Joseph O Sanusi: Embracing good corporate governance practices in Nigeria

Keynote address by Dr Joseph O Sanusi, Governor of the Central Bank of Nigeria, at the 19th Annual Directors' Seminar organised by the Financial Institutions Training Centre (FITC), Abuja, 17-19 June 2003.

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The Director General, Financial Institutions Training Centre (FITC), Chairmen and Members of Board of Financial Institutions, Chief Executives of Banks, Captains of Industry, Distinguished Ladies and Gentlemen.

I feel deeply honoured to be invited to this important seminar, as the Special Guest of Honour and for the privilege to deliver this keynote address. I should also start by congratulating the Financial Institutions Training Centre (FITC), which has put this seminar together, for its impressive contribution to capacity building in the financial services sector.

The theme for the 2003 Annual Directors' Seminar: "Balancing Stakeholders Interests: Issues and Challenges" is quite relevant and timely, given the havoc which poor governance has wreaked on the corporate existence of many institutions and the failure on the part of many banks to uphold the tenets of good corporate governance. Moreover, when placed in its proper perspective, the theme of the seminar to my mind, calls for the enhancement of standards and adoption of sound corporate governance practices by banks and their corporate customers. In this context, I will like to congratulate the Management of the FITC for coming up with this discourse, which I believe would enhance participants' awareness of the various challenges facing the board/management of institutions in the discharge of their statutory responsibilities to their various stakeholders.

Perhaps, I should observe at this juncture that the role of the FITC in providing quality human development and advisory services to its clientele has not gone unnoticed, which explains the high calibre of participation at this seminar. I will like to urge the Management of the institution to sustain and, improve on that legacy that has been the hallmark of the Centre so that it will continue to attract top management in its future programmes. Judging from its antecedents, I have no doubt in my mind that the FITC have assembled a formidable team of experts to present the seminar papers that would explore the different dimensions of the seminar theme.

Distinguished participants, let me caution that there is no one single factor that contributes to institutional problems than the lack of effective governance. The issue of good governance is, therefore, an imperative for ensuring successful corporate performance. Building good corporate governance is a shared responsibility among all stakeholders, each of whom may exert pressure to move an institution in a slightly different direction. In this regard, although the motivations of the various players are different, they can and should be mutually supportive.

In any establishment, good governance starts with the owners, then it extends down through the board and management to the employees. No matter what the ownership is, there is need for transparency and accountability in its relationship with other stakeholders. In this context, all rules that define the governance responsibilities, incentives and sanctions facing the board, management and staff must be well articulated. Board members should be held accountable and liable for their actions, that impact on the interests of other stakeholders. The first major step in creating good governance is for all players to mutually agree on the common corporate goals, which must be specific, explicit and consistent. In the process there will be trade-offs and delicate balancing of various interest groups. But once the goals are determined and the respective roles of the various players are explicitly defined, there should be an incentive structure and sanctions, which must be effectively monitored and enforced.

The recent widespread corporate scandals and failures had their root in dishonest management decisions and, in some cases, outright cover-ups of illicit activities and, has brought to the fore the role, which the pursuit of narrow group interests played in wrecking these corporations and, consequently, the lives of millions of innocent citizens who had a stake in them. In particular, these developments have further raised the question of the responsibilities of the Board of Directors in ensuring that an appropriate balance is maintained between stakeholders' interests. It is also against this backdrop that there is now a global commitment to pursue and promote good governance practices in corporations all over the world and with it came the establishment of standards, which corporations and countries are encouraged to adopt.

Along with corporate responsibility, corporate governance provides the foundations of market integrity and, thus, imposes a lot of responsibility on the Board of Directors that involves striking a delicate balance between the various stakeholders. It needs to be emphasized here that balancing stakeholders' interests goes beyond protecting the interests of shareholders in an individual organization. Indeed, it revolves around embracing good corporate governance that sets the rules and practices that govern the relationship between managers and shareholders of corporations, as well as stakeholders like the public, employees, pensioners and local communities while at the same time ensuring transparency, fairness and accountability. Striking an appropriate balance between various stakeholders' interests is a prerequisite for the integrity and credibility of market institutions. It facilitates the building of confidence and trust that allows corporation access to external finance and to make reliable commitments to creditors, employees and shareholders. It is this contract that underpins economic growth in a market economy.

Distinguished participants, having talked in general terms about the imperatives of balancing stakeholders' interests, permit me to take a moment to outline the challenges facing directors in the financial services sector with regard to meeting the expectations of your numerous stakeholders, including the regulatory agencies. As a regulator and supervisor of the financial services industry in Nigeria, the Central Bank has come across some unwholesome practices by top management and, sometimes with the active collusion and connivance of the board that are detrimental to the interest of other stakeholders in the organization. A good example of this is the large scale insider loans to management staff, directors, major shareholders and their relations and companies, which eventually become non-performing and, thereby, impair the operations of these institutions. I will hasten to add that, in a perfect world, directors of a company serve as a check on the excesses of the management, but where the directors themselves collude and are involved, it becomes difficult to protect other stakeholders' interests. The situation is further compounded where the management has a stronghold on the non-executive directors. Given the observed lapses in our system, the CBN has taken a position that directors would be held responsible/accountable for any misdemeanor on the part of the management of their institutions. Directors must live up to their responsibility and protect the interests of all stakeholders alike. The norm now, the world over, is that the entire board can be removed for failure/lapses in performing their role.

The challenge to you, directors, now is to redress the lapses in our financial services industry. When shareholders (or investors), whether major or minority shareholders, invest, their expectation is that companies will be run according to sound business principles that minimize the possibilities for corrupt practices and mismanagement. This expectation is legitimate and must be protected. Similarly, when creditors, particularly depositors, decide to part with their savings they have expectations that they are entrusting their funds to a trusted and honest management and, therefore, expect safety of and some returns from their foregone consumption. When this trust is undermined, then public confidence in the financial system is eroded and the entire economy becomes the loser and the worse for it. As I have observed in my previous addresses to bankers, our most valuable assets are public trust and confidence. Therefore, we should always do whatever it takes to jealously guard it.

We need to learn from recent encounters with financial sector crises, the recurrence of which we should do our utmost to prevent. We also need to draw some lessons from the global events, particularly from the Asian and Latin American financial crisis of the 1990s and the more recent wave of corporate financial scandals such as the collapse of Enron, World Com and a slew of others, and change the way we do things in Nigeria. The world has become a global village, thus we have no choice other than to conform with international best practices. Balancing stakeholders' interests and embracing good corporate governance practices are the prerequisites for attracting the much-needed foreign investment inflows that will help put the country back on the path of sustainable economic growth and poverty reduction. It is noteworthy that the Bankers' Committee has taken up the challenge for ensuring high standard of behaviour, through the establishment of a code of ethics and professionalism in banking with a sub-committee for its enforcement.

Finally, distinguished participants, I am optimistic that you have a lot to gain by attending this seminar. I believe that the experts that have been assembled to handle the various sub-themes will do justice to them and will, in the process, also comprehensively address some of the issues raised in this keynote address and come up with recommendations that are implementable.

Mr. Chairman, Ladies and Gentlemen, I have the honour and privilege to declare this seminar open.

Thank you for your attention.