A Critical Analysis of the Impacts of Corporate Governance in the Banking Sector in Nigeria

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***Abstract*: It is absolutely necessary that each bank in Nigeria not only should put a code of corporate governance in place but must make sure it is observed by all the staff in the banks, inclusive of the board members whose duties is to ensure that the staff observe the code and to enforce sanctions should any staff goes contrary to the code of corporate governance. Therefore, it is germane to note that efficient corporate governance is necessary in the banking sector to survive and to be sanitized as it confers on the banks certain indisputable advantages such as increase in profitability, robust and sound cash flow, solid capital base, and ensuring that the interest of the staff is aligned with that of bank for greater productivity. Such banks engender the interest of the stake holders and confidentiality of the public which will in turn lead to the increase in depositors' fund. A sound banking sector is absolutely necessary for development of financial market that will trigger economic growth and development. On the contrary, poor or lack of corporate governance on the banking sector may lead to the distress of many banks and impacting negatively on the economy.**

The thrust of the paper is to examine the impacts of corporate governance on the banking sector, the negative consequences of poor or lack of corporate governance on the banking sector will be subjected to deeper analysis and the paper will go a long way to proffer recommendations to improve corporate governance on the banking sector in Nigeria.

I. INTRODUCTION

It is imperative to stress the fact that one of the tools that defines a profit making Deposit Money Banks (DMBs) are effective, strong and working Corporate Governance. A weak Corporate Governance will spell a doom to any banking organisation by eroding the capital base and causing severe liquidity challenges in the bank. Corporate Governance is a means of interfacing the interest of those who have a stack in the company such as customers, shareholders, workers, management executives, financiers, the government suppliers, creditors etc. The importance of corporate governance cannot be emphasized, a weak one can shake the foundation of the banking system as it will erode the transparency, reliability and trust the public have on the system, this may lead to the failure/distress of the banks.

Wikipedia (2021) defines Corporate Governance as 'the collection of mechanism, process and relation used by various parties to control and to operate a corporation" it is a means of distribution of rights and responsibilities among the stakeholders such as directors, managers, shareholders, creditors, auditors and regulators etc. "it includes rules and procedures for making decisions in corporate affairs. It is necessary because of the conflicts of interests between stakeholders, primarily between shareholders and upper management or among the shareholders'." Wikipedia (2021)

Corporate governance generally refers to the process by which organisations are directed, controlled, and held to account, and is underpinned by the principle of openness, integrity, accountability. IFAC (2001) noted that Corporate Governance is concerned with structure and process for decision-making, accountability, control and behaviour at the top of organisation.

However, Sifuna, Anazeth and Pacy (2012) are of the view that corporate governance is "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby, mitigating agency risks which may stem from the misdeeds of corporate officers." Therefore, it is a strategic tool of evaluating, directing and controlling a corporation which when efficiently applied generate multiple advantages to the organisation.

Therefore, corporate governance is a set of rules, policies, controls, and resolution's put in place to define the behaviour of corporate, noting the fact that the board of is pivotal in governance and can have a major ramification for equity valuation. That is why the International Organisation for society and environment noted that is a critical factor in operating of any organisation efficiently and effectively.

The Basel Committee on banking Supervision (1999) states that from a banking industry perspective, corporate governance involves the manner in which the business and affairs of individual institutions are governed by their boards of directors and senior management. This thus affect how banks:

1. Set corporate objectives (including generating economic returns to owners);
2. Run the day –to- day operation of the business;
3. Consider the interest of recognised stakeholders;
4. Align corporate activities and behaviours with the expectations that the banks will operate in safe and sound manner and in compliance with applicable laws and regulations; and protect the interest of depositors.

A critical look at above, underpins the fact that the key parties involved in corporate governance include stakeholders such as the board of directors, management, and shareholders. External stakeholders such as creditors, auditors, customers, suppliers, government agencies, and the community at large also exert influence. The agency view of the corporation posits that the shareholders forgoes decision rights (control) and entrust the manager to act in the shareholders' best interest (joint interest).

