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Corporate Governance In The Nigerian Banking Sector: An Ethical Analysis Of The 2009 Regulator Intervention And Operators' Behaviors

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Submitted to the Program of Organizational Dynamics in the Graduate Division of the School of Arts and Sciences in Partial Fulfillment of the Requirements for the Degree of Master of Science in Organizational Dynamics at the University of Pennsylvania
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Abstract

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by

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ABSTRACT

This paper conducts an ethical analysis of the 2009 Central Bank of Nigeria intervention: the firing of the CEOs of eight banks in Nigeria and their boards of directors, their replacement with CBN-appointed officers and the injection of government funds into the affected banks; as well as an analysis of the behaviors of the fired executives as leaders of operator banks in the Nigerian Banking system.

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The above position underscores the underlying tenet that business and ethical actions cannot be separated. As such this paper recommends the investment in ethics programs and ethics investigation models by the stakeholders in the Nigerian banking system.

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CHAPTER 1

INTRODUCTION

On August 14, 2009, the Governor of the Central Bank of Nigeria (CBN), Mallam Sanusi Lamido Sanusi, exercising his powers as contained in Sections 33 and 35 of the Banks and Other Financial Institutions (BOFI) Act 1991, as amended, announced the firing of the chief executive officers (CEOs) and board of directors of five banks in Nigeria and replaced them with CBN-appointed CEOs and boards of directors.[1]

Forty-eight days later, on October 2, 2009, he announced an additional sack of three bank CEOs and their respective boards of directors (and replaced them with CBN-appointed CEOs and directors), bringing it to a total of eight bank CEOs and their respective Board of Directors who were fired from their jobs as helmsmen of financial institutions in 2009. The affected banks were Afribank Plc, Platinum Habib Bank (PHB) Plc, Equatorial Trust Bank Plc, Finbank Plc, Intercontinental Bank Plc, Oceanic Bank Plc, Spring Bank Plc and Union Bank Plc.[2]

The CBN highlighted the following as reasons for its action (henceforth termed intervention) in the Nigerian banking industry[3]:

1. The affected banks constituted a systemic threat to the financial sector in Nigeria due to their operational failure (insolvency).
2. The affected banks lacked sound risk management processes.
3. The absence of corporate governance regimes and practices in the affected banks.
4. The prevalence of unethical practices by the management of the affected banks.

For the CBN, the removal of these officers as well as the injection of 420 billion naira ($2.8billion) of government funds was necessary, not only because the managements of these banks had acted in manners that were detrimental to the interest of their depositors and creditors, but also in order to stabilize the banking industry and prevent its collapse.

Mixed reactions ensued following the above CBN's intervention. While some government officials, leaders of thought, as well as social commentators applaud it, given the unethical behaviors of the management of the affected banks, others have condemned it, citing gross and overreaching intervention by Nigeria's banking regulator (government) into the affairs of the private sector.[4] For the latter, they hold that the CBN has usurped the role of the owners of the affected banks: the shareholders.

Some analysts have also thrown up issues as to why the CBN, which had supervisory and regulatory roles, allowed the affected banks to deteriorate to the levels that necessitated the intervention by the CBN[5]. These analysts also hold that the CBN should have acted earlier and their failure to do so also reveals major flaws and corporate governance issues with the CBN and their role in the banking industry. Allegations of corruption and complicity by CBN examiners in their supervisory functions of Nigerian banks have also been leveled. Put differently, regulatory laxity, regulatory complicity and regulatory knowledge gaps were contributory factors to the decline of the affected banks.

The CBN Governor himself recently conceded to the above when he listed the following as factors behind the extremely fragile state of the Nigerian financial system and one that was tipped into crisis by the global financial crisis and recession:

1. Major failures in corporate governance at banks.
2. Lack of investor and consumer protection.
3. Inadequate disclosure and transparency about the financial position of banks
4. Critical gaps in regulatory framework and regulations.

5. Uneven regulatory supervision and enforcement.
6. Unstructured governance and management process at the CBN
7. Weaknesses in the business environment in the country.[6]

The above scenario raises the following questions, which this research paper seeks to address: was the CBN ethically justified in its 2009 intervention in the banking industry? Are there ethical considerations associated with the system of banking regulation exercised by a nation's central bank? What challenges do the concept of corporate governance face in the Nigerian banking system? What model of corporate governance is to be adopted as well as what systems must be in place for the model to function in the Nigerian banking system? How is the future relationship between the regulator (CBN) and operators (demand deposit banks) to be defined in Nigeria?

Using the Stakeholder Theory, Systems Theory Approach to Ethics and the Caux Roundtable Principles for Responsive Business as ethical models, this capstone will examine the ethical issues that surround the 2009 CBN intervention in Nigeria's banking industry. It will also examine the ethics of corporate governance as it applies to the CBN as a regulator and the behaviors of banks as operators in the Nigerian Banking industry.

Following from the above, this paper states the following business ethics principles, which will be discussed via a literature review of the chosen ethical models:

1. Ethical Behaviors in business practices leads to business success, and a stable financial system.
2. The regulator in a financial system must first be ethical in character and action in order to exercise its mandate as a banking ombudsman.
3. Corporate Governance regimes are a necessity for the success and stability of the

Nigerian financial system.

To achieve the above, the remainder of this research work will be organized into four additional chapters:

Chapter 2, titled “The Nigerian Banking System”, gives an overview of the Nigerian Banking industry. Here a brief history, actors and description of the social and corporate structures are explicated in order to contextualize the issues being raised.

Chapter 3, titled “Ethical Models: A Literature Review”, discusses the validity of the stated business ethics principles as it reviews some literature on three interrelated theories: Stakeholder Theory, the Systems theory approach to business ethics and the Caux Roundtable Principles for Responsive Business - as appropriate ethical models and standards with which an analysis of the 2009 CBN intervention and Operator Behavior in the Nigerian Banking industry is to be carried out. A review of literature on the general ideas of Corporate Governance will also be attempted here.

Chapter 4, titled “An Ethical Analysis of the Regulator Intervention and Operator Behaviors”, carries out a critical examination of the CBN action in focus, as well as the behaviors of the affected banks using the ethical standards and models discussed in chapter three.

Chapter 5, titled “A Critique”, gives this author’s evaluation of the issues raised, lessons learnt and makes some recommendation for the future. The conclusion of this research ends this chapter.

The relevance of this capstone paper is viewed as three-pronged by its author. First, given that the research topic delves in to a current national issue in Nigeria and discusses outcomes that affect the financial sector in Nigeria and its economy, it is posited that this capstone is cogent as an academic reading. Secondly, by examining the ethics of the behaviors of organizations, an area not commonly looked into in Nigeria's business studies, as well as making recommendations for the future, this capstone contributes to the study of ethics and its relationship with organizations, businesses and individuals, especially within specific milieus such as Nigeria. Lastly, the author views this research as a bold step and sustained effort in his foray into academia and applied research.

CHAPTER 2

THE NIGERIAN BANKING SYSTEM

History:

Nigeria, apart from being the most populous country in Africa, has the world's tenth largest crude oil reserve. This has largely contributed to her being the second largest economy in Africa.[7] This fortune, however, has come with a toll as the country has an unhealthy dependence on crude oil, whilst neglecting other sectors of her economy. As of 2008, oil and gas exports accounted for more than 90% of export earnings and over 80% of federal government revenue.[8]

At the centre of Nigeria's economy has been an evolving banking system that has been in existence prior to the country's independence from Great Britain in October 1960. Nwankwo (1975) holds that formal banking began in Nigeria in 1892. From Nigeria's colonial era to present day fourth republic, the banking industry has witnessed vast transformations in character, structure and organization. Table 1 below highlights one summary of the various stages in the evolution and reforms the banking industry in Nigeria has undergone.

Goldsmith (1955), Cameron (1967), Mckinnon (1973) and Shaw (1973), agree to the recognition of a society's financial system (of which the banking sector is at the centre) as playing important roles in the economic development of that society. These authors believe further, that the financial sector could be a catalyst of economic growth if it is developed and healthy.

Supported by the information in Table 1, it can be said that the banking system in Nigeria, in conjunction with the non-banking sector e.g. securities market, form the core of Nigeria's economic development by playing vital roles.

Table 1: Historical Review of the Nigerian Banking Sector.

1st Reform Era 1929 – 1951	2nd 'Reform Era 1952 - 1971	3rd 'Reform Era 1982 - 2004	4th Reform Era July 2004 – Date
Over 100 banks established in the banking boom between 1940 and 1950. **Attrition of 30 private banks due to poor management, low capital, debt overhang & the financial shock induced by the recession of the 1930s.** **British and French Bank established in 1949.** **Agbonmagbe (Wema Bank) established in 1945, ACB in 1948.**	Enactment of the 1952 Banking Ordinance. Establishment of CBN. No. of tradable financial instruments increased in money market: Treasury bills (1960), Money Fund (1962), Commercial Bills (1968), Treasury Certificates (1968), Certificates of Deposit, Banker's Unit Fund and Eligible Loan Stocks (1968). Banking Amendment Act of June 1962 raised minimum share capital to GBP250, 000. Banking decree No. 1 of February 1969 & the Banking Amendment Decree No. 3 of 1970 imposed more stringent conditions in the industry. Industry dominated by government owned banks via Indigenization Act of 1971. Share capital raised to GBP600, 000 (local) & GBP1.5m (foreign). By 1980 there were 26 banks.	National Economic Emergency Decree in the wake of Financial distress in the 1980s and 1990s (SAP era). 120 banks (66 Commercial, 54 Merchant). Prudential Guidelines Introduced in 1990. Bank branches jumped from 40 in 1985 to over 2000 in 1992. Public sector accounts transferred from CBN to banks in 1999. Universal Banking in 2001 with N1bn capital base, later increased to N2bn with 2004 as deadline	- Increase in capitalization requirements by 1150% to N25bn. - No. of Banks reduced from 89 to 24. - Industry revolutionized with competition leading to increased product rollout & growth in credit to economy. -Total Assets rose 439% to N15trn (latest available figures). - International Expansion with over 43 branches in Foreign markets. - Nigerian banks accounted for over 65% of stock market capitalization. - Global economic crisis + structural lapses in NSE forces a collapse of the stock market with banks exposed to increased NPLs. - Sharp downturn in oil price and revenue leads to introduction of unorthodox policies. - Standard & Poor's downgrades Nigeria's outlook - New CBN governor takes over vows to sanitize banking system with emphasis on regulation, reporting & risk management. - CBN sacks the CEOs of 8 Banks and their respective Boards. Injects N420 billion ($2.8bn) into banking system to stabilize insolvent banks.

