Leadership and Corporate Governance: Challenges for Bank Regulators

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Abstract
The role of bank regulators seems to have expanded in the wake of the recent global financial meltdown in the domestic and international banking industry. About a decade ago, issues such as bank capitalisation, liquidity ratios, banking models and product related variables were the central focus of bank regulation. However, increasing attention to more systemic issues such as risk modeling, corporate governance, sustainability, the quest for leverage and synergies as well as business ethics within local, regional and global competition spheres appear to be engaging most domestic and regional discussions on bank regulation, in recent times. Corporate governance has ranked high amongst such discussions and as such, bank regulators now face the new challenge of developing and incorporating sustainable corporate governance polices within a larger macro prudential framework, to guide industry practices. Given likely challenges to obtaining legislative approvals on acceptable behaviour as foundational to good corporate governance practices, this paper recognizes the attendant challenges for bank regulators and recommends measures that Nigerian bank regulators can explore in enhancing their effectiveness in advocating for and where necessary, enforcing good corporate governance practices, based on universally defined pillars and elements of corporate governance.

Keywords: Leadership, corporate governance

I. Introduction

Following the global financial crisis that began in late 2007 and subsequently impacted the Nigerian economy the following year, most financial experts have recognised that in order to ensure effective regulatory regimes for the banking sector, it require stronger corporate governance frameworks for banks and financial institutions. This view is reinforced by the fact that even though the factors that were responsible for the financial crisis in Nigeria were varied, empirical evidence have clearly shown that the major singular underlying reasons for the crisis was gross failures in corporate governance practices in financial institutions and sub-optimal regulatory oversight.

This problem was exacerbated because Nigerian banks had just completed consolidation as universal banks, with pending and unresolved issues from the exercise. However, developments in the global and domestic financial services

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sector have shown that re-capitalisation is only a means to an end and not the end in itself. Therefore, consolidated banks with robust balance sheets but lacking sufficient corporate sustainability framework and guidelines, only created an illusion of financial muscle. The illusionary financial muscle intoxicated some banks' management and boards, whom were under increasing pressure to report impressive performances. Such banks abdicated risk management ethos in a bid to ensure that they delivered higher returns to their shareholders, who had just provided the funds for the consolidation exercise.

These lapses somehow undermined the stability of the domestic banking industry, such that when the effects of the global crisis finally trickled down to the domestic scene, a systemic collapse was imminent. The Central Bank of Nigeria (CBN) led some of the interventions from late 2009 to date. These developments tend to reinforce the importance of leadership and corporate governance in the on-going national discourse on how to develop a more stable financial system that will support sustainable economic growth and development, within a macro prudential regulatory policy framework.

The paper seeks to: (a) enable consensus on the essentials of leadership for effective corporate governance practices within the industry; (b) establish more clarity on the role of regulators in promoting good governance within a Macro-Prudential Framework for financial system stability; (c) enhance an understanding of effective ways to advocate for systematic corporate governance policies and practices; (d) leverage the CBN's overall objective of being an effective ambassador of good governance practices; and (e) attempt to align issues in context of providing leadership in bank regulation, within the region and beyond. The focus is to support the bank regulator overcome traditional and systemic challenges, while establishing effective leadership in terms of corporate governance principles and practices, as a precursor for developing frameworks for sustainable regulation of banking institutions. The paper is presented in six sections. Following this introduction, section two establishes conceptual basics in terms of macro prudential regulatory framework, governance, leadership and regulations as well as inter-connections between them. Section three provides a diagnosis of the Nigerian banking industry along a globally accepted corporate governance practice progression matrix. Section four describes where the Nigerian banking industry should aspire to be, on corporate governance practices, while section five addresses the role of the CBN as a bank regulator. Section six concludes and makes recommendations to enhance industry practice.

II. The Basics

II.1 Regulation via Macro-Prudential Framework

Many observers have argued that the regulatory framework in place prior to the global financial crisis was deficient, because it was largely “micro-prudential” in nature. A micro-prudential regulation is one in which regulation is viewed from a partial equilibrium approach in its conception and is therefore, aimed at preventing

the costly failure of individual financial institutions. By contrast, a "macro-prudential" approach recognizes the importance of general equilibrium effects, and seeks to safeguard the financial system as a whole.

System-wide or macro-prudential oversight broadens the mandate of regulators and supervisors to encompass considerations of potential systemic risks and weaknesses. Macro-prudential specification also calls for higher level rethinking and interface between key stakeholders on how to regulate industry operational issues, with ripple effect on related industries and sectors. Notwithstanding, macro-prudential supervision is a complement to micro-prudential supervision, because both institution specific and systemic perspectives ultimately matter, for system stability and sustainability.

In context of the subject matter, macro-prudential framework calls for an effective balancing of the bigger systemic picture, as well as industry cluster patterns, while maintaining vigilance on institution specific performance and compliance indices. Ultimately, the goal of macro-prudential supervision and regulation is to minimize the risk of financial disruptions that are sufficiently severe to inflict significant damage on the broader economy.

