2013

Investigating the Effects of Corporate Governance of Banks in Nigeria: A Grounded Theory Approach

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http://hdl.handle.net/10026.1/2849

http://dx.doi.org/10.24382/4420
University of Plymouth

Copyright Statement

INVESTIGATING THE EFFECTS OF CORPORATE GOVERNANCE OF BANKS IN NIGERIA: A GROUNDED THEORY APPROACH

By

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A thesis submitted to the University of Plymouth in partial fulfilment for the degree of

DOCTOR OF PHILOSOPHY

School of Management

Faculty of Plymouth Business School

University of Plymouth

ENGLAND

October, 2013

Dedication

Specially dedicated to the loving memory of my parents, Aisha and Ibrahim Muhammad to who I remain eternally grateful for their wonderful upbringing, love and duas, and:

To my

Dearest wife, Hadiza and wonderful children:

Ibrahim, Aisha, Faisal, Imran and Abdullah

Acknowledgements

The foremost thanks and praise go to Allah, the most Compassionate and the Most Merciful, for his gracious guidance on this thesis. My thanks also go to my supervisors, Professor Kerry E. Howell, Dr Atul Mishra and Dr Rory Shand. I am particularly grateful to my Director of Studies, Professor Kerry E. Howell, for his support, invaluable insights and guidance throughout the research period. Without his critical feedback and advice, the task would have been overwhelming. Indeed, thanks also to Professor Philip Megicks, the expert commentator during my annual monitoring. I am also grateful for the contributory comments and constructive suggestions made by other academic staff and research colleagues during my presentations at postgraduate research events. The experiences gained from both events I attended have been invaluable. I would like to state my appreciation to the management of all the commercial banks, the Central Bank of Nigeria and other stakeholders, for participating in and providing useful information for this research. I would like to thank Dr William Sun and Dr Jonathan Lean for their participation in an equitable and challenging questioning during the viva (oral examination). I also owe a debt of gratitude to my friends and relations for their inspiration and support throughout the various stages of my research. I am equally grateful to my employers, Federal Capital Development Authority (FCDA), Abuja, for granting me a three-year leave of absence to undertake the PhD studies. Last but not least, I give my sincere thanks and praise to Allah for his grace upon me throughout my life.

Author's Declaration

This is to confirm that at no time during the registration for the degree of Doctor of Philosophy has the author been registered for any other University award. This study is solely self-financed with the aim of contributing to the search for alternative corporate governance mechanism for banks in Nigeria.

During the course of the study, the following activities have been undertaken:

- Participating in the Plymouth University Postgraduate Symposium in May, 2011, and presented a paper titled 'Rationale for Corporate Governance for Banks in Nigeria: Applying grounded theory methodology'.
- Participating in the Plymouth University Research Centre for Sustainability, Leadership, Governance and Policy (SLGP) Doctoral Symposium and presented a paper titled 'The Effects of Corporate Governance of Banks in Nigeria: A grounded theory approach – data analyses and initial findings' in December, 2011.
- Attendance of postgraduate research courses: qualitative research methods, NVIVO 08/09, endnote referencing, research presentations, leadership and management, searching information resources, word structuring of thesis, GTA programme and research methodology and methods modules.

Word count of main body of thesis: **79, 940 words**

Signed ....

Date 04-10-2013

Investigating the Effects of Corporate Governance of Banks in Nigeria: A Grounded Theory Approach
Umar Abbas Ibrahim

Abstract

This thesis investigates the phenomena that underlie corporate governance practices in the Nigerian banking sector (NBS); the purpose is to understand the nature of corporate governance and the factors influencing it. It offers a response to a number of concerns raised about the effectiveness of banks' corporate governance practices, especially before the consolidation reform and during the 2007-2009 global financial crisis. Culture and leadership are identified as providing the most suitable theoretical framework for this study, and through grounded theory (GT), an empirical study is undertaken to identify the nature of corporate governance practices in banks, the factors that influence such practices and the outcomes of this influence. The GT methodology is used in the following ways: First, a comparative analysis is performed in the open coding stage, based on first and second series of semi-structured interviews and focus group discussions conducted with the executive managers of the 24 quoted banks in Nigeria, officials from the Central Bank of Nigeria (CBN), representatives of the Nigerian Deposit and Insurance Corporation (NDIC), and other stakeholders. The open coding leads to the development of eight open categories, their properties and dimensions based on the responses garnered from the interviews and focus groups.

Second, through axial coding, the identified open categories are subsumed into higher categories, and the relationships among these categories are established by means of the paradigm model. The paradigm model provides the basis for the development of a substantive GT. Third, through the selective coding process, based on a third series of semi-structured interviews that identify human action and a lack of leadership as core categories, relationships with other sub-categories are verified, which eventually leads to the presentation of the substantive theory of corporate governance for banks. This theory perceives corporate governance practice in banks to be affected by human actions and a lack of leadership. This substantive theory is then explored in relation to the formal theories of culture and leadership; this offers an understanding of the corporate governance of banks in Nigeria and explains the relevance of the formal theories more clearly. Furthermore, the idea of the social contract in relation to cooperation and trust is presented as a tool with which to address free-rider issues. The use of GT is extended to explore the phenomena underlying corporate governance in the given context, providing a better understanding of the influence of culture and leadership in corporate governance theorising. Finally, this thesis is the first attempt to combine the GT methodology, corporate governance and the theories of culture and leadership, and to offer insight into how to address the identified issues using the social contract strategy through trust and cooperation, making it a useful guide on corporate governance for banks.

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List of Abbreviations

Acronym	Full Term
BIS	Basel International Settlement
BOFIA	Banks and Other Financial Institutions Act
BOD	Board of Directors
CACG	Commonwealth Association for Corporate Governance
CAMA	Company and Allied Matters Act
CBN	Central Bank of Nigeria
CGB	Corporate Governance of Banks
CVD	Cultural Value Dimension
CVS	Chinese Value Survey
EUC	European Union Countries
FIBV	Federation Internationale de Bourses de Valuers
FSR	Financial Service Regulators
GFR	Global Financial Report
GT	Grounded Theory
IMF	International Monetary Fund
ISA	Investment and Securities Act
MENA	Middle East and North Africa
NBS	Nigerian Banking Sector
NDIC	Nigeria Deposit Insurance Corporation
NED	Non-Executive Director
OECD	Organization for Economic Co-operation and Development
ROSC	Report on the Observance of Standards and Codes
SEC	Securities and Exchange Commission
SECA	Securities and Exchange Commission Act

Chapter 1. Introduction

1.1 Background of the Study

In the seven years since 2006, when the Code of Corporate Governance for Banks was introduced, Nigeria's banking industry has continued to witness systematic corporate failures that are regarded as forming one of the worst scandals in recent history. The widely advanced reasons for this are not substantially different from those blamed for the problems the banks experienced in the 1980s and 1990s, and before the "consolidation"[1] of the banks from 89 in 2004 to 25 in 2006. The latter reform was widely welcomed, and intended to strengthen the banks' capital base, ensure safety and soundness to enable the sector to contribute to the economic growth of the state, and more importantly rebuild public confidence in the sector. In the wake of recent events concerning banks in Nigeria, however, there has been renewed thinking about alternative methods of corporate governance for banks, that might incorporate the underlying reasons for their persistent failure, and that will work in practice. As elsewhere, the continual emergence of corporate scandals is seen to have been generated by complex interactions among internal and external actors in the corporate environment (Turlea et al., 2010).

Contemporary thinking about the development and refinement of corporate governance frameworks in response to managerial power and abuses can be traced back to Berle and Means' (1932) seminal work on the effects of the separation of ownership and control, published soon after the 1929 US stock market crash. Since then, corporate governance

[1] Consolidation can be viewed as a reduction in the number of banks and other deposit-taking institutions with a simultaneous increase in the size and concentration of the consolidated entities (BIS, 2001). However, as in many other countries, banking reforms through "consolidation" have been implemented in Nigeria at different times and for different reasons.

issues have continued to evolve in public companies in many countries, resulting in the emergence of different governance systems and frameworks. Arguments for the necessity of banks having effective corporate governance practices are based on the following: (1) Banks' role in developing critical tools for industrial expansion, (2) their use in capital allocation, (3) the ramifications for firm operations and (4) their use in stimulating economic growth through the restoration of public confidence (Levine, 2003). Moreover, banks often have peculiar features and complexities that distinguish them from non-banking organisations (Levine, 2004; Cocris and Ungureanu, 2007; De Andres and Vallelado, 2008). These peculiarities require banks to be paid special attention, and to have a corporate governance framework that is broader or more integrative than the traditional system in order to address the myriad corporate governance issues in the sector (Macey and O'Hara, 2003; Muranda, 2006; Mullineux, 2006; Barth et al, 2007; Tomasic, 2011). A history of successive bank failures has demonstrated this point.

Even at the international level, there has been an increased focus on bank standards by international financial agencies, such as the Basel Committee on Banking Supervision (BCBS), the Organisation for Economic Cooperation and Development (OECD), and the Report on the Observance of Standards and Codes (ROSC), in recognition of the weaknesses prevalent in the governance frameworks of most countries, particularly the developing states of Africa. For instance, Rossouw's (2005) analysis of corporate governance development across the African continent notes that Nigeria is yet to adopt an inclusive model of corporate governance that reflects accountability to a wide range of stakeholders. Indeed, this has been one of the driving forces behind many of the unprecedented reforms in Nigeria, such as the recapitalisation, deregulation, privatisation, and restructuring or consolidation of institutions. The central objectives of these reforms were to improve banks' market discipline and encourage efficient resource allocation so as to ensure economic growth (World Bank, 1989)[2]. In spite of the reforms and regulatory measures carried out so far, banks in developing countries in Africa have, in recent times, witnessed financial scandals, frauds and distress linked to weak financial and legal institutions (Okeahalam, 2004). According to the Global Finance Report (GFR, 2012)[3] of the 500 safest banks in the world, none is from Africa, despite the size of the continent's total asset base and the regulatory frameworks that have been put in place under various regimes to ensure the stability and soundness of the banking sector there.

Muranda (2006) contended that the weak institutional frameworks and, recently, the persistent corporate fraud are due to overall weaknesses in the internal control mechanisms of boards and their internal audit committees. As Shleifer and Vishny (1998) posited, rather than governments and regulators exerting a "helping hand" to ease market failures, sadly, they are quite often accused of using a "grabbing hand" to satisfy their political objectives. This provides evidence of the lack of effective governance policies in most countries. Moreover, there is little research attention paid to corporate governance in the banking sector compared to non-banking institutions (Shleifer and Vishny, 1997). Notwithstanding the justifications offered for the need for regulations in banking sector governance (La Porta et al., 2002; Macey and Miller, 1995), recent events indicate that neither bank regulations that empower direct supervision nor those based on recapitalisation curb banking failures (Barth et al., 2006; Ariely, 2009).

[2] The World Bank (1989, p.26) emphasised that 'the biggest difference between rich and poor countries is the efficiency with which they have used their resources, as such, their financial system's contribution to growth lies precisely in its ability to increase that efficiency'.

[3] The GFR is based on the long-term credit ratings of Moody's, Standard and Poor's and Fitch, and the total assets of banks. The evaluation is a recognised and trusted standard of credit worthiness across the entire financial world.

Indeed, to some degree, this view has been echoed in the academic literature that points to the limits of law or regulation, and the centrality of corporate culture in explaining corporate conduct (Tomasic, 2011). As Boone and Johnson (2010, p.5) remarked, ‘it is hard to believe that regulatory reform will succeed, when it has failed so enormously - and repeatedly - in the past’. In the Nigerian banking sector, despite the optimism associated with the economic and regulatory reforms, corporate failures continue to occur. These have been attributed to the weak corporate governance system and, in many cases, the reactive and piecemeal strategies adopted by the supervisory authorities (Wilson, 2006). Previous literature on corporate governance theory in Nigeria has focused on shareholder activism, family stockholding, the economic and legal reasons for corporate performance in the financial services industry, auditing competence and performance in corporations, and issues relating to the tenure of the board of directors (Okike, 2007; Ogujiuba and Obiechina, 2011). Most of these studies were based on the economic models and legal rules of other, developed countries, which often fail when applied in less developed countries (Hill, 2004). Even with the recent developments in corporate governance mechanisms made by many countries, the new mechanisms still fail to recognise the complex nature of corporate governance practice and how it can affect or be affected by human nature and environmental dynamics (Sears and Funk, 1991; Letza et al., 2008; Wiseman et al., 2012).

It is the need to overcome these oversights that has led to a broader governance perspective being widely advocated for specific organisations, and especially banks (Macey and O’Hara, 2003). To achieve this, an exploration of non-economic elements is essential so as to provide an understanding of the phenomena that underlie governance failures (Arun and Turner, 2004; Smith et al., 2006; Letza et al., 2008). Moreover, there are differences in the governance systems of different world economies. As Rwegasira (2000, p.265) observed, while in Western economies the market-based systems permit a low degree of ownership, limited bank holdings and freely flowing, reliable and timely information about the business and financial affairs of a company, ‘a number of these features are not readily realizable in Africa, at least for the time being’. Even though researchers continue to debate which is the best corporate governance system for countries and organisations, many agree that there is a need to evolve and refine corporate governance systems so as to reflect issues peculiar to specific environments or organisations (Sonnenfeld, 2002; Daily et al., 2003; Arun and Turner, 2004; Aguilera and Cuervo-Cazurra, 2004). This is also evidently the case in Africa, where the culture and political economy is not homogeneous across countries (Rossouw, 2005).

1.2 Motivation for the Study

The global financial crisis that has affected most of the world’s economies has instigated new thinking over the future of banking organisations around the world, including those in Nigeria. Indeed, the global concern about the quality of corporate governance in banks has led to the intensification of collaborative efforts at national, regional and international levels, with the aim of improving standards. Many countries have responded with modifications to the existing legislation related to banking, while others have introduced codes of governance that are not substantially different from the previous regulations. The main motivation for this study stems from a desire to explore the underlying factors that may have a significant influence on the corporate governance mechanisms of banks. Various theories are incorporated from research on culture and leadership, allowing the researcher to identify whether either or both have an influence in this context. The extensive literature review conducted shows a clear lack of a comprehensive framework regarding the dynamic link between cultural values and leadership dimensions, and the development of corporate governance for banks in any one country across time. Moreover, corporate governance is a process, and represents an important element of banking services worldwide; as such, this is an appropriate time to investigate the happenings and events of corporate governance in the banking sector. The main research aim led to a number of objectives that are addressed by the research questions (presented in sections 1.3 and 1.4 respectively). These aspects have significant institutional and policy implications, as highlighted in the concluding chapter of this thesis.

1.3 Aims and Objectives of the Study

In consideration of the special features and significant role of banks, the overall purpose of this thesis is to investigate the effects of corporate governance in Nigerian banks, and develop a substantive theory of corporate governance for banks in Nigeria. Another aim is to contribute to knowledge and add to the existing literature on corporate governance through the grounded theory (GT) methodology. More specifically, the objectives are to

a) review the extant empirical and theoretical studies related to corporate governance and its practice, especially in the banking industry,

b) identify why banks in Nigeria continue to fail despite reforms and the introduction of a Code of Corporate Governance,

c) determine how culture and leadership influence corporate governance in the banking sector,

d) identify the challenges posed by the new Code of Corporate Governance for Banks,

e) develop a substantive theory of corporate governance for banks in Nigeria, and

f) to recommend possible ways of addressing the identified findings within the banking sector.

1.4 Research Questions

The research questions for this thesis were developed following the review of the extant literature on the corporate governance of banks, which identified a gap in the research on effective corporate governance for the banking industry. In order to achieve the objectives set out for this thesis in section 1.3, the main questions relate to the following: Why has corporate governance practice for banks not been redesigned and how may this be achieved? More specifically, the following sub-questions are asked:

a) How effective is the existing Code of Corporate Governance for Banks?
b) Why do banks continue to fail in spite of the various reforms and regulatory frameworks?
c) How does culture affect corporate governance issues such as the disclosure of information, compliance with the regulatory provisions or any other internal or external control mechanism in the banking sector?
d) To what extent does the leadership of the banks affect the realisation of best corporate practice?
e) What are the challenges for the corporate governance of banks in Nigeria?

These questions formed the basis of the semi-structured questions asked during the series I and II interview sessions and, to a certain extent, contributed to the questions asked during the focus group discussion. The details of these questions were worked out via the GT procedure of constant comparison, which enabled the researcher to refine the questions as the interviews progressed.

1.5 Data and Methodology

In the absence of any prior corporate governance studies on alternative governance frameworks for banks in Nigeria, this thesis aims to reduce this gap in the literature through the investigation of corporate governance practices in the 24 banks that survived the 2004-2006 banking reforms in the country[4]. In particular, the thesis focuses on aspects of board behaviour, responsibilities and structure, internal control, and the disclosure of information, and looks at whether culture and leadership have any influence within the banking sector. Data were collected from the Central Bank of Nigeria (CBN), which has regulatory and supervisory responsibility for banks in Nigeria, and the Nigeria Deposit Insurance Corporation (NDIC), whose role complements that of the CBN. The data cover the critical components of corporate governance, as seen by the regulatory authorities in Nigeria. The study uses semi-structured interviews with the executive managers from the listed banks, officials from the CBN and NDIC, and other stakeholders. A focus group conducted with various stakeholders was also used as a data source. The data collection process began with a set of ten statement questions, based on a Likert scale from 1 to 5, on corporate governance practices within the banking sector[5]. This was only intended to sensitise the target participants to the topic of study, and was also a way of gaining access to participants for the face-to-face interviews.

After acceptance was obtained from the target participants, the data collection proceeded via a GT methodology, which led to the development of a substantive theory of corporate governance for banks. The study started with data generation and analysis through coding processes. Glaser (1992) stated that 'the grounded theory approach is a general

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[4] These post-consolidation banks are listed in Appendix A.

[5] A sample of the Likert-type questions is provided in Appendix B.

methodology of analysis linked with data collection that uses a systematically applied set of methods to generate an inductively driven theory about a substantive area' (p.16). Unlike other approaches to qualitative research, GT emphasises theory development (Strauss and Corbin, 1998), which is the main aim of this thesis. Strauss and Corbin's methodological approach of open, axial and selective coding through constant comparison was adopted because of its convenience and applicability to this study, and it is also consistent with the qualitative research design adopted.

1.6 An Overview of the Thesis

For ease of comprehension, the thesis has been divided into five components: The first is this introductory chapter, which gives the background, motivation, objectives and an outline of the thesis. This is followed by Parts I, II and III, which deal with the literature review, the methodology, data collection and coding, and the data analysis and theory development, respectively. Each of these contains several chapters. The final component is Chapter 10, which offers conclusions, implications for practice, the contributions made by the study and areas for future research. Further details of the ten chapters of this thesis are provided below.

Introduction to the Thesis

Chapter 1 outlines the background of the study, its main aim and objectives, and the research questions. It also explains the researcher's key motivations for undertaking the study, the data collection and methodology employed, and provides an overview of the thesis.

Part I: Literature Review

This part contains three chapters. Chapter 2 provides a review of the extant theoretical and empirical literature on corporate governance, focusing on providing definitional clarity of the terms “corporation”, “governance” and “regulation”, as a basis for understanding the concept of corporate governance from different perspectives. This chapter also discusses the most relevant theories of corporate governance, including agency theory, as well as the shareholder and stakeholder models. Next, the chapter highlights major corporate governance practices around the world. Given the various criticisms of both theories and practices that are blamed for the emergence of scandals and abuses in all spheres of corporations, the chapter develops an argument regarding the need for an alternative corporate governance system that reflects the types of corporate issues that emerge within specific organisations and countries.

In Chapter 3, the review of corporate governance is narrowed specifically to banks, the focus of this study. The chapter also reviews the corporate governance of banks in developing countries, as a foundation for understanding the theoretical and practical significance of the research area. After that, the evolution of corporate governance in Nigeria is dealt with, and a profile of the country’s banking industry provided. Next, the chapter discusses corporate governance practice in Nigerian banks through three distinct dimensions: (1) regulations and the code of corporate governance, (2) internal control governance and (3) the disclosure of information. The aim of Chapters 2 and 3 is to highlight the development of corporate governance and the continued debate and criticisms regarding the various theories and practices that have resulted in profound problems for corporations. Through this process, a gap in the literature is identified, suggesting the need for an alternative theory of corporate governance for banks in Nigeria.

Chapter 4 reviews culture and leadership, which form the conceptual framework that guides this study. It reviews the concept of culture and the significance of its theories, and the theories and definitions of leadership. It also discusses culture and leadership conceptualisations as a possible theoretical framework in which to address the underlying corporate governance phenomenon. Next, it examines the significance of social contract theory in the context of cooperation and trust, as a strategic approach to addressing the phenomenon of corporate governance in banks. The chapter concludes with a reflection on the relevance of the proposed theoretical framework to this study.

Part II: Research Methodology, and Data Collection and Coding

This part comprises Chapters 5 and 6. Chapter 5 provides an account of the methodology used and reviews the research design, paradigms of inquiry, approaches and strategies. To address the knowledge gaps identified in Part I relating to alternative means of corporate governance for banks, the chapter discusses the constructivist paradigm of inquiry and the social constructionism paradigm of inquiry used in the research. The chapter further clarifies on the distinction between the constructivist and interpretivist paradigms of inquiry and their relationship to the GT approach. The chapter then discusses GT and its philosophical roots, and identifies it as an appropriate method for this study, particularly in terms of discovering the nuances of corporate governance practice in banks. The application of GT should ensure that the theory emerging from this study meets the requirements of good science in terms of generalisability, reproducibility and rigour (Strauss and Corbin, 1998; Howell, 2000). Next, the chapter discusses the main differences between the two founding approaches to this methodology, those of Glaser (1978, 1992) and Strauss and Corbin (1990, 1998), and provides some justifications for employing Strauss and Corbin's version in this study. Finally, the chapter describes the application and procedures of the GT approach chosen for this research.

Chapter 6 explains the methods used for data collection and coding. It describes the site selection and data sampling, and then the data collection process, which involved semi-structured interviews and a focus group discussion. It goes on to explain specifically why interviews and focus groups are significant data collection techniques in qualitative research, and for this study. This lays the foundation for the data analysis. Finally, it highlights how, through the process of coding, the collected data were used to develop a substantive GT that formed the basis of the analysis in Part III.

Part III: Data Analysis and Theory Development

This part deals with the data analysis and the emergence of the substantive theory, and comprises Chapters 7, 8 and 9. Chapter 7 deals with the detailed open-coding analysis of the semi-structured interviews and focus group discussions. The interviews and focus groups were conducted based on research questions that were, in turn, formulated in response to a ten-statement survey, which was carried out for the purpose of gaining access and discovering essential areas of investigation. Chapter 7 also discusses the semi-structured interview questions, and the processes and analysis of the open coding, followed by the focus group analysis and the development of open codes. It explains how, through the GT approach, the data collection and analysis proceeded simultaneously, generating eight open categories – corporate transformation, code/regulation, improving competence, internal control mechanisms, lack of transparency, self-interest, enforcement, and organisational factors – that formed the basis of the substantive theory. In line with GT procedures, these eight categories formed the basis of the axial coding process discussed in the following chapter.

Chapter 8 covers two stages of the GT analytic process: axial and selective coding. The axial coding involved reassembling the eight fractured, open categories that emerged during the open coding stage. In other words, they were rearranged and linked together into a coherent overall system (Howell, 2000). This chapter explain how the eight open categories resulted in six main categories: corporate control mechanisms, human action, code/regulation, lack of leadership, enforcement, and competency. These main categories were also related to each other through the application of paradigm model components (Strauss and Corbin, 1998). In fact, the application of the paradigm model in this thesis helps to demonstrate how the structure and process are intertwined through the axial process.

Selective coding is the final analytic procedure of the GT approach. It is used to identify the core category in terms of its properties and dimensions (Corbin and Strauss, 2008). Chapter 8 explains the process used to verify and validate the data obtained from the final stage of the semi-structured interviews (series III), conducted using a discriminate sampling process among the participants. The purpose of this process was to ascertain the credibility of the data gathered in the previous interview series I and II. The questions asked were on specific categories, which led to the emergence of two core categories: human action and lack of leadership. The chapter goes on to explain the division of these core categories into subcategories, and presents a diagrammatical figure showing how the core categories are integrated with the subcategories, to enrich the explanation and development of a substantive theory of corporate governance for banks based on the categorisation and analysis of the participants' opinions. The developed substantive theory forms the basis of the following chapter.

Chapter 9 focuses on the substantive GT, and explains the details of it, illustrating the extent to which human action and a lack of leadership influence corporate governance in the banking sector. The chapter discusses the relevance of culture and leadership to corporate governance research, and reviews the study of corporate governance using the identified theoretical framework. It also highlights the limitations of the extant literature, linking culture and leadership to the study of corporate governance. In addition, the chapter explores the substantive theory within the culture and leadership framework, and highlights the relationship between it and formal theories of corporate governance, which is illustrated by Figure 9.1. In addition, the chapter proposes the social contract, through cooperation and trust, as a strategic tool through which to actualise the findings of the substantive GT developed in this thesis.

Concluding Chapter

Chapter 10 brings the thesis to a close, offering the overall conclusions, its implications to practice and the contributions of the thesis, its limitations and suggested areas for further research. It starts with an overview of the research and the theory that has emerged from it, and then presents the contributions the study makes to knowledge, in terms of methodology, theory and practice. Then, it discusses the implications of the findings of the substantive theory for practice, and the limitations of the study. The chapter also concludes by proposing areas for further research.

PART I: LITERATURE REVIEW

Chapter 2. The Concepts, Theories and Practice of Corporate Governance

2.1 Introduction

The evolution of corporate governance is as old as capitalism, and can be linked to the seminal work of Adam Smith in 1776, particularly his famous exposition of the invisible hand of completion as guiding an economic system based on individual self-interest, although he did not use the phrase as it is known today (Morch and Steier, 2005). Even though theories relating to corporate governance development and the areas it encompasses have been drawn from a variety of disciplines, contemporary discourse about corporate governance issues came to light with the seminal critique of managerial corporation and ownership by Berle and Means in 1932. The increasing numbers of corporate scandals in the last decade, and the recent global financial crisis, particularly in the banking sector, have once again renewed the debate on the fundamentals of corporate governance (Polo, 2007). This debate has raised questions, not only about regulatory frameworks as an internal control mechanism for banks, but also on the effectiveness of the existing legal and economic mechanisms in curtailing managerial discretions (Tomasic, 2011).

Indeed, the rapid evolution of corporate governance in both policy and practice has now become a concern of stakeholders, as they search for an alternative approach to contemporary corporate governance issues, especially for banking organisations. In laying the foundations for an understanding of corporate governance, this chapter provides an overview of three key terms – corporation, regulation and governance – often used to explain the concept, role and function of corporate governance. This is followed by a presentation of the diverse definitions of corporate governance and some of the relevant corporate governance theories and practices that have evolved over time. In addition, the chapter presents a justification of an alternative corporate governance research agenda, the purpose of which is to provide some general conceptual and theoretical background to the study. A reflection of the chapter is presented in the final section.

2.2 Definitions of Key Terms

Corporate governance issues are described differently at different levels but commonly include the following key terms: regulation, corporation and governance. The development of a corporate governance framework therefore requires an understanding of the meaning of these terms and their application in corporate governance studies.

2.2.1 Defining the Corporation

Many scholars have defined corporations in relation to regulation or economic activity. One of the early concepts described the corporation as ‘an artificial person’ (Soderquist, 1999, p.375), later refined to ‘a constellation of relationships having varied and varying hierarchical structure’ (p.376). Expanding this concept, Sternberg (2004) considered the corporation to mean a separate legal person that has owners who determine its purposes and who are ultimately entitled to control it. Thus, ‘in exchange for contributing capital and bearing the residual risk of the corporation to the extent of the value of their shares, the owners (shareholders) should benefit from the corporation’s profit (via dividends or capital gains), and its ultimate control through voting rights’ (Sternberg, 2004, p.37). Meanwhile, rejecting the conventional concepts of the corporation that had been proposed, Post et al. (2002, p.17) posited that:

> ‘a corporation is an organisation engaged in mobilising resources for productive uses in order to create wealth and other benefits (and not to intentionally destroy wealth, increase risk, or cause harm) for its multiple constituents or stakeholders’.

The authors explained that the core image of a corporation has to include the "society" that created the corporate form because 'conformance with broad social norms and values is an inherent requirement for the corporate system as a whole' (Post et al., 2002, p.13). For Monks and Minow (2004, p.4), a corporation is

> 'a mechanism established to allow different parties to contribute capital, experience, and labour, for the maximum benefits of all of them....the investor to participate in the profits....without taking responsibility for the operations. The management to run the corporation without taking the responsibility of providing funds....the independent entity must still relate to a wide variety of "constituents" including its directors, managers, employees, shareholders, customers, creditors, suppliers....the community and the government...each of these relationships affects the direction and focus of the corporation'.

This implies that, within the framework of the law, the essence of why corporations are established can be anything their owners choose, but is subject to regulation in the relevant jurisdictions. As Cooper and Burrell (1988, cited in Letza et al., 2008, p.22) stated, 'the corporation is a bounded social system and is normatively rational'. This means, Letza et al. (2008, p.22) explained, the corporation can be 'either the aggregate of individual units or a collective entity as a naturally existent entity'. Although, a corporation can simply be a collective name for its members and their aggregate rights, not all corporations are set up by their owners solely to make a profit. Some corporations are set up to engage in charitable activities and others are set up as "not-for-profit" businesses.

2.2.2 Defining Regulation

The term "regulation" has been given a multitude of definitions in the wider sphere of legal and socio-economic activities (Den Hartog, 1999). From the politico-economic perspective, regulation can be described as 'different systems of economic organisation and the legal forms which maintain them' (Majone, 1990, pp.1-2). As legal instruments for the implementation of socio-economic policy objectives, Den Hartog (1999) explained, the main feature is their focus on how individuals or organisations can be compelled by governments, through sanctions, to comply with prescribed behaviour. This means that those measures relate to the sustained and focused control exercised by an established public agency (Selznick, 1985). Regulation is also considered to be a legislative mandate over activities that are generally regarded as desirable to society. On what constitute desirable activities, Majone (1996) claimed that market activities can only be regulated if societies consider such activities worthwhile in themselves, and hence in need of protection as well as control. This proposition has been put forth as the essence of regulation in general (Ogus, 1994; Majone, 1996; McGowan and Seabright, 1995). In fact, the growth of regulation indicates the expansion of rights and privileges in a society (Dicey, 1962).

However, regulating an industry requires knowledge of its operations, the ability to shift requirements as the conditions of the industry dictate, the pursuit of energetic measures upon the appearance of an emergency, and the power through enforcement to reach conclusions regarding policy (Landis, 1966). As a result of corporate activities and the complexity of society, there have been delineations made between different types of regulatory approaches, such as social, economic or financial (Ogus, 1994; Viscusi, 1996). Financial regulation is concerned with three areas: products, intermediaries and markets (Howell, 2001). Financial regulation, particularly for banking, that stems from the basis of economic theory (Stigler, 1971), has been extended to cover wider activities (Barth et al., 2004). For instance, the regulation of banks refers to a body of specific rules or agreed behaviour, either imposed by some government or other external agency, or self-imposed by explicit or implicit understanding within the corporate whole (Llewellyn, 1986).

In contrast, social regulation deals with such matters as health and safety, environmental protection and consumer protection (Ogus, 1994), and their regulatory application differs even among countries or regions that share common socio-economic principles. As Estache and Wren-Lewis (2009) concluded, institutional weaknesses in developing countries will make the optimal regulatory policies different from those of developed economies; as such, each entity must implement specific and functional regulations that reflect its own needs and the local circumstances. These weaknesses range from limited regulatory capacity and ability to implement policy, to limited commitment and fiscal efficiency, to accountability, which have been evidenced to varying degrees in developing countries (Barth et al., 2004).

2.2.3 Defining Governance

The term “governance” is commonly but imprecisely used and assumes different meanings for different users. It has been defined as ‘the exercise of authority, control, management, power of government’ (World Bank, 1991, p.1) or as ‘an effort to implement the study of good order and workable arrangements’ (Williamson, 2005, p.1). The latter explained that good order includes both the spontaneous order in the market, and international order, whilst workable arrangements refer to modes of organisation. Rhodes (1996, p.660) stipulated that governance is made up of ‘self-organising and inter-organisational networks characterised by interdependence, resource-exchange, rules of the game, and significant autonomy from state’. Rhodes’ concept of governance is thus drawn from public policy and administration, which he interchangeably refers to as government. However, Rosenau (1995, p.13) saw governance as ‘systems of rule at all levels of human activity…in which the pursuit of goals through the exercise of control has transnational repercussions’.

From an institutional perspective, governance has been defined as ‘the setting of rules, the application of rules and the enforcement of rules’ (Feeny, 1993, p.172). In a broader sense, it has been described as ‘the determination of the broad uses to which organisational resources will be deployed and the resolution of conflicts among the myriad participants in organisations’ (Daily et al., 2003, p.371). Indeed, the consensus view is that governance is all about ‘patterns of organisational interactions involving multiple inter-dependent actors from the state, market and civil society with the aim of satisfying collective human needs in a complex, dynamic environment’ (Kooiman, 2003, p.11). It can therefore be argued that the concept of governance can be located within three areas, namely, (a) governance in the global space or global governance, which deals with issues outside the direct activity of individual governments, (b) governance in the national space or within a country (Barnett and Duvall, 2005) and (c) governance in the corporate space, which constitutes the activities of incorporated and non-incorporated organisations that are accountable to a board of directors (Mueller, 1992). It is therefore the combination of the concepts of corporation, regulation and governance that variously determine how corporate governance is perceived and functions, which also depend largely on what the corporation exists for (Vinten, 1998) and the issues it tends to address (Iskande and Chamlou, 2000).

2.2.4 Defining Corporate Governance

The term corporate governance was first used by Eells (1960, p.108) to mean ‘the structure and functioning of a corporate policy’. Since then, many of the issues around corporate governance have been explained in a variety of ways. For instance, in the finance literature the idea is ‘concerned with the resolution of collective action problems among dispersed investors and the reconciliation of conflicts of interest between various corporate claims holders’ (Becht et al., 2002, p.1). For Letza, et al. (2008, p.18), corporate governance is ‘concerned with the regulation, supervision, or performance and conduct oversight of the corporation’. Although Monks and Minow (2008) described corporate governance as the relationships among various participants in determining the direction and performance of corporations, Keasey et al. (1997, p.2) argued for the inclusion of ‘the structures, processes, culture and systems that engender the successful operation of the corporations’ in the definition of corporate governance. To achieve organisational success, Aguilera et al. (2008, p.1) opined that corporate governance must ensure that ‘executives respect the rights and all interests of company stakeholders, as well as making those stakeholders accountable for acting responsibly with regard to the protection, generation, and distribution of wealth invested in the firm’.

Due to an increasing number of corporate scandals over the years, recent definitions of corporate governance have focused on regulations and codes of good governance practice around the world (Letza et al., 2004). For instance, the Cadbury Committee Report (1992, p.15) defined corporate governance as ‘the system by which business corporations are directed and controlled’. Similarly, the OECD (1999) defined corporate governance as the structure of relationships and corresponding responsibilities among a core group consisting of shareholders, board members and managers, designed to foster the competitive performance required to achieve the corporation’s primary objectives. Indeed, the OECD’s definition is widely regarded as well-balanced and the most acceptable concept because it places responsibility on the board to ensure strategic guidance, implementation and monitoring (Nwanji and Howell, 2007). Recently, Sun et al. (2011, p.8) expanded the concept of corporate governance to mainly involve ‘four-level legal, cultural and institutional arrangements, including regulatory governance, market governance, stakeholder governance and internal or shareholder governance’. As the authors explained, corporate governance systems relate ‘to the whole set of regulatory, market, stakeholder and internal governance’ (ibid). Despite the proliferation of corporate governance concepts in the literature, there is little agreement over its definition, scope or constituent parts (Ruhanen et al., 2010). Indeed, the scope of corporate governance in its context has continued to generate varying views that have led to the development of several theories (Klapper et al., 2005). The most relevant of these theories are considered in the next section.

2.3 Theories Relevant to Corporate Governance

The evolution of corporate governance is essentially bound to the evolution of the theory of the firm (Sun, 2007). Ever since the South Sea Bubble in the seventeenth century, which led to the revolutionising of business law and practice in the UK, and the seminal critique of the corporation by Berle and Means following the stock market crash of 1929 in the US, corporate governance issues have generated increasing concern among researchers. This has led to the development of several theoretical approaches relating to corporations (Alchian and Demsetz, 1972; Jensen and Meckling, 1976; Donaldson and Davis, 1991; Freeman, 1984; Hawley and William, 1996; Learmount, 2002; Crane and Matten, 2004; Clarke, 2004). These theories range from agency theory (Alchian and Demsetz, 1972; Jensen and Meckling, 1976), which expanded into what Hawley and Williams (1996) identified as the simple finance model, to the stakeholder model, the shareholder model and the political model. The finance model was discussed in Shleifer and Vishny’s (1997) study of corporate governance. More recently, Learmount (2002) presented the “economic approach” and the “organisational approach” to corporate governance.

Other theories include transaction cost theory, in which the firm is viewed as a governance structure (Coase, 1937; Williamson, 1985), the resource dependency theory, which addresses the role of boards in organisations (Zahra and Pearce, 1989) and ethics-related theories (Maisenbach, 2006). Of all these theories, agency theory is the main one applied in corporate governance studies (Daily et al., 2003). In fact, some of the other theoretical perspectives mentioned above are intended to complement rather than substitute for agency theory (Daily et al., 2003). Even though agency theory, stakeholder theory and stewardship theory are the three major theories recognised (Clarke, 2004), recent work on corporate governance theories can be categorised into two contrasting paradigms: the shareholder and stakeholder models (O'Sullivan, 2000; Letza et al., 2004). These two models have also been the subject of debate regarding the purpose of the corporation, its associated structure of governance arrangements, and what guides corporate practice and objectives or its limitations regarding current corporate issues and management. As such, the understanding of these theories and their significance to the current discourse is fundamental.

2.3.1 Agency Theory

The concept of agency theory was first outlined by Alchian and Demsetz (1972). Later it was refined by Jensen and Meckling (1976) in their explanation of the firm as a nexus of contracts between different factors of production:

> 'a contract under which one or more persons called the principal(s) engage another person called the agent to perform some service on their behalf which involves delegating some decision making authority to the agent' (p.308).

Generally, most of the agency models in the literature have been concerned with contracts (Fama and Jensen, (1983a), managerial discretion (Grossman and Hart, 1986; Shleifer and

Vishny, 1997) or incentive contracts (Jensen and Meckling, 1976). According to Eisenhardt (1989a, p.58) agency theory is principally concerned with

> 'resolving two problems that can occur in agency relationships, (1) an agency problem that arises when the desires or goals of the principal and agent conflict and (2) when it is difficult or expensive for the principal to verify how the agent is actually doing'

Fundamentally, agency theory holds that, in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximise shareholder returns (Berle and Means, 1932). Hence, the popularity of agency theory in corporate governance research is due to two main reasons. First, large corporations involve two groups of participants, the managers and the shareholders, and the interests of each are assumed to be clear and consistent. Second, it relates to the notion that humans are self-interested, thus unwilling to forgo personal interests for the interests of others (Daily et al., 2003). Moreover, the applicability of agency theory goes beyond the boundaries of its original domain of finance and economics, as it also dominates discussions in accounting, law, management, political science and sociology (Eisenhardt, 1989a; Zahra and Pearce, 1989). Although it is argued that agency theory provides significant insights into the workings of firms and the effects of regulatory control on the contractual relationships of managers, particularly with regard to the effects of their actions on the wider group of stakeholders and investors, the theory's underlying assumptions have come under severe criticisms in recent times (Learmount, 2002).

Learmount (2002) observed that theorists tend to see the firm principally in contractual terms, guided by the assumption of utility-maximising self-interested human behaviour, and this position makes the protection of investors' capital the main issue for corporate governance. In addition, R.H. Frank (1994) argued that the theory failed through its inability to consider the demands of social existence and that it creates the conditions that encourage the type of behaviour it purports to protect against (see also Ghoshal and Moran, 1996). Despite the relevance of agency theory to the understanding of corporate governance issues, particularly to organisational thinking in terms of the treatment of information and risk implications (Eisenhardt,1989a), supporters of the theory have also admitted that agency theory presents a partial view of the world. Although it is valid, they say, it also ignores a significant portion of the complexity of the organisations in which the managers operate, and by extension discounts the effects of socially embedded relationships in economic exchange (Zaheer and Venkatraman, 1995). This implies that agency theory can only be effective when it is complemented with other theoretical perspective. Finally, while agency theory provides a unique, realistic and empirically testable perspective on problems and allows them to be studied in a broad sense (Eisenhardt, 1989a), recent corporate governance discussions have been based on two broad paradigms – stakeholder theory and shareholder theory. Each of these two paradigms were developed on the basis of some assumptions about the nature of the corporation, the governance structure and its purpose (T. Donaldson and Preston, 1995; Letza and Sun, 2002).

2.3.2 Stakeholder Theory

The stakeholder theory on the management of an organisation can be traced back to the work of Clark (1916), Dodd (1932) and Berle and Means (1932). During the 1930s, corporations identified four major interest groups that they had to consider: customers, employees, the general public and shareholders (Preston, 1990). In the 1980s, Freeman (1984) initiated a new way of thinking about business organisations by explaining the relationship of the firm to its external environment, and its behaviour within this environment. He argued that the stakeholder concept relates to ‘all of those groups and individuals that can affect, or are affected by the accomplishment of the organizational purpose' (Freeman, 1984, p.25). This implies that the stakeholder approach explains how executives can use the concept, framework, philosophy and processes of stakeholders to manage their organisations more effectively. This further indicates that stakeholder theory leans towards the managerial conceptions of organisational strategy and ethics, reflecting the realisation that the interests and influence of individuals or groups, both within and outside of the organisation, need to be taken into consideration when evaluating threats and opportunities for change (T. Donaldson and Preston, 1995; Evan and Freeman, 1993).

