Benin, Burkina Fasso, Burundi, Cameroon, Cape Verde, Central Africa Republic, Chad, Congo – Brazaville, Cote d'Ivoire, Democratic Republic of Congo, Gambia, Ghana, Guinea, Guinea – Bissau, Kenya, Liberia, Malawi, Mali, Niger, Nigeria, Rwanda, Sao – Tome and Principe, Senegal, Sierra Leone, and Togo.

ETI has over 500 branches and offices and over 10,000 employees. It is listed on the stock exchanges in Lagos, Accra and Abidjan. The Group is owned by over 7000 shareholders including institutional investors.

Ecobank is a full-service bank providing wholesale, retail, investment and transaction banking services and products to governments, financial institutions, multinationals, international organizations, medium, small and micro businesses, and individuals. Ecobank Nigeria was listed on the Nigerian Stock Exchange in April 2006.

THE NIGERIAN BANKING INDUSTRY

The Nigerian banking industry has undergone serious structural adjustments over the past three years arising from the Central Bank of Nigeria's requirement for banks to increase their shareholders' fund to a minimum level of N25 billion (twenty five billion naira) from N2 billion by the end of 2005. This triggered off several mergers and acquisitions that reduced the number of players from 89 to 25 as at the beginning of 2006.

The 25 banks emerged stronger with larger capital base (from under US$3 billion to over US$14.2 billion). This regulatory driven merger and acquisition (M&A) has resulted in market driven M&A activities in the banking industry. Two banks, Stanbic Bank and IBTC merged in 2007 to bring the total number of banks in the industry to 24.

Nigerian banks have gone into strategic alliances with international banks to manage the country's foreign reserves as a means of acquiring more experience in the global financial industry.

The capital market has been active with banks raising additional capital in order to build financial supermarkets, with operations in investment banking, insurance and mortgage business. In 2007 Nigerian banks raised $14.4 billion in the capital market. Two international offers achieved listing on the London Stock Exchange (LSE), GT Bank's global depository receipt (GDR) on the main market of LSE, while Diamond bank's GDR was on the Professional Securities Market of the LSE. The quest for scale is on in the industry but there is limited strategy differentiation amongst the players.

The banks have engaged in aggressive branch expansion with significant emphasis on consumer banking, which has resulted in the increase of the number of consumer products and mutual funds. There has also been an increase in the use of ATMs and credit cards.

Nigerian banks are also on aggressive regional expansion drive with subsidiaries in West, Central and East Africa. Their global expansion is through branches and representative offices in the US, UK, China, Dubai and India.

The Nigerian banking sector is concentrated with the top 10 banks accounting for 75% of the market but still lags behind developed markets. The gap is narrowing among top tier banks and widening between upper and lower tier.

THE BANK'S OPERATION

As at June 30, 2008, Ecobank Nigeria has about 230 branches in different parts of Nigeria. The bank's vision is "to provide our customers convenient, accessible and reliable banking products and services", while its mission is "to become a world class Pan African Bank". The Bank is among the top 10 banks in Nigeria and has grown in the last three years organically and through acquisitions.

Ecobank Nigeria introduced the first naira credit card in Nigeria and was the first bank to issue MasterCard credit card in Nigeria. The Bank is currently partnering with ING to manage external reserves of the Federal Government of Nigeria.

The bank's core strategic goals are to build scale through acquisitions and organic growth; grow its customer base, products, distribution and markets; achieve efficiency and reduce cost through operational and product excellence; and deliver superior shareholder returns.

The Bank's areas of focus for future earnings include: Consumer Banking, Investment Banking, Transaction Banking, E-solutions and Trade Finance.

BOARD OF DIRECTORS

As at December 31, 2007, the Board comprised twelve (12) Directors, eight (8) non-executives, and four (4) executives. Two (2) of the non-executive directors are independent directors in line with the CBN code of corporate governance for banks operating in Nigeria.

The Directors, all have varied backgrounds in their respective successful professional fields namely: economics, accounting, banking, management, medicine, engineering and technology.

