

## Corporate Governance And Leadership: Is There A Nexus?

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**Abstract:** One feature of the modern corporation is the separation of ownership from management. The separation was facilitated by the advent of scientific management in the early 20<sup>th</sup> Century. A major fall out of this development is the principal-agent problem. The challenge here concerns how owners of the business would ensure that managers do not pursue goals and objectives that are different from those of the promoters. This is a fundamental problem that corporate governance seeks to address. Given the disconnect between ownership and management and the fact that owners of the business are insulated from day-to-day operations of the company, it is important that an appropriate framework be put in place that would guarantee transparency, accountability and fairness in the management of the enterprise. Bringing together existing knowledge on the principles and promotion of corporate governance while stating the ideas in practical and useable form, the paper identified the need for sound corporate governance policies and practices as they assure investors that their hard earned monies would be prudently applied. The paper concludes that organisations wishing to attract funds to support their operations therefore need to embrace the basic tenets of good corporate governance such as transparency, probity and accountability.

**Keywords:** Leadership, Corporate Governance, Transparency and Accountability, Management, Organizational Performance,

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### I. Introduction/Literature Review

Corporate governance is about ensuring that a mechanism is in place to guarantee that the goals pursued by managers do not diverge from those of the owners. It deals with the ways in which suppliers of funds to corporations assure themselves of getting a fair return on their investment (Shleifer and Vishny, 1997). Corporate governance "consists of the set of processes, customs, policies, laws and institutions affecting the way people direct, administer or control a corporation" (Wikipedia, 2007).

According to Berglof and Thadden (1999), the case for corporate governance is further strengthened where there is a group of small, dispersed shareholders co-existing with holders of large blocks of shares. In this context, the corporate governance problem is how to reconcile the conflict among managers, minority shareholders, and majority shareholders. Under this scenario, Lopez de-Silanes (1999) characterises the corporate governance problem as how to avoid the "expropriation by managers and controlling investors of minority investors' money".

Others like Oyediran (2003) have argued further that the responsibility of the company is not limited to its shareholders or creditors alone but also extends to other stakeholders such as employees, customers, the regulatory authorities, and the host community. In the opinion of these analysts, corporate governance refers to the rules and practices that govern the relationship between the managers of a company, on the one hand, and its 'stakeholders, on the other. For example, O'Donovan (2003) defines corporate governance as "an internal system encompassing policies, processes and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity and integrity".

This perspective is significant because it shows that even though the primary obligation of a company might be to look after the interests of shareholders, it does not mean the interests of other stakeholders are not important and can therefore be ignored. Rather, it is by taking into account the needs of other stakeholders that the interests of shareholders are effectively looked after. For example, if the interests of employees are adequately taken care of, the workforce would be happier and more productive, which would ordinarily impact the profitability of the business. In effect, therefore, good corporate governance assists the enterprise to:

- Fulfill owners' long-term strategic goals.
- Consider and care for the interests of employees.
- Maintain excellent relations with business associates.
- Maintain proper compliance with statutory requirements.
- Take into account the needs of the environment.

The subject of corporate governance has received considerable attention worldwide in recent times. One reason for this is the realisation that the quality of corporate governance in place affects the performance of

individual institutions and, ultimately, that of the economy as a whole. The financial crises in Asia and the Enron/Anderson debacle have amply demonstrated this. Although the circumstances of these cases differ. The bottom line is that in each of the situations, there was a weakness in the corporate governance structure, which led to faulty decisions. In the Asian crisis for example, lack of transparency and accountability led to distorted incentive structures, over investment and high corporate indebtedness. Poor disclosure and ineffective audit procedure therefore only helped to exacerbate an already bad situation by preventing the system of early warning signals from functioning effectively.