II. BANKING SYSTEM

The banking system is the heart of economic growth and development because of its central functions. Ajugwe (2019) pointed out another important role of banking sector is the mobilisation of funds through saving and deposits and channelling the funds to more productive sector of the economy for investment. He went on to stress that this is germane in stimulating economic growth and development. He went further to point out "banks through their intermediation functions provide information to potential investors hereby making it possible for easy flow of funds to where they are actually needed" Ajugwe (2019).

Despite the above the banking system provides payments systems which engineers financial transactions and stimulate financial inclusion and even cashless transaction which is the hub of economic development.

These important functions as numerated above can only be undertaken if there is a strict application of Corporate Governance. As noted by Zhung et al (2000) monitoring and disciplinary by creditors (banks or shareholders), shareholders' activities exercised by institutional investors (such as banks, pension funds etc.), threat of takeover and market for corporate control, threat of insolvency, and capital market competition, among others are effective mechanisms for strengthening corporate governance. Ajugwe (2019) rightly pointed out that the observation of good corporate governance in the banking sector foster public confidence which is the heart of banking services.

Therefore, against the background, one can conclude that the banking system is very crucial to any country because as it is pivotal for economic growth and development and positive corporate responsibility is essential to maintain a suitable banking system by extension a sound and sustainable economy. Cooperate governance failure in the banking system can trigger systematic failure in the system and even lead to banking sector distress.

The major company law in the country governing both listed and non-listed companies is Companies and Allied Matters Act (CAMA), 2020 as amended. The Nigeria banking sector is also regulated by the Banks and Other Financial Institutions Act 1990, which complements CAMA and makes provisions for specifics disclosures and reporting requirements for banks. Nigeria has subsequently developed a stream of corporate governance regulations to promote sound business practices in banks. The two main bodies regulating corporate governance is Nigeria banks – The Securites and Exchange Commission(SEC) and the Central Bank of Nigeria (CBN) noted by Simisola et al (2017).

Consequent upon, for the banking sector to operate seamlessly it has to operate within effective and efficient financial market, highly developed financial market is the driver of the intermediation role of the banking system which transfers savings of economic unites to investment. Financial markets play a crucial role in the financial and economy of a country through the function of acting as conduct pipe through which funds from the surplus sectors of the economy are channelled to the deficit sector for investment purposes which is the engine of economic growth and development. Financial markets are made up of money and capital markets. A money market deals in short -term securites and close substitutes for money, while capital market deals in long term securites investments and operations. Financial market has been defined as a forum for the exchange of financial products represented in some cases by a physical location, but in others by common information system sharing data on prices and volumes transacted and where a number of professional take active part in the processes of the market. In other words, it is a medium of exchange of financial products. CBN (2004).

Financial products are most crucial in investment process as it is an instrument that channels funds in the form of credit, loans or invested capital to economic entities where they are most needed and deploy them to the most productive use. Therefore, finance is a creator of further wealth. Thus, finance facilitates investment and for growth to take place, financial institutions must pool savings and direct them to viable investment (Copeland Weston 1980). There must be a well-developed financial market for the above function to be performed effectively by the banking sector which is critical in the intermediating roles of banking system.

The importance of banking systems cannot be overemphasized in the economic growth of the country, that is why the government and the central bank of every country ensures that banks and other financial institutions are sound and viable to perform their strategic roles. The distress of banking system will spell a doom to the economic development of the nation. This point is stressed by Auwalu (2014) when banking system fails, the whole of nations' payment system in jeopardy. He went further to point out that some reforms have taken place in the Nigeria banking industry aimed at strengthen by growing and positioning the banks to encourage improvements in their own operational efficiency and play pivotal roles in driving development in other sectors of the economy. Some of these policy measures put on by CBN includes consolidation of banks of 2004, which increased the share capital of banks to 25 billion and that encouraged mergers and acquisitions, raising the capital base of the banks, adoption of risk focused and rule-based regulatory framework, strict enforcement of corporate governance principles in banking management, greater transparency and accountability in the implementation of laws and regulation, improved data rendition among others.