II.2 Corporate Governance with Macro-Prudential Framework

Corporate governance involves a set of relationships between an organization's management, its board, its shareholders, and other stakeholders. Corporate governance is about the process and structures by which the objects and affairs of an institution are directed and managed in order to improve long-term shareholder value. It entails enhancing corporate performance and accountability, while taking into account the interest of other stakeholders.

According to the OECD's 2004 definition, corporate governance provides the structure through which the objectives of the organisation are set, and its means of attaining the defined objectives and monitoring performance, are determined. Thus, principles of corporate governance are; (a) protection of the rights of shareholders, (b) ensuring equitable treatment of shareholders, (c) appropriately clarifying the role of stakeholders, (d) ensuring effective disclosure and transparency; and (e) clarifying the responsibilities of the board. In view of this, the four pillar of corporate governance are accountability, transparency, fairness and independence.

Externally, corporate governance at the regulated entity perspective involves the allocation of authority and responsibilities as well as the manner in which the business and affairs of a bank are governed by its board and senior management. It also includes how they: set the bank's strategy and objectives; determine the bank's risk tolerance/appetite; operate the bank's business on a day-to-day basis; protect the interests of depositors, meet shareholder obligations, and take into account the interests of other recognised stakeholders. It also aligns corporate activities and behaviour with the expectation that the bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations.

Internally to the bank regulator, viewed from a regulated entity perspective, corporate governance at the bank regulator institution involves the allocation of authority and responsibilities as well as the manner in which the processes and affairs of the regulator are governed by its board, committee of governors, directors and senior management. This also includes how they: set the regulator's strategy and objectives; determine its internal processes and risk tolerance in mediation/regulation; operates on a day-to-day basis; balances the interests of the society, depositors and regulated entities, meet its shareholder obligations, and takes into account, the interests of other regulators within the financial services sector and the wider economy. It also addresses how it aligns its corporate activities and behaviour of its key persons/principals with the expectations that it will operate in a safe and sound manner, with integrity and in compliance with the broader needs of the economy in which I operates.

There are six key elements required for good corporate governance practices, as adapted from the Corporate Governance and Board Leadership Training Resources Kit of the Global Corporate Governance Forum of the International Finance Corporation9:

Element 1 - Good Board Practices, which stipulate that:

- There should be clearly defined roles and authorities;
- The duties and responsibilities of directors should be clearly understood;
- There should be a well-structured board;
- There should be an appropriate composition and mix of skills on the board;
- There should be clearly defined and appropriate board procedures;
- Director remuneration should be in-line with best practice; and
- There should be regular board self-evaluation and training.

Element 2 - Transparent Disclosure, which stipulates that:

- Financial information should be disclosed;
- Non-financial information should be disclosed;
- Financial reports should be prepared according to International Financial Reporting Standards (IFRS);
- Published Annual reports should be of high quality; and
- There should be web-based disclosure.

Element 3 - Control Environment, which stipulates that:

- Independent audit committee should be established;
- Banks should ensure that a robust risk-management framework exists;
- Robust and transparent internal control procedures should exist;
- There must be a bank-wide internal audit function;
- There should be regular audits by an independent external auditor;
- There must be established management information systems; and
- Compliance function should be established.

Element 4 - Relationships with Stakeholders (including well defined shareowner rights), stipulate that:

- There should be adequate identification of stakeholders and their legitimate interests and expectations;
- There should exist constructively ways of engaging with key stakeholders;
- There should be a balancing of the interests of the company with the legitimate interests and expectations of stakeholders; and
- There should be well defined shareholder rights, especially for minorities.

Element 5 - Good Citizenship, which stipulates that banks should:

- Develop an ethical culture based on shared values;
- Develop a clear and practiced code of ethics;
- Reward ethical behaviour;
- Consider the economic, social and environmental factors when managing the organisation; and
- Take the long-term view.

Element 6 - Board Commitment, which stipulates that:

- The board should discuss corporate governance issues and create corporate governance committee;
- The bank should designate a corporate governance champion;
- The bank should ensure that a corporate governance improvement plan exists;
- The bank commits appropriate resources;
- The bank should ensure that policies and procedures have been formalized and distributed to relevant staff;
- The bank should ensure that a corporate governance code has been developed; and
- The bank should ensure that it is publicly recognized as an organisation that practice good corporate governance and actually earns that status

Corporate governance as a tool for the macro-prudential supervisor arises from the fact that the success of any macro-prudential policy is dependent to a large extent, on a system-wide adherence to good corporate governance practices. Corporate governance in banks is largely concerned with reducing the social costs of bank risk-taking and the regulator is uniquely positioned to balance the relevant stakeholder interests, by devising governance standards for financial institutions that achieve economic development objectives, while minimising the externalities of systemic risk. Systemic risk arises because banks have an incentive to under-price financial risk, because they do not incur the full social costs of their risk-taking. These sources of systemic risk demonstrate the fragility of the banking sector and the need to develop adequate corporate governance arrangements to incentivise bank management and owners to undertake a level of risk that does not create substantial social costs for the economy.