In the context of developing countries like Nigeria, the case for good corporate governance is further strengthened by the desire to attract investments to support rapid economic growth. The point here is that sound governance policies and practices constitute a real source of comfort for investors, both local and international. This was attested to by the outcome of a survey conducted by McKinsey & Company in collaboration with the World Bank in June 2000. The outcome of that survey, which covered two hundred institutional investors, revealed that over 80% of the respondents were willing to pay more for the shares of a company that was well governed when compared with another with similar financial results but where governance practices were poorer or weaker. It is, therefore, crucial for countries wishing to attract and retain long-term capital to put in place credible structures that would guarantee sound corporate governance practices. This also explains why countries and individual companies struggle to get favourable ratings from reputable international rating agencies like Standard & Poor, Fitch Ratings, etc.

As noted earlier, the spate of high profile corporate frauds and failures witnessed across the globe since the 1990s also helped to draw attention to the dangers of weak corporate governance systems. These cases include those of the Bank of Credit and Commerce International, Barings Bank, Enron and WorldCom. These cases demonstrate that there is a strong link between the quality of governance practices and corporate performance. This paper examines the leadership role of the Board in ensuring sound corporate governance. The paper is divided into five sections. In the next section, we briefly highlight the principles of corporate governance. Against the backdrop of those core principles, we examine the status of corporate governance in the Nigerian banking industry prior to the consolidation Programme in section three. In section four, we identify some of the measures taken to address the observed lapses and weaknesses in corporate governance. Section five contains the summary and conclusion.

## **II. The Principles Of Corporate Governance**

While there is no single model of good corporate governance, there are some principles that are internationally acknowledged as capable of promoting sound corporate governance. These principles, which were spelt out by the Organisation for Economic Cooperation and Development (OECD), cover the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders, “*Corporate governance is about ensuring that a mechanism is in place to guarantee that the goals pursued by managers do not diverge from those of the owners*” disclosure and transparency, and the responsibilities of the Board of Directors. These are examined briefly below:

### **2.1 The Rights of Shareholders**

For any corporate governance framework to be adjudged as adequate, it must guarantee and protect the rights of shareholders. These include the right to participate and vote at Annual General Meetings, elect members of the Board, obtain timely and regular information on the company, and share in the profits of the company.

### **2.2 The Equitable Treatment of Shareholders**

As stated earlier, there are several situations where a company is owned jointly by a huge number of dispersed shareholders and a small number of majority shareholders. Under this scenario, a good corporate governance framework is one that guarantees that the interests of all stakeholders are treated equitably. The concern here is particularly to ensure that the interests of minority and foreign shareholders are adequately protected. One principal way to do this is to install a system that prevents insiders, including managers and directors, from taking advantage of their positions through such practices as insider trading. Furthermore, they should be made to disclose any material interests they might have in transactions and should not be involved in decision-making relating to those transactions.

### **2.3 Disclosure and Transparency According to the OECD guidelines**

There should be timely and accurate disclosure of information on all material matters relating to the company. These include its financial position, performance, ownership structure, the Board of Directors and their remuneration. Additional requirements include the appointment of external auditors to audit the company annually in accordance with high quality standards.

## 2.4 The Role of Stakeholders in Corporate Governance

The OECD principles recognize the fact that there are other stakeholders in a company, apart from its shareholders. These stakeholders include employees, customers, the host community and regulatory agencies. The corporate governance framework should, therefore, ensure that the rights of these stakeholders are duly respected. Where such rights are violated for one reason or the other, the party concerned should have opportunities and avenues to seek redress.