Essentially, stakeholder principles suggest that firms should have multiple objectives and managers should make decisions that take the interests of all stakeholders into account. In support of this principle, the World Bank (1999) stated that the manager's job is to retain the support of all stakeholder groups, balancing their interests, while making the organisation a place where stakeholder interests can be maximised over time. However, critics of stakeholder theory are of the view that it is incompatible with business for a number of reasons: First, "responsibilities and objectives" are not synonymous but are made one in stakeholder theory (Ansoff, 1965). Second, it can also be seen to precludes the activity of business as traditionally been known and, this could make better corporate governance and business conduct unrealisable (Sternberg, 1997). In other words, the theory is intrinsically incompatible with substantive objectives of business, and undermines not only private property rights but also corporate accountability. Thirdly, opponents of this model argue that the current institutional restraints on managerial behaviour based on the notions of self-regulation and market discipline are ineffective and simply inadequate to prevent corporate assets from being used in the ways dictated by the managerial interests (Letza et al., 2004). Moreover, stakeholder theory provides no structure for restraining managers' interests in cases where executive pay is enhanced by the directors' stock option schemes that have proven to be very valuable. Such schemes allow directors to become personally very rich through option gains if the share price grows and by other means if it does not (Keasey et al., 1997). In such cases, the only restraint on executive pay seems to rest on the modesty of the executives themselves, which is a commodity in increasingly short supply.

In defence of the theory, Freeman (1984) proposed a framework comprising three levels of stakeholder analysis: rational, process and transactional. At the rational level, he suggested that it is necessary to gain an understanding of who the stakeholders of the corporation are and what their perceived stakes are. At the process level, it is necessary to understand how the corporation manages its relationships with its stakeholders and whether these processes fit in with the rational stakeholder map of the corporation. At the transactional level, one must understand the set of transactions or bargains between the corporation and its stakeholders and deduce whether these negotiations fit with the stakeholder map and the corporation's objectives. Despite Freeman's defence, it is still found that successful transactions with stakeholders are built on the understanding of the legitimacy of the stakeholders, which is often varying and difficult to control. The theory is also unable to explain how corporate boards and management are supposed to determine the trade-off between the objectives of the firm and the interests of stakeholder groups.

Moreover, many of the determinants of value creation for shareholders (through higher stock prices) are outside the control of individual CEOs, as market prices rise and fall in bull and bear markets and, often, this depends on complex factors such as competition in the product markets, speculative behaviour, and the availability of system liquidity and control (Eturk et al., 2008). Furthermore, stakeholder theory presumes that there is a clear-cut, stable and homogeneous boundary between stakeholder groups, and between stakeholder legitimacy and illegitimacy, and clear managerial perceptions of stakeholder-corporation relationships (Friedman and Miles, 2002). Finally, there is the problem related to the identification of stakeholder groups in large and complex organisations (Mitchell et al., 1997) and changes to stakeholder composition over time (Elias and Cavana, 2003), both of which make effective strategic management difficult. As Sun (2007, p.9) concludes, ‘in practice, stakeholders' interests are so diverse and conflicting that not only are they incompatible between stakeholder groups, but also within a single group’. As such, stakeholder theory does not provide a suitably precise formula for weighing and balancing competing considerations. This suggests that there could be variations in delineating stakeholder obligations among different communities due to local customs, legal systems and economic goals, even when such corporations are viewed as enduring social institutions with personalities, characters and aspirations of their own, and with proper public interests (Kay and Silberstein, 1995).

2.3.3 Shareholder Theory

In some contrast to stakeholder theory, shareholder theory is concerned with the maximisation of shareholder value or wealth, which corporations are expected to achieve by generating the largest possible flow of earnings over the long term (Friedman, 1970). According to him

> ‘there is one and only one social responsibility of business – that is to use its resources and engage in activities designed to increase its profits as long as it engages in open and free competition, without deception or fraud’ (p.7).

In essence, the idea of shareholder theory is based on the market economy, holding that the purpose of the corporation can be anything its owners choose (Jensen and Meckling, 1976; Shleifer and Vishny, 1997; Dalton et al., 1998). As Sternberg (2004) stated, although the corporation is a separate legal entity, it is, however, a slave to its owners (the shareholders), who determine its purpose and are ultimately entitled to control it. In her explanation, and indeed in the eyes of all proponents of shareholder theory, profit maximisation is the main aim of all businesses. The proponents of the theory hold that any business that gives up the purpose of maximising the owners' wealth becomes a non-business. This concept shows that the main principle of shareholder theory centres on the "capitalist system", which is defined as an economic system combining the private ownership of production enterprises with competition between them in the pursuit of profits (Nwanji and Howell, 2007). These perspectives of shareholdership are based on the traditional Anglo-American doctrine of principal-agent theory, which leans towards the economic objectives of the firm.

Nordberg (2008) noted that, at least since the 1980s, the theory's focus has been on measuring the financial rewards delivered to the shareholders through a combination of cash (dividends and share buy-backs) and capital gains achieved in public or private equity markets. As Collier and Roberts (2001, p.68) argued, 'any corporate governance model that coincides with the conception that the firm is for the shareholders' benefit should be considered as guidance of the management of the corporation'. The features of shareholder theory, which include the finance model (Jensen and Meckling, 1976) and the myopic market model (Syke, 1994), are centred on the maximisation of shareholder profits. The shareholder model, therefore, has the advantage of containing three essential features of governance, namely, private ownership, competition and the profit motive, which have also been the dominant principles guiding corporate governance practice in public firms.

Indeed, Carver, (2007, p.1) asserts that

> 'Corporate governance exists for one reason and one reason alone: to ensure that shareholders' value is maximised...and to the extent a board fails in this, no matter how many useful things it accomplishes, it has failed. To the extent it succeeds in this, no matter that it accomplishes nothing else it has succeeded'.

These underlying features of the shareholder model require two basic components, accountability and communication. Accountability relates to how those entrusted with the day-to-day management of a company's affairs are held to account by the shareholders and other providers of finance. Communication refers to how an organisation communicates that accountability to the wider world, including the shareholders, potential investors and regulators. However, since control is in the hands of the managers, a moral hazard exists in which the agents may act in ways that do not serve the interests of the owners. In this regard, Keasey et al. (1997) expressed the view that even the use of defensible incentive mechanisms such as share options can be seen as a symptom of the breakdown of governance. Perhaps that is why the common law practice in Anglo-American economies provides a three-tier hierarchical governance structure, consisting of the shareholders' general meeting, the board of directors and the executive managers, in an attempt to secure shareholders' interests, often called 'the mechanism of checks and balances' (Letza et al., 2004, p.243). It is also one of the reasons why, recently, shareholder-oriented governance models have been recognised and reflected in the corporate governance policy documents and codes of best practice of many countries, based on the Cadbury Committee Report (1992), the Sarbanes-Oxley Report (2002), and the OECD (1999) principles. Indeed, the codes of the US and the UK, from which many countries draw their frameworks, are based on shareholder theory and the price mechanism, which states that shareholders are the owners of the company, and they should benefit from the company's profits and bear the risk of losses incurred by the company.

Critiques of shareholder theory have appeared following the systemic corporate scandals that have taken place recently in most Anglo-Saxon western countries, shattering the standard and predominant economic theory that human beings usually make rational decisions and that the market's invisible hand is trustworthy. For Ariely (2009), human beings are fundamentally irrational and are motivated by unconscious cognitive biases of self-interest and greed. As indicated earlier, corporate governance issues prevail because agents or managers may not always act in the best interests of the shareholders when control is separated from ownership (Berle and Means, 1932). It is also argued that managers usually make optimal decisions only if appropriate incentives are given and they are adequately monitored (Bonazzi and Islam, 2007). In defence of shareholder theory, Shleifer and Vishny (1997) argued that governance has two broad dimensions: First, it should achieve the general monitoring of managerial performance and ensure that managers are accountable to the company's shareholders. Second, it should encompass mechanisms for motivating management to maximise the value of the shareholders' wealth. As such, the governance structure, codes of governance, compliance and performance should all be aimed at ensuring that the company's management acts in the shareholders' best interests (Durisin and Puzone, 2009).

Shleifer and Vishny (1997) further argued that two conditions must ensue in order for a governance mechanism to be effective. Firstly, does the device serve to narrow the gap between managers' and shareholders' interests? Secondly, does the mechanism have a significant impact on corporate performance and value? However, even when firms are in equilibrium with respect to their internal governance systems, there may not be a meaningful relationship between any individual mechanism and corporate performance. Generally, corporate governance that is based on shareholder theory induces, compels and otherwise motivates a corporation's managers to keep the promises they have made to the investors, that is to act in accordance with the legitimate, investment-backed expectations of the investors (Macey, 2008; see also Charreaux and Desbrieres, 2001).

Critics of shareholder theory contend that corporations that subscribe to this model are often concerned with short-term market value as opposed to the long-term value of the company. For instance, Hayes and Abernathy (1980) argued that competitive myopia and pre-occupation with short-term gains as opposed to the pursuit of long-term wealth has been the principal feature of the shareholder model. The polarised debate between shareholder theory and stakeholder theory is not unexpected in a culturally and economically diverse world, where nations can be expected to place different amounts of emphasis on the relative importance for corporations of shareholder profits versus stakeholder obligations. Despite the competing and conflicting diagnoses of, and solutions to, corporate governance issues, the application of these models to the emerging crisis in organisations has not been realised. In an attempt to evolve an alternative governance mechanism, different governance practices have been initiated around the world.

2.4 Corporate Governance Practices

Mueller (1966, p.11) claimed a half-century ago that 'there is no accepted theory of governance', and since then there has been an on-going debate over whether corporations' boards should follow the shareholder or the stakeholder model (Letza and Sun, 2002). As Letza and Sun (2002, p.52) explained, this lingering debate represents 'a polarised conceptualisation and theorising in a continuum of how corporate governance is understood', by organisations, agencies and actors in evolving their governance mechanisms. This further suggest that there is no universally accepted approach that "fits all", even within nations. Broadly, the corporate governance models that exist are often an amalgamation of the legal, institutional and regulatory environment, and these factors influence the corporate governance practices that are common around the world (Maassen, 1999)[6]. These include the Anglo-Saxon model, the Germanic model, the Japanese model and the Latin model (Weimer and Pape, 1999; Franks and Mayer, 1992). In developing countries, including those in Africa, a mixture of these is often used, depending on the political and historical past of the country. These practices are discussed in the following sections.

2.4.1 The Anglo-Saxon Model

The Anglo-Saxon system stems from the concept of a fiduciary relationship between the shareholders and the managers, based on the principle of market capitalism. It is commonly practised in the US, the UK, Canada and Australia. Firms in these countries are expected to commit themselves to the priority of maximising shareholders' wealth, and hence a strong mechanism is needed to protect shareholders' interests (Franks and Mayer, 1990). This, however, does not imply the complete convergence of governance models in these countries, just that they follow a similar doctrine and show similar characteristics, due to their historical and economic links. According to Roe (1994), this governance principle is based on dispersed ownership, and characterised by strong managers and weak owners, which creates passive shareholdership. It is argued that the Anglo-Saxon system is founded on the belief that self-interest and decentralised markets can function in a self-regulating and balanced manner (Cernat, 2004).

Corporations in countries that follow the Anglo-Saxon model are usually governed by a single board of directors comprising both internal and external members (Weimer and

[6]This does not mean that, when these models are followed, the corporate structures are better and should be mimicked, but simply shows that alternative structures and processes are possible.

Pape, 1999). In this case, the role of external or non-executive directors is limited to supervising and advising the managerial directors on major policy decisions, in line with the best interests of the shareholders (Lorsch and MacIver, 1989). Such an arrangement allows the democratic principle to apply, while ensuring a strong stock market and an active external discipline mechanism (FIBV, 1996). Significant features of this governance system include issues relating to the takeover market, such as mergers, tender offers, proxy fights, leveraged buy-outs, and managerial reputation and status (K. Martin and McConnell, 1991). Furthermore, in this system, Ooghe and De Langhe (2002) noted, most of the shares are in the hands of agents of financial institutions (at least 50 per cent) rather than private individuals (who hold only 20-30 per cent). Owing to regulations in Anglo-Saxon systems, many financial institutions are not allowed to hold shares in publicly listed corporations on their own behalf; instead, they mainly act as agents. Regarding the managerial aspect of governance, the Anglo-Saxon model for the most part involves great managerial power, but also leads to problems with free-riding, over-investment, control and a short-term perspective (Clarke, 2009).

Over the years, the governments of the US and the UK have taken a closer interest in attempting to improve their respective corporate governance mechanisms in response to various corporate disasters (Cadbury Committee Report, 1992; Sarbanes-Oxley, 2002; Cernat, 2004). These reform initiatives have been aimed at preventing corporate malpractice and ensuring that corporate governance protocols evolve or are strengthened so as to protect shareholders. However, these reforms have not prevented banks and corporations from falling victim to the "invisible hand" of corporate managers, as has been evident from the downfall of many banks, particularly in the developed economies (Boone and Johnson, 2010).

The Anglo-American system is entrenched in market solutions that focus on short-termism (Charkham, 1994; Macey and Miller, 1995). This is due to the system's reliance on takeovers, proxy fights and boardroom coups to control agency costs (Roe, 2001; Porter, 1997). This implies that the market is not a reliable indicator of corporate performance, because it often misprices assets. There is also a belief that the model is fundamentally flawed due to its inconsistency with reality (Boone and Johnson, 2010) and its tendency for risk taking, which has been a major cause of corporate failure in recent times in the UK, the US and many other countries that have adopted the Anglo-American Model. Although the countries following the Anglo-American system have striking similarities, there are still extensive differences between the governance models practised in the UK and the US (Cernat, 2004). For instance, independent outside directors make up the majority of the boards in the US, while the notion that the board is there to oversee the executive management is constantly challenged in the UK (Brountas, 2004). In practical terms, the power to enforce fiduciary duties is weak in the UK compared to in the litigious US where there have been numerous lawsuits against directors (Rickford, 2003).

2.4.2 The Germanic Governance System

The Germanic system considers corporations to be autonomous economic entities comprising coalitions of various participants, such as shareholders, corporate management, employees, suppliers of goods and services, suppliers of debt and customers, all striving for the continuity of the firm as a whole (Moerland, 1995a). In their studies, Edwards and Fischer (1994) and Kaplan (1997) found that most of the countries that follow this system (the Netherlands, Switzerland, Sweden, Norway, Finland, Austria and Denmark) have a two-tier board system comprising a management board and a supervisory board. Under this system, the supervisory board monitors the competence of the management board. From a practical point of view, it also gives advice to the management board on major policy decisions, and possesses the authority to appoint or dismiss the management board (Weimer and Pape, 1999). The Germanic model allows companies with 2,000 employees or more to include employee representatives in about half of the supervisory board seats (Weimer and Pape (1999). This significant feature gives the employees the right to participate in decision making, which is reflected in the workers' rights over working hours, holidays and dismissals. In other words, the influence of independent shareholders on the managerial decision making is limited. This is in contrast to the traditional trademark of the Anglo-Saxon system, of "one share, one vote". Furthermore, large banks are often very influential stakeholders in the corporations in Germanic countries. There are almost no restrictions on banks holding large blocks of shares in non-financial firms, unlike in the US where the practice is legally restricted (Weimer and Pape, 1999). However, the ownership structure in Germanic countries may have been responsible for inactive markets for corporate control, since this concentration of ownership is likely to have influenced managerial actions. Significantly, it also suggests that the economic relationship among the stakeholders is generally a long-term one (ICMG, 1995).

2.4.3 The Latin Governance System

The Latin governance system lies somewhere in between the Anglo-Saxon and Germanic models, but has a closer resemblance to the latter. The system is commonly practised in Italy, Spain and France (Weimer and Pape, 1999) but firms in France have the option to choose either a one-tier board system as in the US and UK, or a two-tier board system as in Germany. The ICMG Report (1995) found that around 98 per cent of the listed companies in France had chosen the one-tier board system, thereby leaning towards the Anglo-Saxon model. Similarly, shareholders in the Latin system have more influence than in the Germanic system. In the Latin system, shareholders can appoint and dismiss the management board with a 50 per cent share of the voting rights, but such influence is still less decisive than that in the Anglo-Saxon system. One of the fundamental principles of French law is that directors can be removed by the shareholders at will (ICMG, 1995). In addition, the countervailing influence of employees over managerial actions is less institutionalised than it is in the Germanic system (De Jong, 1991).

Shareholder influence in Latin countries stems from financial holdings and cross-shareholdings, as well as government and family control. In France and Spain, shareholding by banks is as important and common as it is in Germany but Italy’s system is closer to the Anglo-Saxon system in this regard as her banks are not allowed to hold securities on their own behalf (Moerland, 1995a). The stock markets play a less important role in the economies of Latin countries than they do in Anglo-Saxon countries. Empirical studies have found that, despite the absence of active corporate control, there have been more hostile takeovers in this system than in the Germanic one (Moerland, 1995b). This governance system also features a concentrated ownership structure and this explains the absence of the market for corporate control (OECD, 2004). For example, the ICMG Report (1995) indicated that the five largest shareholders held on average 48 per cent of their companies in France, while in Italy they held an average of 87 per cent. Finally, as in the Germanic system, performance-based compensation is not very common in the Latin system.

2.4.4 The Japanese Governance System

The Japanese model is driven by a cultural dimension of corporate governance: “family values” are the dominant characteristics (Weimer and Pape, 1999) and as such the system places little emphasis on litigation (ICMG, 1995). The board structure of firms comprises a board of directors, an office of representative directors and an office of auditors (Aoki, 1984). Firms also set up an informal sub-structure of the board of directors, which can include both members and non-members of the board. According to Aoki (1984), Japanese firms are viewed as a coalition of the body of employees and the body of shareholders, integrated and mediated by the management. Thus, the model allows employees and shareholders to exert great influence on managerial decisions. Shareholders are considered to be important stakeholders but, for cultural reasons, their role is different from those in the systems practised in most Western countries (ICMG, 1995). The emphasis of the system is that the shareholders should make a long-term commitment to the *keiretsu* (a system of interlocking ownership of corporations) in which they participate.

Keiretsu refers to the cultural values of "trust and dependence" that have historically been embedded in Japanese society (Yokota, 2009). The keiretsu concept can be thought of as both an economic and a sociological organisation. As Yakota (2009) explained, it is used as a group or family of affiliated companies that form a tight-knit alliance to work for each other's mutual benefit, and has become part of the Japanese corporate culture of business relationships. This, Gilson and Roe (1993) argued, allows the main Japanese banks to monitor their debtors effectively, aiming to prevent business failure and substituting for a robust corporate control market. Similarly, Zielinski and Holloway (1991) observed that, under this system, shareholders hold shares for symbolic reasons only, since they are considered to be a ticket for admission into the corporate network. This is in contrast to the Anglo-Saxon countries, where the value of the shareholder's investment (i.e. voting rights, dividends and capital gains) is considered to be the sum total of the business relationship. Although the Japanese model evolved through their successful bank-led economic policy, the level of discipline in the banking industry later eroded the function of the banks as corporate governance players (Corbett, 1994; Okumura, 2004). As in many cases of emerging economies, such failures were due to 'excess capital supply and accelerated financial technologies' (Okumura, 2004, p.3). However, the presence of keiretsu and the concept of long-term employment have ensured a preference for long-term and stable economic relationships in the Japanese system (Weimer and Pape, 1999).

2.5 Governance Practices in Developing Countries

Corporate governance practices in developing countries can be said to mirror the mix of models used in developed countries, with the precise combination used depending on the nation's historical past, or global, political and economic pressure, and the effects of dependence on international bodies (Siddiqui, 2010). In developing countries, the concept of the firm is mostly oriented towards large shareholder benefits and family ownership, while, for the board, the single-tier system is favoured, dominated by the founders in an economy with poor market control (Oman et al., 2003). Studies suggest that the failure of corporate governance practices in developing and transition economies has been due to the application of governance systems from developed economies (Iskander and Chamlou, 2000). Furthermore, there have been several arguments advanced regarding the lack of enforcement of codes in developing countries, where such codes exist (Berglof and Pajuste, 2005). For instance, several World Bank reports have indicated that the overall regulatory systems in developing countries are not only poor in terms of meeting the aspirations of stakeholders and resolving conflicts, but are also unreliable due to weaknesses in the institutional and legal systems (ROSC, 2004). The combination of these constraints hinders the ability and incentives of small shareholders to monitor corporate managers (Caprio and Levine, 2002).

The problem is yet more worrisome since the board of directors seldom represents the interests of minority shareholders in developing countries. Except in economies with very good minority shareholder protection, the problem becomes still more apparent when the control is either with the state or with families (La Porta et al., 1999). Past attempts by the World Bank and the IMF to ensure effective control and management of corporations in developing and transition economies have so far had very little success. One of the reasons for this is that most of these measures have not taken into consideration the fundamental features of each individual country (Dyck, 2001). For instance, the privatisation schemes initiated by the World Bank in Russia, the Czech Republic and other Eastern European countries failed because they were attempted before the necessary legal and institutional reforms had been put in place to provide adequate protection for minority shareholders (Iskander and Chamlou, 2000). Although these countries have started to evolve their corporate governance mechanisms, these measures are only aimed at improving corporate governance practice in their specific environments.

2.6 Governance Systems in Africa

The development of corporate governance systems in continental Africa is still in its infancy (Okeahalam and Akinboade, 2003). According to Inyang (2009), what is currently available in Africa mostly consists of corporate governance codes influenced by international bodies and agencies, such as the OECD principles, the pronouncements made by the Commonwealth Association of Corporate Governance (CACG), and various reports originating from developed economies (Wanyama et al., 2009). However, there have been attempts by corporations in Africa to attain global standards of best practice through policy initiatives, in collaboration with the global and predominantly Western-oriented agencies (D.H. Scott, 2007). It is is believed that this step is critical in helping developing countries, including those in Africa, to rebuild their competitiveness, restore investor confidence and promote sustainable economic growth.

However, as Inyang (2009) argued, the lack of prior broad-based studies on corporate governance issues in Africa is a major problem, and this explains why the international initiatives based on Western models continue to fail. Although it has been argued that improvements in corporate governance in Africa can only be attained when financial and regulatory structures are in place (Lynham et al., 2006), such improvements will only be sustainable if wider social/political factors are considered (Rossouw, 2005). In fact, in an analysis of corporate governance development in Africa, Rossouw (2005) notes that, to date, all African countries, except Nigeria, have adopted an inclusive model of corporate governance that reflects accountability to a wide range of stakeholders. Despite external intervention and domestic reforms, corporate governance failures continue to manifest in all spheres of corporations.

Also, learning from the failure of other corporate governance models, based on developed economies' data and circumstances, that have been imposed in some developing countries, there have been suggestions that an alternative corporate governance system should be developed in Africa to reflect her socio-political and economic environment, for example the culture, legal system and political structure, so as to ensure compliance and enforcement (Okike, 2007; Wanyama et al., 2009). For instance, Wanyama et al. (2009) concluded that attempts to improve governance standards in a particular nation require more than the simple publication of codes of best practice. Rather, they should consider a wide range of contextual factors, including those at the political and cultural levels. As Shleifer and Vishny (1997, p.739) concluded, 'corporate governance systems in most countries ranging from poor developing countries, to transition economies, to some rich European countries …lack some essential elements of a good system'. The authors explained that, in designing a corporate governance system, it is not whether one should emulate the US, Germany or Japan, but rather that one should evolve a mechanism that works best for one's own firm or country.

2.7 A Search for an Alternative Corporate Governance System

The evolution of corporate governance theories and practices shows their shortcomings in terms of addressing emerging corporate issues. Contemporary studies on comparative corporate governance were initially centred on analysing how different systems lead to competitiveness for corporations. However, new events suggest a shift in focus towards systems tailored to specific organisational issues. The increasing feeling is that an alternative corporate governance system should balance the spirit of enterprise with greater accountability in corporations, through a social process as opposed to the traditional economic and legal basis used to develop formal governance structures (McCarthy and Puffer, 2002; Okike, 2007; Learmount, 2002; Aguilera and Cuervo-Cazurra, 2004; Brountas, 2004; Letza et al., 2008; Rossouw, 2005; Sonnenfeld, 2002; Tomasic, 2011). For instance, the envisaged system must consider the corporation's complexity, its ability to comply with regulations, its cultural setting and many other environmental factors (Brountas, 2004). As Letza et al. (2008) stated, corporate governance is an evolving social phenomenon rather than a purely economic or mathematical reality; as such, its scope and applicability need to be redefined. Moreover, corporate governance in its essence is not about rules and regulations, but the way people work together in a given environment (Sonnenfeld, 2002). In addition, the wide range of corporate governance theories and practices across the globe suggest that they have shifted to encompass countries' distinctive economic purposes, socio-political factors and other institutional structures. As Letza et al. (2008) concluded, as a business process, corporate governance cannot be isolated from the socio-economic system, culture, legislation, power and other institutional factors if it is to succeed.

These arguments add to the view that the corporate governance mechanism is a process and the aim should therefore not be any fixed place on the continuum; instead, the mechanism should be continuously judged and adjusted in response to emerging events (Allen, 2005). As Zingales (2000) indicated, effective corporate governance does not rest on the merit of the theories and practice but on how well it responds to the changing nature of organisations. Justifying a revisit of the search for an alternative corporate governance mechanism that would reflect institutional specificity, Macey and Miller (1995) warned that, rather than investing resources in copying other systems, each system would profit by focusing on, and repairing, its own peculiar problems. Even more, the corporate governance mechanism should be seen as a continuous process of ordering and controlling actions and activities generated in corporate inter-relational webs through collectively constructed governing rules and instruments. As Sun et al. (2011) concluded, it is justifiable to evolve new corporate governance thinking beyond the constraints of traditional governance modes. However, except for few studies that utilised GT previously namely: (1) Xiao et al. (2004) on the role of the supervisory board in China, (2) Goddard and Assad (2006) on the phenomenon of accounting in non-governmental organisations, (3) Nwanji (2005) on the ethical implications of corporate governance, and (4) Sorour (2011) on the exploration and analysis of corporate governance practice. All of these studies focused either on a limited way of improving organisations or developing governance practice based on ethical or institutional theories, which are different from the set objectives of this study.

2.8 Conclusion

This chapter has aimed to lay a foundation for this research by looking at corporate governance from different perspectives, including the problems it has generated over time. The chapter commenced with an attempt to provide an overview of the theoretical and empirical literature on corporate governance, following the initial description of governance problems in Berle and Means (1932). It then presented diverse definitions of the corporation, governance and regulation, as a basis for understanding the different perspectives through which corporate governance concepts, theories and systems have developed, so as to give clarity to the research question under investigation. The evolution of relevant corporate governance theories – agency, stakeholder and shareholder – and the debates and criticisms they have generated, were also discussed. There followed an illustration of the main corporate governance practices used around the world, including those used in developing countries. Overall, this chapter acknowledges the variously identified shortcomings of the traditional models and practices, and points to the need for an alternative corporate governance theory that can be adapted to specific nations or organisations. While this chapter has provided an understanding of various corporate governance issues and limitations, it is in this space that GT can add value – as existing governance practices have evidently failed. The next chapter focuses on corporate governance specifically within the banking sector, which forms the basis of this thesis.

Chapter 3. The Corporate Governance of Banks

3.1 Introduction

The previous chapter gave a broad perspective of the concepts involved in corporate governance. It also highlighted the relevant theories and practices of corporate governance, with particular emphasis on the search for an alternative governance system. This chapter deals with the corporate governance of banks, which is the central focus of this thesis. The importance of banks for countries' finances and for spurring economic growth helps to explain the particularities of their corporate governance (Ungureanu, 2008). Moreover, banks have a major role to play in the functioning and governance of other firms, such as making credit and liquidity available in difficult market conditions, especially in times of crisis (Handley-Schachler et al., 2007; De Andres and Vallelado, 2008). These responsibilities increase the importance and complexity of banks' corporate governance. Indeed, 'all economic areas can be significantly affected by disorders in the banking industry' (Turlea et al., 2010, p.384) and this can have disastrous consequences for entire countries. These specialities make it critical that banks are provided with a corporate governance mechanism capable of ensuring the efficiency and stability of the sector (K. Alexander, 2006).

This chapter is presented in two sections. The first section is an overview of corporate governance in the banking sector, with a focus on the issues that have been identified with banks' corporate governance practices. This part further explores some of the theoretical and empirical attention given by researchers to corporate governance practices in banks, and the increasing challenges faced in developing economies, and especially in African countries. The second section deals with the corporate governance of banks in Nigeria. It starts with a brief discussion of the evolution of corporate governance in the country, as a basis for understanding how this relates to the banking industry. It also gives a brief profile of the Nigerian banking sector, with reference to its development and the literature relating to corporate governance practices. In addition, the chapter discusses regulatory frameworks, issues relating to internal control, and the current state of corporate governance in the sector, which in sum demonstrate the necessity of exploring alternative governance systems for Nigerian banks. The chapter is concluded with a reflection on its contents.

3.2 The Corporate Governance of Banks: An Overview

Since commercial banks have diversified into investment banking and insurance, and vice versa, determining a clear concept of a bank has become problematic within social science and business discourse. From a generic perspective, banks can have a broad range of stakeholders, and their scope of activity may not be the same in every country (Barth et al., 2006). In both developed and developing economies, banks are relied upon to perform the crucial roles of financial intermediation, facilitating the implementation of monetary policies, and the provision of an efficient payment system. Moreover, banks are unique due to two distinct features (Levine, 2003; Macey and O'Hara, 2003; Staikouras, 2007; Cocris and Ungureanu, 2007) and as such require special governance mechanisms. The first feature is their "greater opaqueness", meaning that their information flow is complex and this makes it more difficult to design contracts that align the interests of managers and shareholders (Levine, 2003). This feature also constrains the capacity of the shareholders to monitor the decisions of the managers. Indeed, the imperfect information and misaligned incentives between these two parties often leads to principal-agent problems, since in such situations the principal cannot monitor the agent's actions sufficiently.

The second feature is the heavy regulatory system that applies to banks (Ungureanu, 2008). In many economies, banks are much more heavily regulated than non-banking firms, and in many regimes this impedes the natural corporate governance mechanism (Caprio and Levine, 2002). For instance, Caprio and Levine (2002) indicated that deposit insurance reduces monitoring by insured depositors, reduces banks' desire to raise capital from large, uninsured creditors who would have an incentive to monitor them, and increases the banks' incentive to shift bank assets into risky investments, all of which affect the effectiveness of corporate governance. Furthermore, Caprio and Levine (2002, p.5) argued that 'ownership concentration is an important mechanism for preventing managers from deviating too far from the interest of owners'. Indeed, on bank governance, Laeven and Levine (2009) concluded that ignoring ownership structure will render ineffective policies on capital regulation, deposit insurance and activity restrictions on banks' risk taking.

Considering the wider interests represented by banks, Macey and O'Hara (2003) argued that the corporate governance mechanisms envisaged for banks should consider depositors as well as shareholders, as they may suffer the highest risk. They further advised that such mechanisms should consider both the causes of an individual bank's instability and the systemic risk it faces. Indeed, in commercial banks, the managers, the regulators, and claimants on the firm's cash flows, such as investors and depositors, all pose unique corporate governance problems (Macey and O'Hara, 2003). Although previous corporate governance frameworks for banks draw on regulatory and market mechanisms, based on arguments relating to their features and complexities (Turlea et al., 2010), the recent global financial crisis that began in the most sophisticated banks, operating in the most developed governance environments in the world[7], such as the US and the UK, showed the limits of such frameworks (Ard and Berg, 2010). Indeed, the consequences of the crisis for banks and the overall economies of developing countries, particularly those in Sub-Saharan Africa,[8] were unprecedented (IMF, 2009).

The top reasons advanced for the crisis, among the list of governance failures, include the following: The first was the lack of effective risk governance (OECD, 2009). Risk governance is generally defined as 'board and management oversight of risk and attendant configuration of internal systems for identifying, measuring, managing, and reporting risk' (Ard and Berg, 2010, p.2). Second was that 'the crisis was rooted in the allocation of risks and the lack of transparency' (Moslein, 2011, p.285). Third was that it was due to the effect of 'the US subprime mortgage crisis in 2007, triggered by the bursting of a housing bubble in late 2006' (Sun et al., 2011, p.2). Finally, Yeoh (2010) claimed that it was due to a combined effect of microeconomic conditions, bad corporate governance, and loose regulatory oversight. The Angelides Report (2011, p.xvii) concludes that 'the financial crisis was the result of human action and inaction, not of Mother Nature or computer models gone haywire', and as such was avoidable'. In fact, other causes of the crisis also include: (1) issues relating to market participation, (2) weak underwriting standards and (3) issues relating to policy-makers, regulators and supervisors (Sun et al., 2011).

As Levine (2004) noted, the apparent array of regulations on banks came about either through qualitative regulations or as a necessary consequence of reforms or crises. In

[7] By the end of October 2008 more than half a trillion dollars had been lost in subprime investments by 45 major international banks, with the highest losses recorded by Citigroup in the US ($66.6bn) and the lowest by AXA in France ($1.1bn) (Clarke, 2011).

[8] Sub-Saharan Africa comprises 47 of the 54 independent states in Africa, including Nigeria.

addition, empirical evidence suggests that, even with the regulation, banking opaqueness provides strong incentives for the collusion[9] and other non-competitive behaviour that takes place in some economies (Mullineux and Terberger, 2006). This further overcomes the justification of code or regulations in resolving corporate governance issues (K. Alexander, 2010; Ariely, 2009; Barth et al., 2006; Tomasic, 2011). In affirming the limits of regulation, Alan Greenspan, former chairman of the US Federal Reserve, conceded as to the errors that had been made in regulation and remarked, 'I made a mistake in presuming that self-interests of organisations especially banks and other lending institutions, were such as that they were best capable of protecting their own shareholders' equity in the firms' (Andrews, 2008)[10]. In addition, Boone and Johnson (2010) expressed the view that the long-term failure of regulation to check financial collapses reflects the deep political and operational difficulties involved in creating appropriate regulatory frameworks for institutions. They contended that, as a result of this shortcoming, the new regulations under Basel 3 would fail, just as Basel 1 and Basel 2 had failed. Young and Thyil (2011, p.379) added that 'codes and governance structure are useless if they exist only on paper'.

Reviewing corporate failure in banks, K. Alexander (2010, p.33) argued that an efficient corporate governance framework for banks should rely less on the strict application of statutory codes and regulatory standards, and more on 'developing flexible, internal compliance programmes that fit the particular risk level and nature of the bank's business'. In order to achieve this, however, the regulators must play an active role along with the bank's management in designing internal control systems and risk management practices

[9] Ariely (2009) pointed out that collusion often occurs between boards of directors and inside management, and sometimes with the foreknowledge of regulatory agencies or their members.

[10] Part of Alan Greenspan's testimony to the US Congress' House Committee on Oversight and Government Reform on the root causes of the subprime bubbles that triggered the global financial crisis.

that seek to achieve an optimal level of protection for shareholders and the broader economy. Similarly, on the continued failures of the banks, Tomasic (2011, p.69) argued for ‘a more radical review of prevailing corporate governance and self-regulatory strategies for banks than has occurred to date’. For Young and Thyil (2011, pp.381-2), the key variables that impact upon effective governance in addition to laws and regulation are ‘behaviour and organisational culture, ethics and code of conduct, human resources management and leadership, decision-making structures, and shareholders and stakeholders’. Indeed, these comments add to the conclusion of Kirkbride and Letza (2004, p.87) that, despite the general support for codes of practice, there is still ‘the need to consider the proper relationship between the company law and the non-statutory standards of corporate behaviour’. Such arguments also support the suggestion by Macey and O’Hara (2003) that the corporate governance of banks not only requires broader consideration of the indigenous features of the firms being governed but should also vary on the basis of national boundaries.

3.3 Corporate Governance of Banks in Developing Countries

While there has been an upsurge in the literature on corporate governance developments across the globe (Shleifer and Vishny, 1997; Solomon and Solomon, 2004), there is still a gap in the literature on corporate governance developments in the developing economies (Arun and Turner, 2004). Although progress is gradually being made in some developing countries (Mallin and Jelic, 2000; Apreda, 2001), there is little evidence of such developments in Africa, with the exception of South Africa and some North African countries (Oman, 2001; King Report, 2002; Okeahalam, 2006). Indeed, current studies on banking governance are mostly based on US and European issues, thereby neglecting banks in developing counties (Bos and Schmiedel, 2007; Arun and Turner, 2004), and especially African countries (Okeahalam, 2006). The increasing wave of deregulated policy and the continued corporate failure in the banking sectors of developing countries have drawn scholars, including stakeholders, to seek ways to resolve the impasse on effective banking governance (Reaz and Arun, 2006). Though the history of severe banking failures is long, previous attempts to improve the corporate governance system for banks have not been encouraging (Caprio and Levine, 2002), despite their dominant role in the development of financial systems within less developed or efficient financial markets (Arun and Turner, 2004).

However, in an attempt to produce corporate governance frameworks that meet certain international standards, developing countries have, at different times, embarked on various liberalisation policies and reforms, through privatisation and divestment, which have reduced the role of economic regulation (Reed, 2002). Analysts of banking failures in developing countries have associated them with weaknesses in ownership structure, poor control mechanisms, moral hazards, transparency and disclosure problems, insufficient monitoring and supervision, and poor compliance. Indeed, these attributes together justify the need for effective corporate governance for banks (Chahine and Safieddine, 2008). Furthermore, despite the recent raising of concerns and the interventions made by international agencies such as the World Bank through the Basel Committee, the OECD, and the ROSC, aimed at addressing critical corporate governance deficiencies in banks, there is still evidence that an effective corporate governance mechanism for banks is far from being settled on. Indeed, one of the problems is that the policies and mechanisms that have been initiated are based on data obtained from developed countries (Ard and Berg, 2010), rather than on any attempt to uncover the underlying phenomena affecting governance practices within each individual environment and institution.

Moreover, current studies on emerging corporate governance issues show that the problems are manifestly higher in developing countries, and are becoming increasingly so (Reaz and Arun, 2006). Though prudential regulation is essentially expected to safeguard and restrain the management of banks from acting inappropriately in a way that could affect the interests of stakeholders, three points should be made: Firstly, such safeguards have been hampered by poor legal protection, which provides the management with an opportunity to abuse the regulations (Arun and Turner, 2004). Secondly, even where prudent reforms exist, they have not been effective in preventing crises in banks, due to a lack of accurate and timely accounting information (Brownbridge, 2002). Thirdly, corporate governance failures have continued even where the government has provided guarantees in the form of explicit or implicit deposit insurance to encourage depositors. Moreover, there is evidence that banks' managers see such commitments as an incentive to opportunistically increase their irrational risk taking (Caprio and Levine, 2002).

Although one of the purposes of regulation in developed economies is to restrict the concentration of bank ownership and prevent outsiders from purchasing substantial stakes in banks, such regulations have failed to restrict the large amount of family ownership in developing countries. Indeed, recent research shows that significant number of banks and finance corporations in many countries around the world are family owned (Caprio et al., 2007). For instance, more than two-thirds of banks in the Philippines and Indonesia are family owned (Bunkanwanicha et al., 2012) and about a third of the companies listed in the Fortune 500 are family businesses (Lee, 2004). In fact, Fama and Jensen (1983b) and DeAngelo and DeAngelo (1985) argued that family businesses have the advantage that they are better at disciplining managers and other employees. The authors contended that family business ownership allows for a high level of trust and commitment, which may result in greater efficiency and higher profitability. However, such corporate performance can be affected where there are conflicts between the family and the business (Lee, 2006). Moreover, La Porta et al. (1999) argued that it is often difficult to prevent families from expropriating minority shareholders, especially in countries with weak legal protection or where corrupt practice is entrenched in the system. Such problems are often prevalent in the developing countries of Africa (Gatamah, 2008).

The recent events in the banking sector, which began in Europe and the US, have further broadened contemporary thinking on the sorts of systems that should be adopted for banks, beyond simple economic and legal modelling. One of the long-argued reasons for broadening the scope is to do with the fact that existing codes of governance in developing countries draw their roots from the political and legal environments of Western economies (Llewellyn, 2005). Such mechanisms have been found unsuitable for developing countries, particularly for curbing the dereliction of responsibilities by directors and managers and ensuring transparency in financial and non-financial reporting (Coombes and Wong, 2004). Oman (2001) asserted that one issue that complicates the corporate governance of banks in developing economies is the 'activities of distributional cartels' (p.20). These cartels consist of corporate insiders who have very close links with, or partially constitute, the governing elite, and they undermine the credibility of investors' legal protection. In many cases, these internal cartels may also prevent or slow any proposed reforms that could improve the human and financial capacities of the banks, as many of the reforms go against the interests of insiders.

In the banking industry, effective internal corporate governance is highly dependent on boards and the characteristics of their individual directors (Stanwick and Stanwick, 2005).

It can be argued that the overall responsibility falls on them to monitor and evaluate management, and ensure that laws and guidelines are complied with, and ethics upheld (McKendall et al., 1999). Iskander and Chamlou (2000) asserted that a key to good corporate governance for any modern corporation is an informed and well-functioning board of directors. However, in many developing countries, boards' behaviours have been central to the corporate governance problems experienced recently (Chahine and Safieddine, 2008). While Nigerian banks have unfortunately not escaped the unprecedented corporate failures, early theoretical studies have not covered the country's current bank-related corporate governance issues.