Source: Atuche F, CBN Seminar, May 2009.[9]

The functions of the banking system as such include and are not limited to: the development, administration and implementation of monetary policies that ensure stability in the Nigerian economy; the provision and management of financial resources and services to the Nigerian society in order to drive economic activities; the provision, management and storage of instruments of negotiation and exchange; the mobilization of financial resources from locations where they are least needed to where they are most needed; and the provision of information technology driven systems and platforms to support economic activities within and beyond the borders of Nigeria.

Thus, it can be said that the roles of banks, whether in a developed or developing economy, consist of financial intermediation, provision of an efficient payments system and serving as conduit for the implementation of monetary policies. Donli (2003) postulates that if these functions are efficiently carried out, the economy would be able to mobilize meaningful level of savings and channel these funds in an efficient and effective manner to ensure that no viable project is frustrated due to lack of funds.[10]

Actors and their Roles.

The Nigerian Banking system is composed primarily of regulators (government), operators (different types of banks), support groups (the Mint, electronic switches and platforms) and depositors (individuals, corporate and governments). These actors and their roles in the Nigerian banking industry will be discussed below.

First are the Regulators, there are two regulators in the Nigerian Banking industry namely the CBN and the Nigerian Deposit Insurance Company (NDIC). These are government institutions set up by law to regulate, monitor and control the activities and actors in the banking, and entire financial sectors of Nigeria. They formulate policies and procedures that ensure a sound and stable financial system. They also ensure that other actors in the banking system operate within the defined policies and practices. The CBN as the principal regulator (and capstone subject focus) will be discussed in depth later on in this chapter.

The NDIC on the other hand, is the government's agency responsible for guaranteeing the payment of deposits up to the maximum limit in accordance with its statue in the event of failure of an insured financial institution. It also supervises banks so as to protect depositors; fosters monetary stability; promotes an effective and efficient payment system; and promotes competition and innovation in the banking system. For the NDIC, banking supervision is an essential element of the Nigeria deposit insurance scheme as it seeks to reduce the potential risk of failure and ensures the unsafe and unsound banking practices do not go unchecked.[11] A board of directors and a management team led by a managing director manage the NDIC.

The NDIC utilizes three types of supervision in the banking system namely transaction-based supervision, consolidated supervision and risk-based supervision.[12] These types of supervision involve activities such as Offsite Surveillance and Onsite examination in the supervision of commercial banks while supervisory activities for Microfinance Banks (MFBs) and Primary Mortgage Institutions (PMIs) supervision are termed Supervision of Other Financial institutions.

Second are the operators, these are the various types of licensed banks providing financial services to the Nigerian public. Depending on the category of financial services provided, banks in Nigeria are grouped into Deposit Money Banks (Commercial Banks), MFBs, Finance Companies (FCs), Bureau-de-change (BDCs), PMIs and Development Finance Institutions (DFI's). These operators provide distinct financial services to the private and public sectors of the Nigerian economy. Their services include deposit mobilization and storage, term loans, mortgage loans and other types of credit facilities, as well as financial advisory services and electronic payment cards and platforms etc. These institutions are individually managed by a Board of Directors and a management team vetted and approved by the government regulators (CBN and NDIC). As at date, there are 24 Deposit Money Banks, 5 Discount Houses, 84 FCs, 98 PMIs, 649 BDCs and

900 MFBs.[13] The focus of this capstone however is restricted to the activities of the deposit money banks.

Third are the support groups. These actors are the institutions that provide the services, media and platforms that support the activities of the banking system. They include:

1. The Nigerian Security Printing and Minting Plc (NSPM): production of coins, bank notes and other security documents used in the banking or financial industry e.g. cheques and stamps.
2. Nigerian Inter-Bank Settlement System Plc: this is an institution owned by all licensed banks and the CBN. It operates an automated clearing platform (technology) that facilitates the clearing of cheques, electronic funds transfer, Automated Direct Credits and Automated Direct Debits between banks and between banks and the CBN.
3. Private Owned Electronic Switches: These category of actors refer to the various privately owned electronic switches and platforms that process electronic payments and support card or POS terminal payments. Notable of them are InterSwitch, VISA, Etranzact and MasterCard.
4. External Auditors: These actors are private institutions that provide periodic audits of the financial books and records of the operators. They usually give judgments as to the truthfulness of the published records and correctness of the method employed in the bookkeeping of transactions of these operators. Though engaged by the operators, they are vetted and approved by the regulators to provide these services to the operators.

Last are the depositors, these refer to the beneficiaries of the services provided by the operators in the banking system. Depositors are individuals, formal and informal groups of persons, large and small corporates, as well as the three tiers of governments and their sub agencies. They supply or demand financial resources to and from the operators, who in turn are supervised by the regulators.

Current Structure and Organization of the Nigerian Banking System

The Nigerian banking system is organized around the activities and interactions among the actors highlighted above. The most notable aspects of these activities include the taking of deposits from the public and the granting of credit facilities by the deposit money banks. Donli (2003) holds that these two particular aspects are at the hub of banking in Nigeria. The various deposit money banks (otherwise called commercial banks), through their branch networks around the country, provide financial services to the Nigerian public, who may be individual, informal and formal groups, small, medium and large corporates, as well as the three tiers of government and their respective ministries, departments and agencies (MDAs).

Deposit money banks are mainly owned by Nigerian indigenes and institutional bodies; there are however some foreign part-ownerships of banks. Although 21 of the 24 deposit money banks are listed on the Nigerian Stock Exchange (publicly quoted) ownership of these deposit money banks is mainly dominated by single individual majority ownership and family majority ownership. Thus, the management and control of the operations of these banks are largely influenced by a significant individual or by a family, who usually appoint individuals to membership of the board of directors. The CBN in nearly all cases approves these board appointments. Appendix A lists the 24 licensed deposit money banks in Nigeria.

These banks operators conduct their businesses and provide records of their operations using a 12-month financial year-end accounting and reporting. As of today, the financial year-end accounting and reporting varies for the 24 deposit money banks in Nigeria. In 2008 however, the CBN introduced a uniform financial year-end in December for all deposit money banks, but later rescinded the decision allowing the various banks to choose their own respective year-ends.[14] The above scenario describes an instance of the impact that stiff competition amongst deposit money banks has on the Nigerian banking system.

External private audit firms, engaged by individual deposit money banks but vetted by the CBN attest to the veracity of the published financial reporting of the activities of these banks. In the course of the financial year, the NIDC and CBN, through their examiners fulfill their statutory mandates of regulation and supervision by employing off-site and onsite examinations of the books and activities of these banks.

Soludo (2009), states that the activities of banks accounts for over 90% of the Nigerian financial system assets and are an increasing dominant source of financing for the economy. These activities in the banking system form a significant part of, and determine to a great extent the economic fortunes of Nigeria.

However, given the importance the banking system plays in the economic growth and development of Nigeria and the limitations of these interactions and activities among the above actors i.e. imperfections of market mechanism to mobilize and allocate financial resources to socially desirable economic activities of the nation, it becomes necessary for the Nigerian government (as with all governments), to regulate them more than any sector in an economy.

In addition, the nature of banking business; as one that is conducted with greater secrecy when compared with other real sector businesses provides added reason for its strict supervision. Such oversight is intended to assist supervisory authorities in the timely identification of deterioration in bank financial conditions before their degeneration threatens the stability of the banking system or even the economy.

Bank Regulation and Supervision:

The regulation and supervision of banks constitute an integral part of the mechanism for ensuring safe and sound banking practices and by extension, a stable economy in Nigeria. At the apex of this regulatory/supervisory framework is the CBN. The focus of this paper as such will include a concise description of the CBN and its supervision of the deposit money banks.

The NDIC (highlighted earlier) however, exercises shared responsibility with the CBN for the supervision of insured banks. Active cooperation exists between these two agencies on both the focus and modality for regulation and supervision of insured banks. This is exemplified in the coordinated formulation of supervisory strategies and surveillance on the activities of the insured banks, elimination of supervisory overlap, establishment of a credible data management and information sharing system.[15]

Bank regulation refers to "the provisioning of inputs into developing and interpreting legislation and regulations, issuing guidelines, and approving requests from regulated financial institutions."[16] Bank supervision, on the other hand, entails the off-site surveillance and on-site examination of the books (analysis of periodically rendered prudential returns) and affairs of the banks, in which exceptions are reported and recommendations made on how the observed lapses can be corrected. The implementation of such recommendations is monitored through scheduled post-examination visits to the affected banks.[17]

These two activities (on-site examination and off-site surveillance) are mutually reinforcing and are designed to timely identify and diagnose emerging problems in individual banks with a view to prescribing most efficient resolution option. On-site examination could be routine, involving regular physical examination of bank books and affairs to ascertain financial condition and compliance with prescribed rules and regulations. It could also be target or special examination conducted to examine specific aspects of a bank's operations. On-site examinations are intense to ensure a cycle of once a year for every bank and shorter interval for problem banks. The three main types of supervision are transaction-based, consolidated and risk-based supervision.

Central Bank of Nigeria (CBN)

The CBN is the apex regulatory authority of the financial system in the Nigeria. It was established by the CBN Act of 1958 (amended in 1991, 1993, 1997, 1998, 1999 and 2007) and commenced operations on July 1ST, 1959. The promulgation of the CBN Decree 24 and Banks and other financial institutions (BOFI) Decree 25, both in 1991, gave the bank more flexibility in regulation and supervision of the banking sector and licensing finance companies which hitherto operated outside any regulatory frame work.[18] The Federal Government of Nigeria tasked the CBN with four principal functions or statutory mandates:

1. Issue legal tender currency in Nigeria;

2. Maintain external reserves to safeguard the international value of the legal tender currency;
3. Promote monetary stability and a sound financial systems in Nigeria;
4. Act as banker and financial adviser to the Federal Government.

Another core function of the CBN is the responsibility of administering the Banks and Other Financial Institutions (BOFI) Act (1991) as amended. This mandate saddles the CBN with the sole aim of ensuring high standards of banking practice and financial stability through its surveillance activities, as well as the promotion of an efficient payment system - the core function of the CBN, which is the area of concentration for the capstone. Over time however, the CBN has also performed some major developmental functions, focused on all the key sectors of the Nigerian economy (financial, agricultural and industrial sectors). Overall, the apex Bank, through its various departments carries out these mandates.

In March 2010, the Central Bank of Nigeria launched its restructuring program tagged Project ACE with a view to repositioning and reinventing the CBN for sustainable improvement of overall accountability, communication, efficiency and effectiveness.[19] Thus, there are 25 Departments in the CBN, grouped under 5 directorates, in order of related performance and job descriptions to facilitate smooth operations and management of these departments. The CBN is run by a Board of Directors, led by the Governor of the CBN. Each directorate is headed by a deputy governor. Appendix B lists the organization and structure of the CBN. For the purposes of this capstone, this paper highlights only the Financial System Stability Directorate.