Positive Impacts of Corporate Governance on the Banking Sector:

1. Corporate governance is essential tool to instil disciple in the banking organisation ensuring that every staff plays according to the rules in the quest to promote the organisational interest by working in cohesion to achieve the banking objectives and long-time goals. Julie (2014) effective corporate governance is essential if business wants to set and meet its strategic goals. This will enhance its profit mechanism and a sound balance sheet of the bank. When staff are working as a team and align their interests with that of the organisation there seems to be high level of production as efficiency is also increased. The above is noted by Okoi et al (2014) "Basically, corporate governance in the banking sector requires judicious and prudent management of resources and the prevention of resources (asset) of the corporate firm, ensuring ethical and professional standards and the pursuit of corporate objectives, it seeks to ensure customer satisfactions, high employee morale and the maintains of market disciple, which strengthens and stabilises the bank."
2. Corporate governance when efficiently applied in the banking sector will play a catalytic role of ensuring resilient and reliable banks that will illicit trust of the depositors and the various stake holders. Adeoye and Amuitan (2015) maintained that corporate governance is designed to promote a diversified strong and reliable banking sector which accordingly to them will ensure the safety of depositors' money as well as play active development roles in Nigerian's economy. The most crucial function of the banks is that deposits of the customers are safe guided, and the customers access their funds as and when required.
3. Corporate governance is pivotal in directing the staff and the board members to act in the best interest of the organisation more importantly in directing the affairs of the banks. When the organisational staff act in the best interest of the banks, there tends to enhance the profitability of the banks and build public confidence on them which will make the bank to develop more reputations that attracts more customers to the banks and even investors in form of shareholders. In concrete term, effective corporate governance is a pillar for continuous operation of the bank. Contingent upon, corporate governance is important to investors since it shows a company's direction and business integrity. According to James (2020) corporate governance helps to promote financial viability by creating a long – term investment opportunity for market participants.
4. Adoption of efficient and effective corporate governance is panacea for prevention and elimination of bad debts. In the same vein, the elimination of toxic debts is a key factor in promoting the stability of the banking sector. It will also prevent the management of the banks from taken unmerited loans because in the banks where corporate governance is observed principles of lending is strictly adhered to before loans are given, preventing inside abuse in the lending processes. In such scenario, lending tenants are not observed, majority of loans will metamorphose into bed debts. It is plausible to assume that was the case of the First bank of Nigeria where both the Managing Director and the Chairman and almost all the management staff took bogus loans without repaying them. The resultant effect was to dig a deep hole into the capital of the bank which as well affected its cash flow. In view of the above, the Central Bank of Nigeria (CBN) sacked and replaced the management staff of the Bank. The absence of corporate governance may induce the loan department to give unmerited loans to their customers which may crystallised into bad and non-performing loans which will affect the profitability of the bank and may cause liquidity challenges. Okoye et al (2016) stated that the increasing necessity for entrenchment of good corporate governance, in banks and of institutions, is underscored by the wave of financial scandal that led to the collapse of financial institutions early in this millennium. They went further to state efficient corporate governance system in the banking sector promotes the integrity of bank management, defines the quality of banking services delivery and influences the overall performance of the major code of corporate governance. The banks' board of directors are the primary force of influencing corporate governance. James (2020) "bad corporate governance can cast doubt on a company's reliability, integrity or obligation to shareholders – which will have implications on the firm's financial health." It is quite remarkable to note that bad corporate governance can bring misfortune to the bank as it happened to Diamond Bank and that lead to its acquisition by Access bank. The misfortune of the Diamond bank was traced to long standing disregard of corporate governance.
5. It needs not be emphasised that efficient corporate governance is important in reducing risk in the banking sector, and is a panacea for the management of the banks to adopt adequate risk management practices. It will assist the management of the banks to act within the tolerable appetite of the banks by injecting those rules and regulations for effective operations. This will ensure a resilient banking sector that will leap frog the growth and the development of the economy. Therefore, corporate governance is

value-focused being the main instrument that will install the practices, rules, and the process used to direct and manage the banks. Noting quite well, that it will create a transparent set of rules and controls in which shareholders, directors' and officers' incentives are aligned as mentioned earlier.