3.4 The Evolution of Corporate Governance in Nigeria

In his review of corporate governance in the Third World, Yakasai (2001) observed that, prior to the independence of Nigeria in 1960, and in the early 1970s, there was little challenge to management's prerogative in the running of corporate enterprises and, as such, there was neither any demand for independent and off-site supervision, nor the need for the transparent disclosure of information. He argued that 'there was little or no cause for intervention in matters of accountability and corporate power games, except for the compliance with the corporate law that regulated corporate governance' (Yakasai, 2001, p.238). It could also be argued that, even though salient corporate governance issues emerged, most were resolved through the Company and Allied Matters Act (CAMA) of 1990, or similar earlier legislation. This suggests that issues relating to the regulation, control and governance of businesses in Nigeria are largely contained within the provisions of company legislation, which has its roots in the nation's colonial past (Okike, 2007). With the emergence of the indigenisation[11] of corporations in 1977, and the proliferation of many financial and non-financial corporations in the 1980s, corporate governance issues began to emerge.

While previous corporate governance discourse concentrated on issues relating to the ownership and control structure, the voting rights of shareholders, corporate social responsibility and the board of director's tenure and composition (Adenikinju and Ayorinde, 2001; Okike, 2007), recent corporate failures in the financial sector have renewed interest in the need for reform in both private and public corporations (Wilson, 2006; Ahmed, 2007), especially in the banking industry in Nigeria. This is because most of the initiatives from institutional and regulatory bodies have only reviewed the existing legislations or codes of governance, which has limited the process to legal and economic model reforms. It is therefore not surprising that, even after the bank reforms in the post-consolidation era of 2006, there is still evidence of bank failures and unresolved corporate governance issues (Nworji et al., 2011). Perhaps the renewed public discourse will lead to the provision of a special form of corporate governance for banks that will ensure best governance practice.

3.5 Profile of Banks in Nigeria

Modern banking in Nigeria dates back to 1892, when the African Banking Corporation was set up in the then-British colony of Lagos. Then, in 1894, the Bank for British West Africa was established and in the same year acquired the African Banking Corporation (First Bank of Nigeria, 2006). Other banking institutions were subsequently established, such as Barclays Bank DCO in 1925 and the British and French Bank for Commerce and

[11]The indigenisation policy was introduced through the Nigerian Enterprises Promotion Decree (NEPD) of 1972 and revised in 1977. The main aim was the diffusion of shareholdings through the disinvestment of foreign ownership of corporations to Nigerians.

Industry in 1949, all held by expatriates. Along with this colonial legacy came the establishment of smaller, indigenous banking institutions, including the National Bank of Nigeria Ltd in 1933, and the Agbonmagbe Bank Ltd (now Wema Bank) in 1945. The CBN, the sole regulatory body in the country, was established in 1959, when it assumed the responsibility for the supervision of banks and other aspects, similarly to what goes on in other countries around the world. Today's banking sector is therefore a product of several transformations that took place soon after Nigeria gained independence from Great Britain in 1960 (Nworji et al., 2011).

The first significant transformation took place through the indigenisation programme in 1977, which led to the diffusion of shareholdings that provided a basis for state ownership (Nworji et al., 2011). Until then, foreign shareholdings had formed the dominant pattern, with some, largely fragmented, share ownership by Nigerians. The practice then was based on weighted voting schemes that allowed control to remain with foreign partners with block share ownership. The second transformation of the banks occurred through a series of reforms undertaken after the indigenisation era, as the number and functions of banks increased, and alongside various governance failures. The banking reforms have typically been carried out for two reasons: The first was to create the right incentives for banks and to encourage them to empower other private corporations. This was carried out through extensive privatisation of state-owned enterprises as well as the liberalisation of the financial sector. The government's role was limited to providing the right environment for private sector-led growth. The second reason was to reposition the banks in response to observed weaknesses that had led to a series of collapses of organisations. Generally, the main post-indigenisation banking reforms can be grouped into four stages, as summarised in Table 3.1 below:

Table 3-1 Main Post-Indigenisation Banking Reforms

Period	Purpose	Outcome
1986-93	Deregulation of banking industry to remove government intervention through ownership and encourage private participation.	Federal and state ownership and control of the banks ceased.
1993-98	Re-introduction of regulations due to wide corporate failures. Designed to manage the level of distress in the sector.	Perceived to be successful, with a reduction in the growth of banks within the period.
1999	Liberalisation of the financial sector through the adoption of distress resolution programmes. This led to the introduction of universal banking.	Increased the scope of banking activities in retail banking and non-banking financial markets.
2004-date	To address structural and operational weaknesses identified within the banking sector through consolidation.	Expected to solve emerging corporate governance issues affecting the banking industry.

(Source: Soludo, 2004; CBN, 2006; Yakasai, 2001; Somoye, 2008; Nworji et al., 2011).

While the transformations expanded the scope of banking activities, the banks experienced increasing numbers of corporate failures during the same period. Table 3.2 shows the fall in the number of banks from 114 in 1991 to 22 in 2011 due to the failures.

Table 3-2 Nigerian Banks by Years of Key Reforms

Year	No of Banks
1991	114
2004*	89
2006	25
2007	24
2011	22

(Sources: Adelegan, 2005; Somoye, 2008; NDIC Report, 2010)

Note: * Gives the number of banks in 2004 before the consolidation reform

During the last major reform through consolidation, in 2004-2006, the number of banks was reduced from 89 to 25. After the introduction of the Code of Corporate Governance for Banks in 2006, the number was further reduced to 24 by 2007. Following the re-emergence of corporate malpractices in some banks in 2008-2010, the number of banks was reduced again, through acquisitions, to 22 by 2011. Despite the reforms and the consolidation, there is evidence that corporate governance issues are still unresolved in the banking system (Wilson, 2006; Somoye, 2008). As the later explained, in most aspects, the post-consolidation governance mechanism process appears to lack any integration of ideas or the involvement of wider stakeholders. He further observed that the enormous and unprecedented corporate governance problems experienced in the banking industry are due to the fact that previous reforms were not market-driven but rather induced by the government and uncertified balance sheets. This is in contrast to the consolidation of the banks in Asia, which was based on competitiveness and market forces that have ended up creating an atmosphere in which banks simply cannot afford to have weak balance sheets or inadequate corporate governance (Deloitte, 2005).

In his review of the state of affairs in the banking sector, Sanusi (2010b, p.7) stated:

> ‘Consolidation created bigger banks but failed to overcome the fundamental weaknesses in corporate governance in many of these banks. Some banks were engaging in unethical and potentially fraudulent business practices and the scope and depth of these…. governance malpractices within banks, was unchecked at consolidation’.

Sanusi explained that some banks failed because the boards ignored these inexcusable practices for reasons that included the following: being misled by executive management, participating themselves in obtaining unsecured loans at the expense of depositors, and not having the capability to enforce good governance on management (Sanusi, 2010b). Contrary to our expectations, evidence has shown that banking reform through consolidation is incapable of restoring banks’ financial stability and soundness (Somoye, 2008).

3.6 The Corporate Governance of Banks in Nigeria

Until 2006, there was no governance mechanism for the banks except for the company law that guided their operations; there was also little concern from researchers on the need for appropriate corporate governance for banks. According to Wilson (2006), the observance of principles of corporate governance by banks has come about through a combination of voluntary and mandatory mechanisms. The voluntary mechanism is the Code of Best Practice for Public Companies (SEC, 2003), which is designed to entrench good business practices and standards for boards and directors, CEOs and auditors of listed companies, including banks. On the other hand, the mandatory corporate governance provisions relating to banks are contained in CAMA (1990) and the related regulations that supplement it. The reliance on the ability and willingness of the banks to comply with the provisions of these codes of governance, and of the regulators to enforce them, explains why there have been continued corporate governance issues in banks, which have also affected the financial industry as a whole.

The spate of banking failures in the 1990s and early 2000 indicates an absence of authoritative guidelines on what the boards of directors of banks in Nigeria should actually do in terms of specific functions and tasks. This, in effect, indicates the ineffectiveness of the NDIC, which was established in 1991 to rescue the banks. Indeed, according to the act establishing it, the NDIC was meant to complement the CBN in terms of monitoring responsibilities. According to Yakasai (2001), the main process of governance in Nigerian banks consists of three parts: composition, in terms of competence, knowledge, experience and business network; strategy, in terms of organising the board, running the board, and the teamwork and tenure of board members; and action, in terms of responsibility, commitment, performance indicators, monitoring and evaluation. Each of these roles has experienced problems, largely due to human and behavioural issues in relation to the regulatory frameworks. Reiterating this position, the ROSC Report (2011, p.1) [12] concluded:

> ‘A number of banks in Nigeria exploit loopholes in the accounting and auditing practices, and the weak capacity of the regulatory bodies and weak enforcement, to boost their balance sheets. These weaknesses contributed to Nigeria’s banking sector crisis.’

Indeed, reports of this nature were part of the reason for the consolidation of the banks in 2004 and the introduction of the Code of Corporate Governance in 2006 to ensure compliance. In his maiden address aimed at kick-starting what was expected to be the birth

[12] ROSC (2011) was produced under the remit of the World Bank. In collaboration with the country’s stakeholders, it assessed the implementation of Nigeria’s accounting and auditing practices, and identified ways of strengthening the institutional framework.

of corporate governance for banks, the Governor of the CBN stated that consolidating and strengthening the banks would constitute the first phase of the reform, designed to

> 'ensure a diversified, strong and reliable banking sector which will ensure the safety of depositors' money, play active developmental roles in the Nigerian economy, and be competent and competitive players in the African regional and global financial system' (Soludo, 2004, p.2).

According to him, the consolidation would imbibe 'best corporate governance practice' (Soludo, 2004, p.7).

3.7 Banks' Corporate Governance Practice in Nigeria

Unlike in some developing countries, there is no clear-cut system or model-based governance for banks in Nigeria, except that obtained from previous legislation. The experiences of the last two decades have raised questions about the effectiveness of the corporate governance practices of banks in the country. Many have associated the weaknesses to the lack of an adequate framework and other institutional and political factors and supervisory mechanisms (Ogunleye, 2002). Others have advanced reasons related to the inhibitive policy environment and management problems (Ebhodagbe, 1994; Nworji et al., 2011). There is also a widespread and seemingly uncontrollable trend for malpractices, combined with passiveness on the part of stakeholders, including the regulators (Sanusi, 2010b). In view of these weaknesses, revisiting corporate governance practice from the perspectives of regulation, effective internal control and the level of disclosure could provide a critical insight into the nature of the corporate governance issues that are arising in the banking sector. These specific concerns are discussed in the following sections:

3.7.1 Regulations and the Code of Governance for Banks

The concept of regulation refers to the rules and regulations established by law in relation to the management, supervision and control of the activities of the banking industry (similar concepts were discussed in Chapter 2). Prior to Nigeria's independence in 1960, issues related to the corporate governance of banks were controlled and managed by the Company Ordinance of 1922 and later the 1968 Companies Act, which extensively mirrored the UK Companies Act of 1948 (Okike, 2007). Over time, inadequacies were noticed in the 1968 act, which led to the enactment of what is now called CAMA (1990). The central provisions of CAMA were substantially related to the management, supervision and control of the business of companies[13]. Indeed, the provisions of CAMA are not substantially different from those of the previous acts. This implies that CAMA (1990), as an instrument of corporate governance practice in Nigeria, is based on UK corporate law, which is fashioned along the lines of the Anglo-Saxon model. There have been doubts expressed over whether rules based on UK corporate law can sufficiently resolve corporate issues in Nigeria, or reflect the Nigerian business environment (Okike, 2007; Adegbite, 2010).

In responding to calls for the implementation of global corporate governance standards by countries due to the requirements of trade and international capital markets, Okike (2007, p.188) advised that 'there is the need to appreciate the differences in the socio-economic environments in which businesses operate'. She added that it would be unwise to assume that corporate governance issues would be resolved by a framework that mirrored the legal values of "our colonial past", particularly in terms of entrenched principles. In this way, she implied that the global search for corporate governance standards should be aligned

[13] Under CAMA (1990), a company is defined as including all banks and any other corporations registered and practising in Nigeria.

with the aspirations of each specific environment. As Charkham (1994) stated, foreign systems of corporate governance reflect those countries' histories, assumptions and value systems. He advised that countries should be allowed to identify the most appealing mechanisms in which the universal principles can be accepted and applied.

In addition to CAMA (1990), corporate governance practice in Nigerian banks is also guided by the Banks and other Financial Institutions Act (BOFIA), 1991, the Investment and Securities Act (ISA) of 1999, and the Securities and Exchange Commission (SEC)'s Code of Corporate Governance (SEC, 2003)[14]. More recently, a post-consolidation Code of Corporate Governance has been produced, aimed specifically at banks (CBN, 2006). Both the SEC (2003) and CBN (2006) codes evidently reflect some features of the OECD principles and Basel Committee guidelines. It should be noted that the corporate governance codes are documents that state the rules and procedures for governing and managing corporations, and as such are instituted by self-regulating professional bodies with the consent of the relevant government regulatory agencies (Dabor and Adeyemi, 2009; D. H. Scott, 2007; Classens and Bruno, 2007).

Although compliance with the provisions of all the legislative acts and codes of corporate governance for banks is mandatory in Nigeria (Wilson, 2006), this requirement has not been translated into action. Moreover, these instruments can only invoke best practice if they incorporate the means for monitoring the compliance of corporations (Reed, 2002). Often, this lack has been blamed on corporations' boards of directors (Inyang, 2009). However, it should be noted that the existence of corporate governance mechanisms does not necessarily lead to good corporate governance practices, as many of the corporate

[14] SEC (2003) is also referred to as the Peterside Report (2003).

scandals in African countries and elsewhere have proven (Rossouw, 2005; Gatamah, 2008). As La Porta et al. (1998) stated, in many cases the extent to which a country's laws protect investors' rights, and the extent to which these laws are enforced, explains the extent to which corporate governance evolves in that country.

The trend of corporate scandals, especially in the banking industry, indicates that good corporate governance goes beyond rules and regulations (Ariely, 2009; Barth et al., 2006). This was further echoed during the 16th Nigerian Economic Summit, when some CEOs of corporations concluded that weak corporate governance and individual regulatory frameworks have been the main cause of poor corporate governance in Nigeria, despite the existing laws (Vanguard Newspaper, 2010). Supporting this argument, a bank performance assessment report carried out by the CBN in 2008 indicated that, out of the 25 post-consolidation mega-banks, only 15 (or 60%) were found to be healthy, 8 (or 32%) were in distressed, and 2 (8%) were adjudged to be undercapitalised (CBN Report, 2008). This further revealed the inadequacy of the existing rules and codes of corporate governance to effectively monitor the banks (Sanusi, 2010a; This Day Newspaper, 2009). For instance, Sanusi (2010a) explained, the legal and regulatory framework has failed to cover issues relating to margin lending activity in the banking sector, thereby allowing the actions of the corporate heads to dictate performance. ROSC (2011) also indicated that the Nigerian regulatory frameworks are not as comprehensive as they need to be.

In fact, many studies have suggested that, in terms of good corporate governance, the consolidation of the banks was only the first step towards ensuring stability, but not in itself enough to significantly improve the performance of the participating banks (Berger et al., 1999; Amel et al., 2003). For instance, Amel et al. (2003) argued that, even though the consolidation of banks may exploit economies of scale, ‘it does not significantly improve cost and profit efficiently, and on average, does not generate significant shareholder value’ (p.18). They explained that practitioners of consolidation often advocated this reform approach without understanding the differences between the econometric factors and bankers’ beliefs. Moreover, even when consolidation may improve management quality, such gains are often diminished by organisational diseconomies of scale (Amel et al., 2003).

Furthermore, there is evidence that the consolidation reforms made on the basis of the capital base in Nigerian banks did not improve performance. For instance, Sulaimon et al. (2011) argued that big banks with huge capital bases, such as the Union, Oceanic and Intercontinental banks, were among the troubled banks in 2009, while banks with smaller capital bases, such as the Skye, Ecobank and Standard Chartered banks were classified as healthy by the CBN in 2009. More worrisome than this is that the Code of Corporate Governance for Banks introduced by the CBN in 2006 appears to be influenced by a number of internal and external regulatory frameworks. These influences are illustrated in Figure 3.1 below:

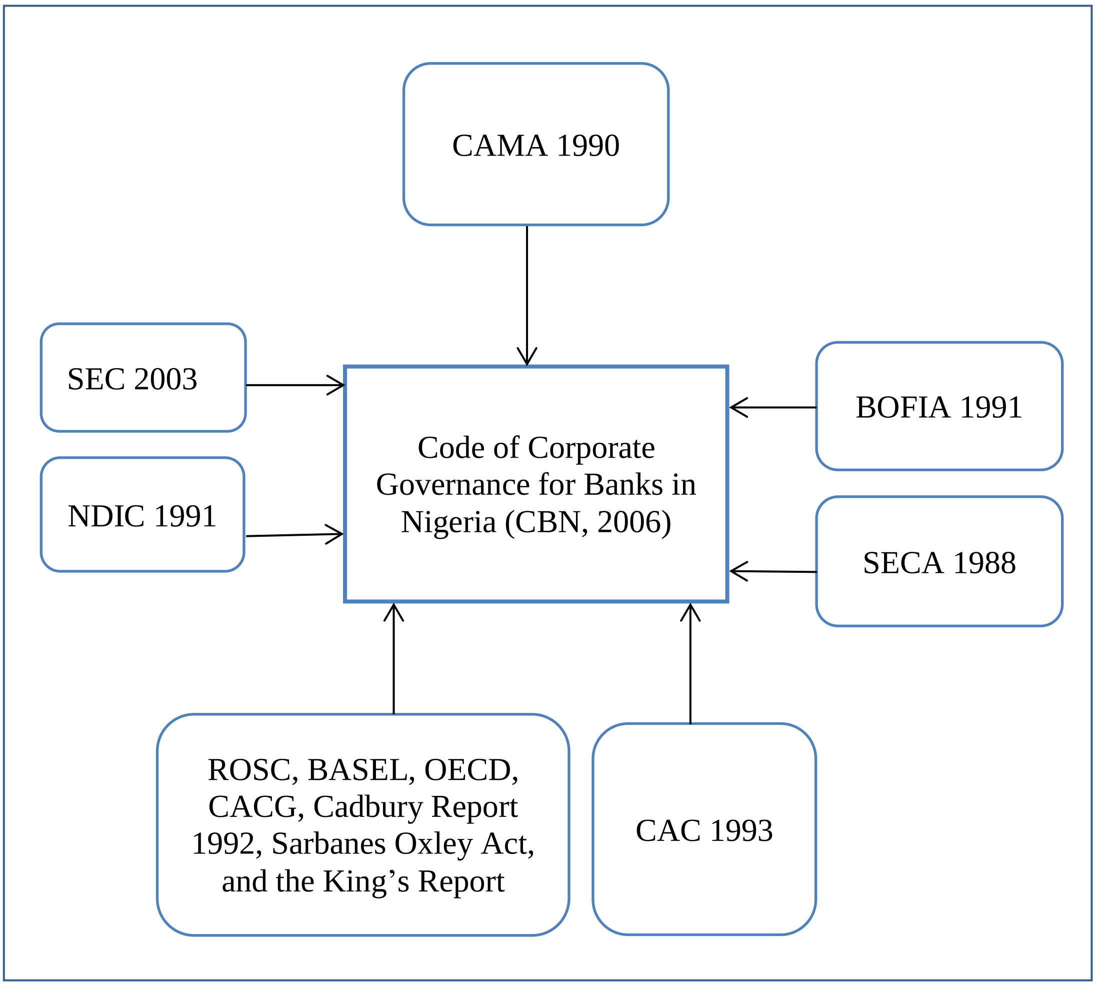

Figure 3-1 Development of Corporate Governance for Banks in Nigeria

The central box represents the Code of Corporate Governance for Banks that was introduced in 2006. Around the central box are shown the various regulatory frameworks that influenced the development of the Code. Internally, there are the reports of established committees, and regulatory acts and instruments introduced by the government, including CAMA, BOFIA, the SEC Act (SECA), the Corporate Affairs Commission (CAC) and the NDIC. Externally, there are the international agencies – the BCBS, ROSC, the OECD, the CACG, the UK's Cadbury Report, the US Sarbanes-Oxley Act and the South African King's Report – that have variously influenced the reports and codes of governance for corporations in Nigeria. While the international agencies have been involved in the governance process in an attempt to ensure that global standards of corporate governance are met, the Cadbury Report and the Sarbanes-Oxley Act have been used as references in the establishment of previous and existing corporate governance guides for banks. These amalgamated provisions have evidently proved difficult to enforce, and to comply with, due to numerous insufficiencies. The Code of Corporate Governance for Banks in Nigeria is presented in Appendix D.

3.7.2 Internal Control Mechanisms

Internal governance mechanisms are a critical feature of bank management, and are particularly used to ensure the safeness and soundness of the industry. One of the most important aspects of the internal governance of banks is the supervision and monitoring of banks' activities by their boards of directors. Boards are identified as the primary internal control agents and their responsibilities include monitoring management behaviour, formulating strategic decisions that may have a considerable impact on the owners, and ensuring that all involved act in the best interests of the corporation (Waldo, 1985; BCBS, 1999, Psaro and Seamer, 2002; McKendall et al., 1999; Stanwick and Stanwick, 2005; Filatotchev and Nakajima, 2010). This implies that they have the legal authority to ratify and monitor managerial initiatives, evaluate the performance of top managers, and reward or penalise their performance where necessary (Waldo, 1985). Indeed, there is an understanding that effective corporate governance rests on the boards of directors, whose roles involve both the conformance and performance of their firms. In explaining conformance and performance, Tricker (1994, p.147) stated:

> 'The conformance roles include accountability to the shareholders and stakeholders and the monitoring through questioning, judging and supervising management. Performance roles here refer to the strategy formation – developing plans for interaction with external environment, profit strategy and policy making through establishing rules, norms to [meet the] strategic goals of the firm'.

To help boards carry out their responsibilities, various provisions of the law and codes of governance empower them to set up audit committees. These are independent from the external auditors but have a similar purpose. The board's audit committee is the most important aspect of its supervisory role, and also serves as the principal point of contact between the statutory external auditor and the company, particularly helping to improve the quality of the external audit processes (O'Sullivan and Diacon, 1999; Smith Report, 2003). CAMA (1990) provides that the existence of the audit committee should result in improved confidence in the overall system of corporate governance. Although the regulations and codes set out guidelines aimed at achieving good corporate governance practices in banks, it is entirely up to the boards of directors and indeed the management to ensure their success. The CBN (2006) stated, for example, that the board should be accountable and responsible for the performance and affairs of the bank.

This indicates that the entire internal control process is affected by the board of directors through the senior management and the various structures it is allowed to set up. Therefore, good corporate governance practice rests on the compliance with and enforcement of the provisions set out in the rules and guidelines provided by the codes of governance. As Wilson (2006) stated, effective risk management in banks is inseparably related to good corporate practice. According to Olayiwola (2010, pp.185-86), the 2008 post-consolidation assessment of banks' performance along various corporate governance dimensions, including compliance with and enforcement of rules and codes of governance, based on 30 responses, produced the following findings:

a) 'Fair conduct of shareholders' meetings was indicated.
b) As many as 95% of respondents indicated that there was no meaningful compliance with the existing regulations towards achieving best practice.
c) Only 35% indicated that audited annual and interim accounts were published promptly and were reliable.

d) Overall, there was a general acceptance that good governance is healthy for banks'.

These results give an insight into the enormity of the corporate governance problems in the banking industry in Nigeria. Corroborating this report, the Governor of the CBN remarked,

> 'CEOs were found to have set up special purpose vehicles to lend money to themselves for stock price manipulation or the purchases of estates all over the world. In another bank, the management set up 100 fake companies for the purpose of perpetrating fraud' (Sanusi, 2010b, p.7).

In line with this observation, Adegbite (2010, p.261) added that 'from time past, bank directors have become used to using their positions to defraud their organisations and this, in many cases, led to the collapse of such banks'. Indeed, it was this concern that led Yakasai (2001) to conclude that the issues in the banks are mostly to do with the activities of the boards, which are so varied and deceptively intractable. In many cases, he asserted, 'the more critically you look, the less you see' (Yakasai, 2001, p.241). This casts further doubt on the ability of the current leadership of the boards of banks to deliver the expected responsibilities that are entrenched in the regulatory framework. In an attempt to address some of these emerging issues, the CBN was compelled to carry out some changes affecting the composition of the boards of directors of nine banks[15] with a view to improving their internal control and monitoring systems. This step was taken under the belief that good corporate governance is driven by good board practices and that the boards of directors would continue to be the drivers of the internal governance systems of firms (Gillan, 2006).

[15] In 2009, due to continued public outcry, the CBN carried out major changes within the boards of the banks. However, current events suggest that the issue is not about reforming the boards but understanding the underlying reasons for their behaviour.

3.7.3 Corporate Information Disclosure

Information disclosure is a statutory requirement under company law and other provisions relating to the governance of banks. Indeed, it is an international standard practice and an essential aspect of the accountability and communication of the stewardship of the board of directors. Tricker (1984, p.123) explained that disclosure of information involves

> 'an ex gratia act, by those with knowledge, to convey information to others ...with the intention to orientate, or to motivate, to create a climate of understanding, acceptance, involvement and participation, or to reach a consensus between otherwise conflicting views'.

In business and accounting terms, disclosure is seen as a motivational tool used by certain people who are referred to as decision makers to stimulate action. Acts of disclosure are also associated with "transparency", which relates to unfettered access to timely and reliable information on decisions and performance (UNESCO, 2006). Indeed, this is one of the main principles of corporate governance (OECD, 1999). Compelled by corporate governance guidelines, banks are expected, through their boards of directors, to make the required disclosures, not even by compulsion but by commitment. Holsti (1969, p.24) explained that communicating information involves six elements, namely 'source or sender, encoding process, channel, messages, information, and recipient'. Above all, the information presented should be considered for its relevance, completeness, comparability, comprehensibility and timeliness if it is to be useful for business purposes. The CBN (2006) specifically stated that banks are encouraged to make robust disclosures beyond the statutory requirements in BOFIA, CAMA and other applicable laws. On this note, the CBN (2006, sec.6.1.3) provides that the CEOs and Chief Finance Officers of banks should continue to certify in each statutory return to the CBN that

> ‘the report does not contain any untrue statement of material fact, and the financial statements and other financial information in the report fairly represent in all material respects the financial conditions and results of operations of the bank as of, and for, the periods presented in the report’.

As, Olayiwola (2010, p.186) observed, with attempts to boost banks’ incomes under intense competition, malpractices have resurfaced. These include the ‘round-tripping of forex, excessive customer charges, falsification of records…adoption of un-ethical methods to poach customers’. Confirming this gross lack of transparency and the return to the behaviour of the pre-consolidation era, Sanusi (2010b, p.8) stated that

> ‘banks’ reports to the CBN and investors were often inaccurate, incomplete and late, depriving the CBN of the right information to effectively supervise the industry and depriving investors of the information required to make informed investment decisions’.

He also explained that some banks were manipulating their books by colluding with other banks to artificially enhance their financial positions and, therefore, stock prices. There are also reports of sharp practices involving converting non-performing loans into commercial papers and bank acceptances, and the setting up of off-balance-sheet special purpose vehicles to hide losses. The array of profound corporate governance issues in the banks clearly demonstrates the need for an alternative corporate governance mechanism that can deal with these issues and that will be mutually implementable by all those responsible for governance practice.

3.8 Conclusions

The aim of this chapter has been to review the literature on the corporate governance of banks, which is the main focus of this thesis. This chapter builds upon the previous chapter, which reviewed broader corporate governance theories and practices around the globe.

While presenting an extant review of bank governance, this chapter has also highlighted the significance of banks and why their effective governance is essential. It has further exposed the fundamental problems of corporate governance that have resulted in numerous bank scandals. This chapter also describes the governance of banks in developing countries, with a view to establishing an understanding of its evolution and practice in Africa, and especially in Nigerian banks. It has briefly reviewed the evolution of corporate governance in Nigeria and presented a profile of the banking sector as a basis for the ensuing investigation. The purpose of the review was to highlight the numerous issues facing banking governance and to reaffirm the justifications for this research project. Indeed, it provides a justification of the need for an alternative corporate governance method for banks, for which the traditional theories and practices reviewed in the previous chapter were found inadequate. The review and the fundamental issues it raises guided the identification of theoretical thought on culture and leadership as a more suitable underpinning for this study. The next chapter therefore discusses the relevance of these theories to corporate governance research, and to achieving the overall purpose of this thesis: developing a corporate governance theory for banks.

Chapter 4. Culture and Leadership: A Theoretical Framework

4.1 Introduction

Several works, including the relevant empirical and theoretical studies reviewed in Chapters 2 and 3, suggest the need for an alternative corporate governance mechanism for specific organisations, especially for the banking sector (Barth et al., 2006; Macey and O'Hara, 2003; Reaz and Turner, 2006; Aquilera and Cuervo-Cazurra, 2004; Tomasic, 2011). As a result, in this study, a culture and leadership theoretical framework is identified as providing us with a unique opportunity to comprehend the reasons for the corporate failures in the industry, particularly in developing countries such as Nigeria. The reason for using a framework such as this is that culture provides a frame of reference or logic by which leadership behaviour can be understood (Dorfman et al., 2006). As Schein (2004, p.1) concluded, 'culture and leadership are two sides of the same coin', and both are intrinsic to an institution (Howell, 2009). This chapter aims to present an overview of culture and leadership and their theoretical relevance to gaining a better understanding of the underlying issues of corporate governance. The chapter further demonstrates how the interaction of culture and leadership can provide an alternative framework that may resolve some of the shortcomings of the existing corporate governance practices highlighted in Chapters 2 and 3.

The chapter starts with a review of concepts related to culture, its theories and its practice, and also concepts and theories surrounding leadership and the significance of transformation theory for resolving organisational and group problems. In particular, it highlights the relevance of the transformational leadership style, as proposed by a number of authors, including Burns (1978), Bass and Avolio (1993, 1994), Covey (1992) and Bass (1990). This chapter also examines the links between culture and leadership, in terms of their conceptualisation and their relevance to organisations, as presented by Schein (2004) and Hofstede (2001). In order to provide a strategic basis for the implementation of an alternative approach to good governance, this chapter also discusses the links between, and relevance of, social contract theory and trust. The chapter concludes with a reflection on the significance of both leadership and culture to the development of a corporate governance mechanism.

4.2 Culture: Concepts, Theories and Practices

Culture is a broad term that involves a diffuse set of ideas that can vary from the very inclusive "human-made" part of the environment to a shared meaning of a system (Sheweder and Levine, 1984). This entails actual behaviour as well as interpretations of behaviour, and those social, political and other factors that influence an individual's behaviour and attitude, which are then translated into his/her actions (P. B. Smith et al., 2002). Although culture has been defined in a great number of ways (Kroeber and Kluckhohn, 1952; Geertz, 1993; Hofstede, 2001), no single definition has been agreed upon by researchers as yet. For instance, Kroeber and Kluckhohn (1952, p.181) defined culture as

> 'consisting of patterns, explicit and implicit, of and for behaviour acquired and transmitted by symbols, constituting the distinctive achievements of human groups, including their embodiment in artefacts; the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other, as conditioning elements in a future action'.

For Geertz (1993, p.89), culture is 'a historically transmitted pattern of meanings embodied in symbols, a system of inherited conceptions expressed in symbolic forms by means of which men communicate, perpetuate, and develop their knowledge about and attitudes toward life'. Geertz goes on to say that it is 'an active and constructive dimension of social life rather than just a dull mechanism for ensuring social integration' (Geertz, 1993, p.216). From this perspective, culture can be explained as the blueprints through which people give their world meaning in all spheres. In his conclusion, Hofstede (2001, p.9) defined culture as, 'the collective programming of the mind which distinguishes the members of one group or category of people from another'. According to Hofstede, one's mental programmes lie within the social environment in which one grew up and within the life experiences one has collected, which we know as one's culture.

As such, the understanding and effects of culture can only be relevant when the meaning is narrowed down to manageable proportions. Indeed, it is the cutting down to size of the culture concept that has ensured its continued importance in theory development, especially when one's environment is said to guide one's decisions by setting the preconditions for one's behaviour (Perera, 1989; Bimberg and Snodgrass, 1988). Although cultural theory focuses on a direct articulation between the personality of the individual and the structure of the social system (Parsons, 1991), it is not sufficient to develop and present a cultural theory, unless such a theory is aimed at explaining certain phenomena (Geertz, 1993). Geertz further argued that its theoretical formulation, or conceptualisation must be 'directed toward the task of generating interpretations of matters already in hand, not towards projecting outcomes or deducing future states of a determined system' (p.26).

In other words, the deeper meaning and implications of cultural theory must seek to explicate the native actors, understand their actions, and determine what this tells us about how a particular society works (Edgar and Peter, 2002; Geertz, 1973). As S. H. Schwartz (1999) asserted, cultural value theory must be capable of understanding and explaining existing problems and providing a guide as to how to solve them. Arguably, also, such theory can only be achieved through the novel line of interpreting the phenomenon to explicate its virtues, since culture and social structure are different abstractions of the same phenomenon (Geertz, 1993). The causation exposed by Geertz is also put forward by many other researchers, including Trompennar, (1993), Hofstede (2001), P. Smith (2001), and P. B. Smith et al. (2002). For instance, Hofstede (1991, p.8) states that 'values are broad tendencies to prefer certain states of affairs over others', and these are reflected in the societal norms and behaviours of people living in the same society or nation, which lead to a sequence of reactions to daily life events and situations, be they personal or institutional.

In fact, it is the identified behaviours, attitudes or norms that 'help to explain some of the more seemingly incomprehensible and irrational aspects of what goes on in groups and organisations' (Schein, 2004, p.22). Both Schein and Hofstede saw culture as instrumental to studies in human behaviours that explain our world and place, since shared beliefs specify both what motivates people and what should motivate people (Kohn, 1990; S. H. Schwartz, 1999). Despite the criticisms about the concepts and theories of culture within the organisational field, Wong and Birnbaum-More (1994) took the view that Hofstede's cultural dimensions of power distance and uncertainty avoidance were still relevant. Perhaps, as Schein (2004) mentioned, this is because there is not yet a single pre-eminent point of view or methodology regarding the theoretical development of culture, rather a rich mixture of ideas and approaches drawn from social psychologists.

4.3 Leadership: Concepts and Relevant Theories

Although it is easy to identify leadership, it is often difficult to define precisely what leadership is. Moreover, even when assessing leadership, it becomes clear that it is an enigmatic concept that requires some discussion (Howell, 2009). This is because there are almost as many definitions of leadership as there are leadership theories (Fiedler et al., 1971). For instance, Bass (1990) claimed that, leadership can be conceived as a focus of group processes, as a matter of personality, as a matter of inducing compliance, as the executive of influence, as a particular behaviour, as forms of persuasion, as a power relation, as an instrument to achieve goals, as an effect of interaction, as differentiated goals, as the initiation of structure, and as any combination of these. In its simplification, Antonakis et al. (2004, p.5) indicated that leadership is about

> 'influencing process – and its resultant outcomes – that occurs between a leader and followers and how this influencing process is explained by the leader's dispositional characteristics and behaviours, the followers' perceptions and attributions of the leader, and the context in which the influencing process occurs'.

This implies that the term leadership is based on the perspective from which it is being discussed (Bass, 1990; Schein, 2004; Yukl, 2010; Munley, 2011). Although there may be variations in the definitions of leadership used, two notions that underlie most of them are "process and influence" (Hunt, 2004). Indeed, the driving elements of process and influence explain why leadership is vital for effective organisational and societal functioning (Bass, 1990), and they can be seen in the various leadership theories developed to address issues and their implications (Zaccaro, 2001; Doh and Stumpt, 2005). Due to the broad nature and application of leadership, early studies grouped leadership theories into four main categories: essentialist theories, relational theories, critical theories and constructionist theories (Bolden and Kirk, 2009). The essentialist leadership theories rely on an objectivist paradigm and seek to identify and define what "leadership" is in universal terms, thus focusing on predictable leadership traits and behaviours (Stogdill, 1974; Hersey and Blanchard, 1977; Bass, 1985). In relational theories, it is believed that leadership resides not within leaders themselves but in their relationships with others

(Kuada, 2010). For critical theorists, the focus is on the underlying dynamics of power and politics within organisations (Collinson, 2011). In other words, they emphasise the social and psychological processes that characterise the performance of leadership functions in organisations. Finally, the constructionist theorists construct shared meanings that enable people to make sense of their predicaments (Kuada, 2010).

However, recent research has generally been based on two leadership perspectives – transformational and transactional. The transformational leadership model is described as binding people around a common purpose through self-reinforcing behaviours gained from successfully achieving a task (Bass, 1985; Avolio et al., 1995). Transformational leaders motivate and inspire their followers by identifying new opportunities, providing meaning and challenges, and articulating a strong vision of the future. They are said to be enthusiastic and optimistic while communicating clear and realistic expectations by demonstrating organisational commitment and sharing their visions with their subordinates for the good of the organisation (Oke et al., 2009). Conversely, the transactional leadership model stresses the specific benefits that subordinates will receive when they complete agreed tasks (Kuada, 2010; Ardichvili and Kuchinke, 2002). Specifically, the transactional model focuses on the exchange of favours that occurs between leaders and followers, and on the rewarding of good or punishing of poor performance (Fiedler, 1967).

Burns (1978) stated that the difference between transformational and transactional leadership is simply related to what the leaders and followers offer one another. Both theories provide some intellectual support for the view that leadership styles, models and behaviours in one environment may be distinctly different from those elsewhere, without necessarily being ineffective. This is because the attributes seen as characteristic of leaders may vary from place to place, and such distinctions are embedded in the culture of a society (Den Hartog et al., 1999). Moreover, despite the clear differences, Bass (1985) further argued that both transformational and transactional leadership principles can be found in all parts of the globe and in all forms of organisations and that, therefore, the two approaches are not at opposite ends of a bipolar dimension. However, in this research, the ideals of transformational leadership are used as the basis for the conceptualisation of leadership.

4.3.1 The Relevance of the Transformational Leadership Model

As a process by which 'leaders and followers raise one another to higher levels of morality and motivation' (Burns, 1978, p.20), this model supports the proposition that leadership is a process of transformational influence (Bass, 1990). From the early works of M. Weber (1947) to modern works by Burns (1978), Bass (1985), Kanungo (1988), Conger (1990), and Schein (2004), the exploration of transformational leadership in both theory and practice has followed a variety of approaches, especially in studies of upper-level leaders' behaviours (Hunt, 1999). In contrast to the self-interested motivation of transactional leadership, transformational leadership moves followers beyond self-interest to self-actualisation, and involves charisma, inspiration, intellectual stimulation and individual consideration (Bass, 1985). Overall, transformational leadership is based on a compelling vision, strong personal values, and the demonstration of an exemplary character.

Of significance here is the context in which leadership behaviour becomes related to the culture in an organisation or society. Burns (1978) was of the view that transformational leadership has a greater impact than transactional in all cultures and organisations. He argued that transformational leaders have goals that transcend their own self-interests, and work towards the common good of their followers. In other words, the transformational leader shapes, alters and elevates the motives, values and goals of the followers in order to achieve significant changes. This presupposes that transformational leaders possess principles that may ultimately transform both themselves and their followers into persons who jointly adhere to model's values. Building upon Burns' (1978) ideas, Covey (1992) and Bass and Avolio (1994) agreed that transformational leadership relates to building on the human need for meaning, and the transformation of the followers' self-interest. That is, it goes beyond their self-interest for the good of the group.

Moreover, this type of leadership is believed to incorporate aligned internal structures and systems so as to reinforce overarching values and goals, an orientation towards long-term goals based on human values and principles, and a focus on mission and strategies. Bass and Avolio (1994) argued that transformational leaders display a sense of power and competence and develop the activities of the group towards a compelling vision of the future. This style of leadership also emphasises the importance of trust, beliefs and values, and often takes a value-based approach within the social context in which such aspects are situated (Diaz-Saenz, 2011). As Alvesson (2011, p.152) stated, 'leadership is not just a leader acting and a group of followers responding in a mechanical way, it is a complex social process in which meanings and interpretations of what is said and done are crucial'. In other words, the transformational leader constructs a culture that fosters effective management, and achieves this by defining and instilling in the followers the belief that 'they can affect, if not control, their environment, including government regulation, market competition and technological change' (Sashkin, 2004, p.194).

4.4 Culture and Leadership: Conceptualisation and Synthesis

Studies have identified that cultural attitude, belief systems and values define a leader's behaviour as well as that of the followers (Hofstede and Hofstede, 2005). While empirical studies have provided support for the link between leadership and cultural context (Hofstede, 1991; Schein, 2004; Alvesson, 2011; S. Alexander et al., 2011), such links have been explained only in relation to specific events. As Schein (2004) argued, leadership and culture are elements of an institutional process through which behaviour is transformed and refined. This is premised on the reasoning that organisations disseminate behaviours that provide accepted values and norms for new recruits and on-going decision making, as well as for daily interactions. Similarly, since leadership is ‘about shaping beliefs, desires, and priorities’ (S. Alexander et al., 2011, p.xix), culture can be the most important social and contextual factor, influencing a leader’s capacity to influence others’ norms and behaviour within an institution (Schein, 1996). Building on the work of Kluckhohn and Strodtbecks (1961), Schein (2004, p.17) described organisational culture as

> ‘a pattern of basic assumptions – invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration – that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems’.