Financial System Stability Directorate:

The regulatory and supervisory functions of CBN fall under the Financial System Stability Directorate, which is structured into four departments: These departments and their mandates are

1. Banking Supervision Department: a.) Conduct off-site surveillance and on-site examination of Deposit Money Banks, Specialized Institutions Credit Registry Bureaux, and related institutions. b.) Development of standards for examinations and consolidated supervision.

2. Development Finance Department: Development and implementation of various policies, programmes and schemes aimed at the effective, efficient and sustainable delivery of financial services to special sectors of the economy

3. Financial Policy and Regulation Department: a.) Development and implementation of policies and regulations aimed at ensuring financial system stability. b.) Licensing and approvals for banks and other financial institutions

4. Other financial Institutions Supervision Department: Conduct of off-site surveillance and on-site examination of Microfinance Banks, Bureaux-de-Change, Development Finance Institutions, Primary Mortgage Institutions and Finance Companies.

In order to carry out its regulatory and supervisory responsibilities, the CBN, through its Banking Supervision Department conducts independent on-site assessment of banks' corporate governance, internal control system, reliability of information provided, etc. The field examinations carried out by the department are grouped into “maiden”, which are usually conducted within six months of commencement of operation by a new bank; "routine" which are the regular examinations; "target", which addresses specific areas of operation of a bank e.g. credit, and "special" which are carried out as the need arises as provided in section 32 of the BOFI Act. The departments also conduct spot-checks for quick confirmations/verification.

All of the above are part of the on-site aspect of the Banking Supervision department's function. The off-site aspect, on the other hand, reviews and analyses the financial conditions of banks using prudential reports, statutory returns and other relevant information. It also monitors trends and developments for the banking sector as a whole. Industry reports are generated on monthly and quarterly basis.

In keeping with international standards, the CBN (as well as the NDIC) continues to emphasize risk-focused bank supervision in Nigeria. It has adopted the 25 core principles for effective banking supervision as enunciated by the Basle Committee on Banking Supervision as the pivot of the framework for bank supervision.[20] Other integral features of its bank supervision include regular contact with bank management, consolidated supervision of banks with non-bank financial affiliates and independent validation of supervisory information.

Having described the Nigerian Banking system, in order to allow for the contextualization of issues raised, it is now necessary that this paper now moves to consider the notion of ethics as it relates to the issues being raised.

CHAPTER 3

ETHICAL MODELS: A LITERATURE REVIEW.

In this chapter, a discussion on the meaning, applicability and relevance of ethics in business, as well as a discussion of selected ethical concepts and frameworks are set forth. In doing so, the stated business ethics principles of this paper will be addressed. The author limits his focus to the discussion of three interrelated approaches to ethical reasoning and practice (the normative Stakeholder Theory, the Systems Theory approach and the Caux Roundtable Principles), to the general ideas of corporate governance as they affect the case study i.e. the CBN intervention, and to the behaviors of some deposit money banks that necessitated this intervention. For the above reason and purposes, the three approaches are referred to as ethical models.

Ethics is the reflective study of what one ought to do, or how one ought to live. Erondu et al (2004) hold that the study of “ethics” focuses on issues of practical decision-making, including the nature of ultimate value, and standards by which a human action can be judged right or wrong, good or bad. For Adenubi (1999), ethics applies to any system or theory of moral values or principles. For Beauchamp and Bowie (2001), ethics is the general term referring to both moral beliefs and ethical theory on human conduct. Inferring themes from the above definitions or descriptions, the term “ethics”, as used in this paper, relates to choices and judgments about acceptable standards of conduct that guide the behavior of individuals and groups. Wherever there is a community of people, there are norms and mores that guide people’s behavior.

As parts of human communities themselves, business firms and their various activities demand codes of conduct or norms that guide their behaviors. Put differently, ethical action by business persons in the pursuit of business objectives and goals has become a tenet for sustainable business practices and demanded of contemporary firms. Nilsson and Westerberg (1997) hold that ethics and business not only can, but must go together, for to do business without concern to ethics is the surest way to fail (p. 492). Bowie (1982, 2001), Jones, Wicks and Freeman (2001)[21], and Egels-Zandén and Sandberg (2010) attest to the necessity of ethics in business communities and practices. For them, business ethics is about how the nature of business is understood as a morally compelling domain of human activity.

Given that business activities (e.g. banking) play major roles in any society, as seen in Chapter 2 of this paper, people within a society expect that organizations and firms (businesses) will accept their roles as "citizens" and that these businesses will behave as good citizens, i.e. they will behave ethically. As such, it can be said that behaving in an ethical manner is part of the social responsibility of a business and business ethics concerns itself with how business should be conducted ethically (Erondu et al., 2004, p.349). Bowie (2001) emphasizes this when he says, "if business ethics is a fad, it is a fad that has lasted for over thirty years and one that continues to have resilience" (p.1.).

<u>Stakeholder Theory Model:</u>

Business Ethics Principle 1: Ethical Behaviors in business practices lead to business success, and a stable financial system.

As a theory in Business Ethics, Stakeholder Theory attempts to address the question "what is the purpose of the corporation and in whose interest should it be run?"[22] Ethicists and proponents of ethics in business not only criticize the leading theory of the function of business opined by economists and finance professors (i.e. for the sole purpose of satisfying shareholder interests), but also argue that it is in the best interest of business organizations to reflect in their behaviors, the recognition of the need for moral and ethical concerns in managerial and decision-making. As a matter of fact and from a theoretical standpoint, it is generally held in business ethics circles that the Stakeholder Theory, by Ed Freeman, arose as an alternative theory to the traditional notion of the function of business that emphasized shareholders only. Freeman, however, points out that the general ideas of the stakeholder theory predate his postulation (Jones, Wicks and Freeman, 2001, p.20).

For Freeman, acting ethically in business demands that business firms and managers recognize their purpose as that of fulfilling obligations to stakeholders and not just stockholders. He goes further to say that stakeholder theory, as an approach in business ethics should be about how we understand the nature of business, as a morally compelling domain of human activity that could never be devoid of morality (p.26).

Pondar and Jancic (2006) also allude to Freeman's position when they opine that, within the stakeholder theory framework, companies are seen as involved in the social system and forced to enter into a 'new social contract', i.e. exchange episodes, with each different social subject. This 'new social contract' presents a mix of reciprocal expectations of the role and responsibilities of each of the involved parties in a corporate and social environment (p.298). This contract also demands that companies perform social, ethical and environmental responsibilities. Therefore, the company's management has to balance different stakeholders' interests. Thus for Pondar and Jancic, the purpose of the company or firm is essentially to balance the interests of various stakeholders. When this is done, the company is said to be acting ethically and this leads ultimately to the success of the firm.

At this juncture, it should be pointed out that, although the stakeholder theory is still developing and has multiple interpretations, i.e. still lacks a convergent single theory, it still subsists as a cogent theoretical orientation in business ethics where it connotes the body of research in which the idea of "stakeholders" plays a crucial role. Its uniqueness as an ethical theory lies in its normative focus where the moral underpinnings of businesses require organizations and their managers to fulfill their obligations to a broad array of stakeholders rather than stockholders only.

Jones, Wicks and Freeman (2001) criticize the traditional notion of the firm put forward by the Nobel Prize winner Milton Friedman that the ethical obligation of business managers is to seek profits for the stockholders only, a single set of stakeholders. For Jones, Wicks and Freeman, this traditional notion (seeking profits for stockholders only) of the firm or business organization is myopic as it places too much emphasis on shareholders to the exclusion of other stakeholders. The traditional notion also diverts the attention and efforts of managers from groups that are vital to the success or failure of a firm's business initiatives and to whom these managers have obligations as well (p.19).

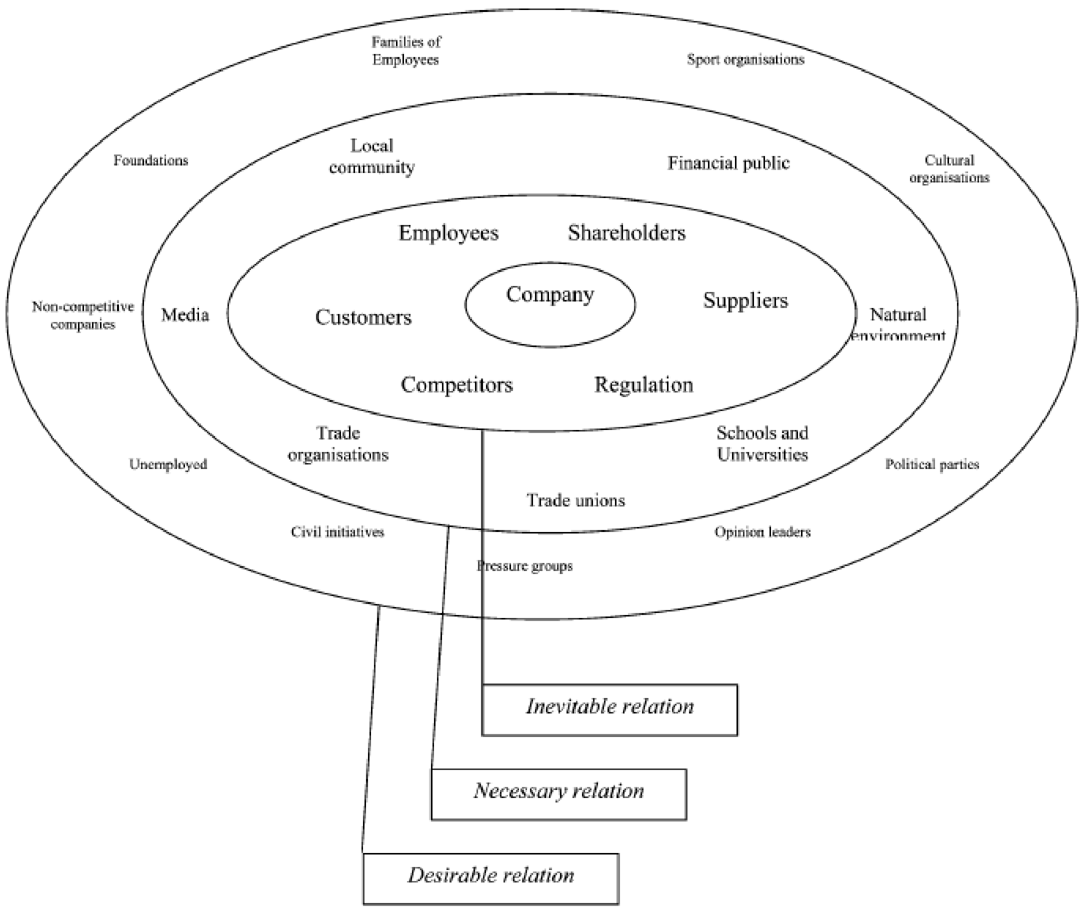
As such, they (Jones, Wicks and Freeman) hold the position that, business managers must go beyond a simplistic and narrow perspective of the objectives of the firm to include other stakeholders other than the shareholders. Acting ethically here would thus entail business managers fulfilling responsibilities to the firm and its wide array of stakeholders.