The main function of bank prudential regulation is to address the social costs which bank risk-taking creates, by adopting controls and incentives that induce banks to price financial risk more efficiently. Corporate governance plays an important role in achieving this objective in two ways; (a) to align the incentives of bank owners and

managers so that managers seek wealth maximisation for owners, while not jeopardising the bank's franchise value through excessive risk-taking; and (b) to incentivise bank's management to price financial risk in a way that covers its potential and actual social costs.

II.3 Leadership and Corporate Governance

Leadership has been described as a process of social influence in which one person can enlist the aid and support of others in the accomplishment of a common task. A quote attributed to Joanne Ciull says "Leadership is not a person or a position; it is a complex moral relationship between people based on trust, obligation, commitment, emotion, and a shared vision of the good". The 3C's of good leaders are Character, Competence and Commitment. This explains why good leadership is paramount in achieving good corporate governance practice.

Unfortunately in Africa, leadership has been widely considered as one of the recurring factors hindering development, but it is also a major basic component for delivering effective corporate governance, both in private and public institutions. The World Economic Forum's 2011-2012 Global Competitiveness Report scored Nigeria 4.3 from a possible 7.0, for efficacy of corporate boards with a rank of 89 from a list of 142 countries. This national ranking is worrisome and shows how much the country has to do in fostering the right leadership culture, model and personalities for the required national transformation.

Values are becoming the preferred mode of decision-making in business and following the financial meltdown, they have become particularly so in government, healthcare and finance. It is not surprising therefore, to find ample research showing that adaptable and values-driven companies are the most successful organizations across the globe. This is because shared values build trust, and trust is the glue that enhances individual and corporate performance.

Characteristics of values-based leadership include; a strong desire to do what is right and to treat others within self-need; that the leader's values are not imposed, as values-based leaders tend to critically examine their values (personal & organisational) and make conscious decisions to live by them, privately and officially; and (c) that such leaders tend to lead based on a way of living that feels good (and right) after the fact. Values-based leaders expect positive consequences if they embrace and live these values, as well as negative consequences if they reject and do not follow them.

A review of the components of the four pillars of corporate governance as earlier inferred, and detailed below, provides insights into the link between effective leadership and corporate governance. Most values-based leaders actually practice the four pillar of corporate governance listed below, in varying formats and degrees. The pillars underpin the basic principles of management and transformational leadership. The four pillars of corporate governance and their components are:

Pillar 1 – Accountability requires that banks ensure that:
- Management is accountable to the Board; and
- The board is accountable to shareholders

Pillar 2 – Fairness requires that banks:
- Protect shareholders' rights;
- Treat all shareholders including minorities, equitably; and
- Provide effective redress for violations

Pillar 3 – Transparency requires that banks:
- Ensure timely, accurate disclosure on all material matters, including the financial situation, performance, ownership and corporate governance

Pillar 4 – Independence requires that bank:
- Procedures and structures are in place so as to minimise, or avoid completely conflicts of interest; and
- Directors and Advisors are independent i.e. free from the influence of others

In corporate governance, the board, management and staff in corporate organizations are agents, while the shareholders are the principals. The agents are expected to act in good faith, in the interest of the principals (shareholders) within clearly defined boundaries of responsibility. However, this is usually not the case as shareholding structure could transcend the agent/principal boundary. For example, management could tend to assume the authority of the Board which in turn could abdicate its responsibilities. In other situations, the Board could assume the authority of management, which by implication could also abdicate responsibility. Thus, confirming the views of Mark Goyder, Director of Tomorrow's Company that; "Governance and leadership are the most sustainable fibre of successful organisations. If you have leadership without governance you risk tyranny, fraud and personal fiefdoms. If you have governance without leadership you risk atrophy, bureaucracy and indifference."

II.4 Challenges for Bank Regulators

CBN's vision is "To be the model Central Bank delivering price and financial system stability and promoting sustainable economic development" by 2015. In view of this, let us reflect on the CBN's role as a regulator on corporate governance, to include; (a) providing guidance to banks on expectations for sound corporate governance, (b) regularly performing a comprehensive evaluation of a bank's overall corporate governance policies and practices, c) evaluating banks' implementation of the principles of corporate governance for the banks as entities, (d) taking effective and timely action to address banks observed to be deficient in corporate governance policies and practices, and (e) cooperating with other relevant institutions, in Nigeria and other jurisdictions as may be required, regarding the supervision of corporate governance policies and practices.

Nigeria's financial services' sector has expanded rapidly and increasingly dominating Africa, with Nigerian banks leading. The challenge for the CBN as an apex regulator in

line with its stated vision is to devise corporate governance standards for financial institutions that achieve economic development objectives, while minimising both institution specific and banking system externalities of systemic risk. This includes unravelling complex or opaque corporate structures that veto transparency, in order to institute an industrial culture of full disclosure and transparency, as well as monitoring board practices. However, the question is "how can the CBN achieve this as a regulator"?, given what Mervyn King S.C. (Chairman: King Report) had said, that you cannot legislate good behaviour?