Schein explained external adaptation as the physical survival of problems found in the external environment, and internal integration as social survival within the internal environment. However, Schein cautioned that not all groups learn integrated cultures through this process, because often groups, organisations and societies exist where beliefs and values work at cross-purposes to other beliefs and values, resulting in situations of conflict and ambiguity (J. Martin, 2002). In his attempt to contextualise leadership challenges in a cultural setting, Schein (2004) indicated that organisational culture involves three interconnected levels, arranged according to their visibility: (1) the artifacts and creations produced; (2) the underlying sets of values and (3) the basic assumptions. Schein’s framework considered the artifacts and creations produced to be the visible organisational structure and processes, which he explained as ‘the architecture of the organisation's physical environment, its language, its technology, and other social symbols' (Schein, 2004, pp.25-26). Thus, he posited that, in analysing culture, 'it is necessary to recognise that artifacts are easy to observe but difficult to decipher' (Schein, 2004, p.36).

The sets of values are the stated operating principles, that is, how people interact with each other and justify what they say or do as a group. This second level is said to contribute to a greater level of awareness within the society. Schein considered these first two levels to derive from an even deeper, invisible and more abstract third level consisting of a few basic assumptions. These assumptions include the relationship between the environment and the experiences of the group, the relationships among members of the group, and the group orientation towards time and space, which are taken for granted. Schein's framework implies that it is these elements that lay down ways of perceiving, thinking about and evaluating the world and, more importantly, oneself and others. According to Schein, the ideal organisational culture would reflect the complex interaction between the assumptions and theories brought by the group and what the group learns subsequently from its own experiences. It is therefore the interconnections of these levels and assumptions that form the basis of Schein's illustration of the cultural framework, as presented in Figure 4.1 below:

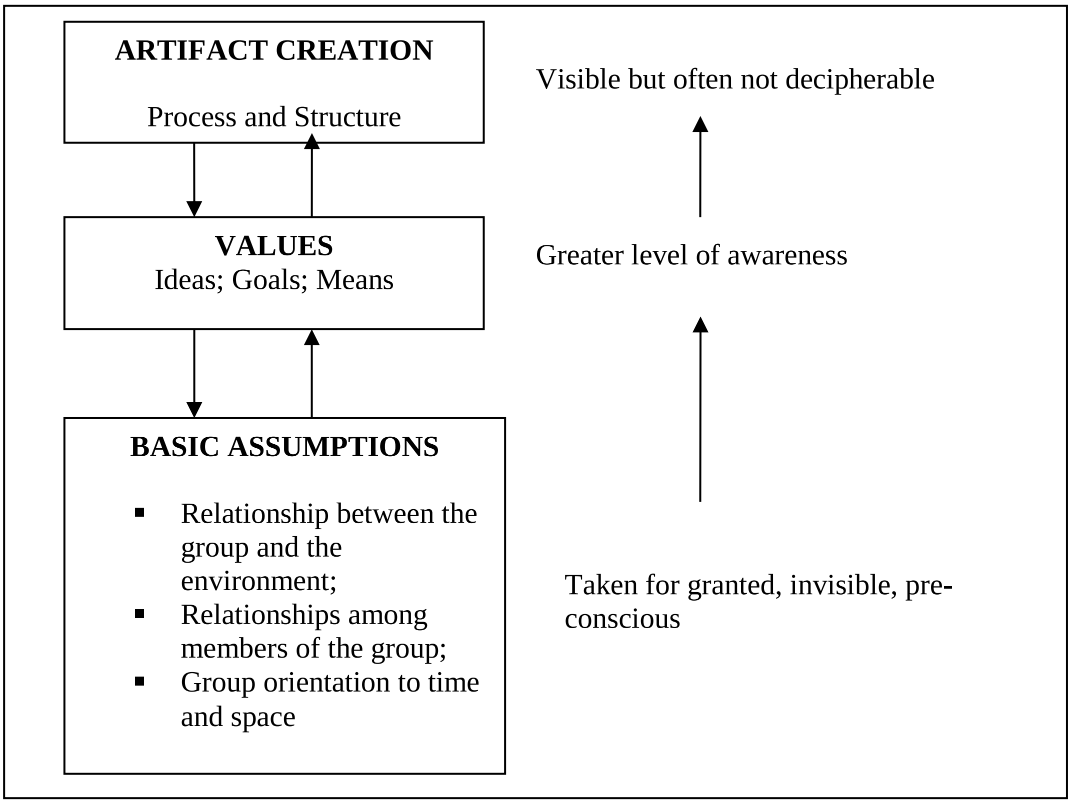

Figure 4-1 Illustration of Schein's Framework of Culture (Schein, 2004, p.26)

There are other studies that support the idea that cultural values are related to workplace behaviour, attitudes and their consequences for organisations (S.H. Schwartz, 1994; Hofstede, 2001). For instance, Hofstede (2001) presented the relationship between culture and consequences through external causes, which he referred to as the 'stabilising cultural pattern', as illustrated in Figure 4.2.

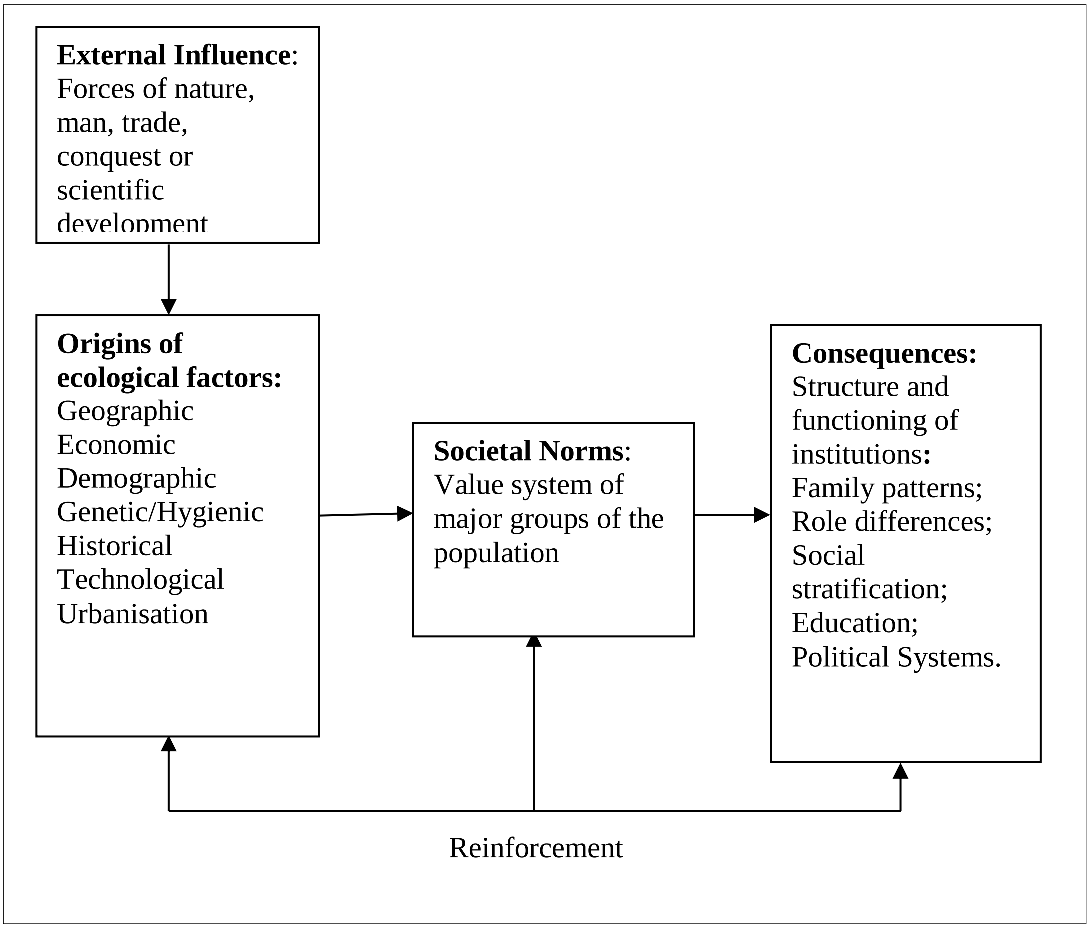

Figure 4-2 **Hofstede's Stabilising Cultural Model (Hofstede, 2001, p.12)**

Hofstede's (2001) framework demonstrates that there is a feedback loop between culture and its institutional consequences, offering evidence of an element of causation between culture and institutions. Chan and Cheung (2008) indicated that it is this causation that affirms the presence of cultural impacts on corporate governance practice. They argued that 'the existence of statutory laws and regulations does not directly imply that the public must obey, but, it is their beliefs and value judgements that influence the effectiveness and outcome of the actual corporate governance practice' (ibid. p.229). According to Hofstede's (2001) framework, the emergence and enforcement of cultural patterns is often sensitive to the attainment of corporate goals and values. In Figure 4.2 above, Hofstede shows how, if changes are to occur, they must come through external influences that include forces of nature, human action or trade, conquest or scientific development. Hofstede explained that these changes can occur through shifts in ecological conditions, technology, economic or geographic factors, urbanisation or historical events. Indeed, it is these ecological factors that affect the physical and social environment. He added that, at the centre, it is these societal norms that make up the value systems shared by major groups in the population, which have led to the development and patterns of maintenance of the institutional structures and ways of functioning that go on in society. These consequences affect the family environment, the educational system, and the political structure.

According to Hofstede (2001), these institutions, once established, reinforce the societal norms that, together with ecological factors, lead to the maintenance of an institution's structure and functioning. This means, when these institutions remain unchanged, the persistent influence of the majority value system patiently smoothens out new institutions until their structures and ways of functioning are again adopted within the societal norms. This implies that one of the most effective ways of changing the mental programmes of individuals is to first change their behaviour. Moreover, the ideas absorbed by cultures depend on what individuals think, imagine and learn, as well as the collective behaviours that shape and sustain the viable patterns of life in ecosystems. As Kunkel (1970, p.76) pointed out, the major problem in dealing with the economic development and growth of societies is 'the change of those selected aspects of man's social environment which are relevant to the learning of new behaviour patterns'.

From the consequences of institutional structure and function, Hofstede (2001) identified four value dimensions that differentiate between cultures: individualism versus collectivism, uncertainty avoidance, power distance and masculinity versus femininity. These four dimensions relate to the very fundamental problems that face any community, but to which different societies have found different answers, particularly in terms of the structural elements of culture that most strongly affect known behaviour in work situations and organisations. They are described below:

a) In an individualist culture, people focus on themselves as unique and whole, without depending upon any group affiliation (Hofstede, 1980). Such societies consist of individuals who are highly independent (Salter and Niswander, 1995), responsible only for themselves and their immediate families, and who usually prefer loose social ties. In contrast, collectivist values emphasise interpersonal relationships and group affiliations. In this case, the self is defined as a part of the group, and in such cultures concerns over group welfare, equality and loyalty are prominent, as aggregate interests or the common good tend to prevail (Hofstede, 1991; Very et al., 1997). This type of culture is regarded as a precondition for facilitating the effectiveness of leadership (Jung et al., 1995). Moreover, the transformational characteristics suggested by Bass and other proponents are linked to collectivism, describing a conceptual bridge between these two paradigms (Jung et al., 1995).

b) For uncertainty avoidance dimension, it assesses how people react to the unknown and, since the future cannot be perfectly predicted, how it is treated as a continuous threat that must be fought (Hofstede, 1980). Cultures that cannot tolerate uncertainty will try to control the future by any means, while those that can tolerate it will simply wait for it passively (Perera, 1989; Chow et al., 2001).

c) Masculine cultures are those with dominant gender role patterns. A value orientation with more emphasis on caring for others is described as more feminine (Very et al., 1997). Hofstede's interest in this dimension was in looking at how different societies cope in different ways, and the effect the biological differences between the sexes are expected to have on the emotional and social roles of gender.

d) The power distance dimension refers to the 'extent to which the less powerful members of institutions and organisations...expect and accept that power is distributed unequally' (Hofstede (1991, p.28). Power distance appears in the form of a hierarchy, and means that a society's way of dealing with events is established through a system of superiors and subordinates. Here, people strive for power equalisation and demand justification for any power inequalities, including 'power, wealth, social status and prestige, physical and mental characteristics as well as "privileges" according to laws, rights and rules' (Hofstede, 1984, p.67).

Although some may argue that Hofstede's cultural dimensions are a product of Western culture and thinking, later studies have supported the validity and reliability of the dimensions (Hofstede and Bond, 1984). The principles of the dimensions were also adopted by the Chinese Value Survey (CVS), using different terms to describe Eastern cultural values, namely moral discipline, human-heartedness, integration and Confucian work dynamism, which were not identified by Hofstede. In this context, it can be argued that corporate governance as a social process may be influenced by the deep societal values in a given environment. In other words, institutional leadership and its level of success will depend on the congruence between cultural values and leadership processes. Summarising both Schein's and Hofstede's propositions, Alvesson (2011) stated that culture forms leadership, rather than the other way round, and this is at least the case for the large majority of people designated as or emerging as leaders.

4.5 Significance of the Theoretical Framework to the Study of Corporate Governance

Corporate governance codes, practices and systems have emanated from diverse cultures around the world, and are linked to financing traditions, ownership structures and their legal origins. As Calori et al. (1997) indicates France's core cultural values include egalitarianism, hierarchy and a respect for authority; thus, the country primarily depends upon internal corporate mechanisms rather than external constraints. In contrast, German cultural values emphasise performance orientation, along with practices reflecting such characteristics as low compassion, high autonomy and high assertiveness (Brodbeck et al., 2002). In the Anglo-Saxon states (e.g., the US and the UK), corporate governance systems reflect the values of individualism, self-reliance, fair play, accumulating private property, and the sanctity of ownership rights, protected and enforced by external agencies and regulations (McCarthy and Puffer, 2002).

There are also noticeable differences between the financial and business practices of European Union (EU) countries and non-EU Western countries, which can be explained in terms of local cultural conditions (Pratt and Behr, 1987). For instance, the Turnbull Report (2005) explains that the US auditors of listed companies are appointed by the boards of directors, while UK auditors are appointed by and report directly to the shareholders. The structures of boards of directors also differ between UK and US corporations (Monks and Minow, 2004). Likewise, the use of equity compensation (Brown and Higgins, 2001) and executive compensation levels (Coffee, 2005) can vary between the two countries. This supports the argument that existing corporate governance practices in Western economies stem from their legal and economic systems (La Porta et al., 2000). However, recent studies of legislative and economic reforms have shown that these systems have failed to achieve effective governance objectives on their own (Hill, 2004).

According to Gorga (2003), developing financial markets and corporate governance based solely on legal rules, and ignoring such aspects as informal norms and the political environment of the nation, is bound to fail. This makes intuitive sense, as the environment in which a corporation operates can affect its financial reporting and disclosure (G. G. Mueller et al., 1991). In fact, a strict application of legal rules and economic codes is not in itself sufficient to prevent the failure of corporations (Chanchani and Willet, 2004). In African countries, there is evidence that the framework for corporate governance has mirrored the legal, economic and cultural structures of the colonial West and their multinationals (Baydoun and Willet, 1995; Ayogu, 2001). As such, all of the financial information requirements in developing countries (including those in Africa) are contaminated by Western economic and legal influence (Baydoun and Willet, 1995). As Wanyama et al. (2009) explained, such instruments have been found culturally deficient and incapable of addressing several corporate governance issues, especially in the banking industry, which is a vehicle for economic growth. This implies that the success or failure of any corporation may have as much to do with external factors as internal ones.

If culture is to be contextualised for corporate governance, the fundamental starting point is to define the proper level at which culture should be assessed (Lenartowicz and Roth, 2001), since governance practices differ among different nations and organisations (Doidge et al., 2007). Moreover, culture is the ultimate, most frugal, and yet most meaningful basic set of axes with which to explain the broad range of attitudes, beliefs, lifestyles and practices among a large population and/or organisation (Vinken et al., 2004), and this is what affects financial reporting and disclosure in an environment (G. G. Mueller et al., 1991). These reasons further strengthen the argument that leadership styles and behaviours are culture-bound.

4.6 Strategic Framework for Implementation

Culture and leadership evidently have an influence on the decision-making process and institutional performance, especially in balancing between economic and social goals and between individual and communal goals (Iskande and Chamlou, 2000). Those authors argued that a strategy would help to align as nearly as possible the interests of individuals, corporations and society. In order to achieve this, there is a need to employ an acceptable social arrangement between people and institutions. On this note, it is considered that a social contract and trust between and within institutions and actors can provide the essential mechanism that is required to resolve the institutional and governance impasse. The concepts and relevance of social contract theory and trusts are discussed in the following sections.

4.6.1 Social Contract Theory: Concept, Philosophical Roots and Relevance

A precise definition of social contract theory is unavailable as the idea varies from theorist to theorist. Generally, social contract theory implies 'using a hypothetical contract to determine the rights and duties of people and social institutions' (Conry, 1995, p.187). The contemporary ideas of social contract theory are rightly associated with modern moral and political theory, which can be traced back to the political philosophers of the seventeenth and eighteenth centuries. The full exposition of social contract theory is credited to Hobbes (1651/1996), J. Locke (1690/1980) and Rousseau (1762/1987), whose work has been continued by the generations that have followed[16]. In fact, the traditional concept of social contract theory is implicit in the work of these political philosophers and is grounded on the following basic logic:

a) a given human nature determines

b) how people would live in the "state of nature" (that is if there were no social institutions), and this in turn determines

c) the terms of an acceptable social arrangement, a contract, among the people or between people and a social institution.

Both Hobbes' and Locke's philosophical ideas argued for the primacy and advantages of political liberty, self-interest, individual rights and autonomy over traditional expositions of political and economic obligations owed to authorities. Although they differ in a number of important respects, together they led to the creation and justification of the idea of normative relationships between people and their political and economic institutions. Locke's basic idea of the social contract provides a clearer guide for assessing government legitimacy. Moreover, his idea of social contract theory was more amenable than Hobbes', particularly for the Europe of his day, and is believed to have helped 'to change the philosophical and political assumptions of humanity' (Laslett, 1960, p.16). This is not to say that Locke's theoretical foundation is completely free from the influence of context. Nonetheless, it ultimately led to the justification of the emergence of the state and the identification of the mutual responsibility of citizens and their state.

[16]The generations of philosophers to the social contract theory debate include Ritchie (1891) and more recently Raw (1972) and Gauthier (1986).

Generally, the differences in concepts and theories of the social contract came from the philosophers' interpretations of the concept of human nature (T. Donaldson, 1982; Gauthier, 1986; Keeley, 1988; Dunfee, 1991; Sullivan, 1986). Here, human nature is described as 'a set of pan human needs, drives, predispositions, tendencies, propensities, and actual behaviours' (Sullivan, (1986, p.535). While early philosophers' conceptions of social contract theory focused on the origin and legitimacy of political institutions, subsequent developments have moved the theory towards applications into various spheres of human activity (T. Donaldson and Dunfee, 1999)[17]. For instance, A. Smith (1776/1982) argued for the economic relationships in the social contract while recognising the individualist ideas of Hobbes and Locke. Although Smith's work focused on institutional reform, the aim was to harness individuals' pursuit of their perceived interests in mutually beneficial ways, which was seen as opposing the basic foundation of Hobbes' social contract principles. For Smith (1776/1976, p.1), 'no matter however selfish man may be, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though they derive nothing from it except the pleasure of seeing it'.

Although most moral, political and organisational imperatives have their roots in some concepts of human nature (Ryan, 1974), every organisation can be described in terms of goals, objectives, technology, structure, power relationships, economics, legal rules and so on (Benson, 1977). Of significance in the philosophical proposition of Hobbes' social contract theory is the prediction of an awful, perennial war of all against all in the absence of a social contract. According to him, without any rules at all, the lives of men would be

[17] They made the simple assumption that 'we can understand better the obligation of key institutions, such as business or government, by attempting to understand what is entailed in a "contract" between these institutions and society' (Benson, 1977, pp.16-17).

‘solitary, poor, nasty, brutish, and short’ (T. Hobbes [1651] 1972, p.186). Indeed, Hobbes’ idea was to highlight the benefits that society, community and organisations would expect to receive from the state. His ideas also provide an objective basis for morality through mutual agreement. For Locke, the absence of a social contract could permit the free-rider syndrome that primarily underlies institutional agency problems. Locke’s ideal declared that individuals could not be subject to the will of another without giving their consent, although he did not clarify how or when their consent was actually granted.

Though the philosophy of the social contract has become entrenched in our organisational and societal approaches, Hodapp (1990) cautioned that the theory must be seen to provide meaningful consent and agreement. Agreeing with this fundamental requirement, T. Donaldson (1982) argued for corporate legitimacy based on the consent of those affected by the nature of the business activity. Moreover, he added that the corporation itself exists only through the cooperation and commitment of society. With the growing concern over the use of “social contracts” in business, Hung and Huang (2010) proposed that social contracts should be seen as processes in which a person’s immediate surroundings are constantly adapting, revolving and evolving. The immediate surroundings of an individual can be termed “micro-social” and the broader, outer parts “macro-social” (T. Donaldson and Dunfee, 1994). This is because an individual’s choice of action is first influenced by their immediate environment or group norms, followed by the organisational code of action, then by societal and cultural pressures, and finally by the core of human nature (Hung and Huang, 2010). The attempt to find a form of association that will defend and protect, with the whole common force, the person and goods of each associate is the fundamental problem to which the social contract provides the solution. Thomson (1986, p.96) stated:

> ‘if we discard from the social compact what is not of its essence, we shall find that it reduces itself to the following terms: each of us puts his person and all his power in common under the supreme direction of the general will, and, in our corporate capacity, we receive each member as an indivisible part of the whole’.

This argument presupposes that, in place of the individual personality of each contracting party, the act of the association creates a moral and collective body that requires the promotion of cooperation among the players (Axelrod, 1990). The latter author suggested that cooperation could be achieved by ‘transforming the strategic setting itself…by enlarging the shadow of the future’ (p.124). This suggestion presumes that mutual cooperation can only be realised if the future is sufficiently important relative to the present; otherwise, there may not even be a form of cooperation that is stable. Therefore, in order to increase cooperation by enlarging the shadow of the future, the durability and frequency of interactions between individual parties should be encouraged. Axelrod (1990) also indicated that organisations are especially effective at carrying out interactions between specific individuals, and this makes it easier for workers to develop stable, cooperative relationships. As a construct, cooperation can improve performance, and indeed the central organising process, which has important implications for organisations (Keller and Loewenstein, 2011). Finally, even though no monolithic version of the social contract exists, any operational social contract must specify ‘who are the parties to the agreement, how are they situated to one another, what are the intentions, capacities, and interest of the individuals involved, what rights and powers do they have, and what is the purpose of their agreement’ (S. Freeman, 2007, p.17).

4.6.2 Trust: Concepts and Relevance

There has been a considerable increase of late in the interest among researchers in the concept of trust, and in its application to a variety of important social and organisational issues (Hardin, 2004), especially in the postmodern society where there are continual new opportunities and challenges, whether at the interpersonal, organisational or cultural level (Williamson, 1993; Lewis and Weigert, 2012). Broadly, trust can be defined in relation to (1) individual expectations, (2) interpersonal relationships, (3) economic exchanges, and (4) social structures (Zand, 1972; Hosmer, 1995; Chiles and McMakin, 1996). On individual expectations, Zand (1972, p.232) defined trust as 'increasing one's vulnerability to the risk of opportunistic behaviour of one's transaction partner, whose behaviour is not under one's control in a situation in which the costs of violating the trust are greater than the benefits of upholding the trust'. This has been explained as the outcome of expectations regarding (1) the persistence and fulfilment of the natural (and existing) social order in which the individual finds himself or herself, (2) competent role performances from those involved with the individual, and (3) morally correct role performances from those associated with the individual (Barber, 1983).

Within interpersonal relationships, trust is 'a concomitant expectation that the other will reciprocate in achieving mutual cooperation' (Carnevale et al., 1982, p.13) or the 'expectancy held by an individual or a group that the word, promise, verbal or written statement of another individual or group can be relied upon' (Rotter, 1967, p.651). This concept appears to apply to superior/subordinate relationships and the personal characteristics of specific individuals involved in those relationships (Hosmer, 1995). In economic exchanges, trust is

> 'the expectation that another individual or group will make a good faith to behave in accordance with any commitments, explicit or implicit; be honest in whatever negotiations preceded those commitments; and finally not to take excessive advantage of others even when the opportunity prevails' (Bromily and Cummings, 1992, p.4) .

In social structures, it is the ‘collective attribute based upon the relationships between people within a social system’ (Lewis and Weigert, 1985, p.968). In this context, shared social norms, repeated interactions and shared experiences are essential in the development of trust. Indeed, it is the honouring of identified moral obligations inherent in the social norms that generate trust that ultimately constrain opportunistic behaviours. The general view of scholars is that trust can be defined on the basis of four identified dimensions, which are founded on notions of vulnerability (Luhmann, 1979; Barber, 1983) and expectations or beliefs (Luhmann, 1979). Using these dimensions, Mishra (1996, p.265) defined trust as ‘one party’s willingness to be vulnerable to another party based on the belief that the latter party is (a) competent, (b) open, (c) concerned, and (d) reliable’. Here, “vulnerability” is a critical condition of trust (Boss, 1978; Mayer et al., 1995; Moorman et al., 1992). The latter stated that, ‘without vulnerability, trust is unnecessary since outcomes may be inconsequential for the trustor’ (Moorman et al., 1992, p.82). Child (2001, p.275) asserted that trust is ‘concerned with the willingness of one person or group to relate to another in the belief that the other’s actions will be beneficial rather than detrimental, even though this cannot be guaranteed’. He explained that trust is vital for any relationship, business or otherwise. In today’s competitive business world of dynamic managerial changes, trust is an essential requirement and forms the organisational glue (Shaw, 1997) in both political approaches and technical matters (Earle, 2009). More importantly, the latter argued, trust is a public good.

Although trust is vital to successful change, it is becoming more elusive in many organisations. Moreover, trust itself is based on the assumption that one person can and wants to meet the other’s needs, and this depends on the situation, and the attitudes and dispositions of those involved in the potentially trusting relationship (Lewis and Weigert, 1985). A considerable number of theoretical perspectives of trust have been taken in a number of disciplines, including management, and have identified the relevance of trust for interpersonal and organisational relationships (Kramer, 1999), leadership and the leadership process (Kramer, 2011), and wider economic and social contexts (Putman, 1993). While these studies promote the emergence of trust, they also clarify that the loss of trust can threaten the norms of collaboration and commitment (Hofstede, 1980). Both of these aspects suggest that trust is essential in achieving leadership effectiveness and higher performance with respect to commitments to the organisation and organisational citizenship behaviour, among others (Dirks and Ferrin, 2002).

In the wake of the social excesses and business abuses of the 1980s, a move was made to conceptualise these issues within law and economics. This shaped agency theory, transaction cost perspectives and theories of collective action in organisational analysis (Eisenhardt, 1989a). This led to increasing interest in trust and its implications for the management of organisations, particularly regarding why it is important in different managerial settings, collaborations and alliances and their governance structures (Beccerra and Gupta, 1999). Beccerra and Gupta pointed out that trust-embedded theories often provide a richer explanation of inter-organisational issues, and this is what Child (2001) explored as the fundamental bond in global collaborations, especially in the international alliances and networks that exist between firms, stretching across cultural and geographical boundaries. Furthermore, McAllister (1995) contended that, within organisations, trust helps with the effective implementation of strategy, and leads to greater managerial coordination; Lawler (1992) argued that it also produces effective work teams. For instance, evidence abounds that trust in groups and organisations is related to “bottom-line” effects or actions that affect the net earnings of the corporation (Dirks and

Skarlicki, 2004). One of the reasons for this is that trust in leadership harnesses the followers' efforts towards achieving a common goal or strategy. However, Shaw (1997) suggested that, in order for any organisation to achieve trust and cooperation, leaders must (1) justify that they can meet expectations, (2) act with integrity, and (3) demonstrate a concern for meeting expectations. In addition, to achieve any degree of intensity in a trust relationship, the basic elements by means of which the trustor evaluates the trustworthiness of the trustee must be present (Bews and Uys, 2002). Depending on the contextual factors that influence the importance of each facilitator, Bews and Uys (2002) suggested that the trustor must evaluate the trustworthiness of the trustee by considering the relevant dimensions.

The potential benefits of trust are enormous, particularly if the trusting player is paired with a trustworthy counterpart (Frank, 1988). For instance, in a behavioural context, the benefit lies in the social action that trust underwrites. Lewis and Weigert (1985, p.971) explained that, behaviourally, to trust is 'to act as if the uncertain future actions of others were indeed certain in circumstances wherein the violation of these expectations results in negative consequences for those involved'. This suggests that, when others act in ways that imply they trust the other parties, this behaviour is reciprocated, and conversely, if their actions appear to violate the established trust, they in turn will be mistrusted (Luhmann, 1979). This occurs because trust in others' veracity functions as a foundation for relations among human beings, and once it wears away, institutions collapse. In fact, evidence suggests that it was the breakdown of trust and trustworthiness that led to the collapse of corporations such as Enron, Tyco and Arthur Anderson (Kramer and Cook, 2004), all of which have been referred to in research on corporate governance failures.

Recent changes in the business environment have radically increased the demands that businesses have to fulfil, such as the need for 'the presence of interpersonal and/or inter-organisational trust' (Lane, 1998, p.1). Moreover, trust is not only regarded as an important coordination mechanism (Braddach and Eccles, 1989) but is increasingly viewed as a precondition for superior performance and competitive success (Lane, 1998). It is for these reasons that theories of trust share three common assumptions. Firstly, they assume 'a degree of interdependence between trustor and trustee' (Lane, 1998, p.3). According to Luhmann (1979), this only becomes relevant when the completion of one's own activities depends on the prior action or cooperation of another person, 'otherwise there would have been no need for individuals to trust if not for social relationships' (Lewis and Weigert, 1985, p.969). The second assumption is that trust provides a way to cope with risk or uncertainty in exchange relationships. Indeed, risk arises in economic theory because trusting behaviour exposes the agent to the presumed opportunistic behaviour of the other business partner. The third assumption relates to the belief or expectation that the vulnerability resulting from the acceptance of risk will not be taken advantage of by the other party in the relationship.

Despite these common assumptions, divergent theories have emerged, in part due to the underlying models of human nature, in which man may or may not be primarily seen as a rational egoist, and where social interaction could either be informed by moral considerations or by cultural scripts and the meanings of systems. Other researchers have pointed out that the divergence can also be due to the context in which the trust relationship is situated, or the object of trust that is considered (Lane, 1998). While divergence exists for these reasons, Lewis and Weigert (1985, p.967)[18] claimed that any useful theory of trust must see it as 'an irreducible and multidimensional social reality' that can bridge both the micro and macro levels. In a trust relationship, the intensity is dependent upon several "dimensions" (Cloete and Engelbrecht, 2000; Mishra, 1996; Robbins, 2001), namely, 'competency, concern, openness, and reliability' (Mishra, 1996, pp.266-8), which are discussed below:

a) **Competence** refers to an 'ability within the technical and managerial levels, to wield influence in a particular speciality' (Bews and Uys, 2002, p.22). In other words, it is the technical knowledge and interpersonal skills needed to perform certain tasks. In fact, leaders are characterised by the extent to which their followers trust them to make competent decisions (S. Kirkpatrick and Locke, 1991). For instance, in organisations, managers tend to develop relationships with their subordinates or others largely on the basis of trust in their competence (Gabarro, 1987; Mishra, 1996).

b) **Concern** refers to the degree of concern the trustee shows towards the trustor (Bews and Martins, 2002). It also encapsulates fairness and loyalty (Bews and Uys, 2002), and exists not only in the hierarchical relations in an organisation but also among individuals at the same level in the hierarchy[19]. This is what Mishra (1996, p.267) referred to as the 'balancing of one's self-interest with others' interests'. Here, followers' expectations of their leader's degree of concern for the needs and

[18] Lewis and Weigert (1985) explained that, at the micro level, trust is envisaged both between individual persons and between organisations. In this case, interpersonal trust between individuals is derived from membership of the same social group, while trust between organisations refers to trusting behaviour on the part of corporate actors who differ from the sum of individuals constituting the corporate unit (stakeholders).

[19] Some scholars have used "concern" interchangeably with benevolence, for example, Mayer et al. (1995).

interests of others largely define their trust in the leadership (Nanus, 1989; Bromily and Cummings, 1996).

c) **Openness** means the flow of information that is needed to get a task or job done, or the honesty in a personal relationship between a trustor and a trustee. It is a condition of trust (Butler, 1991) and a key aspect of working relationships in organisations (Gabarro, 1987). As the former explained, it is not the amount of information shared that is important but the level of openness and honesty one sees in another.

d) **Reliability** deals with the consistency of words and actions. According to Ouchi (1981, p.101), 'expectations about consistent or reliable behaviour' underlie trustworthiness. Thus, in an organisation, the observation of reliable, consistent or dependable behaviour through the matching of words and actions builds trust.

Mishra (1996) concluded that trust exists only when all four dimensions are present, and stated that they are increasingly recognised as critical in addressing organisational crises. As Murnighan et al. (2004) stated, even within the legal framework, contracts provide an assurance mechanism that can allow a cooperative process to be initiated in order to give trust a toehold. Although, in some cases, there could be difficulties in creating and maintaining trust between leaders and their constituents even under the best circumstances (Hardin, 2004; Kramer and Gavrieli, 2004), such difficulties can be overcome by designing more effective governance processes (Braithwaite and Levi, 1998), as well as by fostering greater transparency and perceived accountability (Bennis et al., 2008).

4.7 Conclusion

This chapter has discussed culture and leadership as an underpinning theoretical framework that offers a nurturing alternative form of corporate governance for banks. This is in response to the need for the development and refinement of an appropriate corporate governance mechanism for banks following continual corporate scandals and the insufficiency of the existing code of corporate governance that was developed based on economic and legal models. Effective corporate governance might prevent more scandals in the future, if it is mutually complied with (Kirkpatrick, 2009; Rhodes and van Apeldoom, 1998). Concepts and theories of culture and leadership have been discussed, and which form the central contextual streams of this research. Their links to the contextualisation of a corporate governance system have been justified. The chapter has also outlined the importance of the social contract and trust as relevant approaches to producing an effective mechanism or strategic bridge between leadership and followers in governance process. The overall aim of the chapter was to enhance our understanding of the mechanism at work, and lay further foundations for including these aspects in the corporate governance framework for banks. This chapter not only highlights that culture and leadership influence corporate governance issues through various dimensions but has also begun to allude to the development of a qualitatively based theoretical construct. The next chapter focuses on the research design, methodology and paradigmatic approach underpinning the research.

PART II: METHODOLOGY and DATA COLLECTION and CODING

Chapter 5. Research Methodology

5.1 Introduction

In Chapters 2 and 3, the concepts, theories, and practice of corporate governance were illustrated, with particular reference to banks. Chapter 4 discussed a potential theoretical framework for uncovering the corporate governance phenomenon. This chapter begins Part II of this thesis, which deals with the methodology used in this study to address the corporate governance issues identified in the banking industry. A research methodology is the 'overall approach to the research process, from the theoretical underpinning to the collection and analysis of data' (Hussey and Hussey, 1997, p.54). The main aim of this chapter is to review and explain research designs and paradigms of inquiry within qualitative research. This lays a foundation for explaining the rationale behind the choice of research paradigm, the approach and the methods. It also leads to a review of different research methodologies and an explanation of why grounded theory (GT) was chosen as the methodology for the study. The chapter also presents the historical and philosophical background of GT, with a view to providing an understanding of its roots, and methodological relevance. Next, it demonstrates the relevance of GT to the research area, and discusses the main differences between the two main GT approaches (Glaser versus Strauss). Finally, the chapter offers a rationale for the adoption of Strauss' version to guide the direction of this research process.

5.2 Qualitative Research Design

A research design is, 'a process in terms of plans and procedures for the research that span the decisions from broad assumptions to detailed methods of data collection and analysis' (Creswell, 2009, p.3). The process involves conceptualising a problem and writing research questions, and then goes on to data collection, analysis, interpretation and report writing (Bogdan and Taylor, 1975). Generally, five sequential steps are considered when one is selecting a research design (Denzin and Lincoln, 1994): The first is to locate the field of inquiry in terms of either using a qualitative research approach, or a quantitative approach. The second is the selection of a theoretical research paradigm that is capable of informing and guiding the research process. The third relates to linking the identified research paradigm to the empirical world through a methodology. The fourth is the selection of data collection methods. The fifth is the selection of the technique to be used for the analysis.

Although qualitative research 'means different things to different people' (Strauss and Corbin, 1998, p.11), it relates to the 'assumptions and the use of interpretive/theoretical frameworks that inform the study of research problems addressing the meaning individuals or groups ascribe to a social or human problem' (Creswell, 2013, p.44). Indeed, qualitative research has been more broadly defined as

> 'a situated activity that locates the observer in the world. Qualitative research consists of a set of interpretive, material practices that make the world visible. These practices transform the world. They turn the world into a series of representations, including field notes, interviews, conversations, photographs, recordings, and memos to the self. At this level, qualitative research involves an interpretive, naturalistic approach to the world. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them' (Denzin and Lincoln, 2011, p.3).

Although the characteristics of qualitative research have evolved over time, Creswell (2013, p.44) argued that all forms of qualitative research involve the following common characteristics:

> ‘occurring within a given natural setting, complex reasoning through inductive and deductive logic, accepts multiple forms of data methods, allows researchers to reflect on their background and how it informs their interpretation of the information and what they gain from the study. It also involves holistically reporting multiple perspectives and the factors involved in a situation, and fundamentally the emergent design of the research processes’.

The main point of interest in this thesis is to attempt to uncover the nature of the phenomenon underlying corporate governance practice in Nigerian banks. This phenomenon is assumed to be related to situations or events that might affect corporate governance (Weber, 2003). As Maylor and Blackmon (2005) stated, what influences qualitative research design are the topic being studied and the rules for doing the study in general. With this in mind, designing the qualitative research for this thesis commences with the identification of the paradigm of inquiry, the research approach and the research strategy, which lay the foundation for the choice of an appropriate methodological approach and its justification.

5.3 Paradigms of Inquiry in Qualitative Research

The term paradigm originally featured in Kuhn’s (1962) interpretation of the historical development and structure of science, which failed, unfortunately, to provide an unambiguous definition. At different points in his work, Kuhn described a paradigm as ‘a strong network of commitments - conceptual, theoretical, instrumental and methodological’ (ibid, p.42), and later he reframed the concept as ‘an entire constellation of beliefs, values, techniques…shared by a given scientific community’ (Kuhn, 1996, p.175). For Guba and Lincoln (1994, p.105), a paradigm is ‘the basic belief system or world view that guides the investigator, not only in choices of method but in ontologically and epistemologically fundamental ways’. It also ‘involves a framework of ideas, procedures and outcomes within which a piece of work is structured’ (Howell, 2013, p.223). Indeed, the paradigm of inquiry is the philosophical framework that largely determines how a researcher designs and conducts an inquiry in the research process (Howell, 2013). There are many types of inquiry paradigms or philosophical assumptions that have been developed and used in research projects over time, including positivism, social constructivism, advocacy/participatory, critical theory, realism, interpretivism and pragmatism. These philosophical assumptions can be applied within the subjectivist (qualitative research design) or the objectivist (quantitative research design) approach, or in their combination. The choice of assumptions underlies what constitutes "valid" research and the choice of appropriate methods.

As Kuhn did for the physical sciences, Lincoln and Guba (2000) introduced a paradigmatic revolution in the social sciences, in which they argued that knowledge is constructed and not discovered. The authors posited that, within qualitative research, five main paradigms of inquiry are commonly used, and can be identified as 'positivism, post-positivism, critical theory et al., constructivism, and the participatory/cooperative paradigm' (ibid. p.168)[20]. They argued that these paradigms can be distinguished on the basis of three fundamental questions or philosophical assumptions (ontological, epistemological and methodological), which are interconnected as explained below:

a) **Ontological Questions**

Ontology relates to the 'nature of reality and its characteristics' (Creswell, 2013, p.20), and 'stems from an enlightenment of metaphysical concern with reality or what exists' (Howell, 2013, p.222). The questions asked relate to 'what is the form and nature of reality and, what is there that can be known about it' (Guba and Lincoln, 1994, p.108). Ontologically, Howell (2004, p.4) asserted that, according to positivism, 'an external

[20] Lincoln and Guba (2000) added the participatory/cooperative paradigm after accepting criticism of their initial four paradigms on 'Paradigmatic Controversies and Contradictions' in the first edition of the book in 1994 by John Heron and Peter Reason (1997).

reality existed, which could be discovered and totally understood'. In fact, the approach is sometimes labelled "naïve realism". In other words, reality exists but is apprehendable, and this is akin to cause and effect laws. Under post-positivism, the meaning of reality can only be understood imperfectly and probabilistically, and the approach is concerned with criticising existing reality (Howell, 2013). In the 'critical theory et al.' paradigm, the idea is that reality is shaped by 'social, political, cultural, economic, and ethnic and gender values crystalised over time' (Guba and Lincoln, 1994, p.105).