For Donaldson and Preston (1995) the stakeholder theory requires of anyone managing or affecting corporate policies to possess, as a key management attribute, the simultaneous attention to the legitimate interests of all appropriate stakeholders, both in the establishment of organizational structures and general policies and in case-by-case decision making (p.67). For them, the rightful locus of corporate control and governance includes all stakeholders capable of influencing business decisions and policies.

As seen in Jones, Wicks and Freeman (2001) or in Pondar and Jancic (2006), or yet still Donaldson and Preston (1995), the central argument of the Stakeholder Theory is based on two premises: first, that to perform well, business organizations and their managers need to pay attention to a wide array of stakeholders and secondly, managers have obligations to stakeholders which include but extend beyond shareholders (Jones et al, 2001, p.20). In other words, the stakeholder theory holds that making profits for the firm and its shareholders, as well as fulfilling other duties to other groups associated with the firm are the essence for which a firm exists. This is to say that the most basic normative tenet of the stakeholder theory is the view that the claims of all legitimate stakeholders have intrinsic value.

Although, Jones, Wicks and Freeman (2001) use a "hub and spoke"[23] (see Figure 1) to model the various stakeholders in their theory, this paper adopts the representation by Pondar and Jancic (2006) as more suited as it goes further in categorizing the various stakeholders in the stakeholder theory. 'Stakeholder' here refers to 'any group or individual who can affect or is affected by the achievement of the organization's objectives' (p.298)

Figure 1. Three Main Levels of Exchange and Communication with Company Stakeholders.



Source: Pondar & Jancic (2006), Towards a Categorization of Stakeholder Groups: An Empirical Verification of a Three-Level Model. Diagram. *Journal of Marketing Communications*, Vol. 12 Issue 4, found on p301. EBSCO*host* (accessed March 13, 2010).

The above postulation by Jones, Wick and Freeman (2001), and the figure representation by Pondar & Jancic (2006) capture some vital points and showcase their relevance to the CBN-Bank case analysis. As seen earlier Chapter 2 (discussing the nature, structure and actors in the Nigerian banking industry) and from the discussion and figure above, it can be said that deposit money banks (and their activities) as firms have an ethical obligation to a wide array of stakeholders (other than their shareholders) that includes the CBN (regulator) and vice versa. This is to say, the CBN also, as a social entity, has ethical obligations to a wide array of stakeholders. As Pondar and Jancic (2006) put it, "this 'new social contract' presents a mix of reciprocal expectations of the role and responsibilities of each of the involved parties in a corporate and social environment" (p.298).

In Figure 1, this relationship between the firm (banks) and the regulator (CBN) has been classified by Pondar and Jancic as an inevitable relationship. Acting ethically here would mean that deposit banks as well as the CBN as firms fulfill their responsibilities to the all stakeholders. Only in so doing do they fulfill their essences as ethical firms.

Systems Theory Model

Business Ethics Principle 2: The regulator in a financial system must first be ethical in character and action in order to exercise its mandate as a banking ombudsman.

Closely related to the stakeholder theory of business ethics is the systems theory approach. As an ethical theory, systems theory also attempts to connect business and ethics (Nilsson and Westerberg, 1997). According to the systems theory ethicists, social phenomena cannot be fully understood in isolation. Rather they must be viewed as parts of the larger system within which they interact with other elements of the system (Ackoff, 1971, 1972, 1974, 1987). That is, within the systems theory framework, the optimization of the goals of individual components (subsystem goals) is to be pursued only to the extent compatible with the pursuit of overall system goals.

For Ackoff (1987), ethical judgment should be based not on rules that are to be applied to the outcomes of decisions or end product, but to the decision-making process involving stakeholders (p.185). That is, ethics is more of a matter of how decisions are made than of what decisions are made. To this end, Ackoff lists two principles that should guide corporation in ethical judgments:

1. Decisions should be made by consensus of all who are directly affected by the decisions, the stakeholders.

2. However unqualified stakeholders are to the decision-making process, they should endeavor to participate in the process unless (a) the stakeholder(s) do not know the consequences and ramifications of the decisions being made and (b) stakeholder's best interest will be taken into account by participating stakeholders in the decision-making process (p.186).

Within the first principle, Ackoff explains, for example, why criminal acts are immoral: because criminals deprive their victims of their "right" to participate in the decision (criminal act) that affects them. To this end, criminals cannot be involved in the decision (treatment) that affects the criminal. In other words, stakeholders who deprive other stakeholders of the right to participate in decisions that affect them should be in turn deprived of the right to decide how other stakeholders or their representatives should treat them. Ackoff, however, holds that retributive treatment for immoral acts should always aim at reform and not punishment (p.186).

Within the second principle, Ackoff opines that ethical decisions can be made by some stakeholders on the behalf of some other stakeholders who, for the reasons mentioned above, cannot participate in the decision-making process. Stakeholders (or their representatives) who participate in the decision process are aware of the consequences of the decisions being made and are making such decision for the maximization of the best interests of all stakeholders (for the system). Consensus and maximum representation are thus key themes in Ackoff's postulation of business ethics through the systems theory lens.

Although Ackoff's postulation smacks of idealism, a point which he admits, his points hold true when we consider the CBN intervention that arose out of the misconduct of some management personnel at some deposit money banks in Nigeria. As decision makers, who carried out immoral acts, some Nigerian banks' personnel (management stakeholders of firms) were prevented by the CBN (regulator stakeholder) from further decision-making affecting other stakeholders in the system. The CBN in turn meted out treatment for immoral acts these bank management stakeholders had perpetrated, which has been seen by some as acting on behalf of other stakeholders and the banking system at large. We shall however discuss this in-depth in the next chapter.

A point to be noted here, however, is the notion of inter-relationships among parts within the system and which make up the system. That is to say, the actions of a part of the system could have consequences on the rest of the system, as such the system in its essence or in search of its ultimate goal will constantly seek to balance itself or maintain equilibrium. As such, it can be said that the system theory lens of business ethics places emphasis on maintaining balance of the overall system and that subsystem interests are subordinate to the overall system interests.

Buttressing this position, Duska and Clarke (2001),[24] following Aristotelian logic, see human beings or groups of human beings (organizations) as social animals and that the fulfillment of their appropriate ends, which is the goal of ethical behavior, can only take place within a society(Polis) whose structures either help or hinder or individual fulfillment (p.207). Put differently, individuals or organizations, as parts (sub-systems) can only attain fulfillment within the structures (balancing elements) of the society (overall system).

Nilsson and Westerberg (1997) posit that Systems Theory or Thinking is not only one line of thought but several and depending on which approach of systems thinking methodology is adopted, ethics will be treated differently. They posit four methodologies in systems design and development namely multimodal methodology, hypersystems, soft systems methodology and developmental work research (p.498). Table 2 gives a summary highlight of each methodology's approach to business ethics.

It suffices to point out that Nilsson and Westerberg see the contribution of systems theory approach to business ethics only when practical applicability and clear ethical stance are combined to address ethical issues (p.504).

Table 2. Some Features of the Four Systems Design Methodologies

	Multimodal Methodology (de Raadt)	Hypersystems (Ivanov)	Soft Systems Methodology	Developmental Work research (Engestrom)
Overriding Purpose (idealistic – Pragmatic)	Welfare of Humanity (idealistic)	Not explicitly stated (idealistic)	Handle soft problems situation (pragmatic)	**Handle everyday dilemmas**
Tools (Conceptual – Operational)	Multimodal thinking (mostly conceptual)	Tools yet to be developed (conceptual)	Methodology as such (conceptual and operational)	**Human activity system (conceptual and operational)**
Situational Contingency (High-low)	Low	Low	High	**High**
Emphasis on Ethics (Strong-Weak)	**Strong**	**Moderately Strong**	**Moderately Weak**	**Weak**

Source: Nilsson & Westerberg (1997), Business Ethics and Systems Thinking. Table. *Systems Practice*. Vol. 10, No.4, found on p.503. EBSCO*host* (accessed March 15, 2010).

Nilsson and Westerberg also place emphasis on consensus amongst constituent parts or layers. That is, systems theory as an approach to business ethics emphasizes the balance of the overall system over its constituent parts or subsystem.

<u>The Caux Round Table (CRT) Business Principles:</u>

Business Ethics Principle 1: Ethical Behaviors in business practices lead to business success, and a stable financial system.

In the present epoch, the CRT, as an international network of principled business leaders working to promote a moral capitalism, has highlighted the necessity of instilling sound ethical practices across the business world. Using two ethical ideals, “kyosei” (Japanese term referring to living and working for mutual advantage) and “human dignity”, the CRT seeks to establish a worldwide vision for ethical and responsible corporate behavior and which will serve as a foundation for action for business leaders worldwide. For them, if capitalism is to be respected, as well as remain a sustainable concept for global prosperity, it must be both responsible and moral. As such, businesses operating under the capitalist code, in addition to their practical reliance on measures of profit and loss, need a moral compass.[25]

The CRT therefore sets forth seven principles for responsible business. These principles, rooted in three ethical foundations namely: responsible stewardship; living and working for mutual advantage (kyosei); and the respect and protection of human dignity, are to serve as ethical norms for acceptable businesses behavior[26]. Appendix C highlights the working framework of these principles. In the author's opinion, these seven principles reflect an attempt to provide ethical guidelines for contemporary business environments and actors as it takes into cognizance the ethical dilemmas, situations and challenges business encounter today.

The central argument of the CRT is that the self-interested pursuit of profit by some stakeholders, with no concern for other stakeholders, will ultimately lead to business failures and, at times, to counterproductive regulation[27]. Consequently, business leaders must always assert ethical leadership so as to protect the foundations of sustainable prosperity. Put differently, the CRT principles recognize that while laws and market forces are necessary, they are insufficient guides for responsible business conduct today. To buttress their argument, the CRT points back to the recent events of the 2009 global financial crisis. These events, for them, reveal failures of governance and ethics and thus tarnish the positive contributions of responsible business to higher standards of living and the empowerment of individuals around the world.[28]

Another argument of the CRT is that they posit their seven principles for responsible business have a risk management foundation: the CRT seven principles seek to balance the interests of business with the aspirations of the society (system) to ensure sustainable and mutual prosperity for all. For them, good ethics is good risk management.[29]

Like the stakeholder theory and the systems theory discussed earlier, the CRT Principles for Responsible Business are supported by detailed stakeholder management guidelines covering each key group of business success: customers, employees, shareholders, suppliers, competitors, and communities. Put differently, CRT Principles for responsible business recognizes systems and it component parts that are not only related but also to be considered in decision-making.