The roles of the Board include:

1. Reviewing alignment of goals, major plans of action, annual budgets and business plans with overall strategy; setting performance objectives; monitor implementation and corporate performance and overseeing major capital expenditure in line with approved budget.
2. Ensuring the integrity of the Bank's accounting and financial reporting systems (including the independent audit) and that appropriate systems are in place for monitoring risk, financial control and compliance with the law.
3. Selecting, compensating, monitoring and when necessary, replacing key executives and overseeing succession planning.
4. Monitoring and managing potential conflicts of interest of executive management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.

5. Interfacing with the Board of Ecobank Transnational Incorporated and management to ensure harmony in implementing Group strategy.
6. Performing all statutory roles as required by law.
7. Through the establishment of Board Committee, making recommendations and taking decisions on behalf of the Board on issues of expenditure that may arise outside the normal meeting schedule of the full Board.
8. Ratifying duly approved recommendations and decisions of the Board Committees.

STATE OF CORPORATE GOVERNANCE IN THE BANK

The Ecobank Group is committed to ensuring good corporate governance. The group believes that good corporate governance enhances shareholder value. Ecobank has been a pioneer in West African banking in institutionalizing corporate governance principles as part of the group's corporate culture. To this end, Ecobank aims at complying with best international practices on corporate governance. Adherence to corporate governance principles is articulated in a number of corporate documents. The Articles of Association of the company and those of its subsidiaries define the respective roles of management, the board of directors and shareholders (including the protection of minority rights) in the administration of the group. The group has standard written rules for the internal operation of the boards of directors, a corporate governance charter, a code of conduct for directors and rules on business ethics for staff, all of which aim at ensuring transparency and accountability.

The board of directors of the Ecobank Transnational Incorporated has adopted the IFC principles and methodology on corporate governance to guide its corporate governance framework. The group's governance practices are also guided by the Basel Committee standards on corporate governance.

Ecobank Nigeria is therefore committed to institutionalizing corporate governance principles as part of the group corporate structure. The board ensures that the bank adheres to the implementation of corporate governance guidelines of the Central Bank of Nigeria and the Securities and Exchange Commission. It also operates in line with its responsibilities as contained in the Ecobank Group Corporate Governance Charter (See Appendix B).

The Board delegated some of its responsibilities to the following Committees:

1. **Board Credit and Risk Committee**

   Responsibilities

   - Approval of credits outside management's limits
   - Approval of insider-related transactions/credits
   - Review of remedial accounts/past due obligations/classified accounts.
   - Approval of accounts to be written-off and any other related matters.
   - Setting risk management strategies, direction and policies.
   - Approval of exceptions to credit policy.
   - Review of periodic reports and assessment of portfolio performance.
   - Review and formulation of policies in respect of operational risks, market and other known risks.

   The committee is made up of four directors, three are non-executive and one is executive.

2. **Board Governance Committee**

Responsibilities

- Corporate governance issues and assessment of compliance.
- Premises matters.
- Human Resource matters including employment, termination of employment, review of performance appraisal of Assistant General Mangers and above, staff salary changes, and consideration of directors' remuneration.
- Information technology
- Review of capital expenditure and operating expenses.

The committee is made up of four directors, of which three are non-executive and one is executive.

3. **Board Audit & Compliance Committee**

Responsibilities

- Review and assessment of all internal and external audit reports. Review and monitoring of internal controls and ensuring effectiveness of controls.
- Review of frauds and forgeries
- Liaising with auditors and management
- Ensuring compliance with all applicable laws and regulations as well as operating standards.
- Reviewing the bank's financial performance.

The committee is made of three directors, all of whom are non-executive.

4. **Statutory Audit Committee**

In compliance with section 359 (6) of the Companies and Allied Matters Act 1990, the Audit Committee was established comprising three (3) representatives of shareholders elected annually at Annual General Meetings and three (3) non-executive directors.