## 2.5 The Duties and Responsibilities of the Board of Directors

The emphasis here has to do with the need for the Board to discharge its functions creditably. These duties and responsibilities can be summarised as follows:

- Appointing and supervising management,]
- Rewarding management based on performance.
- Ensuring that the company complies with existing policies, rules and regulations as well as reporting/accounting and ethical standards.
- Kwakwa and Nzekwu (2003) have provided the details of these duties and responsibilities as follows:
  - \* Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans; setting performance objective; monitoring implementation and corporate performance; and overseeing major capital expenditures, acquisitions and divestitures.
  - \* Selecting, compensating, monitoring and, when necessary, replacing key executives.
  - \* Determining executive remuneration and ensuring a formal and transparent board nomination process.
  - \* Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
  - \* Ensuring the integrity of the company's accounting and financial reporting systems and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control, and compliance with the law.
  - \* Monitoring the effectiveness of the governance practices under which it operates and making changes as needed.
  - \* Overseeing the process of disclosure and communication. It is also instructive to note that the Code of Best Practice recommended by the Cadbury Report of 1992 provided some insight on the structure of the board that would bring about effective discharge of these responsibilities as follows:
    - \* The board should meet regularly, retain full and effective control over the company and monitor executive management.
    - \* There should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the Chairman is also the Chief Executive, it is essential that there should be a strong and independent element on the board, with a recognised senior member.
    - \* The board should include Non-executive Directors of sufficient caliber and number for their Views to carry significant weight in the board's decisions.
    - \* The board should have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the company is firmly in its hands.
    - \* Non-executive directors should bring an independent judgment to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.
    - \* The majority of Non-executive Directors should be independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgment apart from their fees and shareholding. Their fees should reflect the time they commit to the company. Non-executive Directors should be appointed for specified terms and re-appointment should not be automatic,
    - \* Executive directors' service contract should not exceed three years.
    - \* There should be full disclosure of total emoluments of the Chief Executive and Executive Directors, including pension contributions and stock options. In addition, the pay of executive management should be subject to the recommendations of a remuneration committee made up wholly or mainly of non-executive directors.

From the foregoing, it is clear that there are three groups that play distinct and crucial roles as far as corporate governance is concerned. These groups are the board of directors, shareholders and managers of the company. For example, shareholders are expected to elect the Board of Directors, delegate their authority to the Directors so elected, and appoint external auditors with responsibility for auditing the company annually. On the other hand, the role of the board of directors encompasses spelling out the policies that would guide management in running the affairs of the company. When considering periodic reports by management, the

board must also ensure that laid-down policies have been complied with. Of the three groups identified above, the board of directors occupies a unique position as far as ensuring sound corporate governance practices is concerned. A company is, therefore, bound to fail if the board of directors is not alive to its duties and responsibilities. That is, if the board fails to uphold and promote the basic tenets or pillars of corporate governance, the company in question would be short-lived. To demonstrate this proposition, we examine the status of corporate governance in the Nigerian banking industry prior to the consolidation programme in section three. I have chosen to focus on the banking industry primarily because, the industry has experienced serious infractions in corporate governance in recent years resulting to the collapse of many banks in the country. In recent times the Central Bank of Nigeria had to intervene and bail out some banks with huge tax payers' money. That notwithstanding, if one were to examine other sectors painstakingly, chances are high that he/she would also come across comparable, or even worse, cases of corporate governance failure.

### **III. Corporate Governance In The Nigerian Banking Industry Prior To The Consolidation Programme**

Banks occupy a unique position in an economy. They are critical to the efficient functioning of an economy. This is by virtue of their role as financial intermediaries in that capacity. They mobilized savings and use such funds to support productive activities. Given the pivotal nature of this role from the viewpoint of the economic advancement of any country, it is crucial for the banking industry to be virile, safe and sound. It is equally important for the health of each institution to be guaranteed. Which explains why the issue of sound corporate governance in the industry cannot be taken lightly. In view of the forgoing, it was not surprising that analysts and stakeholders were concerned about the quality of corporate governance in the Nigerian banking industry prior to the consolidation programme. It would be recalled that poor governance practices was one of the justifications why the Central Bank of Nigeria, under the leadership of Professor Charles Soludo, introduced the banking sector reform programme. In his address at the special meeting of the Bankers' Committee held on 6<sup>th</sup> July, 2004, the CBN Governor stated that there were several instances where Board members and management staff failed to uphold and promote the basic pillars of sound corporate governance because they were pre-occupied with the attainment of narrowly defined interests.

