

THE EFFECT OF POOR CORPORATE GOVERNANCE ON THE PERFORMANCE OF NIGERIAN BANKS

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ABSTRACT

In today's ever-competitive banking environment, poor corporate governance has been identified as a powerful negative force against the performance and profitability of banks operating in Nigeria. This study examined the problems militating against effective corporate governance in the Nigerian banking industry. Thus, the aim of this study was to understand the problems and challenges responsible for persistent poor corporate governance in Nigerian banking sector. In the course of the research study, six (6) commercial banks in Nigeria were chosen. The stakeholders interviewed included senior executives and some middle level managers including a broad spectrum of bank customers. Data for the study were gathered over three-month period using unstructured set of interview questions and data analysis was carried out through thematic evidences arising from the data analyzed. Corporate governance has to do with the management of banks profitably so that they can increase the wealth of shareholders and serve the purpose of other stakeholders. Over the last two decades, corporate governance in the Nigerian banking sector had suffered poor management culminating in distress and bankruptcy of many banks. There was unbridled corruption and financial malpractices in the rank and file of the banks' staff. The Federal Government through the Central Bank of Nigeria (CBN) had to introduce various fiscal and monetary policies including recapitalization and consolidation policies to restore sanity in the banking sector. In recognition of the fact that the banking sector is essential for the growth and survival of any nation, this study recommends that CEO duality should not be encouraged any longer in banks. Furthermore, persons to be appointed to high positions of authority and responsibility should be of proven integrity with adequate professional qualification and experience to manage the banks to success.

Key words: Performance, Productivity, Financial malpractices, Management

INTRODUCTION

Generally speaking, corporate governance can be seen as the way an organization is governed or managed. In other words, it is the system by which a bank or any corporate organization is directed or controlled (Genmax, 2008). Corporate governance in a financial institution refers to the way the bank is managed to enable it operate profitably to increase the wealth of its owners.

An organization is usually managed by its top management. The ultimate aim is to lead that organization towards achieving its set goals and objectives. To a profit-making organization such as a bank, the objective is to maximize profitability and also to render superior customer service. One of the main objectives of effective corporate governance is to eliminate conflict of interest between the company directors and senior managers on the one hand and the company owners (the shareholders) and management on the other hand (Dean, 2001). Unless there are qualified and experienced people at the helm of affair doing the right thing at the right time, the goals and objectives of the organization will not be achieved. Therefore, effective and action-oriented corporate governance is the key to performance and profitability in a bank. Effective corporate governance is that which aligns top management interests with the interest of the shareholders thereby producing competitive advantage for the firm.