Corporate Governance

Business Ethics Principle 3: Corporate Governance regimes are a necessity for the success and stability of the Nigerian financial system.

As a concept reflected in this capstone's title and much more as a theme in business ethics, corporate governance denote the concrete application of ethics in organizational behaviors, activities and systems. Corporate governance has a vast literature as business ethics itself, and has evolved over centuries, often in response to corporate failures or systemic crises (Iskander and Chamlou, 2000, p.1). The persistent concern in societies over the status of health of corporations and of society in general underpins the relevance of corporate governance both as an ethical principle and as a practice to date (Arjoon, 2005, 343).

For Boatright (2001) [30] corporate governance is concerned broadly with who has the right to control the activities of a firm and how this right is to be exercised (p.38).Should this right fall to the executive management solely or to the shareholders of the organization? Although he posits that this function should be the preserve of the shareholders and posits a robust argument to back it up (which are amenable to criticisms), Boatright acknowledges the importance of corporate governance as a concept in business ethics and as a system of practices in the business world. For Boatright, corporate governance is essentially a search for the most efficient system of economic organization (p.58).

Primeaux (2002)[31] sees ‘corporate governance’ (although he did not use this term) as a framework or blueprint for business and for people in business to be able to appreciate the ethics of business, and to regulate themselves rather than waiting for political, legal and religious demands to be imposed from outside. As such, using Primeaux’s thinking, corporate governance is about tying business ethics to profit maximization where profit maximization goes beyond the rational, numeric bottom-line accounting profits (p.242).

Iskander and Chamlou (2000) offer two perspectives (private sector and public sector) on how corporate governance is viewed. From a private sector or corporation’s perspective, corporate governance is about maximizing value subject to meeting the corporation’s financial and other legal and contractual obligations. This involves the board of directors’ balancing the interests of shareholders with those of other stakeholders. From the public policy perspective, corporate governance is about nurturing enterprises while ensuring accountability in the exercise of power and patronage by firms. Within the public view, corporate governance serves to provide incentives and discipline to minimize disparities between private and social returns, as well as to protect the interests of stakeholders (p.3).

Iskander and Chamlou's conceptualization of corporate governance as represented in Appendix D reveals a framework based on the interplay between internal incentives and external forces that together govern the behavior and performance of the firm.

Millstein (1998), seeing corporate governance as the internal means through which corporations accomplish their goals, opines that corporate governance is comprised of both internal relationships (e.g. between shareholders, board of directors, managers, employees, etc) and external relationships amongst stakeholders (e.g. between firms and government regulations, public perception and competitors). An understanding of these interrelationships between stakeholders and their individual roles is therefore needed to understand how corporate governance is shaped or modeled (p.7).

Positing the findings of the Organization for Economic Co-operation and Development (OECD) advisory group, Millstein goes further to say that:

1. Corporate governance practices constantly evolve to meet changing conditions (no single universal model of corporate governance).
2. Corporate governance practices will continue to vary across nations and cultures.
3. Corporate governance practices will vary as a function of ownership structures, business circumstances, competitive conditions and corporate life cycles etc.

The postulations above are cogent as they reflect present realities (and complexities) of the business world today and more so in the case study of the Nigerian banking industry.

In summary, this chapter reveals that behaving ethically and business success are inseparable. To separate them is the surest way to fail for businesses as much as for societies. Businesses are part of the social system that has other stakeholders or subsystems interplaying. It thus behooves of the system to maintain balance in order to attain its ultimate goal or essence. In other words, acting ethically by business persons in the pursuit of business objectives and goals is not only a tenet for sustainable business practices, but is demanded of contemporary firms today. The next chapter attempts to discuss these in more depth.

CHAPTER 4

AN ETHICAL ANALYSIS OF THE 2009 REGULATOR INTERVENTION AND OPERATOR BEHAVIORS

It is expedient to begin this chapter with a reiteration that this capstone seeks to evaluate, using the ethical models discussed in the preceding chapter, the 2009 CBN intervention in the Nigerian Banking industry and the behaviors of some deposit money banks that necessitated that intervention. In other words, what constituted the unethical behaviors of some operators (banks) that prompted the action of the regulator (CBN)? Are these interventions by the regulator, themselves considered as ethical and justified? To this end, it is necessary that this research list what is referred to as 'operator behaviors' and 'regulator intervention' in 2009.

The behaviors of the affected operator banks' CEOs and their directors include some of the following acts[32]:

1. Alleged granting of loans (in billions of naira) to various firms without adequate collateral.

2. Alleged granting of non-performing loans to personally owned but disguised companies of the CEOs and directors and without collateral, contrary to CBN regulations.

3. Alleged granting of loans with values above the approved limit (25 billion naira i.e. $166 million) and without approval from the CBN.

4. The allegation of incorrectly importing commercial papers under the Expanded Discount Window in the statement of assets and liability of the affected banks.

5. Alleged falsification of bank records and figures, and failure to give a true and fair view of the state of the affairs of the bank to the CBN and NDIC.

6. Alleged failure to take all reasonable steps to ensure the correctness of Bank monthly bank return to the CBN between October 2008 and May 2009.

7. Alleged taking of $10,000 holiday allowances in contravention of the code of conduct for banks issued by CBN.

8. Alleged engaging in money laundering activities[33].

The above acts according to the Economic and Financial Crimes Commission (EFCC) are offenses contrary to and punishable under Sections 28 (3) and 50 of the Banks and Other Financial Institutions Act (BOFIA) CAP B3, Laws of Nigeria, 2004.

On the other hand, the CBN intervention constituted of the following actions:

1. The firing of the CEOs and the boards of directors of eight banks.

2. The replacement of the fired officers with external CBN-appointed officers.

3. The injection of 420 billion naira ($2.8 billion) of government funds into the affected eight banks to address their insolvency and liquidity challenges, thereby stabilizing the Nigerian banking system from potential collapse.

Having listed the above, this paper proceeds to conduct an analysis of the above behaviors and intervention using the ethical models discussed in Chapter 3.

Analysis of the 2009 Operator Behaviors

An examination, using principles 1through 4 and 7 of the CRT Principles to Responsible Business, the stakeholder theory and the systems theory, would classify the above behaviors of the bank executives as unethical. Specifically, CRT Principle 1 states "Respect Stakeholders beyond Shareholders". In this statement, the CRT exhorts responsible businesses and their mangers to maintain the economic health and viability of their respective institutions, not just for the sake of profits for shareholders, but also profits for other stakeholders.[34] 'Profits' here go beyond numeric financial values to include economic, social and even environmental goods for the stakeholders. This principle as such echoes themes found in the stakeholder and systems theories, which also emphasize that business managers have obligations to stakeholders beyond shareholders.

By granting loans, in many cases beyond approved limits and without CBN approval, the fired bank executives did not respect the interest of stakeholders and jeopardized the economic viability of their respective institutions as evidenced by the insolvency of their respective banks. An insolvent bank means that thousands of jobs, associated (linked) businesses and their dependents are put at a risk. An insolvent bank also means that its investors may possibly lose their investments, thereby jeopardizing their livelihoods, etc. Within this frame of reasoning the bank executives neglected their obligations to the wider stakeholder group, which includes the affected banks as organizations (interest of shareholders and employees) and other stakeholders of society. Thus, the behaviors of these bank executives are considered unethical under CRT principles.

In CRT principle 2, which states “Contribute to Economic, Social and Environmental Development”, businesses are expected to enhance society through effective and prudent use of resources. This concern for the welfare of society is also a central theme in the multimodal methodology of a systems theory approach to business ethics (see Table 2, p.28). In both ethical viewpoints business managers are expected to act in manners that sustain society’s (system’s) ‘operating’ capital – financial, social and environmental goods - and thereby contributing to the economic, social and environmental development of society.[35] The fired bank CEOs and executives, as seen in their alleged actions e.g. taking of huge holiday allowances, reveal behaviors that lack prudence in the use of financial resources placed in their care and administration. By such actions, these executives acted contrary to a generally accepted standard of ethical behaviors expected of businesses and more so of banks and their obligation to the larger system (society).

In CRT principle 3, which states “Respect the Letter and the Spirit of the Law”, responsible and ethical business managers are expected to be transparent, truthful and faithful to promises made in their dealings. The principle also exhorts business managers to avoid, even if legal, business behaviors that can have adverse consequences for stakeholders.[36] Put differently, this principle expects business leaders, in this case, bank chiefs and their lieutenants, to conduct business transactions that go beyond minimal legal obligations and interpretations. As such, evaluating the particular behavior of the fired bank executives - granting of loans to fictitious (masked the true identity of ownership) companies that eventually became non-performing loans - reveal a grand design of deceit, conspiracy and lack of transparency on the part of the fired bank executives. These acts are as such considered unethical.

Following from the preceding point, it can be further argued that these bank executives acted not only out of self interest, but from a business orientation (stockholder theory) that, taken to its extreme, seeks to maximize value only for its shareholders, themselves (a selective shareholders classification at that). The stakeholder theory of business ethics argues vigorously for the transformation of the economic argument of managerial capitalism, i.e. stockholder theory conceptualization of business, as Ed Freeman (2001) puts it

> Externalities, moral hazards, and monopoly power have led to a more external control on managerial capitalism. There are de facto constraints, due to these economic facts of life, on the ability of management to act in the interests of stockholders.[37]

Freeman, in this argument is proposing a stakeholder theory in which the task of management of today's corporations is that of maintaining balance in the relationships among various stakeholders. When the relationships become imbalanced, the survival of the firm is in jeopardy. The above scenario is analogous to the actions of the bank executives in focus, which when seen from the stakeholder theory and CRT principle 3 are thus considered unethical.

In CRT principle 4, which states "Respect Rules and Conventions", responsible business managers ought to respect all applicable national and international laws, regulations and conventions while trading competitively and fairly.[38] Banking by the nature of its transactions (safeguarding of, and administration of a society's financial resources to mention but a few) falls into the category of highly regulated industries. As such, its officers and executives are expected to exhibit behaviors that reflect, not only the highest of ethical standards, but more so respect for established rules, guidelines and conventions.