In a similar perspective, the CBN has the challenge of managing factors outside the scope of banking supervision, but with potentials of affecting market integrity, consumer protection and system stability (business laws, trade and exchange rules as well as accounting standards). There is also the issue regarding adequacy of resources (quantity, quality, and in particular, expertise and their effective deployment versus cost of banking services.

On the other hand, the challenges for macro-prudential regulation, especially following the global financial crises of 2007-2009, is developing substantive standards of governance and process-oriented as well as outcome-oriented risk management guidelines that incentivise bank management and directors to take into account, the overall economic and operational risks posed by financial institutions. This requires the adoption of robust governance structures that balance the various interests within and outside the banking organisation, so that the social costs of banks' risk-taking are minimised. This means that regulators are not only concerned with creating an incentive framework to induce management to achieve the objectives of the bank owners (e.g. shareholders' wealth maximisation), but also look to balance the interests of the various stakeholder groups in the economy that are affected by banks' risk-taking and reduce the social costs that are inevitably associated with poorly regulated banking activity.

Another important challenge that has attracted recent public and regulatory attention is the issue of whether to regulate the financial compensation provided by banks to their employees and shareholders. Indeed, the risk-taking strategies of senior management and directors are significantly influenced by their compensation arrangements and by their exposure to civil and criminal liability for their risk-taking practices. The challenge then for regulators is how to align the incentives of shareholders, depositors and creditors. In other words, they must be required to incur the costs of their risk-taking activities. However, controlling or limiting compensation for senior management invariably leads to talent flight to other industries and jurisdictions. Within an external perspective and in view of increasing international presence of Nigerian banks, the CBN has the challenge of keeping to various memoranda of understanding for collaborative supervision of group entities that operate in other jurisdictions regulated by the CBN while keeping a close tab of country specific regulatory requirements on emerging reporting standards and anti-money laundering issues, for instance. In view of the requirements of the macro-prudential framework, concepts of corporate governance, emerging leadership requirements and

expanding scope of the role of bank regulators, meeting all these challenges requires regulators to tackle several issues including:

- Monitoring board practices ;
- Ensuring the capability and integrity of senior management in ensuring that the bank's activities are consistent with the business strategy, risk tolerance/appetite and policies approved by the board;
- Developing a dynamic and effective risk management framework and instituting a culture of effective internal controls;
- Developing a viable compensation and tenure policy for management and board members;
- Unravelling complex or opaque corporate structures;
- Instituting a culture of full disclosure and transparency;
- Managing factors that are often outside the scope of banking supervision but can affect market integrity and system stability, including the system of business laws, stock exchange rules and accounting standards;
- Adequacy of resources (quantity, quality, and in particular, expertise) and their effective deployment;
- Change the focus of the supervisory process from 'processes' to 'outcomes';
- Identifying and increased supervision of Systematically Important Financial Institutions (SIFIs);
- Supervising complex financial products which are not adequately understood by the public;
- Inadequate information technology systems and data architectures in financial institutions; and
- Developing value based leadership across the financial services sector.

III. Where We Are On Corporate Governance

III.1 Global Perspectives

Three recent contemporary developments dwelling on the issue of corporate governance, leadership and the role of regulation in context of the emerging global financial system and related need for more effective risk mitigation for sustainability are explored.

The first contemporary development is the 2010 release of the documentary video titled The Inside Job, which is a documentary film about the late-2000s financial crisis directed by Charles H. Ferguson. The film is described by Ferguson as being about "the systemic corruption of the United States by the financial services industry and the consequences of that systemic corruption." In five parts, the film explores how changes in the policy environment and banking practices helped create the financial crisis. The documentary is split into five parts and begins by examining how Iceland was highly deregulated in 2000 and the privatisation of its banks. When Lehman Brothers went bankrupt and AIG collapsed, Iceland and the rest of the world went into an economic recession.

The second contemporary development is the April 2012 last speech by Hector Sants, as Chief Executive, FSA at Merchant Taylors' Hall. Hector Sants used his last speech as head of the regulator to lay the blame for the financial crisis at the door of the financial services sector. He left the FSA June 2012, after nearly five years as chief executive from 2007 to 2012. Sants was of the view that from a regulatory perspective, it is paramount that the right set of rules exists, even though experience has shown that the old Basel standards, subscribed to by the international regulatory community, were completely inadequate. Sants suggested that a great deal of progress has been made in addressing these deficiencies, which should go a long way towards dealing with the symptoms of the crisis, the changes did not affect the underlying key issue of effective corporate governance. Sants noted that ultimately, management is responsible for running firms and firms fail because of the decisions taken by their boards and their management within the firm's corporate governance framework. He underscored the fact that the crisis exposed significant shortcomings in the governance and risk management of firms and the culture and ethics which underpinned them. He opined that though not principally a structural issue, it is a failure in behaviour, attitude and in some cases, competence. So while the issue of poor governance is primarily for firms and shareholders to address, events have demonstrated that regulators should play a role by ensuring pursuit of larger systemic good.