Frequency of Meetings

Meetings of the Board and its Committees are usually held quarterly but may also be convened at any time whenever the need arises. The Statutory Audit Committee meets prior to commencement of the audits and subsequently to review, consider and assess the audited accounts.

The Guiding Principles of the Ecobank Group Corporate Governance Charter

- All power belongs to the shareholders.
- Delegation of authority by the owners to the Board and subsequently to Board Committees and Executives are clearly defined and agreed.
- The Group Office (Ecobank Transnational Incorporated) acts as strategic architect with limited involvement in operational management and decision making at affiliate and subsidiary level.
- Institutionalized individual accountability and responsibility through empowerment and relevant authority.
- Clear terms of reference and accountability for committees at Board and Executive levels.
- Effective communication and information sharing outside of meetings.

- Actions are taken on fully informed basis. In good faith with due diligence and care and in the best interest of the Bank, the Ecobank Group and Shareholders.
- Enhancing compliance with applicable laws and regulations and the interest of stakeholders. Where there is any conflict between the Ecobank Group rules, the local laws and legislation supersedes.
- Conformity with overall Ecobank Group strategy and direction.
- Transparency and full disclosure of accurate, adequate and timely information regarding personal interest of directors in any area of potential conflict regarding the bank's business.

APPENDIX C2: Corporate governance at diamond bank

INTRODUCTION

Diamond Bank Plc began as a private limited liability company on March 21, 1991 (the company was incorporated on December 20, 1990). Ten years later, in February 2001, it became a universal bank. Diamond Bank became a public limited company in January 2005, following a highly successful Private Placement share offer which substantially raised the Bank's equity base. And the bank was listed in the Nigerian Stock Exchange in May 2005.

Today, Diamond Bank is one of the leading banks in Nigeria - respected for its excellent service delivery, driven by innovation and operating on the most advance banking technology platform in the market. The Bank has over the years leveraged on its underlying resilience to grow its asset base and to successfully retain its key business relationships.

The Bank has retained excellent banking relationships with a number of well-known international banks, which have enabled them to provide a bouquet of world class banking services to suit the business needs of their clients. These international banking partners include Citibank; HSBC Bank; ANZ Banking Group; ING BHF Bank AG; Standard Chartered Bank; Belgolaise Bank S.A; Deutsche Bank; Commerzbank; and Nordea Bank Plc.

THE NIGERIAN BANKING INDUSTRY

The Nigerian banking industry has undergone serious structural adjustments over the past three years arising from the Central Bank of Nigeria’s requirement for banks to increase their shareholders’ fund to a minimum level of N25 billion (twenty five billion naira) from N2 billion by the end of 2005. This triggered off several mergers and acquisitions that reduced the number of players from 89 to 25 as at the beginning of 2006.

The 25 banks emerged stronger with larger capital base (from under US$3 billion to over US$14.2 billion). This regulatory driven merger and acquisition (M&A) has resulted in market driven M&A activities in the banking industry. Two banks, Stanbic Bank and IBTC merged in 2007 to bring the total number of banks in the industry to 24.

Nigerian banks have gone into strategic alliances with international banks to manage the country’s foreign reserves as a means of acquiring more experience in the global financial industry.

The capital market has been active with banks raising additional capital in order to build financial supermarkets, with operations in investment banking, insurance and mortgage business. In 2007 Nigerian banks raised $14.4 billion in the capital market. Two international offers achieved listing on the London Stock Exchange (LSE), GT Bank’s global depository receipt (GDR) on the main market of LSE, while Diamond bank’s GDR was on the Professional Securities Market of the LSE. The quest for scale is on in the industry but there is limited strategy differentiation amongst the players.

The banks have engaged in aggressive branch expansion with significant emphasis on consumer banking, which has resulted in the increase of the number of consumer products and mutual funds. There has also been an increase in the use of ATMs and credit cards.

Nigerian banks are also on aggressive regional expansion drive with subsidiaries in West, Central and East Africa. Their global expansion is through branches and representative offices in the US, UK, China, Dubai and India.
The Nigerian banking sector is concentrated with the top 10 banks accounting for 75% of the market but still lags behind developed markets. The gap is narrowing among top tier banks and widening between upper and lower tier.