As Howell (2013, p.51) explained, critical realism involves 'a distinction between the knowledge of human beings which can change and knowledge that is of things…which is discovered'. In constructivism, the ontological assumption is that reality is locally constructed and specific in nature, and can relate to individuals or even across cultures, as groups/individuals are changeable. Finally, Lincoln and Guba (2000) considered the participatory paradigm to involve a reality that is co-created through the mind and the cosmos or external world. In other words, it is co-created by the researcher and the participants in the research. This, Howell (2013, p.94) stated, 'is based on phenomenological positions as its ontology perceives reality as integrated with human existence and interaction between subjective and objective perspectives'.

b) Epistemological Questions

Guba and Lincoln (1994, p.108) explained that epistemology identifies 'the relationship between the knower or the would-be knower and what can be known'. This means that it concerns the understanding between the researcher and those being researched, and relates to the nature of knowledge and the justification of how we know what we know (Creswell, 2013). For the positivist, the researcher is held to be objective and his findings true, while post-positivism assumes that objectivity remains a "regulatory deal", meaning that 'replicated findings are probably true' (Guba and Lincoln, 1994, p.110). In 'critical theory et al.', it is assumed that the investigator and the investigated are interactively linked, as such findings are value-mediated and hence must influence the inquiry (Howell, 2004). Constructivism also assumes that findings are 'created and develop as the investigation progresses' (ibid. p.6). In other words, the results are created through consensus and individual construction, including the constructions of the investigator. Finally, the participatory paradigm considers the critical subjectivity in participatory transactions with those being researched. Here, it is assumed that 'knowledge can be obtained through experiential, propositional and co-creating of findings' (Lincoln and Guba, 2000, p.168). Experiential knowing is explained as 'the subjective-objective knowing by acquaintance, by meeting, by a feeling of participation in the presence of what is there' (Heron and Reason, 1997, p.278).

c) Methodological Questions

The methodological assumption determines 'how the inquirers go about finding out what can be known' (Guba and Lincoln, 1994, p.108), and is concerned with the entire process of the study. Methodologically, positivism can be achieved through the use of quantitative methods of hypothesis testing, through scientific experiments and the manipulation of confounding conditions (Howell, 2013). Post-positivism is similar to positivism in this regard, and provides sets of immutable laws that enable prediction but also include the use of qualitative methods in the disproving of hypotheses. 'Critical theory et al.' rests on inquiry that requires a dialogue between the investigator and the subjects of the inquiry, that is, it rests upon seeing how the structures might be changed and comprehending the actions required to affecting change. Constructivism is aimed at understanding how individual construction can be elicited and refined through interactions between investigator and respondent, while the participatory paradigm involves a collaborative form in which everyone involved is engaged together in socio-political dialogue, both as researchers and co-subjects. This is achieved through primacy of practice and language grounded in shared experience and situational context (Howell, 2013).

Even though each of these paradigms of inquiry serves as a major point of emphasis around which a qualitative research paradigm or paradigms could be considered, as in all cases, the answers expected from the defining questions are 'human constructions' (Guba and Lincoln, 1994, p.108) that do not require proof. As Creswell (2013) and Howell (2013) variously conclude, each of the above mentioned paradigms of inquiry identifies specific methodological approaches and theoretical perspectives and indicates how these fit together when underpinning a situational research project. For instance, while positivism and post-positivism hold a deterministic philosophy in which causes probably determine effects or outcomes, the latter paradigms, which display elements of phenomenology, seek to understand the world in which a particular phenomenon is embedded.

5.4 Constructivist[21] Paradigm of Inquiry

Any of the identified paradigms (positivism, post-positivism, interpretivism, critical theory, constructivism or participatory) could have been used to uncover the phenomena under investigation, but the choice was always going to have important effects on the final outcome of the research and its relevance to corporate governance issues, as different paradigms relate to different strands of thought (Schwandt, 1998). Recently, the constructivist paradigm has gained acceptance in the lexicon of social science

[21] The terms constructivism and constructionism are used interchangeably by sociology and psychology scholars and making a distinction between them has become problematic (Schwandt, 1998). In this thesis the terms are also used interchangeably on the premise that meaning is constructed by the participants in their daily interactions.

methodologists and philosophers, as opposed to the traditional paradigms in the century before. The philosophical view of constructivists holds that what we take to be objective knowledge and truth is the result of our perspective (ibid.). They also place priority on the phenomena of study and see both data and analysis as created from shared experiences and relationships with participants and other sources of data (Charmaz, 2006). As Schwandt (1998, p.236) points out, 'knowledge and truth are created, not discovered by mind'. Given the objectives of the research, and the socially constructed problems and nature of the corporate governance phenomenon, the constructivist paradigm of inquiry would seem appropriate for achieving the main aims of the research because, it understands reality as being locally constructed and based on shared experiences (Howell, 2013). Moreover, groups/individuals are changeable, and further, 'the mind *creates* reality and claims that facts are produced by human consciousness' (ibid. p.88).

In this instance, the inquirer must elucidate the process of meaning construction, and clarify what and how meanings are embodied in the language and actions of the social actors being studied (Schwandt, 1998). Also, human beings' construction of interpretation does not occur in isolation but rather is intertwined with other shared factors, including understanding, practices, language and so forth, or 'a variety of social and cultural factors that lead to shared construction' (Guba and Lincoln, 1989, p.12). In other words, in the constructivist paradigm knowledge is seen as an individual construct, a social and contextual process that takes place over time. It is then argued that constructivists emphasise the instrumental, practical function of theory construction and knowing.

Although users of constructionist inquiry may be split into three varieties, namely psychological, radical and social (Raskin, 2002; Constantino, 2008), the three approaches centre on human meaning making. They can vary somewhat, however, in their deeper application. Firstly, psychological constructivism focuses on issues related to how people learn and how they carry out the process. This approach is more relevant to the education field. Secondly, radical constructivism emphasises the ability of human beings to use the understandings they create to help them navigate life, regardless of whether or not such understandings match an external reality (von Glaserfeld, 1995). In fact, this is an extreme form of the psychological approach. Thirdly, social constructionism is fundamentally related to both the epistemological and the ontological assumptions of constructivism in 'describing the bodies of knowledge developed over human history as social constructs that do not reflect an objective external world' (Constantino, 2008, p.118). Hence, social constructionism can be thought of as a theoretical orientation, which offers a radical and critical alternative inquiry, especially in the social science disciplines and the humanities (Burr, 2003). This is premised on the belief that we take a critical stance toward our taken-for-granted ways of understanding the world, the idea being that everything an individual come to know is determined by a variety of factors, such as ideology, language, politics, culture and religion.

5.5 Paradigm of Inquiry for this Research: Social Constructivist

As Letza and Sun (2002), Letza et al. (2004) and Letza et al. (2008) variously pointed out the corporate governance phenomenon is a socially constructed; a social process that emphasise on the dynamic nature of social reality. Since for the constructivists, knowledge is seen as an individual construct, a social and contextual process that takes place over time, a social constructivism paradigm of inquiry fits the nature of this study for a number of reasons: Firstly, as Howell (2013, p.89) pointed out, social constructivism is an aspect of constructivism, takes the view that 'individuals develop and give meanings to the world', and utilises open-ended questioning (Creswell, 2009). Secondly, social constructivism gives the researcher an opportunity to discover the 'subjective meanings of experience…these meanings are varied and multiple, leading the researcher to look for the complexity of views rather than narrow the meanings into a few ideas' (Creswell, 2013, p.24). Indeed, these subjective meanings are often negotiated socially and historically through interaction with others (Creswell, 2013).

According to Blumer (1986, p.12), 'the meaning of anything and everything has to be formed or constructed, learned, or transmitted through a process, and that is necessarily a social process'. Thirdly, it also enables the researcher to learn how, and to what extent, the studied experience is embedded in large and often hidden positions, networks, situations and relationships (Guba and Lincoln, 1994). Indeed, social constructivism offers the researcher an understanding of the social practices engaged in by people, and their interactions with each other. Fourthly, the paradigm places more emphasis on 'processes than structures' (Burr, 2003, p.9)[22], and accepts that interpretation is itself a construction of the inquirer, made about the actors under investigation. Finally, based on one of the primary gaps discovered in the literature, and within the theoretical framework, the intention in this research was to involve individual actors within banks who were well-placed to direct the researcher on the subjective meanings relating to corporate governance issues. It was expected that this would lead to the construction of experiences, gained via interactions with the participants. It can be argued that the use of the social constructionism paradigm is a calling for the democratisation of the research relationship, leading to an acknowledgement that the accounts of the interviewees are equally valid in principle.

[22] This was the basis for the arguments advanced by Letza and Sun (2002) and Letza et al. (2008) for an alternative corporate governance mechanism.

Moreover, given that the primary aim of this research is to understand the subjective meanings and experiences of the actors within the context studied, while maintaining an open mind towards the situation under investigation, inquiring through social constructivism represents an attempt to achieve objectivity by acknowledging the subjectivity of the research (Howell, 1998). Additionally, it is aimed at developing a substantive theory about the corporate governance of banks using the culture and leadership theoretical framework. However, despite the relevance of social constructionism to the nature of this research, Burr (1998) cautioned that this does not necessarily mean that we have limitless choice in how we may construe ourselves. It also certainly does not mean that we can simply decide to dispense with oppressive and limiting constructions just by 'changing our minds about how we think about people' (ibid. p.13).

5.6 The Distinction between the Constructivist and Interpretivist Paradigms

Even though the constructivist paradigm has been adopted for this study, there are similarities and differences between it and the interpretivist paradigm, more so in GT approach. In terms of their similarities, Guba and Lincoln (1989) argued that the constructivist paradigm is a replacement for the interpretivist; as such, they refer to the same paradigm. Moreover, Creswell (2013) stated that they can be combined in undertaking a research project, because both paradigms are committed to the study of the world from the point of view of the interacting individuals. The constructivists also acknowledged that the theories they produce are interpretations (Bryant, 2002). Moreover, to prepare an interpretation is 'itself to construct a reading of these meanings…' (Schwandt, 1998, p.222). In GT, it is accepted that the constructivist's 'concepts and theories are constructed by researchers out of stories that are constructed by research participants who are trying to explain and make sense out of their experiences/lives' (Corbin and Strauss, 2008, p.10). As such, the "essence" of what participants are trying to convey or represent is itself 'a logical interpretation of data, as seen through the eyes of one particular analyst' (ibid. p.47). Indeed, grounded theorists recognise that both paradigms subjective meanings emerge from the interpretation of data and its construction. Denzin (1998, p.322) also acknowledged that 'meaning, interpretation, and representation are deeply intertwined in one another'. This implies that both paradigms are ontologically relativist.

Although the constructivist and interepretivist paradigms share this general framework for human inquiry, other researchers, such as Schwandt (1998, 2000), have differentiated between them. For instance, in his 1998 work (p.222), the author argued that they differ in their persuasions, especially in the manner in which each answers the following questions: 'What is the purpose and aim of human inquiry (as distinct from inquiry into the physical world)? How can we know about the world of human action?' This suggests that each persuasive approach can offer a somewhat different conceptualisation of what we are about when we inquire into the world of social agents. The author further stated that interpretivists 'wrestle with maintaining the opposition of subjectivity and objectivity' (Schwandt, 1998, p.223). Although constructivists share this concern too, their particular foils are the notions of objectivism, empirical realism, objective truth and essentialism (Charmaz, 2006). This distinction can be summed up as meaning that the interpretivist is epistemologically objectivist while the constructivist is subjectivist. Moreover, within the GT methodology, the differences can be in the ways of understanding what emergence means in their practice of GT research (Charmaz, 2000). As Charmaz (2006, p.149) concludes that we are part of our constructed theory and 'this theory reflects the vantage points inherent in our varied experiences'.

5.7 Research Approach

There are two major research approaches that are used by researchers: inductive and deductive. The choice of which to use is tied to the philosophical assumptions of the researcher or the research strategy (Saunders et al., 2007). The deductive approach is associated with the positivist paradigm, while the inductive is a tool for interpretive research (Creswell, 2009). Deduction refers to starting with the general or abstract concept and reasoning about how it applies to specific instances (Charmaz, 2006). Thus, it is a process of inferring particulars from a general statement and is a matter of logic. The approach seeks to exploit the strengths of the scientific method as a vehicle for establishing a causal relationship between two variables (Fisher, 2007). Generally, the deductive approach proceeds from the general case to the particular, from particular to particular or from general to general, and in all contexts it 'involves the testing of a theoretical proposition by the employment of a research strategy specifically designed for the purpose of its testing' (Saunders et al., 2009, p.590). This implies that the researcher is independent of the phenomenon under observation. However, the approach has been criticised because it does not fit several theoretical models, and because its tendency to construct a rigid methodology gives no room for alternative explanations of what is occurring. Moreover, the approach does not usually permit alternative explanations for behaviour, which is important because studies in business and management are concerned primarily with human behaviour, which can be quite complex and unpredictable.

Conversely, the inductive approach has its roots in qualitative research, in which data are generated in a non-standard fashion. Here, emphasis is placed on individuals' interpretations and participants' experiences. In other words, the inductive approach is concerned with the relationship between theory and research, with the former generated out of the latter (Bryman and Bell, 2007). Generally, an inductive approach allows a researcher to make more informed decisions about the research design and the appropriate strategies that could be used for the research, and more importantly it caters for likely constraints (Easterby-Smith et al., 2002). The approach is more flexible than the deductive approach and has the advantage of allowing the researcher to make changes as the research progresses, while permitting facts to be discovered and conclusions drawn from the analysis of the collected data. Consistent with the requirements of the constructivist paradigm, this thesis employs the inductive approach in its analytical process.

5.8 Research Strategy

Many researchers would consider themselves to belong mainly to either the qualitative or the quantitative school, with each traditionally connected to distinctly different paradigms (Layder, 1993). Other researchers might switch between the two or combine both quantitative and qualitative strategies (Brannen, 1992). Quantitative approaches are derived from the positivist and post-positivist research paradigms. They were initially developed to study, through means of quantification, natural phenomena in the natural world, and can involve several analytical techniques, including cause-and-effect thinking, measurement and observation through surveys, experiments, and statistical and numerical modelling (Creswell, 2007). The qualitative method – which is used in this study – was developed to address some of the shortcomings of the purely quantitative research approach. The distinction between qualitative and quantitative rests on the fact that

> ‘qualitative implies an emphasis on process and meanings that are not rigorously examined or measured (if measured at all) in terms of quality, amount, intensity, or frequency. Researchers stress the socially constructed nature of reality, the intimate relationship between the researcher and what is studied...They seek answers to questions that stress how social experience is created and given meaning. Quantitative approaches, however, emphasise on measurement and analysis of causal relationships between variables, not process’ (Denzin and Lincoln, 2000, p.8).

Babbie (2004) stated that the qualitative approach is an effective strategy for studying subtle nuances in attitudes and behaviour and for examining social processes over time. Although personal preference is a legitimate and appropriate way to select a research strategy (Guba and Lincoln, 1994), in dealing with human behaviour, attitudes, beliefs, values and actions, which are often the underlying causes of issues like corporate governance, it is beneficial to subscribe to the qualitative strategy (Schein, 1996; Parry, 1998). Besides, the theoretical framework of culture and leadership involves deep-set phenomena that manifest themselves at various levels and as such cannot and should not be measured quantitatively (Schein, 2004). Moreover, the qualitative approach and its data are inherently rich in substance and full of possibilities (Corbin and Strauss, 2008). Since the literature suggests that the qualitative research strategy places more focus on the social phenomena being addressed (Saunders et al., 2007; Denzin and Lincoln, 2008) and concentrates on the words and actions of the people being studied (Strauss and Corbin, 1998), this shows that the strategy is better connected to the nature of this study's research questions, the objectives that have been identified, the theoretical assumptions and the paradigm of inquiry chosen. Thus, it will help the researcher to develop a holistic, complex account of the issue being studied (Creswell, 2007). These qualities have informed the choice of the qualitative approach for this investigation of the phenomena underlying corporate governance in banks.

5.9 Methodological Review

A research methodology simply guides the researcher in carrying out the research, within the constraints of the research questions that have already been identified (Saunders et al., 2007). According to Creswell (2009), the knowledge, strategies and methods used by the researcher determine the methodology and this suggests a causal link between the paradigm of inquiry and the methodology adopted for a research project. For instance, the positivist paradigm uses experiments, surveys, and cross-sectional and longitudinal methodologies. In contrast, the phenomenological paradigms may use action research, ethnography, case studies or grounded theory. Given the adoption of social constructivist paradigm of inquiry for this study, the choice of methodologies was limited to the latter group. This is also because the choice of any methodology or combination of them depends on the objectives and research questions that have been set out (Bryman and Bell, 2007; Collis and Hussey, 2009). These methodologies are discussed in the following:

5.9.1 Ethnographic Research

Ethnography means ‘the study of people’ (Howell, 2013, p.120). Methodologically, ethnography focuses on the manner in which people interact and collaborate in observable and regular ways (Gill and Johnson, 2010). The methodology ‘provides insights about a group of people and offers us an opportunity to see and understand their world’ (Boyle, 1994, p.183) since the researcher immerses himself/herself in a social setting for an extended period of time, observing behaviour, listening to what is said in conversations – both between the participants and with the fieldworker – and asking questions. However, the main disadvantage of the ethnographic methodology is its inclusiveness (Fisher, 2007), and its emphasis on full participation during data collection. In such a situation, a researcher must cope with being a full-time member of a work group as well as doing the research (Collis and Hussey, 2009). Although direct observation would aid our understanding and interpretation and construction of the phenomenon under study, it would be difficult to accomplish these essential requirements, especially given that the context of this study is banking organisations.

5.9.2 Action Research

The action research methodology is used for finding an effective way of bringing about a conscious change in a partly controlled environment (Collis and Hussey, 2009) and carries out the process of inquiry through a cycle of planning, acting, observing and reflecting (Saunders et al., 2007). Thus, it relies on the researcher and the client collaborating to diagnose a problem and develop a solution (Coghlan and Brannick, 2005). The methodology is often used to resolve organisational issues, such as the implications of change, by consulting those who are experiencing the issues directly. As Eden and Huxham (2005) contended, the findings of action research result from an involvement with the members of an organisation over a matter of serious concern to them. One of the weaknesses of action research is the belief that the actions or behaviour of a person can only be changed by testing them in action (Fisher, 2007). In addition, the method is associated with set timelines and is often costly to sustain over the full period of research.

5.9.3 Case Studies

A case study methodology involves an empirical investigation of a particular contemporary phenomenon within its real-life context, using multiple sources of evidence (Yin, 2003). Yin explained that a case study involves a systematic investigation into a single individual event or situation. According to Yin (2003), the main feature of a case study is exploring and understanding a phenomenon within a particular context. The research does not commence with a set of questions and notions about the limits within which the study can take place, or about the use of multiple methods of data collection. However, one of the identifiable shortcomings of case studies, as Mile (1979) argued, is the degree of energy required at each stage of the process. This puts a lot of stress on the researcher during the observation stage. Although Yin (2003) argued that the use of case studies is only limited by a lack of understanding, further studies have revealed that research using case studies takes too long and results in massive, unreadable documents, or reports only the researchers' conclusions (Saunders et al., 2007).

5.9.4 Grounded Theory

GT can be described as 'a general method of comparative analysis' (Glaser and Strauss, 1967, p.1) that involves the use of a systematic set of procedures to develop an inductively derived theory about certain phenomena (Collis and Hussey, 2009). The methodology focuses on the development of new theory, which is generated from basic social processes, interactions or actions, identified through incidents by people who have experience of the phenomena in question (Goulding, 1999; Corbin and Strauss, 2008). The overall features of the approach include the attempts to develop categories that illuminate the data, to saturate these categories in order to demonstrate their importance and to develop these categories into a more general analytic framework (Silverman, 2006). It is one of the interpretive methods that share the common philosophy of phenomenology (Stern, 1994) and also works toward constructing a theory (Charmaz, 2006). The approach has been the most widely used qualitative methodology in the social sciences and management in recent times (Altheide and Johnson, 1998).

GT is primarily inductive[23] and pursues the interpretations of those involved in the situation that is being researched and the construction of the researcher in relation to the data (Charmaz, 2006). In other words, it permits researchers to give accounts of their personal experiences and explain how they may have impacted on the study (Creswell, 2007). Although not exclusively a qualitative method, GT 'stands out among other methodologies in the investigation of problems of "why" and "how" in a systematic way,

[23] Howell (1998) stated that it also accommodates deductive processes.

that is “grounded” in the data itself as opposed to being deduced logically’ (W. J. Jones, 2009, p.30). Moreover, the methodology offers great flexibility with regard to data collection and analysis (Glaser and Strauss, 1967), and allows the researcher to use interviews as the data collection technique.

5.10 The Methodology Chosen for This Study: Grounded Theory

Even though either an ethnographic or a case study methodology could have worked very well for this study, GT provides both a methodology and a mode of analysis. Robson (2002, p.165) described ‘GT based research as one of the influential qualitative methodologies besides case studies and ethnography’, and it provides the advantage of enabling the researcher to delve into an unknown area, such as corporate governance and human nature or behaviour (Nwanji, 2005). In a research project such as this one, theoretical explanations of behaviour must allow for process, and recognise context and change (Goulding, 2000). In the context of the theoretical framework, human behaviour is considered not to be totally strategic because, in many cases, ‘people are calculated and rational, but when making decisions they turn to established routines of behaviour to attain their purposes’ (Hall and Taylor, 1996, p.939).

According to Howell (2009, p.225), GT is ‘on the interpretation of a situation in relation to the course of action rather than calculation alone’, and such interpretations result in theory building. Moreover, the ‘GT perspective is the most widely used qualitative framework in social science study’ (Denzin, 1994, p.508). Given the literature’s identified need for an alternative method of corporate governance for banks, particularly in Nigeria, GT should satisfy the requirements by allowing theory to emerge from the accounts of those involved in the corporate governance process. Moreover, ‘only GT provides the emergence of theory from the analysis of a…particular situational context’ (Strauss and Corbin, 1998, p.23). Furthermore, in contrast to alternative methodologies, GT allows a wide range of data sources to be used, and this helps the researcher to gather various perceptions and viewpoints on the problem (Glaser and Strauss, 1967). These advantages has therefore encouraged the researcher to take the opportunity to use it in a different field (corporate governance), within an entirely different environment (the banking sector in Nigeria).

5.10.1 The Philosophical Roots of Grounded Theory

The Discovery of Grounded Theory (Glaser and Strauss, 1967) provides a formal description of the GT approach to handling and interpreting qualitative data. The approach was developed in the early 1960s, during what can be described as a participant observation study of hospital staff's care and management of dying patients in the US. The authors characterised the approach as one oriented towards the inductive generation of 'theory from data that has been systematically obtained and analysed' (Glaser and Strauss, 2009, p.1). The most significant aspect of GT is the intention that it should be used for generating theory where little is already known, or to provide a fresh slant on existing knowledge using an interpretive mode (Charmaz, 2006; Goulding, 1998; Locke, 2003). Effectively, the methodology seeks to challenge the status quo in social science research through the generation of theory from the research situation in the field as it is, rather than to test "grand theories" in a deductive manner (McGhee et al., 2007). According to Charmaz (2006, p.6), the GT approach 'provided a powerful argument that legitimized qualitative research as a credible methodological approach in its own right rather than simply as a precursor for developing quantitative instruments'.

Glaser and Strauss' (1967) ideas were influenced by the theoretical thoughts of the pragmatist tradition and the early symbolic interactionism of Dewey (1922), Mead (1934) and Blumer (1969). They argued that scientific truth results from both the act of observation and the emerging consensus within a community of observers as they make sense of what they have observed (Suddaby, 2006). As is widely acknowledged, Glaser and Strauss' (1967) development of GT not only countered the ruling methodological assumptions based on the positivist perspective (K. Smith and Biley, 1997) or 'a priori assumptions' (Glaser and Strauss, 1967, p.3); the authors also 'intended to construct abstract theoretical explanations of social processes' (Charmaz, 2006, p.5). Indeed, their intellectual foundation was noted to be revolutionary at the time because it challenged the following ideas (ibid. p.6):

a) 'beliefs that qualitative methods were impressionistic and unsystematic,
b) the separation of the data collection and analysis phases of research,
c) prevailing views of qualitative research as a precursor to more "rigorous" quantitative methods,
d) the arbitrary division between theory and research, and
e) assumptions that qualitative research could not generate theory'.

According to Glaser and Strauss (1967), addressing these challenges was necessary, because there was

> 'an over-emphasis in current sociology on the verification of theory, and a resultant de-emphasis on the prior step of discovering what concepts and hypotheses are relevant for the area that one wishes to research…in social research generating theory goes hand in hand with verifying it; but many sociologists have been diverted from this truism in their zeal to test either existing theories or a theory that they have barely started to generate' (pp.1-2).

In terms of guiding methodological completion, Glaser and Strauss (1967) led the way by providing written outlines for systematic qualitative data analysis with explicit analytic procedures and an explicit research strategy. Indeed, the development of GT 'offered a general model for constructing new theory and some foundational research operations' (D.

K. Locke, 1996, p.241). On that note, many scholars later associated GT with different paradigmatic stances. For instance, Strauss and Corbin's (1990, 1998) stance related to the intrepretivist approach, while those of Glaser (1978, 1992, 2003) and Denzin and Lincoln (1994) inclined towards the post-positivist. It should be noted that both Glaser, and Denzin and Lincoln, and their proponents relied on the objectivist approach in their methodologies, which erases the social context from which the data emerge. Furthermore, in her contributions to GT, Charmaz (2006, p.130) demonstrated a constructivist position by arguing that 'theory depends on the researcher's view; it does not and cannot stand outside of it', since different researchers may come up with similar ideas but differ in how they render them theoretically. Although each of these paradigmatic stances of GT has been criticised for different reasons (Atkinson et al., 2003; Glaser, 1992; Strauss and Corbin, 1998; Stern, 1994; Charmaz, 2000), the essential aspect that remains is GT's applicability across numerous areas, especially in providing ways for researchers to proceed with theorising.

5.10.2 Grounded Theory as a Methodology

GT is based on the social sciences and involves research about and with people (Howell, 2013), and it mainly focuses on the generation of theory through comparative analysis (Strauss and Corbin, 1998). Glaser, (1978, p.2) pointed out that 'the methodology offers a rigorous guide to theory development that, at each stage, is closely integrated with a methodology of social research'. As a qualitative research method that uses a systematic set of procedures to develop an inductively derived GT about a phenomenon, it is recommended that the process should 'involve an iterative reciprocal relationship between data collection, theory and analysis' (Strauss and Corbin, 1990, p.24). The method also consists of systematic, yet flexible, guidelines for collecting and analysing qualitative data in order to construct theories that are "grounded" in the data themselves. Methodologically, GT offers a set of general principles and heuristic devices rather than formulas (Atkinson et al., 2003).

For research purposes, the GT approach stimulates theoretical sensitivity in a study, assists in providing a secondary source of data, stimulates the type of research questions that should be asked, leads to direct theoretical sampling within the research, and helps to provide valid outcomes (Strauss and Corbin, 1990). These advantages, McGhee et al. (2007) argued, help the researcher to provide a justification for the study, to avoid conceptual and methodological pitfalls, to discover the extent of previous knowledge, and to assess whether GT is an appropriate method that meets the requirements of local research ethics. As a testimony, since its introduction GT has been used for qualitative studies within the fields of organisational studies, management and other disciplines (D. K. Locke, 2003). As Strauss and Corbin (1998) explained, the method aims at understanding the nature of human activity in organised settings and supports the construction of theory from the qualitative data gathered. More importantly, GT is said to put no limits on the range of data that can be used by the researcher. As Glaser and Strauss (2009, p.65) contended,

> ‘different kinds of data give the analyst different views or vantage points from which to understand a category and to develop its properties; these different views we have called slices of data ... allow a multi-faceted investigation, in which there are no limits to the techniques of data collection, the way they are used, or the types of data acquired’ .

They also stated that, in developing theory, although ‘the evidence from which a conceptual category emerged may not be necessarily accurate beyond a doubt, the concept is undoubtedly a relevant theoretical abstraction about what is going on in the area studied’ (p.23). Indeed, GT is an attempt to understand reality through social constructions and objectivity, by recognising the subjectivity of the researcher and the researched in terms of their interpretive natures (Howell, 2000). It also has the ability to offer ‘a compromise between extreme empiricism and complete relativism by articulating a middle ground in which systematic data collection can be used to develop theories that address the interpretive realities of actors in social settings’ (Suddaby, 2006, p.637).

This further suggests that researchers using GT are expected to clarify their studies’ formats by stating the phenomena to be studied, the purpose, the method used, the sampling process, the data collection and generation procedures, and the data analysis techniques. They should also clarify the empirical grounding of the study (i.e., the findings), and the conclusions, implications and recommendations regarding the findings (Suddaby, 2006). Although the use of GT in research projects has gained acceptance across disciplines, scholars have, over time, come up with different ways of conceptualising and operationalising the method. For instance,

a) Glaser (1978) proposed the conceptualisation and generation of theoretical explanations of substantive areas,
b) Strauss and Corbin (1998) focused on the conceptual description of the study area, and
c) Charmaz’s (2006) GT approach focused more on the themes that occur within the data, rather than on concepts and categories.

In this study, considering the various works of literature, the concern is the depth to which Glaser and Strauss took GT in their various statements and guidelines, as considered in the next section.

5.10.3 Contrasting the GT Approaches of Glaser and Strauss

Although Glaser and Strauss successfully collaborated to set out an initial description of the aims and methods of GT in their classic work of 1967, which inspired generations of qualitative researchers, the two originators eventually took GT in somewhat divergent directions (Charmaz, 2000). The differences started when Glaser (1992) decided to select an area (an organisation or activity) for study and allow issues to emerge in the course of the research process, while Strauss and Corbin (1990, and later 1998) were more specific and chose to identify a phenomenon or issue within the given study area (Parker and Roffey, 1997). Predictably, their differences forced contemporary researchers to choose between the two approaches and to explain their choice (Goulding, 1998). A detailed comparison of their approaches demonstrates subtle but distinct differences in perceptions, mostly in terms of style and terminology (Goulding, 1998). For example, Glaser (1992, p.3) claimed that 'Strauss's version is without conscience, bordering on immorality... producing simply what qualitative researchers have been doing for 60 years or more: forced, full conceptual description'. Glaser (2001) also pointed out that the concept of emergence is a central tenet of GT and that, as such, nothing should be forced or preconceived. He argued, 'we do not know what we are looking for when we start…we simply cannot say prior to the collection and analysis of data what our study will look like' (ibid., p. 176).

For Glaser, 'theory should only explain the phenomenon under study; while Strauss's approach insists on excessive use of coding matrixes to conceptualise beyond the immediate field of study' (Goulding, 1998, p.52). The GT procedures advanced by these two approaches have continued to be of interest to many researchers (Parker and Roffey, 1997; Goulding, 1998; Howell, 2000; D. K. Locke, 2003; Heath and Cowley, 2004;

Charmaz, 2006; Walker and Myrick, 2006). According to Parker and Roffey (1997, p.222), their major differences (based on Glaser, 1992, and Strauss and Corbin, 1990) may be found in ‘the approach to generating the focal research issues, the degree of formal structuring of the approach to coding data, and the degree of formal structuring of the approach to generating a theoretical framework’. Based on the various areas of concern in the literature about the two approaches (Glaser, 1978, 1992; Strauss and Corbin, 1990, 1998), their main differences can be summarised in terms of their use of existing literature, procedures, data analysis, theory formulation, how the research questions are identified and ease of operationalization, as shown in Table 5.1.

Table 5-1 Main Differences between Glaser's and Strauss' Approach

Main Area of Concern	Strauss and Corbin	Glaser
Research Question	• The research question is a statement that identifies the phenomenon to be studied.	• Main problem for people in the area under study? • What category does the concern indicate?
Use of Existing Literature	• Literature review can stimulate theoretical sensitivity, can be a source of data, stimulate questions, direct theoretical sampling, and provide supplementary validity.	• No need to review any literature before data collection.
Procedures	• Researchers need help with the interpretation process; subcategories are linked to categories that denote a set of relationships.	• Problems emerge and should not be forced by the methodology. • Categories and properties "emerge" through constant comparison of incident to incident.
Data Analysis	• Initial coding: open coding as analytic technique. • Intermediate phase: axial coding, reduction and clustering of categories (paradigm model). • Final development: selective coding, detailed development of categories, selection of core, integration of categories. • Theory: detailed and dense process fully described.	• Substantive coding: data-dependent. • Follows on continuously from previous phase; comparison, with focus on data, becomes more abstract, categories refitted, frameworks emerge. • Theoretical: refitting and refinement of categories that are integrated around an emerging core. • Parsimony, scope and modifiability.
Ease of Operation	• Easier to operationalise.	• Can be difficult to operationalise.
Theory Formulation	• Generates an inductively derived theory; undertaking continual verification; conceptual ordering.	• Generates concepts and their relationships to explain/interpret variations; produces theoretical conceptual hypotheses.

Source: Parker and Roffey (1997, p.221); Heath and Cowley (2004, p.146); McGhee et al. (2007); Howell, (2013, pp.147-150).

The main differences show that Strauss' technique is found to encourage researchers to use their own personal and professional experience and acquired knowledge as a positive advantage to enhance theoretical sensitivity. As he stated, 'if you know an area, have some experience…you don't tear it out of your head, you can use it' (Strauss, 1987, p.84). For Glaser (1992, p.38), coding is 'conceptualising data by constant comparison of incident with incident, and incident with concept'. He argued that using the constant comparison method gets the analyst to the desired conceptual goal quickly, with ease and joy. Thus, 'categories emerge upon comparison and properties emerge upon more comparison' (Glaser, 1992, p.42). For Strauss and Corbin (1990, p.61), however, coding is simply 'the process of analysing data', which includes the 'making of comparisons and the asking of questions' (ibid., p.62) as the basis of the coding process. Justifying this, they added that, not only does the making of such comparisons and the asking of questions 'change with each type of coding' (ibid., p.62), but since these processes are not labelled as we go along, 'we have to watch closely to see how we should use them' (ibid., p.63).

Moreover, Glaser used a two-phase coding process (open coding and theoretical coding), while Strauss and Corbin (1990, 1998) used three phases (open, axial and selective coding). While Glaser did not support the inclusion of axial coding in the analytic process, Strauss and Corbin (1990, p.97) insisted that the axial coding process puts the fractured data back together in new ways 'by making connections between a category and its subcategory'. Even though both agreed on the role of GT in theory development, Glaser's approach was to 'generate a conceptual theory that accounts for a pattern of behaviour which is relevant and problematic for those involved' (Glaser, 2003, p.3), while for Strauss the emphasis was on ensuring 'conceptual development and density' (Strauss, 1987, p.5), and he argued that ‘a few concepts loosely strung together cannot satisfy the requirements for formulating social theory’ (Strauss, 1987, p.18).

The two parties also differed on the issue of reviewing the literature when using GT. Strauss and Corbin (1998, p.49) argued that ‘familiarity with relevant literature can enhance sensitivity to subtle nuances in data’. In contrast, Glaser contended that such a practice leads to a “derailment” in the form of recognised assumptions about what the data are going to present. He argued that the researcher ‘need not review any of the literature in the substantive area under study’ (Glaser, 1992, p.31). In her assessment of the two approaches, however, Goulding (2000) concluded that the differences are more of a methodological consideration than an ontological or epistemological one. Charmaz (2006) added that, despite their differences, there are fundamental areas of convergence in their approaches as both aim to move qualitative inquiry beyond description into the realm of explanatory theoretical frameworks. Moreover, ‘each considers that it is possible to utilise verification as part of theory generation (Howell, 2013, p.148). This thesis is carried out in line with the Strauss and Corbin version of GT, while the original discovery of the theory (Glaser and Strauss, 1967) serves as a reference point. The reasons behind this choice are detailed in the following section.

5.10.4 Reasons for Using Strauss and Corbin’s Approach

While the researcher recognises that a number of constants and similarities are present in both approaches, it is still necessary to justify why the Strauss and Corbin approach was chosen here, both to direct readers and invite commentary. Understandably, there are basic philosophical differences between Glaser’s and Strauss’ approaches, and these are present in the process of theory generation, in terms of the respective emphases on induction, deduction and verification, and in the form the theory should take. Strauss’ version essentially aims to clarify, and guide readers on, how the main objective of the research can be achieved. It also offers the following other advantages:

- The Strauss and Corbin approach is more structured in terms of coding and analytical procedures, and this makes the approach readily understood by uninitiated GT researchers or beginners. Convincingly, based on extant theoretical reviews, the Strauss and Corbin approach has been used in a wider range of disciplines, including management.
- The approach recognises the use of literature. This is because in reality one cannot go into any research without preconceptions, particularly in relation to pre-existing theory and practice. Moreover, it enables the researcher to be theory sensitive.
- Their approach is located within the constructivist paradigm (D. K. Locke, 2003), which coincides with the paradigm of inquiry for this research.
- The focus is on theory building rather than theory testing. The former is more relevant for developing a substantive theory around culture and leadership through an inductive approach.
- Flexibility is emphasised: ‘while we set these procedures and techniques before you we do not at all wish to imply rigid adherence to them’ (Strauss and Corbin, 1990, p.59). Accordingly, ‘the procedures are not mechanical or automatic, nor do they constitute an algorithm guaranteed to give results. They are rather to be applied flexibly according to circumstances; their order may vary, and alternatives are available at every step’ (ibid. p.59).

These advantages and the simplistic procedures provided by Strauss and Corbin invite new researchers working within a qualitative context, including myself, to adopt their approach. Moreover, Denzin (1994, p.513) contended that ‘when one peels back the layers of discourse embedded in any of the numerous qualitative guides to interpretation and theory construction, the core features of Strauss’ approach are present, even when Strauss and associates are not directly named’. Strauss and Corbin’s procedure for how theory can be grounded is discussed in the next section.

5.11 Procedures and Application of Strauss’ Approach

In the GT approach, the analyst makes use of constant comparison, which is the simultaneous and concurrent process of coding and analysing the collected data (Partington, 2000). The iteration leads to a “process”, whereby changes in the data are monitored and made explicit (Howell, 1996). The critical elements of the procedures and framework developed by Strauss and Corbin (1990, 1998) are as follows:

5.11.1 Simultaneous and concurrent data collection and analysis

Data collection and analysis occur side by side. One of the benefits of the GT approach is that it allows the researcher to commence analysis as soon as the data begin to emerge. Corbin and Strauss (1990, p.6) advised that ‘data collection and analysis systematically and sequentially enables the research process to capture all potentially relevant aspects of the study as soon as they are perceived’. In other words, data are simultaneously analysed by looking for all possible interpretations from the outset (Goulding, 1998). In order not to miss anything that may be salient, it is advisable for the researcher to begin by analysing the first set of data for cues. This gives him/her the opportunity to incorporate all seemingly relevant issues into the next stage of interviews (Goulding, 1998). As Corbin and Strauss (1990, p.6) remarked,

> ‘this process is a major source of the effectiveness of the grounded theory approach. The research process itself guides the researcher toward examining all of the possibly rewarding avenues to understanding’.

Indeed, this is one of the main reasons why the GT method is one of discovery and one that grounds a theory in reality (Glaser and Strauss, 1967). It is important to note that, in GT, the researcher does not need to wait until all the data have been collected before beginning the analysis; rather, the search for meaning through the interrogation of the data commences in the early stages of data collection (Strauss and Corbin, 1990; Stern, 1994; Corbin and Strauss, 1990). This suggests that the process is not linear but concurrent, and iterative, with data collection, analysis and conceptual theorising occurring in parallel and from the beginning of the research process (Duhscher and Morgan, 2004). This important process is not available in alternative qualitative research methods, in which data are collected prior to the commencement of a systematic analysis.

5.11.2 Constant comparison method

This involves the constant comparison of data so as to develop concepts and categories. In other words, as the researcher moves along with analysis, each incident in the data is compared with other incidents for similarities and differences. Incidents found to be ‘conceptually similar are grouped together under a higher-level descriptive concept’ (Corbin and Strauss, 2008, p.73). This process helps to provide a way of understanding the world around us, both through the central event and, as it takes place, through the properties and dimensions generated. Constant comparison is designed to ‘aid the analyst...in generating a theory that is integrated, consistent, plausible, and close to the data’ (Glaser and Strauss, 2009, p.3). This aspect of the process has become a source of validity in this type of research (Silverman, 2006).

5.11.3 Coding procedures

Coding is 'the basic process of analysing data by the researcher' (Strauss and Corbin, 1990, p.61) and represents the operations by which data are broken down, conceptualised, and put back together in new ways. It is the fundamental analytical process used by the researcher, through which 'theories are constructed from data' (ibid. p.57). Coding is simply the process of categorising and sorting data and, as such, it is 'the pivotal link between collecting data and developing an emergent theory to explain these data' (Charmaz, 2006, p.46). As mentioned above, there are three types of coding process, 'open, axial and selective' (Strauss and Corbin, 1990, p.9), but 'the lines between each type of coding are artificial' (ibid. p.59).

I. Open Coding

Open coding is 'the analytic process through which concepts are identified and their properties and dimensions are discovered in data' (Strauss and Corbin, 1998, p.101). It is the process of breaking down, comparing, conceptualising and categorising data that helps the analyst to gain new insights into the data. The process also allows the researcher pay attention to categories and properties that emerge, and asks questions and makes comparisons of the emerged categories in order to form higher-level abstract categories and subcategories (Strauss and Corbin, 1998). Furthermore, at the open stage, the researcher is required to examine the data without any limitations on scope, and without the application of any filters, simply accepting the data in order to enable concepts emerge.

II. Axial Coding

Axial coding is the second phase of the coding process and is 'concerned with relating categories to subcategories along the lines of their properties and the dimensions of a category' (Strauss and Corbin, 1998, p.124). The axial coding process allows the researcher to reassemble data that have been fractured during open coding, so as to give coherence to the emerging analysis. The process looks at how categories crosscut one another and link together (Strauss and Corbin, 1998; Charmaz, 2006). Thus, it involves the appreciation of concepts in terms of their dynamic inter-relationships, while the data that were analysed as separate categories during the open coding process are now joined together (Strauss and Corbin, 1998). According to Strauss (1987), the axial coding process involves

a) laying out the properties of a category and its dimensions, a task that begins during open coding,
b) identifying the variety of conditions, actions/interactions and consequences associated with a phenomenon,
c) relating a category to its subcategories through statements denoting how they are related to each other, and
d) looking for clues in the data showing how major categories might relate to each other.