In Nigeria, the federal government, through its agencies, the CBN and NDIC, spells out these rules and guidelines which are to be complied with by operator banks. One such rule is the Banks and Other Financial Institutions Act (BOFIA) of 2004, which is the main guideline and rules for banking activities in Nigeria. What runs through the listed behaviors of the fired banks executives is their flagrant disregard of BOFIA, and of other guidelines and conventions established by the banking system regulators. As such, within principle 4 of the CRT, the behaviors of the fired executives are considered to irresponsible and unethical.

In principle 7 of the CRT, which states “Avoid Illicit Activities”, ethically minded businesses and their managers are expected to never participate in or condone corrupt practices, bribery, money laundering nor other illicit activities. It is alleged that some of these bank executives, using the resources and tools of their respective banks, engaged in illicit activities such as falsification of bank reports and records, deliberate failure to give a true and fair view of the state of the affairs of the bank and money laundering. These acts are not only unethical but go against the very rules (BOFIA) that govern banking activities in Nigeria.

In the stakeholder theory, Freeman (2001)[39] posits the Principle of Director Responsibility, in which the directors of a corporation have a duty of care. As such, this principle holds that the directors of an organization shall exercise reasonable judgment to define and direct the affairs of the corporation where the interests of all stakeholders are sought after (p.64). The listed behaviors of the fired bank executives betray a disregard for this principle and the failure to meet the obligations of director-stakeholders. In this context, these specific operator behaviors are labeled as unethical.

Analysis of the 2009 CBN Intervention

The three component acts of the 2009 CBN intervention can also be evaluated using the three ethical models appraised in chapter 3 of this capstone. The first intervention by the CBN as stated earlier was the firing of the eight bank CEOs and their respective board of directors. Given the reasons posited by the CBN Governor for this action (see p.1 of this paper), it can be said that the action of firing the eight CEOs and their respective board of directors is ethically sound.

From both the stakeholder theory and systems theory perspectives, the CBN as regulator-stakeholder has a responsibility towards various stakeholders internal to the corporation (e.g. employees, shareholders), as well as external to the corporation, e.g. the financial system made up of competitors, suppliers, investing public or depositors, host communities where banks are located and operate, etc. The responsibility of the CBN is to maintain balance in the relationships and exchanges among the stakeholders (or subsystems) of the banking industry. Given the systemic threat posed by the insolvency of the affected eight banks, a consequence of the actions and inactions of the fired bank executives, the CBN deemed it necessary to intervene, ensuing in the termination of the appointments of the bank executives in management positions.

Ackoff's (1987) two principles underlying his systems theory approach to ethics posit that although ethical decisions (business decisions) should be made by stakeholder consensus where possible, those stakeholders that prevent other stakeholders from participating in decisions that affect them (i.e. criminal acts) should be prevented from joining the decision making process. As decision maker-stakeholders who exhibited unethical behaviors, the fired bank executives were prevented by the CBN (regulator-stakeholder) from further decision-making affecting other stakeholders in the system. As such, the CBN can be seen as acting on behalf of other stakeholders and the banking system at large.

Principle 1 of the CRT, which states "Respect Stakeholders beyond Shareholders" as well as principle 5, which states "Support Responsible Globalization" suggest that the CBN, as a vital stakeholder in the Nigerian banking system as well as a systemic representative of the Nigeria in the world's globalized banking system, has the duty to ensure that Nigerian banks maintain their economic health and viability, not just for its national shareholders but also for other stakeholders that go beyond Nigerian borders. The effects of the last financial crises attest to the fact of how the world's financial system is interconnected. The CBN seen through this framework is ethically right in the first component (and other two components) of its intervention.

Specifically also, Freeman (2001)[40] posits the principle of stakeholder recourse, a situation where stakeholders may bring an action against the directors of a firm for failure to perform the required duty of care (p.65). The CBN, acting as the regulator-stakeholder, initiated an action (firing) against the directors (fired executives). Thus within the stakeholder theory framework, it can be said that the CBN intervention is ethically justified and sound.

Closely related to the argument in the preceding paragraph is the issue arising out of second component of the CBN intervention: the replacement of the fired executives with CBN-appointed CEOs and boards of directors. Using the same principle of stakeholder recourse enshrined in the stakeholder theory, as well as the systems theory's responsibility of the CBN as regulator stakeholder, it is admissible that the CBN acted in the best interests of both internal and external stakeholders of the affected banks.

While some have argued that this removal and replacement are the sole prerogative of the shareholders and not the regulator, a viewpoint smacking of shareholder theory ideals, this paper posits that the CBN by virtue of its role as regulator-stakeholder is best positioned to execute these actions of removal and replacement. This argument is hinged on the following premises:

1. The shareholder ownership structures or configurations of most of these banks are unbalanced and in favor of their management executives. That is to say that the fired executives are also the majority shareholders of the affected banks.

2. The minority shareholders cannot effect change even if they wanted because the majority shareholders, who are also the perpetrators of unethical behaviors, ultimately make the decision if left to the group of shareholders only to effect change.

3. The CBN, by its nature and character (laws setting it up), is and should be the unbiased adjudicator in such interplay of relationships of stakeholders in the banking system.

Within this frame of reasoning, it can be said that the second component of the CBN intervention is ethically right and justified.

The third component of the CBN intervention – the injection of 420 billion naira ($2.8 billion), is also judged to be ethically right. The systems theory offers a compelling argument here. In order to stabilize the Nigerian banking system and avoid a systemic failure or collapse, the CBN injected government funds into the affected and insolvent banks. This action as such is considered a fulfillment of the statutory responsibilities for which the CBN was established as well as the fulfillment of the obligations of the regulator stakeholder to the system itself (financial system). As such the third component in the CBN intervention is ethically sound and justified.

In summary, it can be said that given the reasons posited by the CBN Governor for the 2009 CBN intervention in the Nigerian banking industry, which are backed by the outcomes of the analysis of operator behaviors, the three component act of the 2009 CBN intervention are ethically sound.

Ethical Arguments against the CBN Intervention

It is pertinent that this paper also consider some arguments on other side of the table, when assessing the 2009 CBN intervention. These arguments in their own right are logical and tenable.

As discussed in chapter 2 of this capstone, the CBN, given its statutory mandate of ensuring the promotion of monetary stability and a sound financial system in Nigeria, has in place a regulatory and supervisory apparatus. It is thus an obligation of the stakeholder regulator to ensure compliance by the operator banks on an on going and regular basis. The CBN uses On-Site examinations and Off-site surveillances by its inspectors to achieve this regulatory and supervisory obligation. Thus, the following questions, which are valid, arise:

1. How did this potential systemic threat caused by eight out of the twenty-four demand deposit banks occur if the CBN was carrying out its statutory obligations?

2. Were the CBN inspectors and examiners (as well as NDIC official) in complicity with the fired executives?

3. If the CBN inspectors and examiners were complicit, by accepting gratifications and engaging in illicit activities, is the CBN by extension not engaged in criminal acts and unethical behavior?

The CBN governor, Mallam Sanusi Lamido Sanusi had answered the above questions in the positive by acknowledging as shown earlier (see pages 2-3 of this capstone) that regulatory laxity, complicity and knowledge gaps contributed to the decline of the affected banks and the systemic threat to the Nigerian Financial system.

Using Ackoff's two principles – that ethical decisions (in this case regulatory decisions) should be made by a stakeholder consensus where possible and that those stakeholders that prevent other stakeholders from participating in decisions that affect them (i.e. criminal acts) should be prevented from the decision making process - the CBN as an unethical stakeholder (by contributing to the decline of the affected banks) cannot make decision that affect other stakeholders. In this light system theorists might argue that the 2009 CBN intervention was unethical.

Also Ed Freeman's (2001) principle of stakeholder recourse can also be applied to the CBN. Using this lens, it can be said that the CBN (regulator-stakeholder), through its inspectors, failed in its obligation to perform the required duty of care. As such the intervention (the firing of bank executives) is seen as the making of scapegoats in the banking industry. In this context, the CBN intervention is seen as unethical and unjustified.

Having carried out an analysis of the 2009 CBN intervention and behavior of operator bank officials, this paper is positioned to give a critique which represents the author's findings and lessons learned.

CHAPTER 5

A CRITIQUE

"I am only one, but still, I am one. I cannot do everything but I can do something. And, because I cannot do everything, I will not refuse to do what I can."[41] A reflection on this quote explains the relevance of the author's intentions in this chapter, which is a general evaluation of the issues raised, and can be seen as learning points. This evaluation will be under two headings: the status quo and the future. Some suggestions are offered after which closing remarks will be made.

The Status Quo

This capstone set out to evaluate a set of specific events that occurred in Nigeria in the year 2009 – the CBN firing of some top bank executives for behaviors that were deemed unacceptable in the banking industry and the efforts to stabilize the Nigerian financial system vis-à-vis the replacement of the fired CEOs and directors, as well as the injection of government funds into the insolvent banks. To achieve this, the paper needed to lay out the context in which these actors and situations unfolded, thus the discussion of the history, actors and structure of the Nigerian banking system. Emphasis was placed in describing the CBN and its operations given it primacy in the current discussion.

Using three ethical models or frameworks, these events and the issues they raise were analyzed. The outcomes of these analyses reveal that the behaviors of the operator banks, as exhibited by the fired bank executives are unethical. On the other hand the CBN intervention, composed of three actions, was seen as ethically sound and justified. This conclusion reflects the author's position. However, this paper also considered arguments that portrayed the CBN intervention as unethical, using the same ethical frameworks (stakeholder and system theories).

The author views this seeming contradiction as analogous to what Goodpaster (2001)[42] has termed the "stakeholder paradox", a situation where "the challenge in responsible decision making is the understanding of how there can be an ethical relationship among stakeholders that avoids being too weak or too strong" (p.66). In this case however, the paradox or challenge lies not in defining which stakeholder within a system is capable of responsible decision making (especially when some stakeholders can be viewed as exhibiting unethical behaviors) but in the challenge of maintaining credibility of being a responsible stakeholder operating within a given system.

Against this backdrop, it can be said that the ethical arguments leveled against the CBN intervention do not invalidate the CBN intervention actions as ethical. At best these arguments serve as opposing viewpoints in the use of the stakeholder theory.

A benefit of conducting the literature review of the selected ethical models and the concept of corporate governance is the arrival at some fundamental points which not only validate the stated business ethics principles, but also addresses some of the capstone's research questions (see p.3). These points are:

1. Ethics and business are inseparable and this leads to sustainable business practices. To do otherwise is to set the stage for business failures or unacceptable business practices.

2. Ethically responsible business management goes beyond the provision of profits for shareholders to the provision of economic, social and environmental goods for a wide array of stakeholders.