THE BANK'S OPERATIONS

Diamond Bank's mission is "to create a unique international bank focused on providing creative solutions to customers' business problems, with an absolute commitment to quality". The bank has diversified into investment banking, insurance and mortgage business. It has also set up a subsidiary in the Republic of Benin with plans to set up in Senegal and Ivory Coast in 2008.

The bank's main competitive advantage is its strength and expertise in the middle market. The bank's strategy is to strengthen its presence in the middle market, leverage on existing strengths and expertise to expand into the growing retail banking; expand West Africa presence to capture cross-border business.

As at the end of 2007, the bank is 9th in the market in terms of asset base. However, it has some strength that it can build on and these include:

- Experienced management team focused on delivering results
- High quality employee base
- International shareholder backing
- Leadership and expertise in the middle market
  - has established relationships with high margins
- Successful increase in capitalization levels to enable business growth at both corporate and retail sectors
- Advanced, efficient and scaleable IT platform
- Well developed risk management practices

There are some significant weaknesses that have to be overcome for growth in the bank and these include:

- The bank's market share is near the bottom of the top 10 banks
- It has a high cost base
- It's ROE is lower than peers
- Poor balance sheet management
- Investment in subsidiaries not yet profitable
- Middle market expertise has not been institutionalised.

To ensure growth with regard to the needs of their numerous customers, the bank streamlined its operations into five distinct strategic business segments which include:

- Retail banking
- National corporate
- World corporate
- Diamond capital
- Public sector

Going forward, the goal is to build one of the most respected banks in the whole continent of Africa. This can be done if the Bank sets out a distinctive strategy, to build market leadership in its chosen middle market and retail segments and goes ahead to execute it with a rigorous single mindedness that will stand out from its peers. There will be the need to create a virtuous circle, attracting high quality customers and shareholders and building staff loyalty far in excess of competitors.

According to the Managing Director/CEO, Emeka Onwuka, "the bank must be committed to service excellence for its customers combined with a rigorous detailed attention to governance, financial and credit management and reporting, to make the corporate brand really stand out from the crowd".

Emeka Onwuka also believes that the bank should consider exiting segments in which it cannot build sustainable advantage.

BOARD OF DIRECTORS

Diamond Bank Plc has a 15-member Board with a mix of 9 non-executive directors and 6 executive directors; with the position of the Chairman separated from the Chief Executive Officer.[2]

The Board is grace with eminent and internationally acclaimed professionals - HRM, Igwe Nnaemeka Alfred Achebe – Chairman, Mr. Emeka Onwuka – Group Managing Director/CEO, Mr. Ohis Ohiwerei, Mr. U. K. Eke, Mr. Uzoma Dozie, Dr. Yerima L. Ngama, Mr. Oladele Akinyemi, Mazi Clem Owunna, Chief John Edozien, Dr. Olubola A. Hassan, Avm Ishaya Aboi Shekari (rtd), Mr. Chris Ogbechie, Lt. Gen. Jeremiah T. Useni (rtd), Dr. Nkosana Moyo, and Mr. Simon Harford.

The Chairman is a human resources specialist, while three of the non-executive directors are strategists. Of the other non-executive directors, two are entrepreneurs, one is a banker, and the other two are retired military generals. None of the non-executive directors is an accountant or finance specialist.

SUBSIDIARIES

Diamond Bank Plc has six (6) subsidiaries comprising an offshore subsidiary, ***Diamond Bank S.A,*** in the Republic of Benin. It also has a primary mortgage institution, ***Diamond Mortgages Limited,*** a securities company, ***Diamond Securities Limited***, a pension fund custodian, ***Diamond Pension Funds Custodian Limited***, an insurance company, ***ADIC Insurance, and a Diamond Capital and Financial Markets Ltd.*** These subsidiaries enable the Parent refer to itself and the 6 subsidiaries collectively as 'a Group'[3].