Creswell (2009) added that the purposes of axial coding are to sort, synthesise and organise data and reassemble them in new ways after the open coding, by making connections between categories. A further goal is to link subcategories to the main categories. In other words, there is a sequential loop from causal conditions to phenomenon to context to intervening condition to action/interaction and finally to consequences.

III. Selective Coding

Selective coding is ‘the process of selecting the core category, systematically relating it to other categories, validating those relationships, and filling in categories that need further refinement and development’ (Strauss and Corbin, 1990, p.116). The core category represents the central phenomenon around which all other categories are integrated. Indeed, 'as the analytic power that explains the whole' (Strauss and Corbin, 1998, p.146), the core category may evolve from the list of existing categories, or may be identified by the researcher after he/she has studied those categories. The researcher is advised to commence identification of the core category by asking questions such as 'what is the main analytic idea presented in this research, what does all the action/interaction seem to be about, or how can I explain the variation between and among the categories' (Corbin and Strauss, 1990, p.424). However, to overcome likely difficulties in identifying the core category, Strauss and Corbin (1998) also recommended some techniques to facilitate both the identification and the integration of concepts. These include 'writing storylines, making use of diagrams, and reviewing and sorting of memos' (Strauss and Corbin, 1998, p.148). This means that, once a network of conceptual relationships exists, it can be refined during selective coding. In addition, Strauss and Corbin (1990, p.130) indicated, 'it is very important to identify these patterns and to group the data accordingly, because this is what gives the theory specificity'. Finally, when undertaking a research project using GT, researchers are required to adhere to the 'sequences of evolving action/interaction, changes which can be traced to changes in structural conditions' (Strauss and Corbin, 1998, p.163).

5.12 Conclusion

In this thesis, a qualitative research design has been chosen in an attempt to fill the gap identified in the extant literature regarding effective corporate governance mechanisms for banks, particularly in Nigeria. In order to achieve this, this thesis demonstrates how an alternative theoretical framework of culture and leadership (as described in the previous chapter) could be utilised to explain this complex phenomenon. The emerging nature of this research and the nature of the corporate governance phenomenon under investigation influenced the choice of a qualitative research design. This chapter described the main paradigms of inquiry within qualitative research: positivist, post-positivist, critical theory et al., constructivism, and the participatory paradigm (Lincoln and Guba, 2000). It then differentiated between them on the basis of their ontological, epistemological and methodological characteristics.

On the basis of these characteristics, the research problem and the complexity of the phenomenon being investigated, a social constructivist paradigm was chosen to underpin the research inquiry and methodology. This is because social constructivism shares the same philosophical assumption as this research, in leaning towards the subjective meanings of socially constructed phenomena. In fact, corporate governance issues themselves revolve around social processes and, as such, can only be understood through the explanation of human activities and actions. However, the chapter further discussed the distinctions between constructivist and interpretivist paradigms and their relation to the GT approach. In addition, the chapter demonstrated the features of two contrasting research approaches, deductive and inductive, and more importantly explained the significance of the inductive approach in terms of developing a substantive theory (Strauss and Corbin, 1998).

In addition, this chapter discussed quantitative and qualitative research strategies and, in view of the assumptions of qualitative research design, argued that the qualitative strategy best fits the current research. The chapter then reviewed the four main methodologies of qualitative research – ethnography, action research, case studies and GT – and found that GT provides both the methodology and the mode of analysis required for this research. The main reasons for employing GT as the methodology were presented, including its beneficial qualities for generating substantive theory from inductively derived data. A historical and philosophical account of GT was also provided, and it was justified as a research methodology. The aim of this was to highlight its importance in the investigation of the issues surrounding corporate governance practice, especially in the banking sector, which is a complex area, particularly in developing countries such as Nigeria. With GT chosen, the chapter further exposited the main differences between the two key approaches that emerged from the original developers of GT (Glaser and Strauss) and concluded by illustrating the reasons for using the Strauss and Corbin approach and the procedures involved in that version. Discussions concerning the data collection, theoretical sampling and coding will be provided in the next chapter.

Chapter 6. Data Collection, Sampling and Coding

6.1 Introduction

This chapter concludes the second part of this thesis, which deals with the methodology and the collection and coding of the data. The aim of this chapter is to explain the data sampling and site selection processes used in this study, along with the different data collection methods used, which include interviews and a focus group discussion. The chapter discusses data accessibility and the challenges experienced during the research. Finally, the chapter highlights on the substantive theory as the essence of this thesis.

6.2 Data Sampling and Research Site Selection

The research scope is based on money deposit banks operating in Nigeria during the research period[24]. Under the banking regulations and requirements, all banks in Nigeria are registered with the CBN, which supervises their operations, and all are quoted on the Nigerian Stock Exchange (NSE) for public trading. To achieve the objectives of the study, the researcher considered two main strategies from the outset: The first was to approach all 24 commercial banks, and the CBN as the sole regulatory body. These banks were identified as the main locations in which the phenomena underlying corporate governance practice take place. Principally, those involved would be the executive managers responsible for corporate governance policy and implementation in the 24 commercial banks and the CBN. The aim was to obtain rich data that could account for variations and uncover nuances, so as to afford the researcher a “thick” explanation of what is going on. Strauss and Corbin (1998, p.201) indicated that it is necessary ‘to go to places, people or

[24] See Appendix A.

events that will maximise opportunities to discover variations among concepts and densify categories in terms of their properties and dimensions'.

The second strategy was to base the research process on the GT technique of theoretical sampling. Glaser and Strauss (2009, p45) described this as 'the process of data collection for generating theory whereby the researcher jointly collects, codes, and analyses data and decides what data to collect next and where, in order to develop the theory as it emerges'. The use of theoretical sampling within GT helps with the construction of rich categories that are related to each other. Categorising is defined here as 'the analytic step of selecting certain codes as having overriding significance or abstracting common themes and patterns' (Charmaz, 2006, p.186). The GT technique of theoretical sampling works

> 'on the basis of concepts that appear to have theoretical relevance to the evolving theory. Hence, these concepts are found to be relevant because (a) they are repeatedly present or noticeably absent in the data when comparing incidents and (b) they are conditions that give variation to a major category. The aim is to maximise opportunities in comparing events, incidents or happenings so as to determine how a category varies in terms of their properties and dimensions' (Strauss and Corbin, 1998, p.202).

However, as concepts are identified and the theory starts to develop based on the initial data that have been generated, further individuals and places should be incorporated in order to strengthen the findings for broader interpretation. It is important to note that theoretical sampling is particularly important in the exploration of new or uncharted areas, such as the corporate governance of banks. It helps the researcher to create a sample that can bring the greatest theoretical returns. In order to achieve this, the present research adopted three theoretical sampling processes in the coding stages of GT: open, relational and variational, and discriminate sampling. Open sampling is related to open coding in that it aims to discover, name and categorise as much as possible. During this stage, the researcher is expected to be relatively open to any sampling opportunities for data collection and, more importantly, should not ‘structure data gathering in terms of timing, persons or places so as to not foreclose on discovery’ (Strauss and Corbin, 1998, p.206). Relational and variational sampling is related to axial coding; it is aimed at ‘finding incidents that demonstrate the dimensional variation of a concept or its relationships within concepts’ (ibid. p.210). In fact, it is a stage in which categories are determined in terms of their paradigm elements.

Finally, discriminate sampling is related to selective coding and allows the researcher to focus on the validation of the relationships between the categories that relate to the identified core categories. The essence is to saturate categories and complete the study either by returning to the old sites or by going to new ones to gather the necessary data (Strauss and Corbin, 1998). This is what is referred to in GT as validation, and is ‘a crucial part of theory building’ (ibid: p.211). In other words, the researcher should continue until ‘(1) no new or relevant data seem to emerge, (2) the category is developed in terms of its properties and dimensions along variations, and (3) the relationships between categories are well established and validated’ (ibid: p.212). The purpose of saturation is to achieve density and precision in the theory that is developed. In this study, consistent with the purpose of theoretical sampling, as the sampling progressed, further sources of data emerged and were approached by the researcher. These additional sources were the NDIC, the Nigerian SEC, the Chartered Institute of Bankers of Nigeria (CIBN) and two major shareholders. The aim in including these sources was to add to the theoretical richness of the categories generated.

6.3 Data Collection Methods

Even though there are no rigid guidelines on the preferred approaches to data collection in qualitative research, Creswell (2007, p.130) identified five commonly used methods: ‘observations, interviews, focus groups, documents, and audio-visual materials’. He explained that the use of observations can involve non-participants and/or participants, while interviews can consist of both closed-ended and open-ended questioning. Focus groups generate data through interaction between group participants. Documents can include extant literature, organisational documents such as reports, and archival materials, while audio-visual materials include the use of electronic facilities, photographs and similar tools. Undoubtedly, the backbone of qualitative research is the extensive collection of data from multiple sources to enrich interpretations and constructs (Creswell, 2009). Consistent with the research design (discussed in Chapter 5) that is aimed at gaining a novel understanding of corporate governance in banks, the data collection method used is a combination of interviews and focus group discussion. Other data drawn from organisational reports and the extant literature complement the main primary data. In theory generation, the use of multiple data collection techniques is encouraged as it provides multiple perspectives and viewpoints. This allows for cross-checking, which in turn yields a stronger substantiation of the constructs (Glaser and Strauss, 1967). Table 6.1 describes the data collection scheme used in this thesis.

Table 6-1 Data Collection Scheme

Interviews (I and II): Interview set I focused on the participants from commercial banks, while interview set II obtained data from the CBN and other sources that emerged during the course of interview set I (open sampling, relational and variational sampling were used).
Focus Group Discussion**:** The focus group discussions centred on the effectiveness of corporate governance practices in banks since the 2006 reform, with a view to identifying the challenges of resolving the persistent failures in the banking industry that are related to national cultural values (open sampling).
Interviews (III): This set of interviews related to the discriminate sampling at the selective coding stage and was conducted to verify and validate concepts and their properties and dimensions that emerged during the open and axial coding stages (discriminate sampling).
Other Secondary Sources: Relevant documentary data were obtained from the commercial banks, the regulatory agency (CBN) and other relevant reports relating to the banks' corporate governance practices (open sampling).

6.3.1 Interviews

Interviews are a method of collecting data in which selected interviewees are asked questions through verbal or visual means, to find out what they do, think or feel (Collis and Hussey, 2009). In other words, it is a data collection technique that provides qualitative researchers access to the meanings people attribute to their experiences and social worlds. According to Easterby-Smith et al. (1991, p.71), ‘the most fundamental of all qualitative methods is in-depth interviewing’, and at its heart is the aim ‘of understanding the experiences of other people and the meaning they make of those experiences’ (Seiman, 1991, p.3). Interviews, especially in their less structured forms, are effective for discovering nuances because they are flexible, iterative and allow for continuity (Rubin and Rubin, 1995). In GT interview technique ‘plays a central role in the data collection’ (Creswell, 2007, p.131). Moreover, this is a method that facilitates access to individuals’ attitudes and values – things that are rarely observed (Bryman and Bell, 2007).

As Kvale (1996, p.32) stated, ‘a qualitative research interview is aimed at obtaining nuanced description from the different qualitative aspects of the interviewee’s life world’. Also, for Schein (1984), interviews are best used for an interactive and joint exploration since an insider’s experience of a phenomenon will be subjectively different from that of an outsider. In management research, particularly when delving into corporate governance issues, adopting an interview approach allows the researcher, as an outsider, to contrast his/her beliefs with those of the participants, and thereby gain a deeper understanding of the phenomenon. Moreover, the general belief, in using interviews as a data collection method, is that the views of multiple participants can help the researcher to capture the full complexity of the phenomena being studied. J. Macey and O’Hara (2003), arguing for a broader set of governance mechanisms for banks at different stages of development, suggested that a subjective approach was needed, and could only be conducted through direct interviews as the interview process affords the researcher first-hand information on why certain events have occurred, enabling him/her to answer the research questions.

According to Bloch (1996, p.323),

> 'in social research the language of conversation, including that of the interview, remains one of the most important tools of social research analysis, a means whereby insight is gained into everyday life, as well as the social and cultural dimensions of our own and other societies'.

Many scholars have further argued that the spoken word is the most powerful source of data because of its capacity to present descriptions, explanations and an almost infinite variety of information on the phenomenon under study (Hammersley and Atkinson, 1995). Referring to the investigation of people's behaviour and actions and how they perceive the world, the literature reveals that people develop, over their lives, a personal framework of beliefs and values, guided by their history and environment, with which they selectively and subjectively build meaning and significance into events (Geertz, 1993; Hofstede, 2001; Schein, 2004). As Hammersley and Atkinson (1995) indicated, what is expressed in interviews normally relates to the interviewee's perceived misalignment of values, rules or normal expectations with the actual course of events. According to Egan (1990, p.19), 'there are three main types of expressions by interviewees: experience, behaviour and affect'. He explained that experience relates to what they do or refrain from doing, and affect is the feelings and emotions that arise from, or are associated with, experience or behaviour. In the current research process, these three categories of verbal expressions helped the researcher to explore various issues, and also put into context the behaviours and actions of the participants.

While the use of interviews gives the qualitative researcher an opportunity to probe deeply and uncover new clues, opening up new dimensions of a problem through accurate, inclusive accounts (Burges, 1982), the form in which the interview is conducted determines the overall outcome of the dialogue (Easterby-Smith et al., 1991). Form refers to whether the interview is conducted based on structured or unstructured questions (Collis and Hussey, 2009). Structured interviews typically involve closed questions with a set of predetermined possible answers. In such cases, the answers are easily compared, since each interviewee is asked the same questions. These types of questions are often related to a quantitative data collection method, which was not used in the present research. In contrast, in semi-structured or unstructured interviews, the issues discussed, questions raised and matters explored can change from one interview to the next as different aspects of the issue are revealed.

Hussey and Hussey (1997, p.157) stated that semi-structured interviews do 'not mean that the same questions should be asked, but that questions should be posed in the same way. Indeed what is important is to ensure the respondents understand the question in the same way'. According to Easterby-Smith et al. (1991), an unstructured or semi-structured interview is appropriate when it is necessary to understand the construct that the interviewee uses as a basis for his or her opinions and beliefs about a particular matter or situation. Corbin and Morse (2003) stated that, based on their own experience, the densest interviews were those that were unstructured. These types of interviews are often associated with phenomenological paradigms, and which is the process of discovery that gives the interview type its strength.

The data collection for this study was conducted through the use of semi-structured interviews. The researcher's aim was to secure a greater understanding of the phenomenon by encouraging free discussion, which semi-structured interviews permit. According to Corbin and Morse (2003), unstructured type is not dictated by any predetermined questions. This allows the researcher to ask key questions in the same way each time but thereafter probe for further information about any emerging topics (Arthur and Nazroo, 2003). The interviews in this study were based on corporate governance issues within the context of the research objectives. The interviewees nominated by the various CEOs formed a broad set of participants from different, relevant business units. They were asked to offer accounts of incidents and events they had experienced, based on the semi-structured interview questions presented.

6.3.2 Focus Group Discussion

After the semi-structured interview series I (with participants from the banks) and II (from the CBN and other stakeholders had been conducted, focus group discussions was employed so as to reach a wider set of stakeholders. As a data collection technique, the focus group method was developed in the 1920s and has been used in social science research ever since (Frey and Fontana, 1993). This has led to an increase in non-directive interviewing using open-ended questions in recent times. Indeed, the technique has now been applied in researching social problems across several disciplines, particularly in exploratory research projects that aim to understand a social context that is unfamiliar or new (Frey and Fontana, 1993). A focus group has been described as 'a carefully planned discussion designed to obtain perceptions on a defined area of interest in a permissive, non-threatening environment' (Krueger, 1994, p.6), where participants share and respond to comments, ideas and perceptions. At a methodological level, Morgan (1996, p.130) viewed focus groups as 'a research technique that collects data through group interactions on a topic determined by the researcher'. Through this process, participants present their own views and experiences but they also have the opportunity to hear what other people have to say. This can generate varied responses as the discussion progresses, which can give the researcher new ideas, confirm data collected from interviews, or clarify events or the frame of reference for the subject under study.

Blumer (1969) recommended bringing together several knowledgeable people, familiar with the social situation under investigation, into a discussion group. He argued that this group would be ‘more valuable many times over than any representative sample’ (ibid: p.41). In other words, the use of a focus group provides another side of reality as it encourages interaction among the respondents and allows participants to change their opinions and experiences (Krueger, 1998). More importantly, focus groups

> ‘present a more natural environment than that of the individual interview because participants are influencing and influenced by others – just as they are in real life’ (Casey and Krueger, 2000, p.11).

Morgan (1997) described the focus group as a group interview, and synergistic in the sense that members of the group work together and explicitly interact to generate data and insights. Thus, the data gathered relate to the feelings and opinions of a group of people who are involved in a common situation or the same phenomenon (Collis and Hussey, 2009). Indeed, it is this ‘framework and its real consequence for action, that the qualitative researcher is interested in learning about’ (S. Jones, 1993, p.49). Focus group discussions therefore serve to solidify the researcher’s idea of the reality of a social setting. Multiple respondents can be effective in settings where the relationships among the respondents are complex and comprise diverse views (Schartzman and Strauss, 1973). The technique can be used as the sole method of data collection, or in combination with others, for exploratory purposes. Schartzman and Strauss (1973, p.82) argued that this

> ‘form of information gathering provides an especially nice situation for revealing variations in perspective and attitude and a ready means, through subtle pitting of one against the other, for distinguishing between shared and variable perspectives. The pitting process hardly needs manipulation since the hosts themselves, by speech and gesture, will naturally “correct” each other’s rendering of reality’.

The aim of a focus group discussion is somewhat different from that of an in-depth interview because of the ability to observe interactions on the topic under discussion. According to Stewart and Shamdasani (1990), the technique serves as a medium for understanding the group dynamics that affect individuals' perceptions, information processing and decision making. Highlighting the technique's importance, Litoselliti (2003, p.18) provided the following summary of focus groups' usefulness:

> 'discovering new information; obtaining a number of different perspectives on the same topic, in participants' own words; gaining information on participants' view, attitudes, beliefs, responses, motivations and perceptions on a topic; "why" people think or feel the way they do; examining participants' shared understanding of everyday life; brainstorming and generating ideas, with participants discussing different angles of a problem, and possibly helping to identify solutions; gaining insights into the ways in which individuals are influenced by others in the group; exploring controversial issues and their possible solutions'.

There are many forms that focus groups can take but Finch and Lewis (2003) identified four common types used in qualitative research:

a) A group of 2-12 participants meeting once and, depending on the subject being explored, spending 1-2 hours discussing the topic.

b) Focus groups in the form of workshops. This implies a large group and a longer meeting than in the previous type.

c) Focus groups for consultative purposes (e.g. for social groups). This includes small group discussions. This type of focus group may be conducted in different forms and includes drawing people together in a series of sessions to deliberate and contribute to decision making.

d) Focus groups based on virtual discussion, such as online focus groups and the use of electronic or technological devices such as video-conferencing.

Morgan (1997) contended, to give qualitative researchers a strong understanding of the social context within which the phenomenon under investigation exists, a broader approach involving focus groups is vital. Based on the results of the semi-structured interviews, focus group discussion questions were generated, targeting a much wider set of stakeholder participants. The participants involved in the focus group discussion included four managers from the commercial banks, one member of staff from the NDIC, two from accounting and auditing firms, and one from the CBN. The two remaining participants were depositors, who were included to represent the interests of the general public. The richness of the data obtained from the focus group dialogues provided an opportunity to clarify the data gathered from the semi-structured interviews, which eventually contributed to the categories that emerged.

6.3.3 Documentary Materials

Although the primary sources of data were the interviews and focus group discussions, documentary data (both the reviewed literature and other sources) were also used to identify essential themes. At the fieldwork stage, the initial documents looked into consisted of the relevant theoretical literature on corporate governance practices in the banking sectors around the world, and specifically in Nigeria. These formed what Dey (1993) called ‘accumulated knowledge’ (p.66), and provided what has been termed literature sensitivity (Strauss and Corbin, 1998). The documents relating to corporate governance practice in Nigerian banks included the following:

a) The Code of Corporate Governance for Banks, introduced in 2006.
b) The Code of Corporate Governance Report for Financial Institutions (SEC, 2003).
c) NDIC reports (2008, 2010).
d) CBN reports (2008, 2012).
e) Documentary press release on corporate governance practice from the CBN and NDIC.

f) Reports on bank monitoring and standards, produced by international agencies (Basel, Corruption Index, and ROSC), and specifically related to Nigeria.
g) Audited annual reports for five sample banks (2007 to 2012).

Glaser and Strauss (2009, p.69) advised that researchers should 'use any material bearing on his/her area he can discover', and documentary materials in particular can help to stimulate the researcher's theoretical sensitivity (Strauss, 1987; Strauss and Corbin, 1998). In this research, there were two main reasons for examining documentary materials that were either collected from the banks directly or through their websites. The first was to comprehend the ways in which the actors were influenced by or had influenced the information contained in the documents. The second was to understand the nature of the influence these documents have had on corporate governance practice. It has been argued that the use of documents increases the comprehensiveness and validity of any investigation (Patton, 2002). As Atkinson and Coffey (2011) and Prior (2011) claimed, documentary texts speak in the absence of speakers and, more importantly, remain uniform across separate and diverse local settings.

Furthermore, documents are seen as formal means of communication that demonstrate the competence, and often the expertise, of their producers (Miller and Alvarado, 2005), offering the social facts of the organisation rather than representations of social reality (Atkinson and Coffey, 2011). In this research, the selection of documents to use was guided by the theoretical review of the literature. Overall, the combination of semi-structured interviews and focus groups, further complemented by the relevant documentary materials, gave the researcher a broader understanding of the phenomenon at hand. In fact, this is the advantage provided by the GT approach, which encourages the researcher to consider and employ various data types.

6.4 Data Accessibility and Challenges

Corporate governance responsibilities rest on both the internal operators (board of directors, executive directors and operating managers in various areas) of the commercial banks on the one hand, and the external stakeholders (essentially, the regulators, the CBN and other monitoring agencies, and the shareholders) on the other. In attempting to understand the underlying phenomenon of corporate governance in banks, the researcher had to recognise the nature of banks and the likely reluctance of bank officials to participate in a research project. To overcome these challenges, the researcher began the formal contact process through an introductory letter from his university[25] to the managing directors of all the commercial banks and the governor of the CBN, requesting an interview on the subject under investigation. In addition, to build confidence between the researcher and the participating banks and regulators, attached to the university letter were ten statement questions[26] intended to demonstrate to the participants what would be the nature and scope of the interview questions. This initial questionnaire was intended to sensitise the targeted participants to the research area, and was also a way of gaining access for the interviews.

While some banks responded by expressing their willingness to participate and proposing a date for an interview, other banks did not, and the researcher therefore had to follow them up during the initial phase of conducting interviews in Lagos[27]. Furthermore, even for those banks that had agreed to participate, it was difficult to pin down some of the staff

[25] See Appendix C.

[26] See Appendix B.

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[27] Lagos is the commercial center of Nigeria and the location of the corporate headquarters of 23 of the commercial banks used in this research. Only the CBN and Unity Bank have their corporate headquarters in Abuja, the federal capital of Nigeria.

nominated by the CEOs to take part in the face-to-face interviews. These persons included senior managers, company secretaries and chief compliance officers. In fact, bureaucracy and security checks made gaining access cumbersome. Envisaging similar experiences during the focus group, the researcher employed an independent approach, which entailed making contact with already-identified bank employees directly, rather than formally involving the managerial levels of the banks[28]. In spite of using this mode of approach, it was still difficult initially to convince the bank officials to attend the focus group meeting without seeking clearance from their CEO or regional headquarters.

However, through the network connections of the researcher, and with some help from other stakeholders, some of their fears were overcome and a few agreed to attend, on the condition that confidentiality was assured. The focus group session was scheduled to take place in Abuja as the Federal Capital City and which the researcher is more familiar with than the busy commercial centre of Lagos. Overall, two banks declined to participate in the interviews, while out of the ten people invited to take part in the focus group, only seven attended the 90-minute-long discussion. These difficulties may have affected the scope of the data and its final construction. Indeed, some of these difficulties experienced in this research may account for the lack of desire among researchers to undertake qualitative research on corporate governance issues, particularly in the banking sector in Nigeria. However, the combination of data sources used may have compensated for these shortcomings. The rich data collected from the interviews and the focus group formed the basis upon which the corporate governance theory for banks was eventually developed.

[28] No formal letter was sent in the case of the focus group.

6.5 The Substantive Theory

The aim of using GT in this research was to develop a substantive theory, inductively derived from the data collected, in this case through interviews, a focus group and documentary materials. As Glaser and Strauss explained, ‘a substantive theory generated from data must be formulated, in order to see which of the diverse formal theories are, perhaps, applicable for furthering additional substantive formulations’ (Glaser and Strauss, 2009, p.34). Strauss and Corbin (1990, p.174) advised that ‘the theory must evolve from the study of a phenomenon located in one particular situational context’. A substantive theory therefore requires that four essential criteria are met: fit, comprehension, generality and control (Strauss and Corbin, 1998). Firstly, fit entails the relevance of the theory to the substantive data and the validity of the theory. Secondly, the fit should be comprehensible, that is, understood by all involved in the area of study. Thirdly, the data should be comprehensive and interpretations conceptually wide. Finally, it should be made clear when certain conditions apply to specific situations and phenomena.

These criteria should not, however, be read as hard and fast evaluation rules but should serve as guidelines (Strauss and Corbin, 1998). What is important is that a substantive theory should be constructed based on the emergence of the central explanatory category of the phenomenon, as generated from the data. Although this thesis is concerned with developing a substantive theory of corporate governance, such findings can also be linked to a formal theory to give the theory more explanatory power across a range of situations (Goulding, 2002). Indeed, a substantive theory can be developed properly into a formal theory. This can be done by studying other situations, rather than by generalising the findings about the particular situation studied to other situations (Glaser and Strauss, 1967;

Strauss and Corbin, 1990). Moreover, theories are never complete but are processes in themselves (Howell, 1998).

6.6 Conclusion

This chapter has outlined the theoretical sampling and site selection used for the data collection in this research project. It has also discussed the three main data collection methods used – semi-structured interviews, a focus group and secondary sources in the form of relevant documentary materials – and how the researcher gained access to the data and the challenges encountered in the process. The collection of data forms the basis for the development of a substantive theory, as was highlighted in the previous section. It should be noted that the data collection and analysis were carried out simultaneously; the next chapter deals with aspects of the data analysis in detail.

PART III: Data Analysis and Theory Development

Chapter 7. Data Analysis for Semi-Structured Interviews I and II and Focus Group – Open Coding

7.1 Introduction

This chapter commences part 3 of the thesis, which deals with the data analysis. The main aim of this chapter is to present the open coding based on the data collected from the two sets of semi-structured interviews (I and II), and the focus group discussion. These data sources are critical to the investigation of corporate governance practice in banks. Consistent with Strauss and Corbin's (1990, 1998) GT procedure, the collected data were processed using constant comparison. This process helped the researcher to identify whether the data supported and continued to support emerging categories. At the same time, it helped the researcher to build and substantiate the emerging categories by defining their properties and dimensions. The resulting concepts that emerged from both sets of interviews and the focus group discussion were then compared and grouped with similar phenomena in order to identify open codes that fitted the data or were 'conceptually similar in meaning' (Corbin and Strauss, 1990, p.9). Concepts here refer to 'words that stand for groups or classes of objects, events, and actions that share some major common properties' (Corbin and Strauss, 2008, p.45). Properties, although they can vary in terms of their dimensions, are the 'characteristics or components of an object, event, or action that give specificity to and define an object, event, and/or action' (ibid p.46).

Through this analytic process, we arrived at eight open categories with various properties and dimensions. A dimension here refers to the 'variations within properties that give specificity and range to concepts' (Corbin and Strauss, 2008, p.159). The authors also referred to categories as 'higher-level concepts under which analysts group lower-level concepts according to shared properties' (ibid, p.159). In fact, they represent relevant phenomena and enable the researcher to reduce and combine data. As an interpretive process, in open coding, 'data are broken down, examined, compared, conceptualised, and categorised analytically' (Strauss and Corbin, 1990, p.61). The meanings of documents and reports are also discovered during the open coding analysis (Parker and Roffey, 1997). In other words, the process of breaking data down into concepts using constant comparison procedures helps the researcher to think about and interpret phenomena that emerge in the data (Charmaz, 2006). It also helps the researcher to identify open codes[29] from interview transcripts or reflective notes. This chapter commences with a description of the interview processes and questions, and this is followed by the analysis and open coding of the semi-structured interview sets I and II. Then, the focus group process is explained and the eight open codes developed from the interviews and focus group data are presented. Finally, the chapter reflects on the analysis of the interviews and focus group and the categories that emerged from it, which form the basis for the axial and selective coding analyses.

7.2 Semi-Structured Interview Process and Questions

The semi-structured interviews were conducted with interviewees nominated by the chief executive officers (CEOs) of the participating banks. Consent to participate was given by the CEOs of the banks, which allowed for a flexible interview schedule to be drawn up and followed over two phases. The first phase involved those banks that had responded before the interviews began[30]. Seven of the targeted banks did not respond initially, but

[29] Open codes are names or labels given to events, activities, functions, relationships, contexts, influences and outcomes (Strauss and Corbin, 1998).

[30] The interview schedule grouped the appointment dates for the participating banks in Lagos based on location (Victoria Island, Marina and Broad Street). The only two banks located in Abuja (Unity Bank and the CBN) followed a different schedule.

eventually five of them did agree to participate after a personal follow-up. Thus, the second phase included these five, so that only two of the initial sample of banks did not participate in the end. In all interviews, the interviewees were asked if they consented to the proceedings being audio-taped; 20 out of 23 agreed. Audio-taping the interviews were helpful in ensuring that nothing was omitted from the interviewees' narratives during the analysis. As mentioned above, two series of interviews were conducted; interview series I (divided into two phases, as just explained) covered the 22 commercial banks, whilst interview series II involved participants from the CBN and other sources. The data collection and analysis from interview series I helped to inform the questions used for interview series II, and both of these guided the questions presented during the focus group discussion stage. Figure 7.1 illustrates the flow of the stages of data collection and analysis.

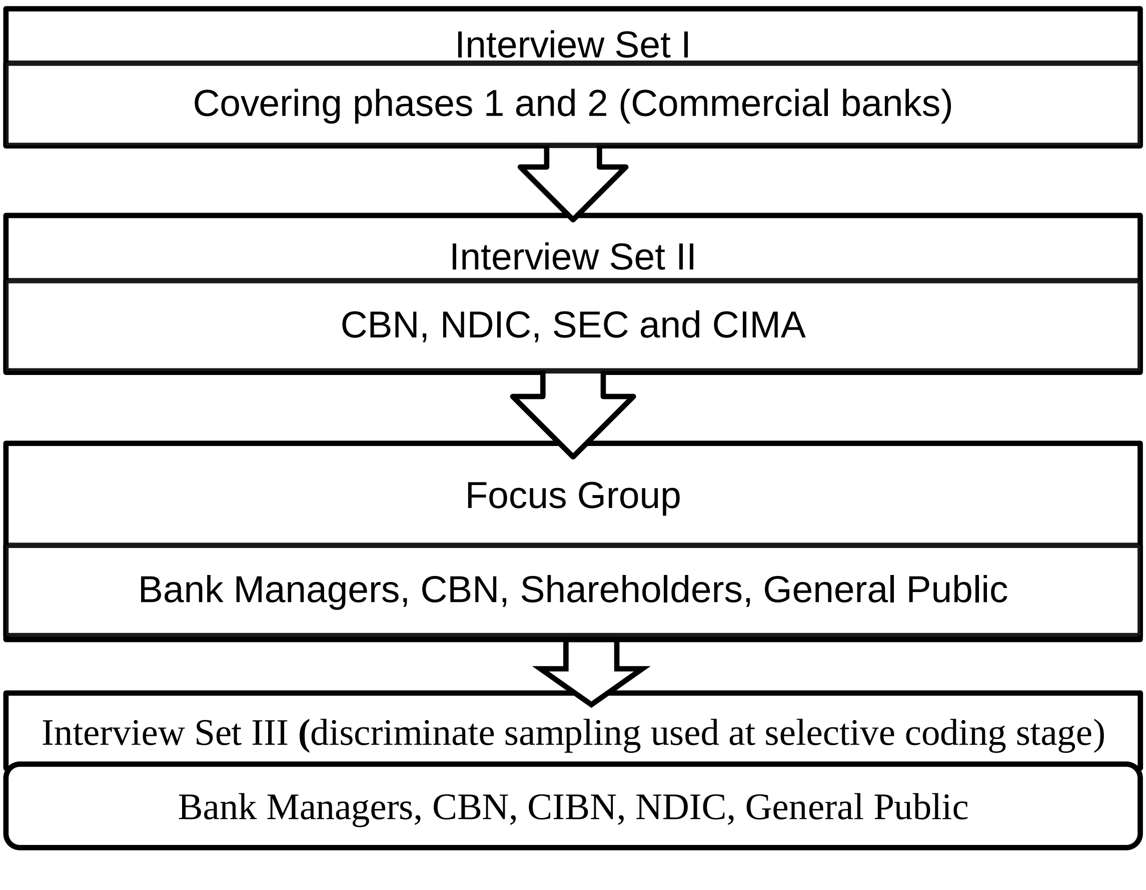

Figure 7-1 Stages of Data Collection and Analysis

In the two series of interviews (I and II)[31], key officials involved with corporate governance policy, from the commercial banks and the CBN, were interviewed. They were nominated by their respective CEOs on the basis of their experience. Indeed, they were all seasoned professionals in their fields and provided an enormous amount of rich data for the research. In the course of interview set I, the necessity of interviewing participants from other sources emerged. The other sources used were the NDIC, the SEC and the CIBN[32]. These sources were approached and interviewed informally. A summary of the number of participants of each type and their divisions/departments, in interview series I and II, is shown in Table 7.1 below.

[31] Interview series III was treated in selective coding stage (Chapter 8) during data verification and validation process.

[32] The NDIC is an autonomous regulatory body, independent of the CBN and equipped with statutory power to inspect banks. The SEC is primarily responsible for regulating the Nigerian capital market and also registering and regulating the securities of public quoted companies, including banks (SEC, 2003). The CIBN is a statutory body responsible for determining the standard of knowledge and skills to be obtained by persons seeking to become members of the banking profession. The body is also responsible for ensuring the furtherance, maintenance and observance of ethical standards and professionalism among practitioners of the banking profession in Nigeria (CIBN Act, 2007).

Table 7-1 Summary of Participants in Semi-Structured Interview Series I and II

SN	Semi-Structured Interviews	No. of Participants/Departments
1	**Interview series I** conducted with 22 participants from the 24 commercial banks.	**3** Top managers from legal departments **4** Company secretaries / legal advisers
		5 Chief compliance officers
		2 Heads of regulatory and compliance divisions
		2 Heads of risk management and strategy
		2 Top managers from human resources department
		3 Chief inspectors of banks
		1 Top manager on policy and strategy in the office of the CEO
2	**Interview series II** with CBN and other sources	**1** A senior financial policy and compliance manager from the CBN and 1 participant each from the NDIC, SEC and CIBN

The semi-structured questions were based on the responses received from the ten statement questions (see Appendix B) initially sent to the banks, which covered the research questions and aimed to explore and understand the nature of the corporate governance phenomenon in the Nigerian banking sector. In GT studies, semi-structured questions offer flexibility and sufficient freedom to enable the participants to tell their stories as they see them (Strauss and Corbin, 1998). Here, the researcher only asks questions when an interviewee has finished his/her narrative, and the questions asked are only about points brought up by the interviewee, on which the researcher needs clarification or elaboration. Asking such questions during interviews enables the researcher to ‘become acquainted with data, develop provisional answers, and probe into issues better’ (Corbin and Strauss, 2008, p.69). These steps ensure that the phenomenon is explored in depth and ‘the questions are ones that lead the researcher to answers that can serve in developing theoretical formulation’ (Strauss and Corbin, 1998, pp.76-7).

Although the outcomes of interview series I with the participants from commercial banks influenced the questions used in interview series II, both were tailored towards discovering as much as possible about the corporate governance phenomenon in banks. In interview series I, all interviewees were asked the same questions, in keeping with the principles of the comparative method and also to obtain a degree of objectivity, which is central to this research. All of the interviews in series I lasted between 40 and 50 minutes, depending on the level of interaction and the amount of detail in the answers given by the interviewees. The semi-structured questions asked during interview series I was as follows:

1) Since the introduction of the Code of Corporate Governance for Banks in 2006, what changes has your board of directors made to improve the governance practice in your organisation? (c*hanges in structure and process of corporate governance)*

2) Are your organisation’s governance practices strongly linked to the expectations of the Code of Corporate Governance for Banks and other regulations? (*fit for purpose, conflict and perception of governance practice and regulatory mechanism*)

3) Has the Code of Governance improved the performance and the role of the audit committee in your organisation? (*audit committee supervision/enforcement and effectiveness)*

4) How do the existing rules and code of best practice affect the disclosure of information or the level of transparency in your organisation? **(***information disclosure and transparency*)

5) Is your organisation's corporate governance practice aimed at meeting business objectives? *(shareholders' and stakeholders' interests)*

6) What, if anything, in your view, influences the attitudes of employees in relation to your organisational governance practice? (*thoughts on leadership and motivational schemes targeting good corporate governance*)

7) How do you think your board of directors affects corporate governance best practice in your organisation? (e*nforcement, compliance, emergence of conflicts of interests, monitoring*)

8) In what areas of the Code of Corporate Governance, or in other rules, would your organisation suggest improvements need to be made? (*adequacy of Code and other regulations, need for review, enforcement and monitoring*)

9) In your view, does the achievement of best corporate governance practice in your organisation reflect what happens at the national level? Is it a shared value across the banks? (*individual and societal effects*)

10) How do you feel about the pressure on the banking industry to improve its corporate governance practice? (*public pressure: why still a problem)*

7.2.1 Analysis of interview series I and open coding

Analysis involves interpretation (Blumer, 1969), and interpretation 'implies a researcher's understanding of the events as related by participants' (Corbin and Strauss, 2008, p.48). Through the analysis process, the researcher examines the data in order to find out 'what it is and how it works' (Corbin and Strauss, 2008, p.46), and the emerging events and incidents that have theoretical significance for the participants are consequently assigned 'conceptual labels' (Corbin and Strauss, 1990, p.7). The concepts derived from the data represent the overall understanding of the participants' 'experiences, spoken words, actions, interactions, problems, and issues expressed' (Corbin and Strauss, 2008, p.51). Emphasising the importance of concepts as the foundation for the construction of analysis and theory, Blumer (1969, p.26) stated,

> 'Concepts play a central role. They are significant elements in the prior scheme ... they are the categories for which data are sought and in which data are grouped; they usually become the chief means for establishing relationships between data; and they are the anchor points in interpretation of findings'.

Strauss and Corbin (1998) added that it is these concepts that are transformed into open categories, which are a more abstract form of classification. The open coding in this research commenced with the transcription and review of the first series of interviews. The audio recording and the interview notes from each interview were transcribed verbatim into a written format immediately after each interview for easier examination and analysis using the line-by-line, sentence-by-sentence approach to uncover meanings, ideas or concepts (Strauss and Corbin, 1998). This was made possible by the time delay between interviews. The process also helped to guide the direction of the next interview, which is an essential part of GT application (Glaser and Strauss, 1967); moreover, the process was undertaken in its entirety rather than selectively (Strauss and Corbin, 1998). This also helped to ensure the validity of the research outcome (ibid.).

Along with thoroughly reading the transcribed interviews line-by-line and sentence-by-sentence, theoretical memos were used in order to increase the theoretical sensitivity of the researcher. In GT, conceptual integration and articulation is enhanced through an extensive and systematic process of memoing during the data analysis process. Memos are 'specialised types of written records of analysis' (Corbin and Strauss, 2008, p.117). They are the theoretical notes about the data and conceptual connections between categories that are written up during the coding and analysis process, as the emergent ideation of substantive and theoretical categories (Strauss and Corbin, 1998), which help the researcher to obtain analytical insights into the data. Patton (2002, p.436) stated that ‘recording and tracking analytical insights that occur during data collection are part of field work and the beginning of qualitative analysis’, adding that ‘repressing analytical insights may mean losing them forever, for there is no guarantee they’ll return’ (p.406).

For this study, several memos were written in order to assist in capturing the conceptual and methodological emergence of the theory[33]. Across the participants and the semi-structured interview questions in interview series I, a series of concepts emerged. The planned interview schedule enabled the researcher to carry emerging issues into the next interview while keeping to the initial schedule. During the open coding for interview series I, the incidents that emerged were compared to other incidents in order to discover or develop a code. This was achieved by identifying actions in each segment of the data and coding them using simple, short and active words that best described them (Charmaz, 2006). For example, participants’ responses to Question 1 resulted in the following concepts and categories:

QUESTION 1: Since the introduction of the Code of Corporate Governance for Banks in 2006, what changes has your board of directors made to improve the governance practice in your organisation?

Participant response:

> ‘Well, our board has responded positively to the introduced Code of Corporate Governance by directing all departments to *comply* with its guidelines, which has been *compulsory* for all banks. So far we have *improved* in our operations, in areas like *risk management, restructuring of the board* to include *independent directors. The tenure of the CEO* has also been affected in line with the provisions of the Code. We also have more staff *training programmes* compared to what it used to be and these have tremendously *improved* their *IT skills*, and many areas of our operations’.