6. Corporate governance is essential for effective management of resources in the banking sector and preservation of the assets of the banks, blocking avenues of wastages and corruptions which may be translated positively on the solid balance sheet of the banks concerned in form of a huge capital and earning per share for the benefit of the shareholders. Corporate governance encourages high performance standard among the employees by boasting their morale. As a result, corporate governance helps promote financial viability by creating a long-term investment opportunity for market participants. Communicating a firm's corporate governance is a key component of community and investor relation. It will engender confidence among the community and attract more customers to the banks concerned.
7. As noted by Adeoye and Amupitan (2015) corporate governance is designed to promote a diversified strong and reliable banking sector which will ensure the safety of depositors' money as well as play active developmental roles in Nigeria's economy. Corporate governance is used to monitor whether outcomes are in accordance with plans and motivate the organisation to be fully informed in order to maintain organisational activities. It encourages the reconciliation of the workers' interest with that of the organisation thereby leads to the achievement of organisational goals and maintain very high standard in the banking sector leading to the satisfaction of their customers' needs and building a high level of trust and confidentiality in the banks among the stakeholders. We have to note that corporate governance is important to investors and the general public as whole since it is critical in determination of the banks direction, in its ability to make profits and increase its capital base thereby making the customers and the community to build trust and confidence in the banks. Knowing quite well they are dealing with banks that are sound and resilient.

Nagative Impacts of None Application of Corporate Governance.

1. In a banking organisation where corporate governance is poorly applied or none existence there is massive fraud in such bank, which may lead to the distress of the bank, this is caused by huge non-performing loans, capital erosion and serious liquidity challenges. Such fraud can be noticed in the form of inside abuse, unpaid debts taken by the management of the banks, given out loans to the cronies without following the principles of lending which will surely crystallised into a bad debt, will lead to serious challenges on the balance sheet of the banks and causing loss of confidence of the public in such banks, ultimately may result in the distress of the such banks. The above scenario played out in the acquisition of some of the banks such as Sky Bank being acquired by Polaris banks and Diamond bank acquired by Access bank. The failures of the banks are traceable to poor application of corporate governance. It removed the checks and balances necessary to guide against fraud. It may not be mentioned that all of the above is as the result of the corporate governance of such banks being thrown to the winds. The above support the fact that "Bad corporate governance can cast doubt on a company's reliability, integrity, or obligation to shareholders – all of which can have implications on the firm's financial health." Investopedia (2020)
2. Lack of corporate governance will make it practically impossible to install accountability and transparency in the banking industry. Underscores the fact that in such situation, the board of the directors will be reluctant to apply accountability and transparency which is necessary for the confidence of the public and trust in the bank and that of the stakeholders to be created and maintained. According to Uadiale, (2010) as quoted by Uwuigbe (2011) noted by Adeoye (2015) the series of widely publicized cases of accounting improprieties recorded in the Nigerian banking in 2009 (for example, Oceanic Bank, intercontinental Bank, Union Bank, Afri Bank, Fin Bank, and Spring Bank) were related to the lack of vigilant oversight functions by the boards of directors, the board relinquishing control to corporate managers who pursue their own self-interest and the board being remiss in its accountability to stake holders. The above underscores that fact that board of director whose duties is to establish and enforce holistic corporate governance code left it to the management staff who are not interested to adopt the code lead to the distress of the banks.
3. In organisation inclusive of banking sector where there is poor corporate governance the important functions of the corporation will be relegated to the background or at worst the board will be incapable of functioning effectively and the quest to achieve the objectives and the mission of the corporation will be greatly impaired. The board is key pillar to perpetuation of the banking sector by working assiduously to achieve the goals and the objectives of the banks and ensuring that the banks worked within its organisational risk appetite. The responsibility of the board among other things cannot be over emphasised: planning banking strategy for its success, compensating senior executives, monitoring

financial health, CEO selection and succession; monitoring performance and risk, ensuring accountability of the organisation to its investors and authorities, executive compensation, dividend policy, financial optimisation in organisation. Therefore, if the corporate governance is compromised all the above functions will be relegated to the background, which will lead to the failure of the organisation knowing as the board directors are pivotal in the operating of corporate governance.

