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Corporate Governance and Restructuring

7.1 Introduction

The views of the governors of the Central Bank of Nigeria (CBN) since 2004 would suggest that weak corporate governance was the single most important factor in precipitating the banking crisis in Nigeria. Generally, this refers to the processes that lead to decision making in the financial institutions, that is, the responsibilities and accountabilities of the decision makers, and the separation of powers between decision-making authorities, in order to achieve balanced optimal outcomes for the corporation. (See, for instance, a seminar paper presented by Folarin Alayande, one of the leading experts on corporate governance in Nigeria, at the 2010 National Conference of the Institute of Chartered Secretaries and Administrators of Nigeria in Lagos, 22–23 September (Alayande 2010).) Weak corporate governance in banking, according to Alayande, is synonymous with weak processes and structures at the board level. It causes an imbalance between decision makers at that level, so that a single shareholder or interest group can initiate and execute decisions that are detrimental to the long-term interests of the corporation and society.

Following the boom years, when the Nigerian banking sector raced ahead of the Nigerian economy, the second half of 2008 began to reveal cracks, which hitherto had been known to insiders but were now becoming evident to less knowledgeable but more internationally credible organisations. In its 21 August 2008 edition, the London-based Economist magazine started to sound notes of caution about Nigerian banks. Weeks later, the cautionary signals from external reports became votes of no confidence. In the 2008 Standard & Poor's Bank Industry and Country assessment, which rates a country's banking system relative to other...
banking systems, Nigeria was rated 9 out of 10, with 10 representing the lowest rank. (See *Business in Africa 2008*). This low ranking was due in part to credit and operational risks, but the root cause appeared to be the more fundamental issue of corporate governance. The former governor of the CBN, Mr Soludo, had cited this canker in 2004 as a problem for many Nigerian banks, including ‘weak corporate governance evidenced by high turnover in the Board and management...’ He also gave it as the reason for his intervention and reforms. And it was the motive for the Sanusi-led reforms in 2009, with Sanusi quoting the ‘excessively high-level of non-performing loans in the five banks, attributable to poor corporate governance’ as part of the reason for the banking crisis.

Ironically, 12 months after the assumption of office by the new governor of the CBN, Sanusi Lamido Sanusi, no institutional policy response had been forthcoming from the Central Bank. On the contrary, the flurry of tactical knee-jerk responses by the CBN to the problem did not provide the holistic solution that such an industry-wide cankerworm deserved.

Evaluating the state of current governance in the Nigerian banking system can be done along three dimensions: the framework as set by regulators or self-regulatory organizations; the practices of market operators; and the compliance or enforcement mechanisms imposed by regulatory agencies to deter infractions.

### 7.2 Corporate governance: frameworks, practices and enforcement

#### The framework

Several published articles deal extensively with the framework of corporate governance in Nigeria, and a detailed review of this framework will not be repeated here. These detailed articles and publications include ‘Corporate Governance in Nigeria: The Status Quo’ by Elewechi N.M. Okike (2007) and ‘Nigeria’s Corporate Governance Codes: The Missing Links’ by Folarin Alayande (2010). In accordance with the provisions of the Companies and Allied Matters Act 1990 (CAMA), which is the principal legislation on company matters in Nigeria, the Corporate Affairs Commission is the agency responsible for registering companies, receiving mandatory reports and maintaining public records on companies and their principal officers. In financial services, as in other regulated industries, other legislation such as the Central Bank of Nigeria (Establishment) Act 1991 and the Investment and Securities Act 1999, among several others, provide additional scope for regulating operators in the relevant areas of the financial services business. As