[33] Appendix D provides a sample of the conceptual memos.

The incidents identified here are *compliance, compulsory, improvement, risk management, the board structure, skills and training***.** These were then compared to the responses of other interviewees to Question 1 and those found to relate to a common theme were collected together to give a higher commonality, called a concept. The concepts were further grouped into categories. Finally, for Question 1, the categories that emerged were *capacity development, board structure, improvements, internal control and accountability*. The derivation of the *capacity development* category is illustrated in Table 7.2 below:

Table 7-2 Examples of concepts derived from the labelled codes within the capacity development category

Labelled codes	Concepts
Evaluation of the board of directors, staff assessment, job target policy, expert opinion, experienced personnel, job rotation	Personnel assessment
Induction courses, improving networking to reduce costs and time, ICT skills, training programme, introducing job-knowledge policy to reduce training costs, professionalism at all levels, improving communication	Training

a) Personnel assessment: the bank's ability to continuously evaluate board members and staff who help to improve corporate performance.

b) Training: the bank's ability to provide a policy on human capacity building aimed at understanding the current challenges in achieving best corporate practice.

The development of categories followed an iterative and integrative process between data collection and analysis at every stage of the interview process. Through the analysis, the researcher discovered that some concepts appeared repeatedly in response to more than one question. In addition, the concepts and categories developed from the initial analysis of the first phase of interviews were then applied in iteration to see if they fitted (Glaser and Strauss, 1967; Strauss and Corbin, 1998). At the end of the analysis process for interview series I, 35 different categories had emerged with 108 properties and dimensions.

7.2.2 Semi-structured interview series II – Questions, analysis and open coding

This series of interviews was conducted with a participant from the CBN, and participants from the three new data sources that had emerged (the NDIC, SEC and CIBN). The interview with the CBN participant lasted for about 50 minutes, while an average of 40 minutes was spent with the others. With the CBN the sole regulatory body for banks and the provider of the Code of Corporate Governance for Banks, the timing of the interview with its representative, after the completion of the first series of interviews (with the commercial banks), enriched the entire research process. The semi-structured questions prepared for interview series II were as follows:

1. To what extent has the Code of Corporate Governance for Banks introduced in 2006 improved the corporate governance practices of banks? (*adequacy of the code of governance)*
2. To what extent does the board affect the corporate governance of a bank? *(board leadership and influence in corporate governance)*
3. What impact does the banking culture have on corporate governance for banks? *(effects of banks' culture on good governance)*

4. How do the Code of Corporate Governance and other existing rules impact on information disclosure and transparency? *(disclosure and transparency)*
5. Are banks' corporate governance practices aimed at meeting their business objectives?
6. What, in your view, influences the attitudes of employees regarding organisational governance practices?
7. How would you assess the corporate governance performance of the banks with respect to compliance and internal control? *(effectiveness of internal controls and cooperation)*
8. To what extent has the Code of Governance conflicted with the objectives of the banks or their management's strategic interests? *(shareholder and stakeholder interests)*
9. Given what has been achieved so far, in what areas of the Code of Corporate Governance or other rules would you suggest improvements need to be made? *(reviewing the Code of Corporate Governance)*
10. What are the challenges facing the realisation of best corporate governance practice in banks? To what extent do you think the banks can meet the expectations of the Code and other rules? *(measures to sufficiently restore public confidence)*

In terms of the analysis of interview series II and the open coding, the process was the same as for interview series I, but in terms of the interviews themselves, a different style of questioning was used[34]. Interview series II followed a more interactive approach, and the researcher went into greater depth about corporate governance practice in banks, and sometimes extended the discussion as far as the wider financial industry. Whilst the data were effectively being analysed and collected at the same time, it was the subsequent reflection, and the decision to fully transcribe the audio-tapes and analyse the data in a more systematic and rigorous way, that produced significant improvements and led to a better understanding of the theoretical meanings. The concepts that emerged from the

[34] After the completion of the data collection and analysis for interview series I, the style of questioning adopted for interview series II was aimed at finding out about the shortcomings exposed in interview series I, from participants who were best-placed to know about them, without compromising free-flowing interaction.

interviews with the CBN and the other three organisations were regrouped to find commonalities that were termed higher concepts. Identifying common characteristics that link a new concept to a previously coded concept is a recognised part of the GT process (Strauss and Corbin, 1998). This process effectively answers the logical question of 'what is going on there' (Strauss and Corbin, 1998, p.114) from the participants' perspective. For example, drawing from the analysis of interview series I, Question 4 of interview series II was aimed at understanding the regulatory perspective, and led to the following response and analysis:

QUESTION 4: How do the Code of Corporate Governance and other existing rules impact on information disclosure and transparency in banks?

Responses:

> 'You see, we have a responsibility as regulators to ensure banks properly account for every step of their stewardship and we found this aspect very much lacking in most banks. The first step we took was to introduce a Code of Corporate Governance for Banks. This is also to safeguard the consolidation reform, part of which deals with information disclosure' (CBN Official).

When asked for clarification of the impact of the regulatory mechanism, the participant added,

> 'Yes, 'we also improved the quality of accounting and the auditing of financial and non-financial reporting, which banks have to comply with through their financial statements**.** This standard is expected to meet the international standard and ensure market credibility'**.**

Other participants commented as follows:

> 'I believe even the general public can attest to the fact that some banks have been deceiving everyone for a fairly long time, particularly over their financial performance through public financial statements'.

> 'Of course, you know such financial reports were tailored just to protect the self-interests of a few bank executives'.

In answer to Question 4 alone, the concepts that eventually emerged included accountability, deceit, market credibility, internal control, disclosure, the general public, and self-interest. These concepts were compared with other concepts that emerged from the remaining questions. Utilising the constant comparison procedure to deal with the data generated during this interview series resulted in the emergence of 18 different categories with 67 properties and dimensions. It must be noted that some of the concepts generated from one question were repeated in answer to other questions by different participants.

7.3 Focus Group Analysis and the Development of Open Codes

The focus group session took place three days after the completion of the data collection and analysis for interview series I and II. Participants were drawn from the local branches of commercial banks, the CBN, shareholders and those identified as representing the general public. All were based in Abuja, the federal capital of Nigeria, and were included on the basis of their experience of corporate governance practice in the banking sector. Those selected from the banks were homogeneous in terms of their positions within their banks, while the non-banking participants all had an interest in bank corporate governance issues. This helped the free flow of ideas and openness in the issues discussed (Krueger, 1994). The questions put to the group were similar to the interview questions and were principally influenced by the issues raised during interview series I and II.

The discussion commenced with a reiteration that anonymity and confidentiality was assured to the participants, followed by a brief mention of the purpose of the research. The questions were short and specific and covered the following: why banks continue to fail despite the Code of Corporate Governance introduced by the CBN; measures taken by banks to improve corporate governance practice; the performance of board audit committees; the quality of disclosure of financial and non-financial information; the extent to which boards affect corporate governance practice; how public and investor confidence could be improved through good governance mechanisms for banks. Significantly, the focus group took place at a time when some of the banks were in the process of being acquired, while others were entering into partnerships with other banks. This added a further concern and enriched the discussions and arguments greatly.

Contributing to the discussion on how the Corporate Governance Code and other regulations affect the banks, one participant stated, ‘the provisions of the Code are *insufficient* to cover *the problems* that occur in banks, particularly now, and it is this *inadequacy* that the banks continue to *exploit*’. The overall view of the participants was that there should be a regulatory review. Another participant commented, ‘what is needed now is a reflection on whether the Code has worked well since its introduction and more importantly the *challenges* that have emerged recently in the banking industry’. Speaking specifically with regard to his bank, on the topic of compliance with the provisions of the Code of Corporate Governance, another participant stated,

> ‘For me, compliance with the code rests on the will of the board, its committees and the executive management. This is because they possess the power to enforce, demand quality information from the management and discipline erring employees. We all know how banks operate. No staff will be spared if found to be negligent, let alone to be involved in manipulating records or refusing to do their jobs. The problem lies with the board and those given the responsibility to supervise the implementation of corporate governance’ (Bank Official, Focus Group).

Another participant added, ‘I also know of the structural changes made within our bank to improve control and abuses and am also aware that the training of staff has been on-going in all departments. We are not having problems in the bank now compared to what we experienced before the reform in 2005’. Also, in response to a question on the collapse of the banks and some of the issues facing banks now, one participant argued,

> 'Well, we know everyone is concerned about it. Um, the board members in some banks were actually central to many of the failures and as such have to take responsibility for this. But I don't think we can solve problems in banks as fast as people want it to happen. Some of these problems also exist in many corporations and I believe this also influences the way bank officials handle them. Take the example of corruption, where the management and board members give themselves loans or give their friends loans, and also their involvement with how bank shares have been processed and traded in recent times' (Bank Official, Focus Group).

On this issue, some participants admitted that the behaviours of some bank officials, even since the introduction of the Code in 2006, have caused great concern to the public, and this shows that something is fundamentally wrong, not only with the regulations and the Code of Corporate Governance, but also with the supervision and enforcement of the provisions. Another participant added that the boards and executive management of the affected banks were to blame. There was also the general belief that the collapse of bank share values in 2009 was due to ineffective governance in the entire financial sector, including banks. On the question of the disclosure of information and audit committee performance, a participant from the regulatory body explained,

> 'Structural changes and processes have been introduced through the banks' Prudential Guidelines of 2011 to ensure the standardisation and quality of financial reporting. The guidelines also emphasised that board members would be held accountable for any corporate failure and were therefore expected to enforce the provisions of the Code at all levels while continuing to observe events through their monitoring mechanisms'.

Another point of discussion centred on patterns of bank behaviour in recent times. Some participants claimed that a lot of the problems were related to insider abuse, false financial information and the problem of accountability. The researcher asked whether such behaviours were unique to banks and, if so, how they could be addressed. The participants agreed that 'a lack of transparency and commitment to a good course of action is an issue in all organisations, whether financial or non-financial'. As such, it has become a norm and part of individual or group behaviour. When the participants were asked what they considered was the best way to improve governance practices in banks, individual speakers expressed their views on the duties and responsibilities of banks' boards of directors under various rules and the Code of Governance. One participant stated, 'there has been very little improvement in my bank and that's why we are having problems now'.

Another participant was of the view that 'with what has been happening in banks since the consolidation, it shows that banks need more than regulation because, less than eight years after the consolidation and the introduction of the Code, there are still problems in the banking sector'. The participants admitted that there are some problems with certain provisions of the Code and the other rules that existed before it. Although some participants believed that efforts were being made at the bank level and by the regulators to improve governance practices, the main views expressed by the focus group regarding the achievement of good governance concerned the need to address human factors at the board and management levels, and the need for monitoring by regulatory agencies. Moreover, while corresponding blame was pointed at the management of commercial banks and the regulatory authority, the balanced consensus expressed by the focus group was that good corporate governance is concerned with three critical elements: transparency, leadership and a show of positive, responsible behaviour. Analysing the various responses in the focus group discussion, the open codes that emerged from the concepts expressed by the participants were *leadership issues, human behaviour, transparency, board structure, compliance, regulatory review, a lack of accountability, commitment, improvement,* and *public pressure and monitoring*.

7.4 Open Categories Developed from the Interviews and the Focus Group

In conducting the open coding, the data collected and analysed through the two series of semi-structured interviews and the focus group session were fundamental. A constant comparison of meanings and interpretations was conducted until the final abstraction was reached, resulting in eight open categories, namely *corporate transformation, code/regulation, self-interest, lack of transparency, improving competence, internal control mechanism, organisational factors,* and *enforcement.* It is important to note that each open category was linked to one or more interview questions and diverse responses to one or more of the focus group questions. The following section explains these open categories in terms of their properties and dimensions.

7.4.1 Corporate transformation

The open category of *corporate transformation* emerged from the following analysis of the responses drawn from the interviews and the focus group:

Interview Questions

Series I QUESTION 1: Since the introduction of the Code of Corporate Governance for Banks in 2006, what changes has your board of directors made to improve the governance practice in your organisation?

Series I QUESTION 3: Has the Code of Governance improved the performance and the role of the audit committee in your organisation?

Series I QUESTION 4: How do the existing rules and code of best practice affect the disclosure of information or the level of transparency in your organisation?

Series II QUESTION 2: To what extent does the board affect the corporate governance of a bank?

Series II QUESTION 4: How does the Code of Corporate Governance and how do other existing rule impact on information disclosure and transparency?

Focus group session
Questions on the Code of Governance and other regulations, and on disclosure and transparency

The above questions generated concepts whose commonalities led to the development of *corporate transformation* as an initial category. The term transformation is based on the responses from the participants when they were reflecting on new measures taken to address identified shortcomings with corporate governance. H. R. Miles (1997) stated that transformation denotes a wide range of actions and opportunities that are required to drive growth and breakthrough results. Its features relate to changes, actions and measures taken to improve performance or generate results. In the context of the banks in Nigeria, transformation reflects how various participants[35] referred to the changes made through the initiatives of either the regulatory authority or individual banks that affect corporate governance practice. The open category of *corporate transformation* was developed based on the conceptual properties of *board structure* and *tenure.* The following quotation is an example of the key responses from the interviews and the focus group:

> 'Yes, our board has been restructured to reflect the requirements of the new code, and this affects all the banks. The tenure of board members has also been reduced. Basically, there have been structural changes in the governance process, including within some departments and standing committees' (Company Secretary).

Confirming this, another participant commented, 'I think, principally, the Code of Governance is intended to address weaknesses identified within the banks, some of which include issues of board tenure, introducing independent directors to devolve the powers of the board and also to re-awaken the board's audit committee to be more proactive'. When asked for further clarification, the participant asserted that the introduction of these measures was intended to reduce abuses and to ensure that the

[35] Various participants mean those involved in interview series I and II and the focus group.

board's power to make decisions was properly used. He added, 'the introduction of new and competent hands is done to ensure that there are sufficient checks and balances in the governance processes'.

In summary, the interviewees and focus group participants agreed that the measures taken to improve banks' governance practice included the following: corporate transformation of the banking sector through the restructuring of boards, including appointments of independent directors and qualified personnel, changes in board composition, and changes in the tenure of board members and CEOs. During the focus group session, one participant argued, 'although there were complaints about some of the personalities appointed as CEOs or independent directors, or about the composition of the boards, there was still the need to ensure that the new boards did not fall into the same trap as their predecessors'. Elaborating further, she explained that 'the special nature of banking operations has, over the years, made many changes unworkable, particularly if a proper relationship is not achieved between the board, the management, and other employees, and more importantly with principal stakeholders (shareholders and regulators)'. In support of this view, another participant suggested, 'changes in the banks are welcome, given recent events, but such changes or actions will need the full cooperation of all players to ensure their success'. The conceptual properties of *board structure* and *tenure,* through which the *corporate transformation* open category emerged, are discussed below:

I. Board structure

Board structure refers to the 'size and composition of a corporate board of directors, whose main functions are to hire, compensate, advise, monitor, discipline and, if necessary, fire top management, all with an eye toward maximising shareholder value' (Denis and McConnell, 2003, p.2). Board structure is also considered a significant feature of corporate governance, through which the internal control of corporations is, achieved (OECD, 1999). Indeed, Radenkovic-Jocic (2006, p.156) took the view that 'the size and structure of the board influences best practice'. As the main property of the *corporate transformation* category, *board structure* was observed to be a key factor in the changes made so far, due to the continual mistakes and oversights that have been made by boards of directors in the past in their control and monitoring roles. Several interviewees and focus group discussants agreed that these changes were necessary, particularly the inclusion of non-executive directors (NEDs)[36] on boards. Mallin (2007) argued that, 'non-executive directors are a mainstay of good governance in terms of control of influence and in ensuring effective monitoring' (p.132). This further supports the conclusion of the Cadbury Committee Report (1992, Para. 4.2), which stated, 'NEDs should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement'. This suggests that NEDs are essential, and that failing to include them will affect the realisation of good corporate governance. As one CBN official stated, 'in recent times, the boards of some banks have exhibited tendencies to suggest that banks are their personal estates, thereby taking decisions that are not consistent with the interests and objectives of the banks'. He explained that the provisions of the Code in respect of IDs' and audit committees' functions are therefore timely.

Various arguments were advanced during the focus group discussion on the roles and structure of boards. One participant expressed the view that 'the recent failures of banks

[36] NEDs are interchangeably referred to as independent directors (IDs).

could have been minimised or avoided altogether if their boards had been effective'. Indeed, this was evident from the revelations in the aftermath of these failures about corrupt CEOs and the huge amounts lost due to the fraudulent granting of loans. One participant remarked,

> 'Lack of accountability on the part of the board was the problem, and it is hoped that making the boards accountable and responsible will awaken them to their roles' (Bank Official).

To address the lack of accountability of the boards, it is deemed necessary to devolve their powers by restructuring their committees. Another bank representative commented,

> 'Everyone knows the main reason for introducing more committees, such as the risk management, audit and credit committees of the banks, is to limit the influence of the board on the decisions to be discussed or taken' (Head of Risk Management).

This suggests that the Code of Governance was partly introduced to devolve board powers that are seen as inimical to good governance practice. According to the CBN (2006), there should be at least four board committees and the board chairman should not be a member of any of them or those of any of the bank's subsidiaries. Previous research too has argued that forming committees with specialised roles will enhance a board's performance in terms of productivity and monitoring (Klein, 1998). However, another interviewee observed,

> 'The issue of independent directors has not been well articulated. The concept presupposes that an independent director is to be someone who has no stake or interest in the bank, but there is concern as to who appoints the independent director. Is it the shareholders, the management or the regulator?' (Company Secretary).

While these measures were intended to create boards with 'a balance of power and authority so that no individual or coalition of individuals has unfettered powers of decision making' (CBN, 2006, Sec. 4.8), some issues that have arisen regarding the application of the Code of Corporate Governance are yet to be sorted out.

II. Tenure

Tenure refers to the 'length of time workers have been in their current job or their current employment' (OECD, 2001, p.93). The tenure of the board members, including the CEO, plays a crucial role in good corporate governance. Canavan et al. (2004) argued that long tenure results in a lack of new insights and solutions to the company's issues. Liu and Sun (2010, p.179) added that this is 'likely to be ineffective'. On this topic, the Code of Corporate Governance (CBN, 2006, Sec. 5.3.10) stated,

> 'Non-executive directors should not remain on the board of a bank continuously for more than 3 terms of 4 years, i.e. 12 years'.

One of the participants confirmed that the reconstitution of boards had forced out directors whose tenure exceeded 12 years and auditors whose tenure exceeded 10 years. He added, 'we believe the time limit put on board members is a good development since some who had served for a long time were part of the problem for the banks'. Another participant argued, 'injecting personnel with new blood at the decision-making level may help improve our governance practice'. However, others expressed contrasting views about limiting tenure. For instance, one stated,

> 'To me, I can't understand the wisdom in wasting human talent that could be competent and hardworking just in the name of making changes, particularly those who have been in the industry for a long time. The banks will now start wasting funds and time training the new executives just in the name of change' (Bank Official).

But, one of the participants in the focus group argued,

> 'The step taken by the CBN through the Code of Corporate Governance is the best option given the consistent banking failures. These so-called good directors referred to have been there and were part of the many decisions that caused the bank failures' (Focus Group Participant).

Overall, the consensus among the participants on the changes relating to tenure was that they had resolved some of the complaints concerning “sit-tight directors”. At the least, they had removed the erroneous belief that some directors were untouchable. Moreover, the process was aimed at introducing new blood into boards, moving towards new thinking, and encouraging vibrant corporate governance for banks.

7.4.2 Enforcement

Another category that emerged from the analysis of the responses to the questions listed in Section 7.4.1 above was *enforcement*. Enforcement is concerned with the ability to compel observance of or compliance with a law, rule or obligation (Baldwin and Black, 2007). This involves ‘detecting undesirable or non-compliant behaviours, developing tools and strategies for responding to that behaviour, ensuring compliance with those tools and strategies, assessing their success or failure and, modifying them accordingly’ (ibid., p.25). In this thesis, it is the ability of the banks and the CBN and its agencies to enforce compliance with the provisions of the Code of Corporate Governance and other relevant regulations. The overall consensus of the interviewees and focus group participants was that enforcement of the Code of Corporate Governance was essential to ensuring best corporate governance practice in the banking system. Some participants expressed the idea that what is required is a working relationship based on mutual trust among the players in the governance process. One participant stated,

> ‘There are no doubt laws, and the Code of Corporate Governance plays a vital role in promoting corporate governance practice in banks, but its enforcement has been the problem and it is the result of that we are seeing happening in banks today’ (Focus Group Participant).

An interviewee from the CBN admitted the difficulties of enforcing the provisions of the Code. According to him, problems were still noticeable in many areas of banking. As he argued, ‘efforts are being made through different strategies to enforce compliance with the provisions of the Code and other regulations to ensure the stability of the banks and also restore public confidence in the sector’. The category of *enforcement* emerged from the properties of *compliance*, *monitoring* and *trust*, as discussed below:

I. Compliance

Compliance refers to ‘taking needed actions to conform to relevant laws, regulations or policies’ (Hurley and Becca, 2007, p.8). Here, conformity implies obedience with laws, regulations, Code of Corporate Governance provisions and prudential statements that form the framework for achieving best practice (BCBS, 2012). The participants agreed that corporations can achieve good corporate governance when they effectively comply with the provisions of the corporate framework. Conversely, any organisation that ignores or fails to comply with this framework will see the quality of its corporate governance practice affected. With respect to the Code of Corporate Governance for Banks, the CBN (2006, Sec. 1.7) stated, ‘compliance with the provisions of this code is mandatory’. A chief compliance officer made the following comment:

> ‘We have responded to CBN guidelines through many measures, particularly with board membership and tenure and ensuring the existence of other committees. There are several new faces now on our board. Everyone is now careful about how he/she does things and I think we are on course to complying with the provisions and other policy directives sufficiently.’

Another executive manager commented, ‘steps are being taken to ensure compliance with the provisions of the Code of Governance’. Clarifying this, she added,

> ‘Presently the only thing we are yet to comply with fully is on the percentage of public sector holdings, and we are working hard toward achieving our compliance target. For disclosure, we have a template with the requirement from the CBN, very explicit, and I am confident that we shall continue doing our best’.

The balanced opinion from the interviews suggests that banks have shown some willingness to comply with the provisions of the Code and other regulations. However, in the focus group session, some participants were of the view that not enough had been achieved as far as compliance with the provisions was concerned. As one participant argued,

> 'If a bank, through the established regulatory compliance unit, has complied with the existing legal framework, including the bank's specific rules, how can there be bank failures as we are seeing today – years after the Code of Corporate Governance came into force? There is something wrong within the system' (Focus Group Participant).

In line with their opinions, the ROSC Report (2011, p.17) confirmed that 'except in the case of a few banks, appropriate accounting and disclosure for financial instruments are rarely found in the financial statements of the corporate entities'. This information on compliance gaps demonstrates that there are still weaknesses in Nigerian banks' corporate financial reporting.

II Lack of monitoring

A *lack of monitoring*, as a property of the *enforcement* category, reflects the participants' concern regarding the failure of various players in the corporate governance process. Monitoring is considered important, and as such the Code of Corporate Governance requires, not only regular management reporting and the implementation of monitoring systems by banks, but also a well-articulated code of conduct for directors, management and staff (CBN, 2006). The participants agreed that a lack of monitoring had caused the widespread abuses in the banks to remain undetected for a very long time. This was reflected in the following comment:

> 'Following the consolidation reform of the banks, everyone knows it is difficult to expect the board of directors to monitor itself or the management it controls, since it was the boards that the CBN accused of exhibiting weaknesses that affected banking performance' (Bank Official).

At the focus group, one participant was of the view that the leadership abuses that led to the collapse of some banks in 2009 and 2010 resulted, not only from the inability of the boards to monitor their banks' activities, but also from the failure of the regulatory authority to take any responsibility for monitoring the boards. He remarked,

> 'What we often hear is when a bank collapses. We also know that the board, the CBN, and the NDIC are all responsible for monitoring banks but what we again do not know is whether there is effective structure and process through which monitoring can be coordinated and abuses detected early enough' (Focus Group Participant).

Although blame was placed on each other by the regulatory authority and the banks regarding the monitoring of banks, the consensus among the focus group participants and the interviewees was that, in spite of the banking reforms implemented by the CBN in 2006 and the subsequent changes in the banks, the monitoring of the banks had not been effective.

III Trust

Trust is the 'willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party' (Mayer et al., 1995, p.712). In other words, it is 'concerned with the willingness of one person or group to relate to another in the belief that the other's actions will be beneficial rather than detrimental, even though this cannot be guaranteed' (Child, 2001, p.275). This, Child explained, is vital for any relationship, business or otherwise. For instance, one official observed that most of the changes favoured outsiders who were not part of internal management, and as such there was an attitude of *let's wait and see* whether the newly appointed would bring a different agenda that might affect the existing relationships and cooperation among the ranks in the banks.

One interviewee argued,

> 'The nature of banking operations is different to non-banking operations, and any changes in the structure that compromise ensuring good relationships and cooperation between all players in the governance process, including the regulators and the shareholders, may likely create more problems than it can solve' (Bank Official).

Another participant observed that 'much would be achieved in the banking sector if there were mutual trust between the regulatory body and the banks'. From the viewpoint of the participants, the newly appointed CEOs and other board members would need good relationships based on trust even at the board level, in view of the various decisions they would need to make over time. This further suggests that building trust at all levels is essential.

7.4.3 Code/Regulation

The open category of *code/regulation* emerged from the analysis of responses to the following questions:

Series I QUESTION 2: Are your organisation's governance practices strongly linked to the expectations of the Code of Corporate Governance for Banks and other regulations?

Series II QUESTION 4: How do the Code of Corporate Governance and other existing rules impact on information disclosure and transparency?

Series II QUESTION 8: To what extent has the Code of Governance conflicted with the objectives of the banks or their management's strategic interests?

Series II QUESTION 9: Given what has been achieved so far, in what areas of the Code of Corporate Governance or other rules would you suggest improvements need to be made?

<u>Focus group question</u>: To what extent have the Code of Corporate Governance for Banks and the other regulatory frameworks influenced governance practices in banks?

The open category of *code/regulation* refers to the applicable regulatory frameworks governing banking activities in Nigeria, as issued by the CBN. It relates to the participants' (in the interviews and the focus group) opinions over the adequacy of the provisions of the Code and other regulations in terms of producing good corporate governance. In response to the recent financial crisis, the BCBS (2010, p.7) recommended that regulatory bodies can enhance corporate governance practice in banks by 'establishing rules or codes to guide corporate governance strategies, policies and procedures'. This underscores the reasoning that the 'quality of laws and rules as governance mechanisms affects regulatory outcomes' (Jalilian et al., 2006, p.5), which in turn can be expected to have wider economic consequences (K. Alexander, 2006). In terms of the codes that apply to banks in Nigeria, apart from (1) the inherited English common law, which derives from the colonial past with Britain, (2) statutes enacted by Nigerian legislature, (3) customary law and sharia law, and (4) judicial precedents or case laws, the participants made constant reference to CAMA 1990, the Code of Corporate Governance for Banks in Nigeria 2006, the SEC Code of Corporate Governance 2003 (revised 2009) and other internal and external mechanisms[37] aimed at complementing them. The category of *code/regulation* was made up of two significant properties, *harmonisation* and *review*, as discussed in the following sections.

I. **Harmonisation of regulations**

Harmonisation refers to 'the process of creating equal conditions' (Mock, 2002, p.1). This relates to the coordination and merging of processes, institutions and systems (ibid.). Here, harmonisation of regulation relates to ways of reducing duplication and overlaps in the regulatory frameworks for corporate governance. *Harmonisation* was observed to be the main property of *code/regulation,* with dimensions arising from conflicting policy directives, overlapping regulatory frameworks, and the provisions of the Code versus other

[37] Internal mechanisms refer to routine guidelines issued by the CBN on banking activities and governance, whilst external mechanisms relate to the expectations of international agencies regarding meeting international standards and/or ensuring investor confidence.

regulations. The participants from the banks agreed that regulations are necessary for the safety and soundness of the banks but indicated that different bits of regulations and policy directives gave room for corporate abuse by various actors and also prevented corporate excellence. Hurley and Becca (2007, p.51) explained that ‘a lack of guidance will make companies more risk averse’. One of the interviewees in the current research stated,

> ‘We quite well recognise the importance of regulatory measures introduced for banks at various times and they are necessary in all respects. For instance, the Code of Corporate Governance for Banks introduced by the CBN is intended to complement existing rules such as CAMA (1990), BOFIA (1991) and the SECT Act (2009). In addition to these provisions, we also receive a series of directives from the SEC and the NDIC on corporate governance matters. Due to these uncoordinated governing rules, we are often asked to provide the same information to different regulatory agencies, which indicates their lack of coordination’ (Bank Official).

Clarifying this, the participant said that, while they received directives from the CBN to present certain reports in a particular format, the SEC or NDIC often requested the same information in a different format. There are also areas of difference between the CBN’s Code of Corporate Governance for Banks and the banks’ internal governance guidelines, particularly in the area of risk management. On the topic of conflicting directives, a participant remarked, ‘there has been inconsistency on the directives relating to the issue of locating ATM facilities in non-banking premises or within banking premises. Some banks spent huge amounts moving out of banking premises and into other premises’. These excerpts indicate that the CBN needs to better articulate its policies towards banks and acknowledge the banks’ sensitivity to market competition. Similarly, during the focus group session, a participant observed that banks work under a variety of different regulatory expectations, and this confusion may account for the difficulties experienced in enforcing the governance framework, and realising the intended aim of the Code of Corporate Governance.

She stated,

> 'While the CBN made compliance with the provisions of the Code of Corporate Governance for Banks mandatory, the revised SEC code (2009) indicates that the code is not intended as a rigid set of rules. What are we to do under this situation of compulsion and discretion?' (Bank Representative).

The general view suggests that there are wide differences between the provisions of the CBN (2006) and the revised SEC Act (2009) and also a lack of coordination among the regulatory agencies on certain aspects of the control framework. Bringing them together under one strong institutional mechanism could eliminate the multiple compliance requirements faced by the banks at present. However, the CBN representatives insist that 'banks are expected to follow the provisions of the CBN Code wherever it differs from other rules'. According to the participant from the CBN, the Prudential Guidelines released in 2011 have addressed some of these areas in some ways. Nonetheless, the CBN has recognised the need to provide a mechanism that can guarantee effective policy coordination, particularly in the identified areas of overlap.

II. **Regulatory review**

Regulatory review refers to the difficulties experienced in the enforcement of and compliance with some aspects of the regulatory frameworks. This property emerged from dimensions such as developing policy as opposed to law, insufficient guidelines, providing a robust system, a lack of continuity, and provisions that are unenforceable due to current realities. In fact, the interviewees from various banks indicated that an effective and realisable provision that reflected the current situation was the most essential aspect needed to improve governance practice in banks. A chief compliance officer commented as follows:

> ‘We have seen so far the effects of the new Code of Corporate Governance (CBN, 2006) along with other regulatory frameworks such as the BOFIA (1991), CAMA (1990), and SEC (2003) on banking activities. Although there have been positive effects of these regulations, there is still the need to improve some provisions, particularly in some critical areas of the major regulations, such as the CBN code, CAMA and the SEC’ (Chief Compliance Officer).

Commenting on the CBN code of 2006, another bank executive in charge of compliance and policy added the following:

> ‘We are striving to comply with the requirements of the Code of Governance but everyone knows the Code was developed in a rush and did not envisage today’s challenges. In our case, we are trying to address the identified gaps through regional external control compliance and internal compliance units. But we need to sit with the CBN and sort out some issues. For now, we have informed them of these difficult areas and I believe my colleagues in other banks may experience the same or even more issues’ (Compliance and Financial Policy Manager).

CBN officials too have indicated that the banks need to cooperate with the regulators in order to achieve effective implementation of the regulations and good corporate governance. Similarly, in the focus group session, one participant asked, ‘we talk of regulations and abuse of regulations always. Why can’t all parties meet and discuss the best guidelines to get the banks out of this mess?’ In support of this, another participant commented that, ‘elsewhere, banks are involved in developing policy guidelines, providing inputs and comments’, and asked why Nigeria could not ‘establish a similar process since there is a history that all could learn from’. To summarise, the inconsistencies in the existing regulations, and some difficulties experienced in implementing them in view of the market realities, are some of the fundamental factors affecting governance and justifying a second look at the various frameworks.

7.4.4 Improving competence

The open category *improving competence* emerged from the analysis of the following questions:

Series I QUESTION 1: Since the introduction of the Code of Corporate Governance for Banks in 2006, what changes has your board of directors made to improve the governance practices in your organisation?

Series I QUESTION 6: What, if anything, in your view, influences the attitudes of employees in relation to your organisational governance practice?

Series II QUESTION 7: How would you assess the corporate governance performance of the banks with respect to compliance and internal control?

Focus group: Measures taken by banks to improve corporate governance practice.

Competence is 'the degree of fit between the ability requirements of a certain task and the corresponding abilities possessed' (Brinckmann, 2007, p.20). In other words, it comprises 'the underlying characteristics, such as skills or body of knowledge, an individual possesses and uses which leads to successful performance in a life role or job' (Boyatzis, 1982, pp.21-22). The *competence* category emerged from the participants' explanations of the various steps banks have taken to improve the abilities and knowledge of both the board members and other employees in response to the increasing challenges to banks' competiveness. The participants recognised competence as a necessity for banking organisations. The category can also be explained in terms of a firm's distinctive competence needs, that is, as a reflection of organisational capabilities to coordinate and learn (Dosi and Teece, 1998)[38].

[38] Organisational capability is the ability of an enterprise to organise, manage or govern sets of activities (Dosi and Teece, 1998).

One participant stated,

> 'Banks' employees need training in new skills in view of the new challenges in our competitive market, and also to enhance our strategic position. Moreover, competiveness in the banking sector in terms of product and service requires employees to improve their competence by acquiring new knowledge. The same is also true for board members who are in charge of policy decisions on behalf of banks' (Bank Official).

The consensus of the participants, regarding meeting the challenges of the corporate governance provisions and the market environment, was that the board members and management needed to "brace up" mentally. They also acknowledged that, although there has been an improvement in recent times, achieving competence is still a problem for banks. One participant commented, 'some of the appointed board members and even those selected onto the committees of the boards may not have appropriate qualifications or training in a finance background'. The BCBS (2012, p.15) also requires organisations to ensure 'the availability of competent, independent and experienced professionals'. In the opinions of the participants, *competence* as an open category emerged from the conceptual properties of *training*, *job assessment* and *skills development*, as discussed below.

I. Training

Training is 'associated with the performance of people in their job based on the identified shortfall in their knowledge and or skills to undertake certain roles or tasks' (Anitha and Thenmozhi, 2011, p.785). In the context of this research, it is a planned process used to modify attitude, knowledge through a learning experience so as to achieve effective performance (Osborne, 1996). *Training,* as the main property of *competence,* emerged through dimensions relating to *additional knowledge* and *job orientation*, both of which the participants agreed were vital for good corporate governance. An official from the CBN stated,

> ‘We realise that banks need to have the appropriate knowledge, not only for the market, but for their relationships with other stakeholders. On our part, we have already put in place long and medium-term plans for improving the abilities of our employees to cope with challenges in supervision and enforcement within our statutory responsibility’ (CBN Official).

Some participants emphasised that the nature, structure and processes of corporate governance in banks needed to be properly understood, first by the executive directors, and then down through the management structure. As one participant further explained,

> ‘Board members need a new orientation towards the present challenges. Prior to this reform, it was difficult for some board members to take part in any form of training programme, except conferences, most of which they see as a relaxation forum. I think enhancing the potential of the decision makers is a good means of achieving corporate goals’ (Company Secretary).

This suggests that, through training programmes, details of corporate governance requirements for banks may be taught to the executive management so as to enhance their ability to influence good governance practice. The participants also confirmed that there had been improvements in the training policies of their banks, particularly in relation to corporate governance requirements, compared to in the past. For instance, banks now use both internal and external training programmes for their employees, including the members of various committees. This has also brought about wider interaction among the banks and their representatives.

II. Job assessment

The term assessment refers to ‘evaluation measures of how well learning or experience has been applied to a job or task, or on-job objectives have been achieved, either directly as part of the training, or as a consequence of it’ (Osborne, 1996, p.59). In other words, it is a routine evaluation of the experience, knowledge or skills needed to ensure performance *(*Anitha and Thenmozhi, 2011). As one of the main properties of the *competence* category, *job assessment* was observed through dimensions related to *employees' evaluation and monitoring*, and *work tasks*. As the participants variously highlighted, continuous evaluation of on-the-job tasks helps to improve performance. As one participant pointed out, 'every member of staff has a key performance indicator (KPI) job description through which he is assessed and this is based on the tasks assigned to him or her, and such functions are also reviewed monthly'. KPI is a tool used by organisations to evaluate their success in particular activities. Recognising the importance of job assessment, regarding board performance, the Code of Corporate Governance for Banks (CBN, 2006, Sec. 5.4) provides that 'there should be annual appraisals of board members, independently, and the report shall be presented to shareholders at the AGM and a copy forwarded to the CBN'. Similarly, assessments are made of the performance and objectivity of the internal audit process and of the independent external auditors. These findings demonstrate the role assessment plays in staff competence, both within the supervisory teams and among those expected to comply, and the effect on the quality of governance practices.

III. Skills development

A skill refers to the ability to do something well, 'including both hard skills which are technical in nature and soft skills that are people oriented' (Gallagher, 2010, p.3). The interviewees acknowledged that, in the new era of technology and market volatility, the skill level in a bank influences its capacity to carry out certain tasks, and consequently its competence. This shows that skills development needs to be a core objective of policy intervention, particularly in a complex market economy such as Nigeria, and indeed elsewhere. A risk management manager interviewed said, 'our operations today are technologically driven, and to effectively communicate within the system, we must improve our skills' He added that both the regulators and the banks needed to do more in the area of skills development. According to him, most of the errors that had occurred in the past, at least in some departments, had come from a lack of sufficient skill to monitor what was going on there. More general comments were directed towards the significance of skills development; it was argued that continuous efforts were needed in this regard, in response to the changing working environment.

7.4.5 Internal control mechanism

The *internal control mechanism* emerged as an open category in response to the following questions:

Series I QUESTION 6: What, if anything, in your view, influences the attitudes of employees in relation to your organisational governance practice?

Series I QUESTION 7: How do you think your board of directors affects corporate governance best practice in your organisation?

Series II QUESTION 7: How would you assess the corporate governance performance of the banks with respect to compliance and internal control?

Series II QUESTION 10: What are the challenges facing the realisation of best corporate governance practice in banks? To what extent do you think the banks can meet the expectations of the Code and other rules?

Focus group: Measures taken to improve corporate governance; why banks continue to fail despite the introduction of the code; how to improve public and investor confidence through good governance in banks.

Control relates to the internal, organisational, and external mechanisms employed to help align the diverse interests of management (including directors) and shareholders so as to achieve value maximisation (Walsh and Seward, 1990). Here, internal corporate control reflects the participants' view of tightening loose areas in order to achieve the standards expected of similar banks elsewhere. The participants agreed that the essence of corporate governance is centred on control. As such, it is vital for banks to improve their internal and external control mechanisms. One participant put it as follows:

> 'Banks need control, particularly internal control. Unfortunately, in Nigeria, and from our banking reforms history, the absence of a process of checks and balances on decision-making has been the main cause of the abuses experienced' (Bank Official).

During the focus group, a participant observed that 'the continued failure of banks is a testimony to the lack of control mechanisms to restrain individuals at the board and management levels'. A CBN official agreed and stated, 'weak internal control was one of the identified weaknesses in the banks prior to the reforms in 2004 and the problem is still visible in most banks, despite our efforts and the general expectations'. Indeed, it is the recognition of control in corporate governance that led the Cadbury Committee Report (1992, Para. 1.9) to rightly define corporate governance as 'how companies are directed and controlled'. According to the participants' responses in this research, the initial category of *corporate control mechanism* emerged from the conceptual properties of *whistle blowing* and *risk-taking behaviour*, and these are discussed below.

I. **Whistle blowing**

Whistle blowing refers to 'the disclosure by organisation members of illegal, immoral, or illegitimate practices under the control of their employers, to persons or organisations that may be able to effect action' (Near and Miceli, 1985, p.4). Here, it relates to employees within an organisation reporting wrongdoing for the purposes of detecting and controlling fraud or financial irregularity arising from improper conduct or unethical activities (Bhal and Dadhich, 2011). Both the regulator and the participants from the banks agreed that organisational members' perceptions of wrongdoing and why it has occurred may play an important role in helping to address such events. Indeed, the adoption of a whistle-blowing strategy may help to restrain managers from wrongdoing and protect corporate value (Dasgupta and Kesharwani, 2010). In this case, the mechanism must be aimed at correcting wrongdoing that harms the interests of the organisation itself, and those of other stakeholders. *Whistle blowing* emerged as the main property of the *corporate control* category, as the bank executive managers argued that a failure to know when wrongdoing is occurring, or originating, and who is involved undermines the efforts towards good corporate governance practice. A participant from the CBN stated,

> 'The absence of a mechanism by which employees can raise the alarm has, in the past, provided management and executives with opportunities to abuse their offices unnoticed. In our response to this gap, the current Code of Corporate Governance provides (CBN, 2006, Sec. 6.1.12) that banks shall have a whistle-blowing policy made known to employees and other stakeholders' (Official, CBN).

Another interviewee remarked,

> 'Since the introduction of a whistle-blowing policy and the support given by the new board, there has been calmness in most areas of our bank. Although it is difficult to know whether such reports are being made, it seems that it is operational at least in our bank' (Bank Official).