4. Instructively, poor corporate governance will surely lead to the distress of the banking sector, which is evidenced when many banks in the financial system are insolvent, showing signs of being unable to meet their obligations. The bank upon investigation by the CBN pursuit to section 33 of the CBN ACT, is deemed to be in a grave situation. This is as the result of endemic corruption in the banking sector perpetuated by the directors who are supposed to be answerable to the shareholders. According to Simisola et al corruption in the banking sector takes the form of opportunistic fraud using regulatory weakness to manipulate the situation, thereby causing banks to invest in transaction that are adequate for perpetuation of fraud. They went further to stress that this type of fraud perpetrated by the directors in Nigerian banks can be said to be collaborative fraud, which includes the directors themselves, members of the board of directors and outsiders. It needs to be pointed out that in such situation the affected banks will manifest signs of distress; the failure of the corporate governance in organisation triggers a systematic failure in the banking sector.

III. RECOMMENDATIONS

1. The CBN whose one of its core mandate is to promote a sound financial system in Nigeria, should through its supervision department whose duties is to examine the books of the banks and ensure compliance must make sure that each banks have a working code of corporate governance. And the code must be applied in all ramifications in the banking system. It becomes absolutely necessary the CBN not only to ensure that the code of governance duly exist but it must be enforced by the management of the banks in all ramification, therefore the task of the CBN through the supervision department whose duties among other things is the examination of the books of the banks should establish the fact that there is enforcement of the code in all banks in Nigeria.
2. As noted by Simisola et al (2017) in the issue of enforcement, the code also provided that the banks should have, a Chief Compliance Officer who should also monitor the implementation of the code and section 7.14 further provides that external auditors should render reports to the CBN on banks' risk management process, internal controls and the level of compliance with regulatory directives. In orders words, the CBN must wake up to its function of enforcement and supervision so that the infractions as noted in banking sector such as fraud, bad corporate governance, low risk management, money laundering etc., will be highlighted and adequate sanctions melted on the culprits.
3. It is absolutely necessary that banks should strive for high level of corporate governance not only to get the confidence of the customers but that of the shareholders as well. Again good corporate governance creates a transparent set of rules and controls in which shareholders, director, and officers should align incentives which brings a plethora of advantages to the banks. This can be done by educating the staff the merits of code of corporate governance as obtainable in the banks. The Directors should ensure that such corporate governance code are applied and observed.
4. The need for strong internal control system need not to be emphases which is being conferred by strong corporate governance in the organisation. A robust corporate governance in the bank will reduce inside frauds and the activities of fraudsters. Nevertheless, to mention the efficient corporate governance in the banks will also accentuate the injection of effective internal control with its numerous advantages. Overriding the internal control and non-adherence to limit of authority in a bid to meet set targets are more pronounced with the banks that were rescued from being liquidated as mentioned by Adesoye and Amupitan (2015). The major factor that triggered the distressed of such banks can be traced to lack or poor corporate governance.

IV. CONCLUSION

Emphatically stated, corporate governance confers on the banks that adopt and practice it a lot of advantages such as reduction of risks and compelling the banks to act within their risk appetite, reduction of the bad debts, enhancing the profitability of the banks and the level of deposits thereby increasing the liquidity of the banks as well. It will enable the banks to perform one of their most important role in the economy, that is intermediation which involves transferring credits and funds from the surplus sector to deficit sector which is germane to investment that leads to economic growth and development. More importantly, effective corporate governance will eliminate corruption and fraud in the banking system.

It is sacrosanct to state, that lack or poor corporate governance is inimical to the banking sector which will lead to massive frauds in the banks, capital erosion and more especially bringing the banks to more acute liquidity challenges and lose of depositors' funds. More importantly, the customers' confidence may be eroded leading to massive runs on the banks and may cause their distressed. Consequently, that will impact negative shocks on the economy as banking system propels economic growth and development. The CBN whose one of the major core mandate is to maintain a stable financial system must through its supervision division enforce compliance on each bank to have code of corporate governance, with a view to sanitized the banking sector and making the system to be sound and resilient.

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