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[2] Although diverse in professional and industry backgrounds (a good point in corporate governance), the Board as is currently composed is all male. It must be stated that this does not contravene any law, and diversity in the Code of Corporate Governance has not been defined along gender lines.

[3] 'Group' in this sense means a functional group as in a cluster, set, assemblage, etc

- ***ADIC Insurance*** incorporated on April 18 1989, has other shareholders holding 5%, while Diamond Bank Plc as at 2006 held 95%. ADIC has a Board of 8 members, with the CEO as the only executive director. Three of the bank's executive directors of the parent bank are on the board as non-executive directors.
- ***Diamond Bank SA, Benin*** incorporated November 15 1999, ***has a Board of 7 directors with the CEO as the only executive director. The parent bank 80% of the shares and two of its executive directors are on the board as non-executive directors.***
- ***Diamond Capital and Financial Markets Limited***, incorporated November 7 2007, has a Board of just two directors as at March 10, 2008 and there are the CEO and the CEO of the parent bank.
- Diamond Mortgages Limited ***incorporated February 17 1992, has a Board of 7 directors with the CEO as the only executive director. The bank owns 100% of the shares and has three of its executive directors on the board as non-executive directors.***
- ***Diamond Securities Limited*** incorporated June 18 1991, has a Board of 8 directors with the CEO as the only executive director. The bank owns 90% of the shares and has five of its directors on the board as non-executive directors.
- ***Diamond Pension Funds Custodian Limited*** incorporated September 13 2005, has a Board of 10 directors with the CEO as the only executive director. The bank who owns 100% of the shares has five of its directors on the board as non-executive directors.

STATE OF CORPORATE GOVERNANCE IN THE BANK

An evaluation of the state of corporate governance of the Bank as at the end of 2007 revealed the following:

Board Structure:

The board consists of 15 directors made up of 6 executive directors and 9 non executive directors, with the chairman being separate from the managing director/CEO. Only one of the non-executive directors can be regarded to be independent.

There are no female directors on the board and the age range of the directors is between 42 and 65 years. The backgrounds of the non-executive directors include strategy, general management, human resources, banking, military and medicine. None of the non-executive directors is an accountant or finance expert.

Board Committees

The board committees in existence were Audit, Personnel and Welfare, and Credit. The Board Risk Management committee was set up but never took off. Remuneration, Nomination and Succession committees did not exist. Only the Audit committee was made up of only non-executive directors. The Board Credit committee met at least six times in a year, the Audit committee met every quarter, while the Personnel and Welfare committee met twice a year.
None of the board committees had a written charter for its operation.

Board Processes:

New directors were not given an induction training neither did they receive materials that could give some insight into the Bank's strategy and operations.

There was no board calendar of meetings and so meetings were scheduled on ad hoc basis.
Board papers were usually sent during the week of the board meeting and so directors hardly had enough time to go through their papers.
There was no formal evaluation of the board or individual directors

Relationship between Parent Company and Subsidiaries

The boards of the subsidiary companies consist of directors of the parent company, as non-executive directors, independent directors and executive directors. The managing directors of the subsidiaries report to the managing director/chief executive officer (MD/CEO) of the parent company who has the title of group managing director.

Role of the Board

The board performed its oversight function but did not play an active role in strategy development

ENHANCING CORPORATE GOVERNANCE

The starting point for the Bank in trying to enhance corporate governance was to do an analysis of the best practices that should be used for benchmarking and this led to the production of the document in Appendix A.