The third and final contemporary issue of reference is the 2012 publication of the book titled Bull by the Horns: Fighting to Save Main Street from Wall Street and Wall Street from itself, by Sheila Bair, the former Chairman of the Federal Deposit Insurance Corporation (FDIC) in the US. Christopher Whalen, who wrote one of the book reviews said; "Former FDIC Chairman Sheila Bair accurately describes the conflicted world of bank regulation in our democracy. Her well-written narrative of the Basel II mess, for example, and how these supposed "capital adequacy" rules, in fact, enabled vast securities fraud and criminality by the largest American and EU banks, is very well done. Indeed, the book provides another authoritative view of the degree to which fraud was the root problem on Wall Street". A quote by Christie Lagarde, then French Finance Minister in the documentary and now IMF Managing Director, says "The financial industry is a service industry. It should serve others before it serves itself".
All the three contemporary references presented tend to have a similar thrust – the role of governance in managing micro- and macro-prudential issues; the need for effective leadership culture and behaviour of bank executives; and the role of regulation in both institutional and systemic environments.

III.2 Initiatives by CBN

The Nigerian banking industry has made remarkable progress from the 2007 financial crisis. In the wake of the financial crisis, the CBN took some decisive steps to protect the banking industry from systemic collapse. Some of these include:

- The issuance in 2006 of the Code of Corporate Governance for Banks, now overdue for a review to address the identified gaps and aligning it with contemporary realities and global best practises;

- The move towards the implementation of the New Capital Accord (Basel II);
- The introduction and implementation of risk based supervision aimed at promoting sound risk management in Nigerian banks;
- Policy limiting the tenure of Chief Executive Officers of banks to a maximum of 10 years, Non-Executive Directors (NEDs) to a 4-year tenure up to 3 times (12 years). The review and implementation of the new prudential guidelines based on forward-looking capital provisioning, driven by stress tests;
- The comprehensive review of the 'Fit and Proper Persons' rule and introduction of an Approved person regime;
- Introduction of tenure limit of 10 years for external auditors of banks;
- The adoption of common accounting year-end for all banks (end-December 31st);
- The adoption of the International Financial Reporting Standards (IFRS) by all banks in Nigeria;
- The issuance of a Draft Whistle Blowing Guidelines;
- The enforcement of compliance with sanctions/penalties for regulatory breaches; and
- Exposure drafts on competency framework, bank tariff, financial literacy, etc.

III.3 Nigerian Banking Industry and IFC Corporate Governance Progression Matrix

The Global Corporate Governance Forum of the International Finance Corporation (IFC) has a tool for assessing progression in corporate governance practice in different types of organisations. The progression matrix ranks practices based on a standardised criteria which assesses practices in terms of: commitment to good corporate governance (CG) practices,; structure and functioning of the board of directors; control environment and processes; transparency and disclosure; and treatment of minority shareholders. These criteria are then ranked as Level 1 – acceptable CG practices, Level 2 – extra steps taken to ensure good CG practices, Level 3 – major contributions made to improving CG nationally, and Level 4 – leadership.

Table 1 below presents author's opinion on the level of practice of corporate governance within the Nigerian banking environment as at November 2012, along the IFC Corporate Governance Progression Matrix.

It should be noted that two areas requiring more attention of operators and regulators are in terms of transparency and disclosure; and treatment of minority shareholders. It is anticipated that the introduction of universal year end, IFRS, risk based and off-site supervision, as well as financial literacy will positively impact these.

Table 1: IFC Corporate Governance Progressive Matrix

ATTRIBUTES	LEVELS			
	1. Accepatable CG Practices	2. Extra Steps to ensure good CG practices	3. Contributions to improving CG Nationally	4. Leadership
	Commitment to Good Corporate Governance		x	
	Structure and Functioning of Board of Directors		x	
	Control Environment and Processes		x	
	Transparency and disclosure	x		
	Treatment of Minority Shareholders	x		

Source: IFC Corporate Governance & Board Leadership Kit)

IV. Where We Should Aspire to Be on the Progression Matrix

The author strongly recommends that Nigerian banking industry operators and regulators should target having all existing and future interventions for enhancing corporate governance practice, in order to extend the achievements so far recorded in terms of corporate governance practices as reported in Table 1 and its narrations, to level 4 – leadership status on the progression matrix, as indicated in Table 2.

Some of the recommendations are extensions of existing policies, while some are innovations that should make operators see effective corporate governance cultural shifts with implications for institutional competitive positioning in the industry, than mere compliance. It is when such cultural shifts occur, that leadership in corporate governance practices can be attained. This suggested aspiration becomes even more instructive, as it is observable that almost all industries and thematic institutions within the Nigerian financial services sector have continued to chart their respective paths to creating vibrant industries. It is as such, anticipated that these reforms could lead to a financial services sector that not only provides a platform for national development, but actively acts as a trigger to reforms in other sectors, by various permutations of coercion, collaboration and advocacy.