3. Corporate governance centers on attempts to operationalize ethics in business environments. This can be at the subsystems level (e.g. within organization) and at the systemic level e.g. between the regulator and operator banks.

Taking a cue from the last point above, another learning point is how the ownership structures of organizations affect their corporate governance models, as well as their overall ethical behaviors. In looking at the actors that make up the Nigerian banking system, this paper noted that demand deposit banks are primarily owned by a significant individual or families, i.e. the ownerships shares configuration is not dispersed but heavily concentrated in the hands of a few, and they have great influence in the everyday decision-making of the banks. In the case of the eight banks under focus, the majority stockholders were also the principal managers who were fired by the CBN. This reflects what has been termed the “principal-agent problem”[43]

Where the dominant power (ownership of controlling shares), in the balance of power, in the management of the banks falls to a single individual or a family-backed individual (an imbalance of power), the concept of corporate governance and ethics is challenged, for corporate governance is based on the concept of checks and balances. As seen in the case reference of this paper, the activities of the fired CEOs and directors, who were majority shareholders, include arbitrariness and financial malpractices, disregard for proper risk management and distortion of records etc. These constituted as unethical behaviors of the operator banks. As it was, the system of checks and balances were compromised given the dominance of majority stakeholders in the daily management of the affected banks. Hence the assertion that the ownership structures of the eight affected banks contributed to the eroding of their respective corporate governance models is tenable.

Also, it can be said that the ownership structure of some of these banks promoted an extreme implementation of the shareholder theory as seen in the stated behaviors of the operator bank's management. These executives displayed self interest and lack of prudence in creating value for themselves. This situation, no doubt, portrays the limitations of the shareholder theory approach to business, which seeks to maximize profits for shareholders. As such, an argument against shareholder theory as an adept dominant ethical model or theory for contemporary societies is tendered.

The Future

The discussion of learning points from the notion of corporate governance so far has been at the level of the internal structures of organizations. Yet, learning points are obtainable when this discussion shifts its focus to the systemic level (regulator – operator relationship). A central point here is the fact that credibility has manifold implications in the regulator-operator stakeholders' relationship. As mentioned earlier, the complicity of CBN inspectors contributed to insolvency of the rescued banks. A regulator such as the CBN must therefore double its efforts in fulfilling its statutory obligations of regulation and supervision of deposit money banks vis-à-vis the routine inspection and monitoring of bank activities. To fail in this duty or be complicit in unethical practices via the activities and functions of its inspectors, places the CBN (or NDIC) in a position where its stands to lose credibility as the system's ombudsman and as a corrector of unethical behaviors in its system's banks.

The above point has been noted by the CBN governor, who recently initiated the restructuring of the CBN, tagged project ACE, as discussed earlier (see pp.15-16 of this paper). Among the aims of project ACE, the CBN seeks to ensure that its inspectors and officials do not jeopardize CBN credibility as the prime stakeholder in ensuring balance in the Nigerian financial system. Another aim of this restructuring of the CBN is to ensure that the Nigeria's apex bank is adequately positioned to guide and support the Nigerian financial system in meeting the challenges of globalization. Given that the world's financial system is an intricate web of interdependencies and inter relationships between banks, regulators, securities markets and other financial institutions (subsystems and whole systems), it becomes necessary that corporate governance regimes are enthroned within banks and throughout the Nigerian financial system. The events of the last economic meltdown drive home the message of the importance of corporate governance regimes.

While the board of directors of the various banks are charged with the responsibility of ensuring that corporate governance and its appropriate structures are put in place in the respective banks, it is has become evident that, the CBN must take greater responsibility for this enforcement in the various deposit money banks and throughout the banking system in Nigeria. The lessons pointed out earlier regarding the effect of an individual (or family) majority shareholders being dominant in the daily management of banks buttress this point.

To this end, it is understandable and applaudable that the CBN has already begun efforts to remedy this situation. Recently it announced a new policy that put a ten-year tenure limit for bank CEOs and directors. This policy, for all intents and purposes, has been largely seen as an effort to remove existing majority shareholders from the daily management and administration of banks in Nigeria.[44]

Lastly, one of the research questions listed in the introduction of this capstone concerns defining the future relationship between the CBN (as regulator-stakeholder) and deposit money banks (operator-stakeholders) in Nigeria. This paper suggests that this relationship will evolve for the best and in consonance with global standards. Put differently, as a system, the Nigerian Banking industry will adopt more global best practices, in order to remain a viable part and in relationship with the rest of the world's financial systems.

This opinion is hinged on the premise that facts observable in the last half century reveal an ever growing interrelatedness and interdependence of financial systems world over and involving various societies. The activities of central banks as regulators and deposit money banks as operators continue to evolve into a more complex, interwoven matrix of systems. Systems theorists will be quick to point out that the performance of a system is not the sum of the independent performances of its parts. It is the product of their interactions. Therefore, effective management of a system requires management of the interactions of its parts, not solely their independent actions. Moreover, since a social system interacts with its environment, management of this interaction is also required for it to function effectively (Gharajedaghi and Ackoff, 1984, p.293).

Recommendations:

As such this capstone's author suggests that these stakeholders or principal actors in the Nigerian scenery need to pursue the following:

1. Make investments in ethics programs, workshops and seminars that will ultimately benefit business's bottom lines. The CBN in particular should consider this as proactive initiatives of its regulatory and supervisory functions.

2. Bank operators should incorporate well-defined ethics investigation processes into their corporate policies and strategic operational blueprints.

These suggestions are in addition to the measures already being implemented by the CBN as discussed in this chapter. A British mathematician and philosopher once said "without civic morality communities perish; without personal morality their survival has no value"[45]. His point underscores the thrust of the recommendations offered here.

Conclusion

As a product of studies in the Organizational Dynamics program, where efforts are geared towards a better (deeper) understanding of the interplay of human relations in formal business settings and contexts, this capstone has focused on an instance of such relationships with emphasis on the ethical implications within such interplay of relationships. It has been shown that behaving ethically is in the best interest of businesses as well as in the interest of other stakeholders in the system. To behave unethically has dire consequences for all stakeholders and for the system. Given the above it thus becomes necessary to establish frameworks with which such behaviors are measured and guided. Corporate governance is one of such efforts.

In the Nigerian banking industry, established corporate governance models and structure are in place. Also, national law, rules, guidelines and conventions are well established to ensure that the banking business is done in the best of interests of all stakeholders. These measures are not fool proof however, if individuals do not abide by personal ethical codes and conducts. Therefore it becomes imperative that morality or ethical behavior begin at home, the individual. No one articulates this better than Bertrand Russell as such his words are worth repeating and concluding this capstone "Without civic morality communities perish; without personal morality their survival has no value."

ENDNOTES

[1] See "Address by the Governor of the Central bank of Nigeria, on Developments in the Banking System in Nigeria" www.cenbank.org/documents/speeches.asp

[2] See Daily Champion. Nigeria: CBN Sacks 3 More Bank CEOs, Directors. 3 October 2009, www.allafrica.com/stories/200910051496.html.

[3] See "Address by the Governor of the Central bank of Nigeria, on Developments in the Banking System in Nigeria" www.cenbank.org/documents/speeches.asp

[4] See "CBN and Supervision of the Financial Sector" in The GUARDIAN Newspaper, February 25, 2010 and The Nation Newspaper, http://thenationonlineng.net/web2/articles/16226/1/Sanusi-denies-hidden-agenda-/

[5] Ibid.

[6] See "Reforms: CBN unveils 10-year blueprint for banks" in The PUNCH Newspaper. March 7, 2010. http://www.punchng.com/Article2Print.aspx?theartic=Art2010030723254460.

[7] See US Department of State, "Background Note: Nigeria" December, 2009.

[8] Ibid.

[9] Sourced from Atuche F's presentation titled "The Nigerian Banking System and the Challenges of the Global Economic Crisis" at 14th CBN Seminar for Finance Correspondence and Business Editors, Makurdi, Benue State, May 19th – 23rd, 2009.

[10] See www.ndic-ng.com/pdf/tsafobin.pdf

[11] See NDIC: Mandate, Powers and Functions, http://ndic.org.ng/mandate-powers--functions.html

[12] For an in-depth description of these types of supervision visit http://ndic.org.ng/supervision.html

[13] See CBN website "Supervisory Framework" www.cenbank.org/supervision/framework.asp

[14] See CBN Communiqué No. 57 of the monetary policy committee, august 5, 2008. http://www.cenbank.org/out/Publications/communique/MPD/2008/MPC%20Communique%20No.%2057,%20August%205,%202008.pdf

[15] See "Supervision" http://www.cenbank.org/Supervision/framework.asp

[16] Ibid

[17] See "Bank Supervision" http://ndic.org.ng/bank-supervision.html

[18] See "About CBN: Statement of Core Mandate" http://www.cenbank.org/AboutCBN/Coremandate.asp

[19] See "About CBN: Department" http://www.cenbank.org/AboutCBN/departments.asp

[20] Ibid.

[21] Jones, Wicks and Freeman's joint article titled "Stakeholder Theory: The State of the Art" in *The Blackwell Guide to Business Ethics*. Bowie ed., 2001.

[22] Ibid. p.26

[23]See Ibid. p.20.

[24] Duska and Clarke's article titled "Ethical Issues in Financial Services" in *The Blackwell Guide to Business Ethics*. Bowie ed., 2001.

[25] See http://www.cauxroundtable.org/index.cfm?&menuid=8

[26] Ibid.

[27] Ibid

[28] Ibid.

[29] Ibid.

[30] John Boatright's article titled "Ethics and Corporate Governance: Justifying the role of the Shareholder" in *The Blackwell Guide to Business Ethics*. Bowie ed., 2001.

[31] Patrick Primeaux "Maximizing Ethics and Profits." Reprinted with permission in Hartman L. (2002) *Perspectives in Business Ethics*. Second Edition.

[32] Due to the fact that criminal proceedings and civil actions have been instituted by involved parties and are cases in the Nigerian Law Courts, this paper omits names, locations and specific details surrounding the case study.

[33] See ThisDay Newspapers, "Nigeria: Bank Chiefs Arraigned, Face 131 Charges. September 1, 2009.

[34] See http://www.cauxroundtable.org/index.cfm?&menuid=8

[35] Ibid.

[36] Ibid.

[37] Edward Freeman's article titled "A Stakeholder Theory of the Modern Corporation" in *Ethical Theory and Business*. Sixth Edition. Beauchamp and Bowie eds. 2001, p.59.

[38] See http://www.cauxroundtable.org/index.cfm?&menuid=8

[39] See Ed Freeman's article titled "A Stakeholder Theory of the Modern Corporation" op.cit.

[40] Ibid.