A comparative analysis was done comparing the bank's current practices with best practices in order to determine the gaps to be filled. The result of the analysis is shown in Appendix B

The main gaps are:

- No fixed term contracts for non-executive directors.
- No formal rigorous and transparent procedure for appointment of directors.
- No formal remuneration, nomination and succession committees.
- No formal board audit committee that is made up of experts.
- No formal board of directors meeting calendar that is aligned to company events/business cycle.
- Non-executive directors of the parent board sit on the boards of subsidiaries
- No formal directors' development programme
- No formal board and directors' evaluation

The starting point of enhancing corporate governance in Diamond Bank was to redefine the role of the Board to include the following:

- **Strategy –** Set strategic direction, standards, and values and provide leadership, while running of the bank is delegated to management.
- **Oversight of Executive Management –** Responsible for recruiting, mentoring and monitoring executive management, defining of incentive structure and ensuring succession planning. The role should also include evaluating of the implementation of the Bank's strategy and plans using the business performance indicators put in place.
- **Checks and Balances –** Ensure review of internal controls, integrity of financial reporting and risk management.
- **Integrity –** Ensure ethical standards and compliance with the law and actively encourage whistle blowing.

THE WAY FORWARD

A Board – Management strategy retreat was held to fashion out a strategic direction for the Bank and agrees on the way forward in making Diamond a Nigerian leader in best practice in corporate governance. Areas for "quick wins" were identified for immediate implementation and these included:

Board Charter – Produce written terms of reference for the Board and committees to help guide their processes and performance.

Board Composition – Review main board composition to ensure the right ratio between executive directors (ED) non-executive directors (NED) and that the ideal candidates (in terms of skills and experience) fill current and future vacancies.

Board Committees – Reconstitute the appropriate board committees, Board Audit, Governance (nomination/remuneration), Credit, and Risk Management, to ensure right technical skills for the tasks.

The terms of reference (TOR) for the board Audit Committee, which is different from the Statutory Audit Committee, will include review of accounting policies; integrity of financial reporting; internal controls; adequacy and scope of external and internal audit functions; compliance with regulatory and financial reporting requirements; and oversight of external auditors.

The TOR for the Governance Committee will include review of board of directors' composition; search and selection of executive and non-executive directors; setting of board performance standard; corporate governance review; and succession planning. It will also include review of remuneration policy, packages, reward and benefit schemes for board and top management; and disciplinary issues.

The TOR for the Credit Committee will include establish credit policies and limits; approve insider credits and those above management limits; and review present and future credit risks.

The TOR of Risk Management committee will include define risk policy; conduct regular review of present and future risks; and review of internal control and assurance framework.

Board Meetings – Draw up a forward calendar (18 months) for board and committee meetings that gives sufficient notice and with outline agenda for each meeting. The calendar should be inline with the bank's business cycle. The Board and Committees are to meet at least every quarter.

Boards of Subsidiaries - Reconstitute the boards of subsidiaries with only executive management of the bank on the boards as NEDs, EDs from the subsidiaries, and specialists/experts as independent directors.

Other action steps taken include:

- Development of Board of Directors induction and training programme.
- Provision of liability insurance for directors.
- Review and evaluation of the board and directors by an external consultant.

APPENDIX D: The impact of divergences from best practices (CBN Guidelines)

As at the end of 2007, the study revealed that the state of corporate governance practices in Diamond bank was not in conformity with the code of best practices. While in Ecobank, the study revealed that the bank are in conformity with the code of best practices. Adherence to corporate governance principles is articulated in a number of corporate documents of Ecobank Transnational Incorporated. The Articles of Association of the company and those of its subsidiaries define the respective roles of management, the board of directors and shareholders (including the protection of minority rights) in the administration of the group. The group has standard written rules for the internal operation of the boards of directors, a corporate governance charter, and a code of conduct for directors and rules on business ethics for staff, all of which aim at ensuring transparency and accountability.

The board of directors of the Ecobank Transnational Incorporated has adopted the IFC principles and methodology on corporate governance to guide its corporate governance framework. The group's governance practices are also guided by the Basel Committee standards on corporate governance.

Ecobank Nigeria is therefore committed to institutionalizing corporate governance principles as part of the group corporate structure. The board ensures that the bank adheres to the implementation of corporate governance guidelines of the Central Bank of Nigeria (CBN) and the Securities and Exchange Commission (SEC). It also operates in line with its responsibilities as contained in the Ecobank Group Corporate Governance Charter.