In view of these and other factors, a thrilling yet unsettling time in modern history is witnessed, because despite diversity issues across geographic regions of the world, the global financial crises appears to be highlighting unparalleled opportunities for success, especially for developing economies. It is worthy of note that some of the reform models implemented in Nigeria are becoming benchmarks, and there is increased dominance of the African landscape, by financial institutions of Nigerian origin. The Nigerian banking industry has been in the vanguard of leading decisions

and interventions on corporate governance practices. Given the contribution of the industry to the Nigeria's Gross Domestic Product (GDP) relative to other industries and sectors, it is expedient that the regulator aspires to make happen, the progression depicted in Table 2 for the Nigerian banking industry.

Table 2: Leadership Status on the Progressive Matrix

ATTRIBUTES	LEVELS			
	1. Accepatable CG Practices	2. Extra Steps to ensure good CG practices	3. Contributions to improving CG Nationally	4. Leadership
	Commitment to Good Corporate Governance		X	
	Structure and Functioning of Board of Directors		X	
	Control Environment and Processes		X	
	Transparency and disclosure	X		
	Treatment of Minority Shareholders	X		

ATTRIBUTES		LEVELS			
		1. Acceptable CG practices	2. Extra Steps to ensure good CG practices	3. Major Contributions to improving CG nationally	4.Leadership
	Commitment to Good Corporate Governance		X		
	Structure and Functioning of the Board of Directors		X		
	Control Environment & Processes		X		
	Transparency and disclosure	X			
	Treatment of Minority Shareholders	X			

Table 2 Recommended industry corporate governance practice to be achieved
(Matrix concept adaptation from The IFC Corporate Governance & Board Leadership Kit

V. The Regulator Component in the Equation

Some of the actions required to make improvement in industry practice will require a self-assessment by the regulator, extension of competency definitions by certain staff categories of the regulator and the need for the regulator to lead by example on the issue of corporate governance. This could be achieved by taking a look at its internal processes and systems. This is in the spirit of *nemo dat quod non habet*, literally meaning "no one gives what he doesn't have". As such, for effective regulation of applicable leadership behaviours and corporate governance practices, the regulator's employees with applicable scope of examination and supervision practices, must not only appreciate the principles, but also, have a grasp of the application of the principles of leadership and corporate governance, both for industry regulation and for operation of the regulator institution, in a manner that the regulated can lead by example.

V.1 The Leadership Journey Focus for the Regulator

Prior to the 2007 financial crisis, there were examples of corporate governance failure with Enron and WorldCom being two of the most notable on the global stage. Internally, there were examples of the failed banks. The response to these and earlier failures was a universal public outcry and new legislation - Sarbanes Oxley for USA companies and a flood of codes of best practice, as well as the Basel II and III principles for banking institutions.

One would have thought that with all these insights, understanding and attention, the recent global financial crisis could have been averted. Unfortunately, that was not the case and one has to wonder why. It would appear that there was a disconnect between the mechanisms used in the internal governance system and the external governance mandates and recommendations, which focused primarily on the boardroom.

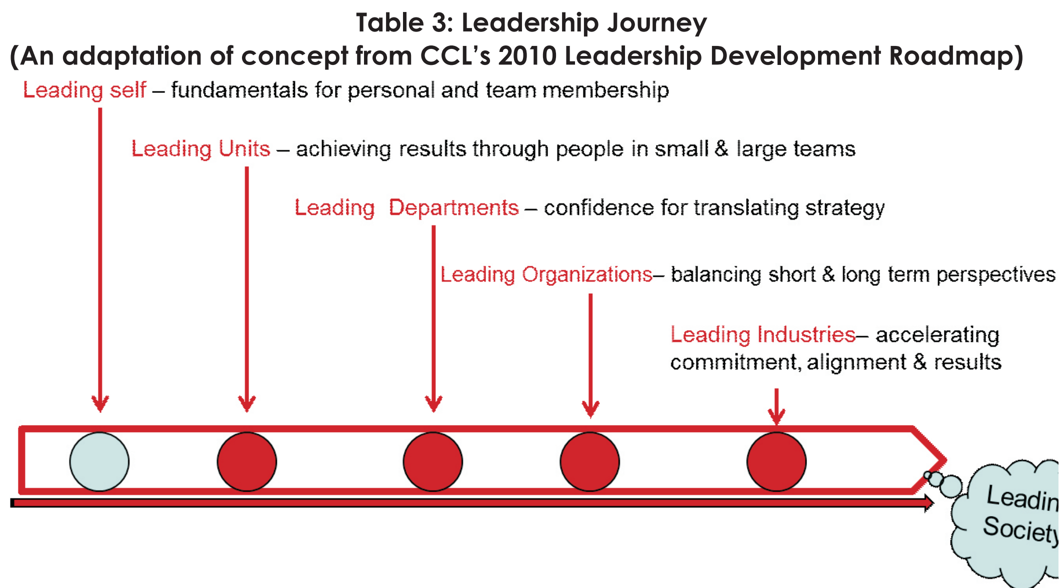
So, although the work on improved legislation and codes of best practice is well meaning and may have improved matters, the initiatives may have overlooked an important area - how external mandates translate into internal governance mechanisms. In other words, the connection between internal governance and the achievement of the objectives intended by the external governance framework has to be addressed, satisfactorily.

