Insider Perceptions of Insider Trading and Corporate Governance at Nigerian Banks

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Abstract

This study investigates the perceptions of uncertainty associated with Nigerian banks from an insider viewpoint. A critical review of Nigerian corporate environment shows that there have been several cases of trust abuse by board of director members at some banks. When banks’

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stability is questioned by the public or investors, it negatively impacts the economy. However, it may be difficult to know what is going on unless those with inside knowledge are consulted. This study uses a confidential survey of bank employees, followed by correlation analysis, to assess perceptions of ethical corporate governance and performance. The findings reveal a strong positive correlation that bank practitioners perceive ethical corporate governance is linked to financial performance. Recommendations are given for financial practitioners and banking industry consumers.

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Introduction

Bank failures are widely perceived to have greater adverse effects of uncertainty on the economy (as compared to other industry problems) and are thus considered more important to study in the economics and finance literature. In view of their catalytic role, the issue of corporate governance in banking institutions has become a great concern universally, as well as in Nigeria.

The well-known financial scandals underlying the global recession associated with large investment management companies around the world have focused our attention on the credibility of the banking industry. Examples of recent finance industry collapses in the USA and Europe include: Lehman Brothers, Merrill Lynch, and American International Group (AIG). Investment confidence and credibility can be improved by developing effective and ethical corporate governance practices. Corporate governance is a system by which corporations are managed and controlled with a view to decreasing financial uncertainty, increasing shareholder’s value and meeting the expectations of the stakeholders.

The global economic recession has also impacted Nigeria, and in turn, Nigeria (along with many other countries) has been a contributor to the global problems. In the last two decades, several developments in Nigeria's financial sector have increased investment uncertainty, and risk, and thereby reinforced the need for greater concern for corporate governance with the financial industry. However, looking only at the macro environment cannot sufficiently explain the root causes of the problems in Nigeria's banking industry. Instead, a micro economics perspective must be taken, to investigate the banking practices from inside the industry.

There are several important micro economic factors to examine when trying to understand how uncertainty has developed in the Nigerian banking industry. Corporate governance is the first important factor. Chow (1999) explained that the objectives of corporate governance are to ensure transparency, accountability, adequate disclosure and effectiveness of reporting systems. He asserted that the need for good corporate governance originates from what he termed an "expectation gap" problem which arises when the behavior of companies falls short of shareholders and stakeholder expectations, thus causing uncertainty and lack of confidence.

Turnbull (1997) describes corporate governance as encompassing all the influences affecting the institutional processes, including those for appointing the controllers and or regulators, involved in organizing the production and sale of goods and services. In this sense, corporate governance is applicable to all types of firms and industries such as companies, partnerships, joint ventures, trading trusts, etc., whether or not they are incorporated under the civil law. Thus, banks are included within this scope of requiring effective corporate governance.

Although corporate governance in the private sector is of general interest to the Nigerian public, that of banking industry is of particular interest because of the catalytic roles of banks in any economy. Their corporate governance is of prime interest to government, depositors, shareholders and the public at large. Additionally, foreign direct investors and importers are interested in the credibility and certainty of Nigerian banks. While depositors are more interested in the safety and returns on their deposits as well as quality of services rendered by their banks, government and the public want a safe, sound, certain and stable banking industry. Shareholders (owners) are more interested in their banks' profitability, soundness and probability of good 'financial health'; workers are interested in the certainty of sustained employment through the continued existence and profitability of their employer-banks.

Banks, like any other institution, must go through the process of financial reporting, to enable stakeholders to take informed decisions about the company, particularly in determining the risk of insolvency. Financial reporting is also required by law in Nigeria. Furthermore, since Nigeria operates under International Financial Reporting System (IFRS) standards (http://www.ifrs.org), and since they are a member of the SWIFT international transaction system, there is additional pressure on banks to remain transparent and practice ethical governance.

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