In Diamond Bank, the corporate governance practices revealed that the board consists of 15 directors made up of 6 executive directors and 9 non-executive directors, with separate individuals for the post of board chairperson and CEO. Out of the 9 non-executive directors in the board, only one can be regarded to be independent. This shows that the board lack independence in carrying out their oversight functions. Also none of the non-executive directors in the board of Diamond bank is an accountant or finance expert.

Despite the progress of corporate governance in the Nigerian banking sector, the board of Diamond bank still lag behind in adhering to the global best practice. The board committees in existence in Diamond bank were audit, credit, personnel and welfare. According to the study, board risk management committee was set up in Diamond bank but never sit. There were no nomination, remuneration and succession committees, and the audit committee was made up of non-executive directors none of which is an accountant or finance expert. There is no written charter for board committee operations.

The board processes in Diamond bank was poor because the new directors were not given an induction training that will prepare them for the job ahead and even materials that will give them insight into the strategy and operations of the bank. There was no calendar of meetings for the board and board papers were usually sent during the week of the board meeting which makes it difficult for board members to go through the papers before the meeting. The board and individual directors of diamond bank was not formally evaluated.
Corporate governance practice in Diamond bank was a divergence from the CBN/global code of best practices. The board lacked independence and the board committees of the bank were not functioning properly to enhance the board performance. The audit committee composed of the non-executive directors was not well equipped because none is an expert in that field.

Due to the absence of nomination and succession committees, board composition was inappropriately done and when board is composed inappropriately performance is undermined. The study also revealed that though the board performs its oversight function, it does not play active role in strategy development. All these affected the performance of the board which also impacted in the banks performance during the period under review.

How Ecobank Fair on the Key Determinant Factors

Ecobank adherence to corporate governance principles is articulated in a number of corporate documents. The Articles of Association of the company and those of its subsidiaries define the respective roles of management, the board of directors and shareholders (including the protection of minority rights) in the administration of the group. Ecobank Nigeria is therefore committed to institutionalizing corporate governance principles as part of the group corporate structure. The board ensures that the bank adheres to the implementation of corporate governance guidelines of the Central Bank of Nigeria and the Securities and Exchange Commission. It also operates in line with its responsibilities as contained in the Ecobank Group Corporate Governance Charter.

So with regard to the key determinant factors, the bank was doing very well. Out of the eight (8) non-executive directors, two (2) are independent directors in line with the CBN code of corporate governance for banks. The Directors, all have varied backgrounds in their respective successful professional fields namely: economics, accounting, banking, management, medicine, engineering and technology.

How Diamond bank Fair on the Key Determinant Factors

An evaluation of the state of corporate governance of Diamond Bank as at the end of 2007 revealed that the board consists of fifteen (15) directors made up of six (6) executive directors and nine (9) non-executive directors, with the chairman being separate from the managing director/CEO. Only one out of the nine (9) of the non-executive directors can be regarded to be independent.

The backgrounds of the non-executive directors include strategy, general management, human resources, banking, military and medicine. None of the non-executive directors is an accountant or finance expert.

Assessing the board with regard to the key determinant factors revealed that the board of Diamond bank was not doing well. It was discovered by the study that board papers were usually sent during the week of the board meeting thereby hard for the directors to go through the papers before meeting. There was no adherence to the code of corporate governance, board independence and there is no accountant or finance specialist on the board.

Recommendations

The boards of Nigerian banking industry should establish full spectrum risk management departments in their banks to take care of all the risks facing the banks.

There is need for the establishment of a strong institutional investor's base that will spur the banks for behavioral change. This will help in introducing lucent corporate governance rating in Nigeria.

Further research on corporate governance in the banking industry is needed particularly on the effectiveness of boards and the impact on bank performance. Corporate governance is not just about playing "watchdog" over management, it is more about enhancing corporate strategic choices, acknowledging and responding to the interests and concerns of stakeholders, developing and bolstering managerial competencies and skills and ultimately protecting and maximizing shareholder wealth.