There are many issues involved with the management of internal governance, but none is more important than the role of leadership, which is the prime responsibility of "the Board of Directors". It is the leadership's responsibility to ensure that the objectives of the organization are achieved, while behaving in a way that is acceptable to the society at large. This means that the board and senior management of industry operator institutions need to provide effective leadership, based on an ethical foundation. Similarly, the staff of the regulator, involved in the act of regulation and

management of the regulator, need to have structured ways of leadership experience through the ranks. This for the reason that by the time they are in positions of establishing and updating policies that impact the industry, they would exude the essence of leadership from the powers bestowed on them as employees of the regulator. In addition, they can appreciate related issues and are in a vantage position to demonstrate sufficient leadership on issues of corporate governance.

Table 3 is an adaptation of a variant of the 2010 Leadership Development Roadmap Concept of the Centre for Creative Leadership (CCL) 4 for the purposes of this paper. It highlights the focuses of leadership development initiatives for the bank regulator employees, at the levels represented in red circles and explained in the legend above the progression path, from leading units to leading industries. Each of these levels have a different thrust and focus on appreciation, application and supervision of corporate governance practices within the regulator entity and externally, within the industry via both micro- and macro-prudential perspectives.

Table 3: Leadership Journey
(An adaptation of concept from CCL's 2010 Leadership Development Roadmap)



In view of the implications of establishing effective leadership culture as a basis for effective corporate governance within regulated entities in context of the macro prudential framework thinking, competencies for bank regulators on self-leadership in terms of corporate governance, include: being an expert in task fields; demonstrating effective interviewing and listening skills; having personal integrity as a leader; inculcating an achievement orientation; effectively managing personal and corporate information; effective system mining and reporting skills; having both conceptual and analytical thinking skills; demonstrating initiative and creativity on

tasks; having sufficient self-confidence and comprehension of issues; demonstrating genuine concern for supervisory processes and systems; cooperation across departments, and demonstrating sufficient patriotism.

This is because to be effective in their increasingly expanding supervisory role, regulators need to articulate and emphasise acceptable and result-oriented ideological values. It is imperative for regulators to foster a values-full culture, by setting a values-based tone and attitude that establishes the right mind set. When supervisors espouse and practice good corporate governance, it encourages the institutions under their supervision to inculcate these values and provides the regulator with the moral high ground to sanction erring institutions.

V.2 The Corporate Governance Principle Internalisation for the Regulator

After the signing of the MoU between the Global Corporate Governance Forum of the International Finance Corporation and the Financial Institutions Training Centre (FITC) in March 2011, the partners have jointly developed a corporate governance curriculum for directors and senior managers of banks in Nigeria. The Nigerian curriculum is a customisation of the global Corporate Governance and Board Leadership Toolkit, incorporating Nigerian laws and cases. It has been tailored to the Nigerian market needs and specific regulatory and institutional regimes.

In view of this development, bank directors now have a structured curriculum that is customised to the environment, yet in line with global practices. Many operators are now on various stages of the curriculum, which is delivered based on a hybrid of the Adult Learning Concepts and Experiential Learning Cycle. It is ideal that the bank regulator and its affiliated institutions allow their employees of manager and above grades, in roles that entail bank examination and supervision and policy formulation on matters relating to corporate governance, participate in this curriculum in a structured manner, over a 2-3 year period. Thus, it will allow them "having a taste of the medicine", which could positively impact regulation of corporate governance practices and effective sustainable progression of industry practice along the progression matrix as recommended.

Finally, it is a truism that behaviour cannot be regulated. Adherence to corporate governance policies require a leadership orientation that is values centred. To make sure that corporate governance reforms take root, regulators will need to encourage the creation of value-based leadership programmes within financial institutions. It is important for financial institutions to choose leaders based not only on competence but also based on personal leadership style, behavioural profile and personal integrity, derivable from the application of system generated psychometric profiling tools.

VI. Conclusion and Recommendations

About a decade ago, issues such as bank capitalisation, liquidity ratios, banking models and product related variables were the central focus of bank regulation.

However, increasing attention to more systemic issues such as risk modeling, corporate governance, sustainability, the search for leverage and synergy as well as business ethics within local, regional and global competition appear to be engaging most domestic and regional discussions on bank regulation, in recent times. Corporate governance has assumed immense importance. As such, bank regulators now face the challenge of developing and incorporating sustainable corporate governance polices within a larger macro prudential framework, to guide industry practices and institutional models. It has been observed that every financial crises so far witnessed in human history, and when banking activity go wrong, it portends serious problems with snowballing effect, for the economy and the society at large.
In terms of macro-prudential supervision, the basic concerns for supervisors are promotion of good risk management practices, especially at large institutions that pose systemic risks or that may be considered "too big to fail", and to ensure that supervisory policies do not have adverse or ill-timed effects over the economic cycle. It has as such, been severally advised that supervisory policies and rules should have consistent and appropriate effects over the business cycle including accounting rules, risk management practices, and supervisory attitudes and approaches; and assert stakeholder interests while ensuring that the bank's governance practices do not undermine the broader goals of macroeconomic growth and financial stability.