The symptoms of this included high turnover in the Board and management staff, inaccurate reporting and non-compliance with regulatory requirements. According to the CBN (2006), the identified Weaknesses in corporate governance in banks in Nigeria included the following:

- Disagreements between Board and Management, giving rise to Board squabbles.
- Ineffective Board oversight functions.
- Overbearing influence of Chairman or the Managing Director/Chief Executive Officer, especially in family-controlled banks.
- Weak internal controls.
- Non-compliance with laid-down internal controls and operational procedures.
- Ignorance of and non-compliance with rules, laws and regulations guiding banking business.
- Poor risk management practices resulting in large quantum of non-performing credits including insider-related credits.
- Abuses in lending, including lending in excess of single obligor limits.
- Technical incompetence, poor leadership and administrative ability.
- Inability to plan and respond to changing business circumstances.
- Ineffective management information system.

The poor governance practices in the Nigerian banking industry prior to the reform Programme was compounded by the fact that a number of operators had resorted to unethical and unprofessional practices in a bid to survive the stiff competition in the market. Some institutions even ventured into some businesses that could not be classified as banking.

Providing further justification for the reform initiative, Professor Soludo noted that cases of gross insider abuse were rampant in the industry. One area where this was pronounced was the credit function. As a result, there were several cases of huge non-performing insider-related credits. The magnitude of non-performing risk assets was such that it had eroded the shareholders' funds of a number of banks. For instance, according to the 2004 NDIC Annual Report, the ratio of non-performing credit to shareholders' funds deteriorated from 90% in 2003 to 105% in 2004. This meant that the shareholders' funds had been completely wiped out industry-wide by the non-performing credit portfolio:

For us to appreciate the failure of corporate governance in the Nigerian banking industry as attested to by the foregoing, it is essential that we examine the shortcomings in the structure of a number of the boards that were in place. In this regard, it is important to recall that a major justification for establishing the board is the fact that no one is wise enough. The board, therefore, provides a means of bringing a variety of viewpoints,

backed by a diversity of experience, to bear on issues that confront a company. It represents an informed forum for those who have executive responsibility for running a company to usefully interact with non-executive directors. There is no doubt that a number of bank boards were run and organised in outright disregard of this principle.

The ready example here is the phenomenon of the corporate emperors who combined the positions of Chairman and Chief Executive of their companies. According to Civiletti (2002), in such organisations, we had "those large personalities who were bent on self-aggrandizement, ruthless in their pursuit of operating results and, perhaps unwittingly, highly threatening to any messenger bearing bad news". Another shortcoming of the board of some of the banks arose from the method of nominating members. In some cases, there was no formal nominating committee. This gave room for the function to be manipulated by entrenched insiders. The resulting board would thus end up not meeting minimum membership criteria as they were not "qualified, independent and represent the diversity of viewpoints necessary for rigorous and healthy debate about the company's strategies, operations, and results" (Civiletti, 2002). A handicap of such boards, arising from the method of nomination of members, was pronounced knowledge and skill gaps. This, according to Civiletti (2002), would manifest as follows:

- Inability to critically evaluate the decisions of the company or how well senior management is running the business.
- Board inability to understand in sufficient detail the nature of the business, the industry and competitive landscape it operates in, exactly how the business makes money, where the risks are, or how those risks are (or should be) managed and reported.
- No real understanding of the strength of the company's checks and balances.

Another problem with some of the boards had to do with members perceiving board function as merely advisory in nature. This fostered a culture of board members carrying their responsibilities without a sufficiently deep sense of obligation to understand the business and ask the tough questions. Meanwhile, the board cannot lead the organisation if its members do nothing but just "trust and endorse" the recommendations and actions of management instead of subjecting them to thorough reviews and, in the process, enriching management's final judgments.