[41] Edward Everett Hale, American clergyman and writer (1822-1909) http://josephsoninstitute.org/quotes/ethics.html

[42] Kenneth Goodpaster's paper titled "Business Ethics and Stakeholder Analysis" in *Ethical Theory and Business*. op.cit.

[43] Bernard Shull's paper titled "Corporate Governance, Bank Regulation and Activity Expansion in the United States" in Gup (2007), *Corporate Governance in Banking*, p.1.

[44] See The Daily Independent "Bank CEOs: Going, Going, Gone" January, 30, 2010. http://allafrica.com/stories/201002011487.html

[45] Bertrand Russell, (1872-1970) *http://www.woopidoo.com/business_quotes/business-ethics.htm*

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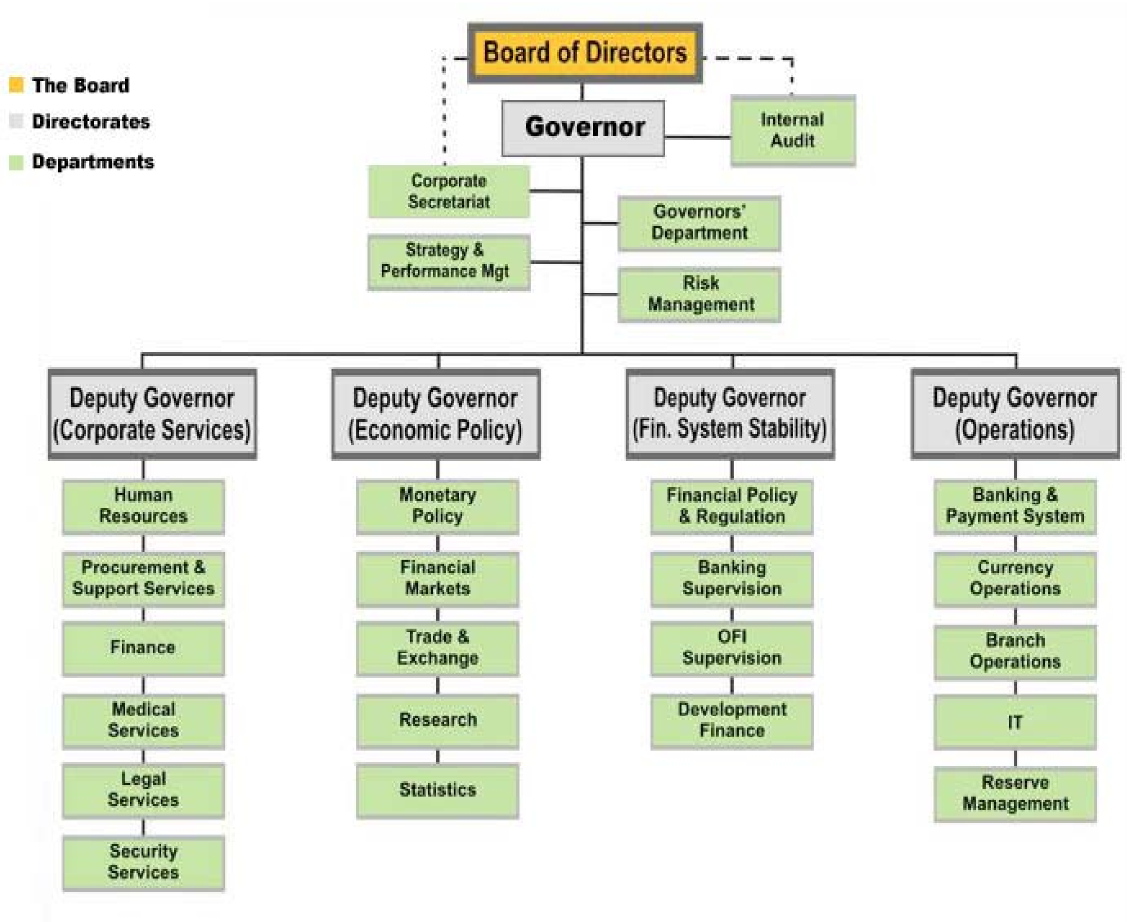
APPENDICES

Appendix A: List of Licensed Deposit Money Banks in Nigeria by CBN as January 2010

1. Access Bank Nigeria Plc
2. Afribank Nigeria Plc
3. Citibank Nigeria Limited
4. Diamond Bank Nigeria Plc
5. Ecobank Nigeria Plc
6. Equitorial Trust Bank Plc
7. Fidelity Bank Plc
8. First Bank of Nigeria Plc
9. First City Monument Bank Plc
10. First Inland Bank Plc
11. Guaranty Trust Bank Plc
12. Intercontinental Bank plc
13. Oceanic Bank International Nigeria Plc
14. Platinum Habib Bank Plc
15. Skye Bank Plc
16. Spring Bank Plc
17. Stanbic - IBTC Bank Plc
18. Standard Chartered Bank Nigeria Plc
19. Sterling Bank Plc
20. Union Bank of Nigeria Plc
21. United Bank For Africa Plc
22. Unity Bank Plc
23. Wema Bank Plc
24. Zenith Bank Plc.

Appendix B: CBN Organogram



Source: http://www.cenbank.org/AboutCBN/organogram.asp

Appendix C. CRT 7 Principles for Responsible Business

Principle	Statement	Actions
1	Respect Stakeholders beyond Shareholders	A responsible business acknowledges its duty to contribute value to society through the wealth and employment it creates and the products and services it provides to consumers. A responsible business maintains its economic health and viability not just for shareholders, but also for other stakeholders. A responsible business respects the interests of, and acts with honesty and fairness towards, its customers, employees, suppliers, competitors, and the broader community.
2	Contribute To Economic, Social And Environment al Development	A responsible business recognizes that business cannot sustainably prosper in societies that are failing or lacking in economic development. A responsible business therefore contributes to the economic, social and environmental development of the communities in which it operates, in order to sustain its essential 'operating' capital – financial, social, environmental, and all forms of goodwill. A responsible business enhances society through effective and prudent use of resources, free and fair competition, and innovation in technology and business practices.
3	Respect The Letter And The Spirit Of The Law	A responsible business recognizes that some business behaviors, although legal, can nevertheless have adverse consequences for stakeholders. A responsible business therefore adheres to the spirit and intent behind the law, as well as the letter of the law, which requires conduct that goes beyond minimum legal obligations. A responsible business always operates with candor, truthfulness, and transparency, and keeps its promises.
4	Respect Rules And Conventions	A responsible business respects the local cultures and traditions in the communities in which it operates, consistent with fundamental principles of fairness and equality. A responsible business, everywhere it operates, respects all applicable national and international laws, regulations and conventions, while trading fairly and competitively.
5	Support Responsible Globalisation	A responsible business, as a participant in the global marketplace, supports open and fair multilateral trade. A responsible business supports reform of domestic rules and regulations where they unreasonably hinder global commerce.
6	Respect The Environment	A responsible business protects and, where possible, improves the environment, and avoids wasteful use of resources. A responsible business ensures that its operations comply with best environmental management practices consistent with meeting the needs of today without compromising the needs of future generations.
7	Avoid Illicit Activities	A responsible business does not participate in, or condone, corrupt practices, bribery, money laundering, or other illicit activities. A responsible business does not participate in or facilitate transactions linked to or supporting terrorist activities, drug trafficking or any other illicit activity. A responsible business actively supports the reduction and prevention of all such illegal and illicit activities.

Source: Caux Round Table 2009: http://www.cauxroundtable.org/index.cfm?&menuid=8

Appendix D: A Corporate Governance Model

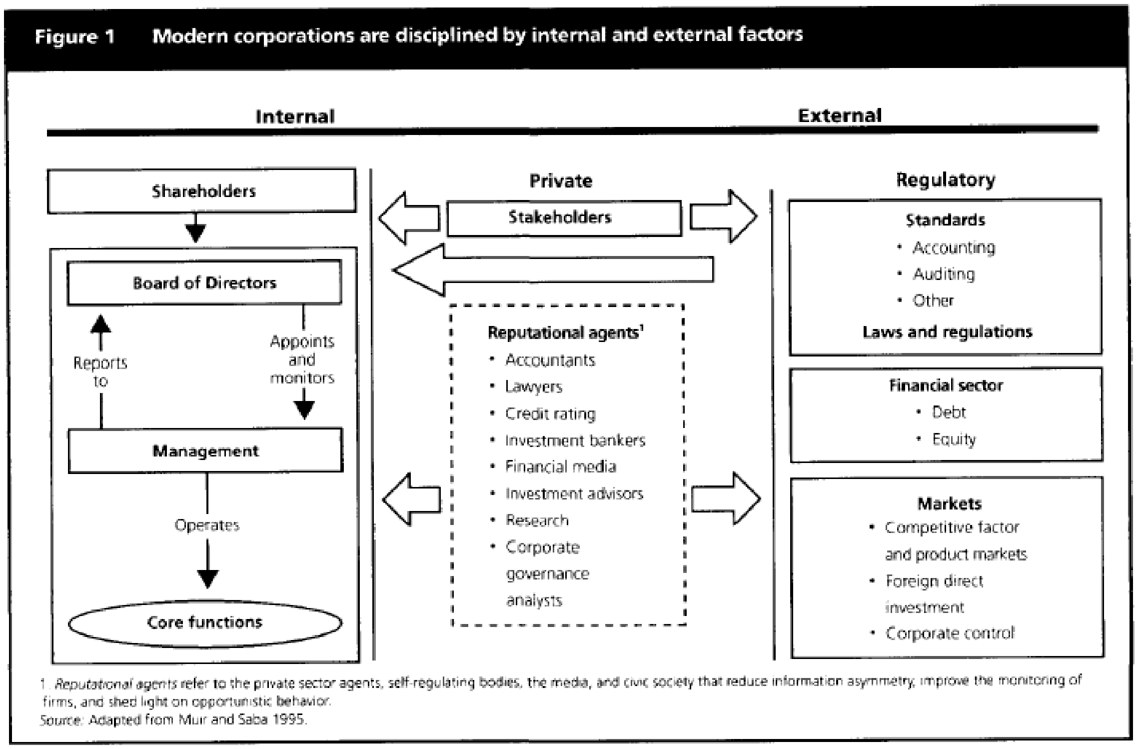


Figure 1 Modern corporations are disciplined by internal and external factors

1. *Reputational agents* refer to the private sector agents, self-regulating bodies, the media, and civic society that reduce information asymmetry, improve the monitoring of firms, and shed light on opportunistic behavior.

Source: Adapted from Muir and Saba 1995.

Source: Source: Iskander and Chamlou (2000), Corporate Governance: A Framework for Implementation. *World Bank Report*. Figure, found on p.4.