An assessment of the Nigerian banking industry's corporate governance practice, show that the Nigerian banking industry has done remarkably well despite wider social system constraints. However, there is a lot more to do, in order to maintain a competitive positioning of banks in Nigeria and with Nigerian origins, given increasing global banking regulations in terms of governance, risk management regimes and anti-money laundering initiatives in G20 countries and wholesale banking group global franchises.

The popular opinion is that even though legislation of executive behaviour remains a challenge, especially in jurisdictions where there are sub-optimal appreciation and application of relevant laws, a lot is expected of bank regulators, even as their roles appear to be experiencing some degree of scope expansion post the recent global financial meltdown.

The following recommendations are given within the perspective of the five variables of the adapted Corporate Governance Practice Progression Matrix for Financial Institutions, proposed by the Global Corporate Governance Forum of the International Finance Corporation (IFC). This was provided in Figure 1.0, and proposes some suggestions that could be helpful in making the required progress.

VI.1 Commitment to Good Corporate Governance

- Review and update rules or guidelines consistent with the principles of good corporate governance, incorporating developments since the last version was published in 2006;
- Regularly perform a comprehensive evaluation of the banks' overall CG policies and practices and evaluate banks implementation of the stated

policies;
- Develop a good understanding of the key risks and controls that supervisors would like the board to oversee;
- Make the current capacity development and continuous education program for bank directors mandatory as a structured capacity building plan that can be monitored and measured vis-a-vis board roles and board evaluation outcomes;
- Adopt effective tools for evaluating a bank's corporate governance policies and practices e.g. conduct surveys and assessments on CG practices; and
- Encourage banks that have demonstrated effective internalization and practice of good corporate governance principles to demand same of their suppliers and major users of funds, as well as non-bank financial institutions that clear instruments through them, including their agent banks, as a way to extend practice to related industries and positively impacting other sectors.

VI.2 Structure and Functioning of the Board of Directors

- Ascertain that bank boards are aptly structured and appropriate composition and mix of skills;
- Ensure effective personal profile analysis and background check for new board directors as a predictor of propensity to commit fraud;
- Recommend a baseline framework for directors remuneration with certain variables indexed to certain balance sheet and role definitions, in line with practice in other jurisdictions; and
- Encourage the establishing of value-based leadership development programs for financial institutions.

VI.3 Control Environment and Processes

- Close monitoring of the implementation of initiatives like risk-based supervision, Basel II & III;
- Encourage banks to have practical and not paper-based disaster recovery systems in place;
- Employ techniques to build industry capacity for media management;
- Banks should be encouraged to have business continuity procedures in place
- The CBN should cooperate with other relevant regulatory and supervisory bodies in related industries and sectors in experience sharing and promoting CG;
- Expand the focus of the supervisory process from just compliance reporting and 'processes' to also include 'outcomes';
- Establish and maintain regular communication with bank senior management, board, those responsible for the internal control functions, as well as external auditors in themes and patterns of interfaces; and
- Encourage a culture of self-regulation for competitive advantage, amongst operators.

VI.4 Transparency and Disclosure

- Evaluate whether banks have in place, effective mechanisms for boards and senior management teams to execute their oversight responsibilities;
- Initiate and maintain an active and verifiable programme of on-site supervision
- Encourage financial and non- financial disclosure;
- Encourage web-based disclosure and create structures to track and address issues flagged within specified time limits with discretion;
- Enforce high-quality annual report publication using industry standardised templates as minimum standards;
- Ensure effective enlightenment of board audit committees and full boards on the implications of the adoption of IFRS by banks in preparing financials; and
- Enforce industry wide safe and secure on-line based whistle blowing policy.

VI.5 Treatment of Minority Shareholders

- Demand for and enforce easily verifiable reporting of minority shareholders' rights protection action plans and outcomes;
- Enforce well-organized shareholder meetings that recognise and accommodate diversity of shareowners and employees;
- Promote documented, demonstrated and verifiable business sustainability; and
- Foster information- sharing platforms in terms of asset registry, credit bureau, frauds and forgeries, employees terminated on basis of fraud, delinquent suppliers and service providers, etc.

Financial crisis are by their nature, difficult if not almost impossible to fully anticipate with any high degree of certainty. For instance, Milton Friedman and Anna Schwartz argued that the initial economic decline associated with the crash of 1929 and the bank panics of the 1930s would not have turned into a prolonged depression if it had not been reinforced by monetary policy mistakes on the part of the Federal Reserve. However, instituting good corporate governance practices and applicable leadership culture can make our financial services sector more resilient to foreseeable systemic shocks, when they occur. Most importantly, to accomplish the objectives, the bank regulator, along with supervisory authorities from all other parts of the financial system will have to work together to share information about risks developing in the institutions and markets under their purview. More than ever before there will be need for better communication and coordination to ensure financial stability needed to support sustainable economic growth. Just like the known effects of violent acts of the weather in certain times over human history, it is a fact that the next financial crisis cannot be prevented, but developed systems for absorbing the shocks via effective governance and leadership, in order position the system to hold out during the storm when it comes, based on domestic, regional and global lessons of yesterday and today.

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