Some boards created the Audit Committee as a way of strengthening public confidence in their financial reports. Even though the Audit Committee is normally saddled with the responsibility for oversight and monitoring of a company's accounting and financial reporting processes, in some instances, the Committee was not strong, capable, and independent (by reason of its composition) and lacked access to all the resources and information necessary to discharge its mandate. In such cases, the Audit Committee would end up functioning merely as a "review panel" in the financial reporting process, incapable of querying procedures that would compromise the integrity of financial reports. As an indication of how effective such Audit Committees could be, we recall that when the one at Enron was consulted about suspending the conflict of interest guidelines of the company, it willingly agreed to it (Sonnenfeld, 2002).

Executive compensation has been problematic for boards. A good compensation package is normally used by the board to recruit good managers and to align their objectives with those of owners/promoters. The level of executive compensation is seen as one visible sign of a board's capacity to monitor a company's executives. But there has been shareholders' condemnation of the excessive level of executive pay, as most of them do not bear any relationship to performance. This is indicative of the alleged collusion between boards and executives to provide executives with all sorts of hidden compensation. This is not surprising, as many boards do not have compensation committees. Thus allowing the Chief Executives enormous influence in the determination of the remuneration of Executive Directors.

There is yet another aspect of executive compensation that has attracted a lot of attention in other countries because of its abuse, namely, the use of share options. The share option confers the right to buy a share at a set price so managers were motivated to increase earnings of the company and consequently its share price above the set price. But such schemes have been widely abused as options contracts began to be backdated, resulting in enormous gains to executives over and above their performance contributions. There were also instances of information asymmetry between Executive Directors and Non-Executive Directors, arising from the lack of trust among members. Ultimately, this made it difficult to monitor performance and oversee the company. Furthermore, there was usually no performance evaluation for boards. According to Sonnenfeld (2002), this is self-destructive as it prevents the board from learning from its mistakes. Such performance review may include a full board evaluation, individual directors' peer assessment, and director's peer reviews. In order to facilitate the board's self-assessment monitoring of its performance, some boards now meet in "executive sessions", without the Chief Executive present so that directors might talk frankly and raise questions without seeming to confront management or undermine their authority.

#### IV. Promoting Sound Corporate Governance

Increased attention to improved corporate governance dates back to the 1930s in the efforts of President Franklin Roosevelt to restore confidence to the United States' economy following the 1929 stock market crash. However, the current emphasis on sound corporate governance is a fall-out of the massive corporate frauds across the world in the early part of the 21<sup>st</sup> century that led to the collapse of corporate giants like Enron, WorldCom, etc. As expected, governments and other relevant institutions, such as Stock Exchanges and Institutes of Directors, have responded to these by introducing more stringent corporate governance codes. In the U.S.A, this resulted in the enactment of the Public Company Accounting Reform and Investor Protection Act of 2002, popularly known as the Sarbanes-Oxley Act. Earlier attempts to improve corporate governance practices around the globe included the following:

- \* The enactment of the Foreign Corrupt Practices Act of 1997 in the U.S.A.
- \* The publication of the Basle Accords on Effective Banking Supervision in 1988 (Basie 1) and 1998 (Basie 11).
- \* The release of The Code of Best Practice in Corporate Governance, following the publication of the Cadbury Committee Report in the United Kingdom in 1992.
- \* The issuing of the OECD Principles of Corporate Governance in 1999 (revised in 2004).
- \* The adoption of the Commonwealth Association for Corporate Governance (CACG) Principles for Corporate Governance in the Commonwealth in 1999 by the Heads of Government of Commonwealth countries in their meeting in Durban, South Africa.
- \* In Nigeria, the initiatives on promoting good corporate governance include:
  - \* The enactment of the Companies and Allied Matters Act (CAMA) 1990,
  - \* The establishment of the Securities and Exchange Commission (SEC). The establishment of the Investment and Securities Tribunal.
  - \* The establishment of the Failed Banks (Recovery of Debts) Tribunal, 1994.
  - \* The issuance of the Code of Conduct for Bank Directors by the Bankers' Committee in 2001.
  - \* The issuance of the Code of Corporate Governance for Quoted Companies by SEC in 2003. The issuance by the Central Bank of Nigeria (CBN) of the Code of Corporate Governance for banks in Nigeria effective April, 2006. This Code was issued in anticipation that some of the challenges of corporate governance in the industry would remain even in the post-consolidation era. The code was designed to ensure good governance of banks so as to promote a sound, viable, and stable financial system. The provisions of the Code include the following:
    - Government direct and indirect equity holding in any bank shall be limited to 10% by the end of 2007 while an equity holding by any investor in excess of 10% would be subject to CBN's prior approval.
    - The responsibilities of the Chairman of the Board should be clearly separated from that of the Head of Management (i.e. MD/CEO), and no one person should combine the post of Chairman/Chief Executive Officer at any bank. There should be no provision for the position of Executive Vice-Chairman.
    - No two members of the same extended family should occupy the position of Chairman and that of Chief Executive Officer or Executive Director of a bank at the same time.
    - Banks should be headed by effective Boards composed of qualified individuals that are conversant with Boards' oversight functions. Thus, only people of proven integrity and who are knowledgeable in business and financial matters would be on the Board of a bank.
    - Regular training and education of board members on issues pertaining to their oversight function should be institutionalised and budgeted for annually by banks.
    - The number of non-executive board members should be more than that of executive directors subject to a maximum board size of 20 directors, with at least two (2) independent directors.
    - The remuneration of executive directors should be determined by a Committee of non-executive directors while non-executive directors' remuneration should be limited to sitting allowances, directors' fees and reimbursable travel and hotel expenses.
    - Non-executive directors should not remain on the board of a bank continuously for more than three terms of four years each. i.e. 12 years.
    - Banks should have clear succession plans for their top executives.
    - There should be a minimum of the following Board committees: Risk Management Committee. Audit Committee and the Credit Committee. The Board Chairman shall not serve as Chairman/member of any Board Committee.
    - There should be annual Board and Directors review/appraisal covering all aspects of the Board's structure and composition, responsibilities, processes and relations, as well as individual members' competencies and respective roles in the Board's performance. The review shall be carried out by an outside consultant and the review report presented at the AGM and a copy sent to the CBN.

- Each Board should identify and adopt, in the light of the company's future strategy, its critical success factors or key strategic objectives.
- Appointments to top management positions should be based on merit rather than some other considerations and in compliance with existing CBN guidelines on appointments of top management positions. In such appointments, track record of appointees should be an additional eligibility requirement covering such records as both integrity and past performance.
- The structure of any bank should reflect clearly defined and acceptable lines of responsibility and hierarchy
- Where board of directors and companies/entitled persons related to them are engaged as service providers or suppliers to the bank, full Disclosure of such interests should be made to the CBN.
- Chief Executives Officers and Chief Finance Officers of banks should certify the authenticity and veracity of each statutory return submitted to the CBN.
- There should be due process in all the procedures of banks.
- All insider credit applications pertaining to directors and top management staff (i.e. AGM and above) and parties related to them, irrespective of size, should be sent for consideration/approval to the Board Credit Committee.
- Banks' Chief Compliance Officers (CCO) should in addition to monitoring compliance with money laundering requirements, monitor the implementation of the corporate governance code.
- The corporate governance compliance status report should be included in the audited financial statements.
- Banks should put in place risk management framework including a risk management unit that should be headed by a Senior Executive in line with the directive of the Board Risk Management Committee.
- The internal control system should be documented and designed to achieve efficiency and effectiveness of operations, reliability of financial reporting, and compliance with applicable laws and regulations at all levels of the bank.
- Internal auditors should be largely independent, highly competent and people of integrity.
- The Head of Internal Audit should not be below the rank of AGM and should be a member of a relevant professional body, and should report directly to the Board Audit Committee and forwarding a copy of the report to the MD/CEO of the bank.
- External Auditors should maintain arms -length relationship with the banks they audit. Appointment of External Auditors is subject to CBN's approval.

We have paid detailed attention to the Code of Corporate Governance for the Nigerian banking industry precisely and would like to conclude by pointing out that one or two challenges are still envisaged in implementing the Code. Before examining these challenges, we would like to note that remarkable progress has already been made on some of the issues. For example; the positions of Chairman of the Board and Managing Director/Chief Executive Officer have been separated in most, if not all the banks. In the same vein, hardly do we now have instances where members of the same family occupy the position of Chairman and that of the Chief Executive or Executive Director at the same time. This was made possible partly because of the sharp increase in the capital base of banks from a minimum of N2billion to N25billion. In the process of meeting this requirement, much family- owned and managed banks had to diversify their ownership base through a combination of public offer, rights issue and private placement. Ultimately, this affected the composition of their boards in the desired direction.

Odozi (2003) had identified the need to evolve and strengthen arrangements for monitoring and evaluating the performance of Boards. This challenge was also identified by Adegbite (2003) when he observed, "there is rarely any company that does not periodically review the performance of its key contributors whether they are individuals, work teams, business units or senior managers. However, the corporate board is such an important contributor that usually escapes such review". We dare say that these views and comments are still as relevant today even in the face of the CBN Code. The other issue has to do with the availability of data to Non-Executive Directors to enable them perform optimally.

In this regard, it is important to note that both Executive and Non-Executive directors have equal legal liability for the acts and omissions of the company. This places the latter in a disadvantaged position, given that they are not involved in the day-to-day operations or management of the company. Consequently, they have to rely on information provided by the executives to be able to function. Where such information is of poor quality or not provided in a timely fashion, as is sometimes the case, it constitutes a major hindrance in terms of the effective discharge of the responsibilities of the board. This is an area that needs to be addressed going forward.

It has been argued that there are no controls in Nigeria regarding the remuneration of Executive Directors beyond the need to obtain board approval and to disclose the amounts in bands in financial statements (Oyediran, 2003). According to him, this falls short of one of the major tenets of corporate governance, that is, transparency. Oyediran also argued that existing company law on disclosure was not being complied with since,

in practice, Executive Directors receive benefits in kind that are of much higher values than are disclosed in the accounts.

A number of banks are still grappling with the challenge of installing more efficient risk management frameworks and systems. As noted earlier, inadequate risk management policies and practices contributed significantly to the financial distress witnessed in the industry hitherto. The issue needs to be properly resolved so as to spare the industry such harrowing experiences in the future. The need for banks to assign priority to their risk management function has become even more compelling in view of the migration towards risk based supervision by the regulators.

## V. Conclusion

This paper identified the need for sound corporate governance policies and practices. It was observed that these policies and practices are helpful as they assure investors that their hard earned monies would be prudently and judiciously applied. Companies wishing to attract funds to support their operations therefore need to embrace the basic tenets of good corporate governance such as transparency, probity and accountability. The board of directors has a critical leadership role to play in this regard. The Board is expected to act as a role model in the course of discharging its onerous responsibilities. This is in line with the popular adage that for any fish to spoil, its head must have been rotten.

In view of the above, it is regrettable that a number of boards of Nigerian banks behaved in a way and manner that were inconsistent with the basic pillars of good corporate governance. To address this, the CBN issued a Code of Corporate Governance for operators in the industry effective April 2006. While acknowledging that some progress has been made in terms of compliance with provisions of the Code, a number of challenges, however, still remain. These include the challenge of installing more efficient risk management frameworks and systems, the need to evaluate the performance of the Board and ensuring that board members have access to adequate and timely data to enable them track and monitor the performance of their companies.

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