This topic provoked a mixed reaction during the focus group discussion, when some participants cautioned that putting such a system in place may not be sufficient to encourage staff to report wrongdoing. Their reasons were based, not only on the risk of doing so, but also on the nature of banking operations and the banking culture, which may make it difficult to achieve much through this mechanism, particularly when the wrongdoing is to be detected by an employee. For instance, one participant was of the view that

> 'the whole issue rests on good leadership behaviour and cordial relationships existing among staff. A whistle-blowing system is a voluntary extra-role activity, which may not be realised easily in organisations like banks' (Bank Official).

Although all the banks have now put a whistle-blowing mechanism in place as an additional internal control, questions were raised by the participants regarding how these are operated, and how they would be enforced if the wrongdoing were occurring at the board level or with the understanding of employees (corporate insiders). The overall view, moreover, was that in organisations like banks such policies carry little weight and may not effectively address the central issues of corporate governance.

II. Risk-taking behaviour

Risk taking refers to the tendency to engage in behaviours that pose potential harm or danger, or a greater uncertainty of outcome to an individual or organisation (Kim and Santomero, 1988). *Risk taking* was observed to be one of the main properties of the *internal control mechanism* category, with dimensions relating to *recklessness in the irrational granting of unsecured loans, risk-taking decisions* and *abuse of office*. In both the interviews and the focus group, participants expressed the view that the level of risk exposure of the banks had accounted for the severity of their collapses. They added that responsible risk taking was essential for effective corporate governance in banks. The participant from the CBN agreed with this in principle but remarked,

> 'What banks experienced was irresponsible risk taking by the boards and management, which was the root cause of the bank failures. It is in response to these behaviours that the CBN was compelled to introduce control measures through the Code mechanism, with provisions relating to risk management for the banks' (Official, CBN).

As Owojiri et al. (2011, p.24) explained, this is particularly true in Nigeria, where 'non-payment for loans and advances by directors or managers or companies related to them was a major contributor to several liquidated banks'. In fact, there is evidence that some banks were (and some are still) granting loans even before the application and/or acceptance letter had been received. Corroborating this view, one participant commented,

> ‘The lack of internal control of the level of risk taking is caused by the bank ownership structure. For instance, in banks principally run by family owners, such risk behaviour is common. In them, boards are only there to ratify decisions, most of which are for the sole benefit of the owners’ (Bank Official).

This suggests that risk taking in some banks is influenced by the owners, which impacts on the quality of governance (John et al., 2008). Another participant stated, ‘the problem is all on risk taking issues relating to granting of loans without course for due diligence’. The participant blamed a credit culture that was not properly developed, allowing individuals in positions to exploit situations. n recognising the role of risk taking in corporate governance practice, CBN (2006, Sec. 7) provided that

> ‘all banks are to have a risk management framework, specifying the governance architecture, policy, procedures, processes, and this shall not only reflect the bank’s risk profile but also clearly describe the roles and accountabilities of the board and the board risk management committee’.

The Head of Risk Management of a bank commented,

> ‘To a great extent, the provision on risk management in the Code of Governance for Banks is important but I think the levels of control differ from bank to bank, depending on the bank’s competitive strength and how their management handles the issue’.

However, at the focus group session, the participant from the CBN raised a concern about the adherence to the provision’s requirements and remarked,

> ‘Despite efforts put in place so far, most banks have not changed their behaviour regarding governance practice substantially, particularly in the area of risk taking, from that of the pre-reform era of 2004. To improve some of these areas, the CBN has now further required that the accounting reporting of the banks must reflect only the income earned, and this has been communicated to all banks’.

7.4.6 Lack of transparency

Lack of transparency emerged as an open category from the analysis of responses to the following questions:

Series I QUESTION 4: How do the existing rules and code of best practice affect the disclosure of information or the level of transparency in your organisation?

Series II QUESTION 10: What are the challenges facing the realisation of best corporate governance practice in banks? To what extent do you think the banks can meet the expectations of the Code and other rules?

Focus group questions: quality of disclosure of information; how boards affect corporate governance practice in banks; the audit committee.

Transparency refers to 'the widespread availability of relevant, reliable information about the periodic performance, financial positions, including governance, value, and risk, of publicly traded firms to those outside the firm' (Bushman et al., 2004, p.210). It also means 'the free flow of information and the disclosure of reasons or motives behind decisions' (Sison, 2000, p.189). Indeed, financial and corporate transparency is a 'critical tool in the disclosure of information of a firm and its corporate governance' (Bhat et al., 2006, p.719). In the banking sector, 'it is an essential criterion of corporate governance policies and processes as it facilitates public understanding of the banking system and the exercise of market discipline' (BCBS, 2012, p.63). Similarly, the CBN (2006, Sec. 3.16) provides that 'disclosure and transparency are key attributes of good corporate governance, and provide stakeholders with the necessary information to assess whether their interests are being taken care of'. Within the Nigerian banking sector, transparency is still identified as an unresolved issue. Confirming the lack of transparency in the banking sector in Nigeria, the Governor of the CBN remarked,

> 'Some banks even engaged in manipulating their books by colluding with other banks to artificially enhance their financial positions and therefore stock prices' (Sanusi, 2010b, p.8).

Also, during the focus group discussion a stakeholder admitted,

> 'To be honest, banks have not been transparent in their statutory responsibilities from the top down in recent times but I think the problem has to do with the CBN and the way banks are led or encouraged through various lapses by the regulatory body' (Focus Group Participant).

Lack of transparency, as open category, was observed in terms of its conceptual properties of *lack of accountability* and *quality of auditing*.

I. Lack of accountability

Accountability deals with the obligation to give an account of one's actions to someone else, often balanced by a responsibility on the part of that other person to seek such an account (C. Scott, 2006). It 'entails a relationship whereby people are required by others to explain and take responsibility for their actions…by giving and demanding reasons for conduct' (Roberts and Scapens, 1985, p.447). *Lack of accountability* emerged from dimensions including *false information*, *financial manipulation* and a *lack of accounting*. These dimensions affect the quality of transparency in any organisation, and thus corporate governance practice (Greiling and Halachmi , 2010). Accountability is an essential element of the stakeholder-oriented corporate governance concept, which Solomon (2007, p.14) described as

> 'the system of check and balance, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity'.

The participants in this study variously emphasised the need for improved quality of financial and non-financial information, to give their banks internal and external credibility. It has indeed been recognised that the loss of public confidence in the banks is caused by misleading information in their financial reporting. A CBN official suggested that the boards of directors should be held responsible for banks' lack of accountability, since the CBN has made the board specifically accountable under the provisions of the Code.

However, another participant argued,

> 'It is untenable to achieve 100% accountability in banks, but there has been remarkable improvement with the introduction of a template on financial reporting by the CBN. You know, this can only be achieved over time. People forget that a bank is part and parcel of the economy and its activities depend on so many factors' (Bank Official).

This corroborates the findings of Huang (2006, p.27) that

> 'accounting disclosure by Nigerian banks has been historically poor and the reliability of financial information rendered by some banks in the system has often been questionable, as some banks have been known to falsify returns to the CBN or misrepresent their financial statements to their auditors'.

This further confirms that transparency is generally weak in Nigerian banks. . This also explains why the CPI Report (2012) ranked Nigeria the 135th most corrupt country out of 178 countries. It further indicates that corruption is prevalent in the entire national operating system and, where it exists in an organisation or industry, it will be difficult to eliminate (Damania et al., 2004). This further explains why the banking sector is unable to overcome its corruption, despite the public outcry and measures introduced by the CBN through the Code of Corporate Governance and other regulations.

II. Quality of auditing

Auditing refers to 'a collection of judgements about matters or entities presented in accordance with the applicable frameworks, such as adequate management disclosure to ensure materiality, sufficiency and appropriateness of evidence' (Burns and Fogarty, 2010, p.311). *Quality of auditing* was observed to be a vital property of the *transparency category*, with dimensions relating to *audit checks*, *audit reporting*, *quality of auditing* and *the audit committee*. The participants agreed that high-quality auditing is of critical importance to good corporate governance practice. *Quality of auditing* is about 'complying, not only with audit requirements, but also with ethical requirements to ensure integrity, objectivity, professional competence and due care, confidentiality and professional behaviour' (BCBS, 2008, p.2). In fact, the absence of these qualities indicates a lack of transparency, which has an overall effect on the quality of organisational corporate governance. In the banking sector, high-quality auditing ensures the probity of the information presented, and also enhances market confidence. One participant in this study stated,

> 'From what I know, I think the issue is that we are not honest in our auditing process and there is no way its final product can satisfy the qualities of a good statement or report. I have thought over and over on this issue and along the lines of the process, to try to understand where the problem lies, and my conclusion centres on the honesty of our board and management, including those entrusted with the auditing' (Bank Official).

Some other participants confirmed that there was a lack of high-quality and prudent auditing, needed to detect manipulations of material information. However, there were mixed views on this point. One view was that the auditing behaviour was driven by market competiveness within the sector, and another suggested a deliberate attempt to conceal facts relating to the wrongdoing of individuals within the leadership of banks. Commenting on auditing and the board audit committee, an official from the CBN said,

> 'We are also concerned about the quality of auditing, because in spite of the improvements made to the structure and composition of the audit committee, we realise that technically they can act only on what is presented and explained to them by the management of the banks'.

Another participant added, 'I think the quality of auditing reflects the overall behaviour of the banks towards good governance'. The audit committee is the board's mechanism for enhancing accountability around financial reporting and accounting functions (Brennan and Solomon, 2008). While some structural changes have been made to Nigerian banks, in terms of the professionalism and independence of the board members , they are still underperforming. In conclusion, as the interviewees and focus group participants argued, although there have been improvements in some banks recently, further improvements to the auditing process will be required if it is to act as a watchdog for banks' transparency of financial reporting and accounting.

7.4.7 Self-interest

Self-interest emerged as a category from the analysis of responses to the following questions:

Series I QUESTION 9: In your view, does the achievement of best corporate governance practice in your organisation reflects what happens at the national level? Is it a shared value across the banks?

Series I QUESTION 10: How do you feel about the pressure on the banking industry to improve its corporate governance practice?

Series II QUESTION 3: What impact does the banking culture have on corporate governance for banks?

Focus group: From responses to several questions relating to corporate governance issues in banks.

Self-interest refers to 'an individual's attitudinal position in terms of (1) its short to medium-term impact on the (2) material well-being of the (3) individual own personal life, (or that of his or her immediate family)' (Sears and Funk, 1991, pp.15-16). The concept presupposes that the action of a human is motivated first and foremost by personal self-interest, in other words, a 'self-absorption and disregard for the rights and interests of others, making money, avarice and greed, materialism, hedonism, the profit motive or profit maximization, and more' (Maitland, 2002, p.4). This implies that, if neither people's attitudes nor the subjective norm changes then we cannot expect a change in human behaviour that will ensure good governance in banks (Ajzen and Fishbein, 1980). One participant in this study expressed the following opinion:

> 'Certainly, the challenge we have concerns the behaviours of leaders and their collaborators within the banking system towards their ambitions for self-enrichment. This behaviour has great influence on how banks comply with any code or regulations. And I think this is similar to what has been happening in other banks and, indeed, in wider organisations, be it in the private or public sector' (Bank Official).

The *self-interest* category emerged from the properties of *human attitude* and *moral values*, which are explained in the following sections.

I. Human attitude

According to Rokeach (1979), attitude is an enduring set of beliefs predisposing one to respond in some preferential manner in a given situation. *Human attitude* came up as one of the main properties of *self-interest*, with the participants generally expressing the view that it influences the choices individuals within banks make to act responsibly or not. One participant voiced the following idea:

> 'I don't think changing people at the executive or board levels or rolling out regulations are sufficient to significantly change people's attitudes towards materialistic tendencies or on what they set their mind to do. For a short time, yes, but you can see what is happening now in the banking sector again' (Bank Official).

In general, the participants' beliefs about the self-interested attitudes of various actors in a wider context are associated with the following: (a) unwillingness to act in the most appropriate way so as to achieve best practice, (b) complying only when such rules satisfy their primary objectives as individuals or a corporate body, and (c) affecting the process of good governance through behaviours relating to (a) and (b). Obviously, this leads to difficulties in enforcing the provisions of the Code of Corporate Governance for Banks.

II. Moral values

Moral values are those that distinguish between good and evil (D. E. Scott, 2002, p.33). In other words, 'beliefs about what is good and evil controllable behaviour' (ibid). This means that individuals or societies with low moral values have a high tendency to disregard compliance. *Moral value* was observed to be a property of the *self-interest* category, coming from dimensions such as *collusion, low moral standards, the drive for wealth* and a *lack of integrity*. The participants were of the opinion that the declining moral values in the society and of the individual actors involved in the banking industry in particular, explain why banks persistently fail to achieve corporate excellence. Indeed, individual values are central to the domain of 'morality and from which they drive their principles' (Pojman, 1993, p.94). This suggests that moral values are critical determinants of management/employee behaviour that leads to effective corporate governance. As one participant mentioned, 'once there is a morality problem in organisations like banks, then expect nothing from enforcing any law or code of governance'. Agreeing with the above assertion, another participant commented,

> 'The banking environment requires spirited efforts from all players in the corporate governance process, and over the years this has been lacking due to reported collusion between and within the actors. These behaviours are inconsistent with the nature of banking operations. Regrettably, such have been the case even at the organisational level' (Focus Group).

Asked for suggestions on the way forward, the participant was of the view that the increasing decline in moral values, whether at the individual or the corporate level, explained what is happening not only in the banking sector, but also in the society at large. To deal with this, the participant argued for a more holistic approach to the governance process, not only producing regulations, but also addressing the human aspects of the process.

7.4.8 Organisational factors

Organisational factors emerged as an open category from the analysis of the following questions:

Series I QUESTION 9: In your view, does the achievement of best corporate governance practice in your organisation reflects what happens at the national level? Is it a shared value across the banks?

Series I QUESTION 10: How do you feel about the pressure on the banking industry to improve its corporate governance practice?

Series II QUESTION 3: What impact does the banking culture have on corporate governance for banks?

Series II QUESTION 10: What are the challenges facing the realisation of best corporate governance practice in banks? To what extent do you think the banks can meet the expectations of the Code and other rules?

Focus group: Discussions around critical questions on corporate governance practice in banks relating to regulations, the roles of boards of directors, information disclosure, and ways to improve public and investor confidence.

Organisational factors refer to 'the context or environment, structure, processes within a concrete, observable association of persons engaged in collective activities with common objectives' (Sheaff et al., 2003, pp.8-9). Here, the environment, structure and processes are the 'external and internal dimensions that influence or guide the decision processes and actions in an organisation' (Adams, 2002, p.224). This implies that organisations can achieve "high performance" work practices when the external and internal factors serve their goals effectively, particularly in terms of increasing their corporate wealth (Patterson et al., 2003). Bank executives have identified that achieving corporate wealth requires effective contributions from both the internal and external factors. Obviously, differences in the corporate governance practices of different banks depend on differences in the effective contributions of these factors (Khrawish, 2011). From the analysis in this research, the open category of *organisational factors* was observed in terms of the conceptual properties of a *lack of corporate culture, leadership problems* and *public pressure,* which the participants believed influence the quality of corporate governance. These properties are discussed in the subsections below.

I. Corporate culture

All licensed banks in Nigeria are supervised and monitored by the CBN and these banks are organisations with their own cultures. Corporate culture refers to the 'values, norms and practices of a group of individuals' (De Long, 1997, p.6), or 'implicit shared values among a group of people – about what is important, what is good and what is right' (Kotter, 1997, p.166). Here, values are what members of the organisation believe are worth doing, norms are the expected patterns of behaviour or shared beliefs, and practices are methods used to accomplish organisational work, relating to conventions, customs and habits (ibid.). Corporate culture in this study is what the participants refer to as the orientations of the banks, guiding their day-to-day lives or attitudes towards change. This indicates that a bank's culture is derived from its shared historical structures, processes and significance. As the participants collectively expressed, the values, norms and practices of board members and other employees determine the quality of corporate governance practice in a bank. This also implies that, even with the CBN changes that have brought new, competent NEDs onto boards, and regardless of the 'will and skill' of the NEDs, they can be made considerably less effective if there is a disabling boardroom culture (Pye, 2001).

On the issue of lack of acceptable corporate culture, some participants' comments are presented below:

> ‘We agreed that banks in Nigeria lacked a corporate culture aimed towards good governance in the past, but there has been progress. What is being experienced could be due to our orientation and uniqueness compared to non-banking organisations. Despite the problems, things are beginning to change’ (Bank Official).

> ‘Traditional banking problems have not been different from the socio-economic problems of Nigeria. While we understand the corporate challenges facing us, we also believe that some of the measures taken towards good governance for banks do not reflect the current realities of the banking environment’ (Bank Official).

> ‘Compared to other government sectors, the banking sector culture is different and as such certain reform elements needs to be looked into’ (Bank Official: Focus Group).

> ‘You can see recent discussions in the banking industry are all about good governance. What the Code of Corporate Governance and the CBN intend to do is to change the cultural orientation of banks towards good corporate governance and once we get things right, banks’ activities will improve (CBN Official).

> ‘We are now using the CBN framework except in some areas of difficulty. Our bank has been liaising closely with the CBN to sort things out, and everyone in the bank has come to understand what we are expected to do and not do. Just understand that issues of governance in banks differ from bank to bank’ (Bank Official).

The uniqueness of banks and their orientations towards poor governance were described by the participants as constraining governance success. Although there have been improvements in recent times, this explains why ‘only 40 of the quoted companies, including banks, have recognised the Code of Corporate Governance that is in place’ (CBN, 2006, Sec. 1.3). It further explains why the CBN Code and other strategies are aiming to re-orient the banking culture towards good corporate governance practices.

II. Leadership problem

Leadership refers to ‘a process whereby an individual influences a group of individuals to achieve a common goal’ (Northouse, 2007, p.3). This suggests that leaders are ‘those who significantly influence the thoughts, behaviours and/or feelings of others’ (Gardner, 1995, p.6). In an organisational context, leadership is seen as ‘the interpersonal influence exercised in situations and directed, through the communication process, towards the attainment of a specified goal or goals' (Tannenbaum et al., 1961, p.24). The participants agreed that the board of directors and the executive management have vital roles to play in determining the quality of banking governance. This supports the view that the board of directors is 'ultimately responsible for the operations and financial soundness of the bank' (BCBS, 2005, p.10), while the executive management as 'a core group of individuals are responsible for the day-to-day management of the bank' (ibid. p.12).

The CBN (2006) also recognise the important role the board of directors' play in producing high-quality corporate governance, and provides that the board should have full and effective oversight over the banks and monitor their executive management teams. As one participant put it during the focus group session, 'it is one thing for the regulators to make laws for the banks, and it is another for the board of directors and executive management to ensure compliance or enforcement'. Another participant agreed:

> 'Banks have failed due to the behaviour of boards of directors and executive management. There were instances when boards insisted on certain ways of doing things, contrary to the operational rules. The board's influence is broad because virtually all reports, either from the audit committee or on compliance, are subject to the board's approval' (CBN Official).

This explains that it is not only regulations or their strictness that affect good corporate governance for banks, but more importantly those responsible for the processes within the system. Another bank representative commented,

> 'Although the CBN has its problems related to the supervision of banks, I think we need to encourage a level of trust between banks and between the leadership of the banks and the regulatory body over policy issues. At the moment, it seems there is a power game that also influences the boards of directors on some policy implementations' (Bank Official).

The general view is that the leadership problem is occurring on both sides: with the banks and the regulatory authority. While the influence of individual leadership directives often affects governance, the widespread corporate failures have demonstrated that the regulatory supervision of the banks is non-existent. Also, recent changes in the banking leadership, made by the CBN without sufficient stakeholder consultations and due process in some instances, have further affected the leadership relationships in the banking system. It was also observed that, apart from peculiar issues relating to the banking sector, leadership actions in the banks are not substantially different from the overall problems of corporate governance in the financial industry, and by extension non-financial corporations.

III. Public pressure

Participants variously indicated that there had been enormous pressure on banks, from the regulatory institutions (the CBN, NDIC and SEC), the politicians, shareholders, the media and international bodies, to improve their corporate governance practices. While they recognised the legitimacy of the issues raised regarding recent bank failures, some participants suggested that more time was needed to re-assess the various frameworks in order to find a long-term solution. One participant said, ‘banks are now being put through a series of assessment tests and are closely watched and perhaps this is adding to the confusion’. Overall, multiple dimensions of public pressure were mentioned by the interviewees and focus group participants. Although there was a strong consensus that the Code of Corporate Governance for Banks had awakened the employees of banks to the need for corporate excellence, there was also the feeling that some fundamental issues related to human behaviour still needed to be addressed.

One interviewee stated, ‘the media did not help matters at the height of the banking crisis, because most of their comments led to more public panic than a process of understanding issues at stake’. Some of the continued pressure on the banks is the result of strategic and policy pressures adopted by the CBN. Banks are now required to introduce a uniform account number structure. This measure was intended to improve the banks’ efficiency by reducing the effort required in terms of time and operational costs. In addition, the number of account types has been harmonised to three: current, settlement and cash reserve requirement accounts. This is consistent with the CBN’s duty as a regulatory body to ‘ensure high conduct and good management throughout the banking system’ (CBN Act, 1991 revised 2007, Sec. 42). Generally, there are indications that the CBN and other regulatory agencies (the NDIC and SEC) have improved their strategies for banking supervision. One interviewee commented, ‘it is this pressure that prompted the regulators to make public stories of bank executives facing prosecution due to their involvement in financial fraud’. The open categories and their properties discussed in this chapter are summarised in Table 7.3 below.

Table 7-3 Summary of Open Categories and their Properties

OPEN CODING	
Open Category	**Properties**
Corporate transformation	Board structure, Tenure
Enforcement	Compliance, Monitoring, Trust
Code/regulation	Harmonisation, Regulatory review
Improving competence	Training, Job assessment, Skills development
Internal control mechanism	Whistle-blowing, Risk-taking
Lack of transparency	Lack of accounting, Quality of auditing
Self-interest	Human attitude, Moral value
Organisational factors	Corporate culture, Leadership problem, Public pressure

7.5 Conclusion

This chapter has presented the processes, questions and a detailed analysis of the semi-structured interview series I and II and the focus group discussion. The questions asked in interview series II were formulated in the light of the results of interview series I, while the questions presented to the focus group were based on the outcomes of interview series II. Following Strauss and Corbin's GT approach, data collection and analysis proceeded simultaneously. The interview transcripts and field notes were read thoroughly, over and over, and then an in-depth analysis was conducted so as to discover concepts and subsequently open categories divided into properties and dimensions. This chapter has shown how the concepts that emerged from the questions asked in interview series I assisted in increasing the theoretical sensitivity of the researcher. This further enhanced the theoretical significance of the concepts that emerged in the second phase of interviews. Consistent with GT procedures, the results of the question-by-question analysis of both interview series were constantly compared with the questions and answers discussed by the focus group to find theoretically significant concepts. These concepts were found to come up in the answers to more than one question and in all data collection stages. Finally, the chapter has presented the eight open categories developed through this process, along with their properties/dimensions. These categories are *corporate transformation, code/regulation, enforcement, transparency, improved competence, internal control mechanism, self-interest* and *organisational factors.* These open categories formed the basis of the axial and selective coding processes that will be discussed in the next chapter.

Chapter 8. Axial and Selective Coding

8.1 Introduction

This chapter was developed based on the first phase of analysis through open coding that was presented in Chapter 7. This chapter deals with two stages of the coding process, namely axial and selective coding, which are the second and final stages of the GT analytic process used in this research. The axial coding led to the emergence of six main categories, based on the categories that emerged through the open coding[39] and the application of the paradigm model. Principally, axial coding is 'reassembling data that were fractured during open coding' (Strauss and Corbin, 1998, p.124). At this stage, open categories are linked together to 'form more precise and complete explanations about phenomena' (ibid.). This process illustrates how the initial categories are rearranged and linked to form a rational system (Howell, 2000). Since a category stands for a phenomenon, issue, event or happening defined by the respondents, axial coding helps with identifying those phenomena that have the ability to explain 'what is going on' (Strauss and Corbin, 1998, p.125).

The axial coding process helps the researcher to answer why, how, where and when questions about the identified phenomena. In other words, it aims to 'link categories with sub-categories, and asks how they are related' (Charmaz, 2006, p.61). Strauss (1987, p.64) referred to the axial process as building up 'a dense texture of the relationships around the "axis" of a category'. In GT, axial coding is achieved by applying a coding paradigm that specifies a phenomenon in terms of 'the conditions that create the circumstances; the context in which the phenomenon is embedded; the action/interaction strategies by which

[39] See details of open coding in Chapter 7.

a group or individual responded; and the consequences of those strategies' (Strauss and Corbin, 1998, p.128). The process also allows the researcher to delineate and extricate relationships upon which the axis of the category is focused (Strauss, 1987).

In open coding, categories are generated in terms of their properties and dimensions; in axial coding, these categories are systematically developed in terms of their relationships. Although, the axial coding analysis provides higher-level codes when compared to the open codes, here, the distinction between open coding as presented in the last chapter and the axial coding presented in this chapter is 'artificial and is made only for explanatory purposes' (Corbin and Strauss, 2008, p.198). This is because the process of relating concepts was carried out in both types of coding and these two coding processes were not sequential but interrelated. The selective coding stage utilises the outcomes from the open and axial coding to 'identify the core category and develop it in relation to subcategories' (Howell, 2000, p.184). This section of the chapter identifies the core categories through the data that were generated through semi-structured interview series III and the analysis of those data. The aim is to validate and verify the credibility of the data through their relationships with the core categories and the subcategories. In fact, these linkages are demonstrated diagrammatically with the aid of a modified paradigm model.

8.2 An Application of the Paradigm Model

As mentioned in the previous section, axial coding reassembles data that have been fractured through open coding. Thus, the eight open categories developed during the open coding procedure (described in Chapter 7) were combined into six main categories in the axial coding, as illustrated in Figure 8.1. Each of these main categories of the axial coding and their corresponding open categories represents a component of the paradigm model.

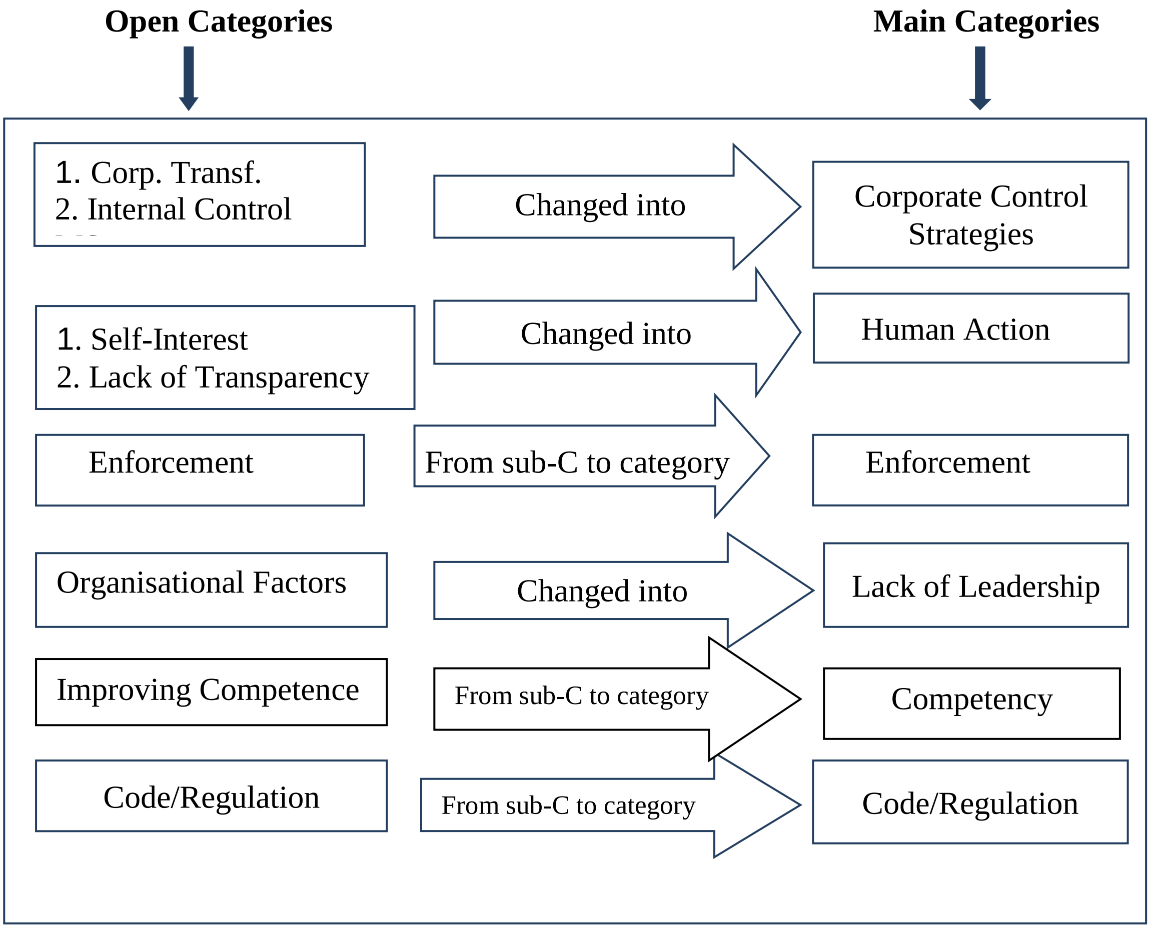

Figure 8-1 How the Open Categories Were Changed into Main Categories

Figure 8-1 demonstrates how the nine open categories were linked and subsumed into the main categories of the axial coding. These linkages were the results of questions asked to identify the types of relationships involved (Strauss and Corbin, 1990). For instance, the main category of *corporate control strategies* subsumed the *corporate transformation* open category that emerged from *board structure and tenure*, and the *internal control mechanism*, which emerged from the strategies related to *risk taking* and *whistle blowing*. Indeed, both open categories relate to the strategic measures intended to improve internal control within the banking sector. Similarly, the *self-interest* and *lack of transparency* open categories were subsumed into the *human action* main category during the axial process. This followed from asking the question about what type of relationship there was between them. Both open categories were linked to *human action*. It is these relationships that are further related and explained through the elements of the paradigm model.

As Corbin and Strauss (2008, p.89) explained, a paradigm is 'a perspective, a set of questions that can be applied to data to help the analyst draw out the contextual factors and identify relationships between context and process'. In other words, it is a conceptual analytical device for organising data and integrating structure with process (Strauss and Corbin, 1998)[40]. Although the actual conceptual names given to categories do not necessarily point to whether a category denotes a condition, an action/interaction or a consequence, the focus here is more on the complex interweaving of events or conditions leading up to a problem or event, to which persons respond through action/interaction with some sort of consequences (Strauss and Corbin, 1998).

The essence of the paradigm model is about linking and developing categories through 'asking questions and the making of comparisons…the nature of the questions we are asking is really denoting a type of relationship' (Strauss and Corbin, 1990, p.107). In this case, the questions asked are in 'terms of the conceptual labels themselves, and how one category might be related to another' (ibid. p.108). Thus, reflecting how the open categories are linked and subsumed into the main categories during the axial coding procedure, the questions asked in order to link the categories together through the utilisation of the paradigm model are discussed below.

[40] The process consists of 'sequences of action/interaction taken in response to situations or problems, with the purpose of handling the problem' (Corbin and Strauss, 2008, p.96), and represents the actions/interactions and consequences of the phenomenon (Strauss and Corbin, 1998). Structure is the conditional context in which a category or the phenomenon is situated (ibid. p.123). In other words, structure sets the scene, describing the context in which the phenomenon exists (ibid.).

8.2.1 The phenomenon

A phenomenon is the ‘repeated patterns of happenings, events, or actions/interaction that represent what people do or say in response to the problems and situations in which they find themselves’ (Strauss and Corbin, 1998, p.130), and relates to answering the question ‘what is going on here?’ (ibid). To be precise, we identify the phenomenon by asking questions such as ‘what is the data referring to? Or what is the action/interaction all about?’ (Strauss and Corbin, 1990, p.100). Based on the analysis of the interviews and focus group discussions during the open coding phase, it is what the participants generally refer to as *human action* that provides the answers to these questions. The main category of human action refers to the interplay of motives and actions affecting corporate governance practice in banks through structures and processes.

Some of the participants captured the self-interested aspect of human action when they spoke of ‘insider abuse, pursuit of personal interests and greed, self-directed policies and collusion as motives for the continued resistance to attaining the desired corporate governance within banks’. *S*elf-interest was variously expressed by the participants as a major factor affecting the realisation of good corporate practice. Similarly, the participants viewed the lack of transparency exhibited by the leadership of the banks, through manipulations and false reporting of their accounting positions, as constraining factors on corporate governance practice. As was discussed earlier, in the open coding section, there are two key elements of the lack of transparency: (1) lack of accountability, which involves the inability to disclose true and reliable financial and non-financial information about the corporation, and (2) dishonest auditing, which should serve as a watchdog for the attainment of good corporate governance in banks. Except in a few cases, the majority of the banks have been affected by a lack of accountability and compromises made in the auditing process, and both actions have consequently affected the quality of the financial statements of those banks. These behaviours have led to a loss of investor and public confidence in these banks, which has prompted the CBN to take some strategic measures to ensure the banks' safety and soundness.

8.2.2 Causal conditions

Causal conditions refer to 'events, incidents or happenings that influence the phenomenon' (Strauss and Corbin, 1998, p.131) or events or happenings that lead to the occurrence of the phenomenon (Strauss and Corbin, 1990). Thus, causal conditions are identified by asking questions such as the following:

What are the incidents, events or happenings that lead to the occurrence of the phenomenon?

Here, the main categories of a *lack of leadership* and *competence* answer the question. The *lack of leadership* that influences corporate practice in the banking sector is derived from the organisational factors while *competence* stands for the idea of *improving competence* that emerged during the open categorisation process. Competence here refers to the skills and knowledge required of the board of directors regarding banking activities, and the ability of the regulatory/supervisory authority to detect early enough any emerging problems that may affect corporate governance in the industry. The lack of competence was initially identified by the CBN in various reports aimed at limiting the negative actions that have caused the collapse of the banks. The participants also expressed the view that the lack of relevant competence within the leadership hierarchy had affected leaders' judgement, decision making and ability to appreciate good corporate governance practice as opposed to unacceptable motives.

Through the CBN's Code of Corporate Governance for Banks, board members and other committee members are now required to possess certain qualifications and a certain level of professionalism. Banks are also encouraged to provide continual training to employees to improve their skills so that they can cope with the dynamic challenges of corporate governance. The banks have begun to establish job assessment procedures for employees, and skills development training for board members and other committee members. One participant stated, 'these competence schemes have improved staff motivation towards the realisation of effective corporate governance performance'.

Organisational factors include the lack of internal corporate culture and public pressure, both of which influence banks' corporate governance activities. The participants indicated that, over time, the behaviours of bank executives regarding corporate governance practice had become the new cultural orientation within the banking sector. They expressed the view that information asymmetry in banks had given way to certain managerial manoeuvres and unacceptable behaviours that were not consistent with best corporate governance principles. Meanwhile, one interviewee stated that the special nature of banks and their contribution to the national economy had led to constant pressure on the industry from the CBN through various guidelines. There has also been increased pressure from two sets of stakeholders – depositors and shareholders – for improved governance to safeguard their deposits and ensure returns respectively. Market challenges have also continued to exert pressure on banks to improve. Further pressure has come from international bodies that have offered advice and working guidelines, such as Basel I and Basel II, on achieving good corporate governance. The press, professional bodies and labour unions have also heightened the tempo of compliance with the regulatory frameworks for banks in recent times.

However, some participants admitted that the above organisational factors had influenced what the banks had achieved so far in terms of meeting corporate governance best practice requirements. Banks with weak corporate governance had been delisted by depositors and other stakeholders and this action had led some banks to take steps to improve their corporate culture with a view to achieving best practices.

8.2.3 Context

Strauss and Corbin (1998, p.132) argued that context was ‘specific sets of conditions that intersected dimensionally at a time and place to create a set of circumstances or problems to which persons respond through actions/interaction’. Such sets of conditions within which the phenomenon takes place can be identified by asking the following question:

What are the set of conditions under which banks’ strategies and responses towards effective corporate governance are made?

Broadly, context is ‘a category that includes all situational factors inside and outside the organisation’ (Pillai and Meindi, 1998, p.644) or the ‘surroundings associated with the phenomenon’ (Capelli and Sherer, 1991, p.56). These surroundings play a significant role in influencing the pace and effectiveness of organisational change. Enforcement, as a constraining condition of the code/regulations, manifested itself soon after the code was introduced. One of the executive managers interviewed indicated that no adequate enforcement blueprint had been followed by the CBN. The regulators were found to have been ineffective in terms of enforcement and supervision in many areas of banking activities. At the focus group session, a participant commented, ‘the CBN really has had issues with the enforcement of the Code for some time due to their internal constraints’. The CBN representative explained that, despite the existence of the code of governance, ‘a culture of tolerance and acceptance of the status quo' of ineffective corporate practice was still prevalent in the banking sector. This confirms that the regulatory body has failed to sufficiently enforce the Code of Governance for Banks, as already identified by Sanusi (2010b). According to the CBN (2012, p.4), this problem was evident in the 'critical gaps in the regulatory framework, uneven supervision and enforcement'. Here, *enforcement* emerged as an issue during the open coding process, through key properties such of a *lack of compliance, monitoring and trust*.

Lack of compliance with the regulatory provisions has been identified as one of the major reasons for the poor governance practices in banks. The interviewees and focus group participants were of the opinion that the boards of some banks consider themselves above the rules governing business conduct. This attitude had led to corporate malpractice, resulting in weak business performance. Apart from the efforts employed by concerned individual stakeholders and particularly the CBN to develop mechanisms to enforce compliance, there have been renewed calls from international agencies such as the BCBS for banks to improve their compliance, not only in Nigeria but also in other developing countries around the world (BCBS, 1997).

The *monitoring* aspect of enforcement deals with the inability of the boards of directors, the auditing committees, and the regulatory authority to monitor the banks' activities in line with the expectations of the provisions of the Code of Corporate Governance for Banks and other regulations. Related to enforcement is the breakdown of mutual *trust* between key stakeholders in the governance process.

8.2.4 Intervening conditions

Strauss and Corbin (1998, p.131) considered intervening conditions to be 'those acts that mitigate or otherwise alter the impact of causal conditions on the phenomenon'. These conditions form the broader structural context pertaining to a phenomenon (Strauss and Corbin, 1990, p.103), and include 'time, space, culture, economic status…'. These conditions can 'significantly facilitate or constrain the strategies taken within a specific context' (Strauss and Corbin, 1990, p.96). The intervening conditions are identified by asking questions such as the following:

What are the conditions that mitigate or alter the impact of causal conditions on human actions in regards to corporate governance practices within the banking sector in Nigeria?

The condition that alters or mitigates the impact of human action and a lack of leadership is code/regulation. At the open coding stage, the *code/regulation* category emerged with the properties of *harmonisation* and *regulatory review.* At the national level, the intervening conditions include measures taken by the CBN, including the introduction of the Code of Corporate Governance and other measures to ensure banks' soundness. The code was expected to complement other existing rules (CAMA, 1990; BOFIA, 1991) and other policy directives. This has helped to reinvigorate corporate governance practice in the banking industry through reinforcement of the banks' consolidation reform. At an international level, advisory measures have been offered to help banks improve their compliance (OECD, 1999; BCBS, 2005). *Harmonisation,* as an element of the intervening conditions, relates to the difficulties experienced by the banks in complying with the various overlapping regulations (CBN, 2006; CAMA, 1990; SEC, 2003, revised in 2009), which many banks claim were either hurriedly introduced or contradict each other.

These loopholes have created room for actors within the banking system to take advantage and manipulate the rules in a way that best favours them. Affirming the general view of the participants, it has been found that around 373 circulars were issued by the CBN between January 2008 and February 2010 on governance-related issues[41], overlapping in content and purpose, and making compliance even more difficult. Moreover, there has also been a lack of coordination between the bank regulatory bodies. For instance, the overlaps prevented the CBN from providing input to the SEC for the planning of its examinations of bank activities, creating room for abuse by the executive management teams of some banks. Some participants claimed that there were varying understandings of the existing Code of Corporate Governance due to sundry policy directives. They added that this had offered some banks further opportunities to play around with the expectations of the CBN, harming corporate performance.

In addition, the findings of this study reveal that, in spite of widespread knowledge of bank malpractice and the propensity for regulatory arbitrage, the coordinating body for financial regulations has failed to evaluate such events for the last two years due to their lack of commitment. This has allowed some banks to use excess capital generated through other non-lending activities such as stock market investments. However, recent measures by the CBN and the intervention of international bodies, aimed at ensuring bank compliance, have rekindled public confidence in the banks' ability to recover. Although the prudential guideline on corporate governance (CBN, 2010) has improved some of the Code's weaknesses, it still falls short of comprehensively addressing the fundamental corporate governance issues in the banking sector. Thus, there is still a need for a review of some of the provisions of the Code of Corporate Governance and other existing laws to

[41] See Sanusi (2010b).

ensure the effectiveness of banks' governance practice. The executive managers interviewed in this study contended that the provisions of the codes were not comprehensive enough to safeguard best practice. For instance, one participant argued that one of the reasons for the problems was the lack of a legal and regulatory framework governing the margin lending activity of the CBN. Also, the need to ensure the competitiveness of the banks, and market volatility, mean that the governance principles must evolve alongside the changing market environment. One of the main shortcomings of the CBN's (2006) Code of Governance is that it does not reflect the dynamics in the market. Overall, the ineffectiveness of enforcement, the lack of regulatory review and the inability to harmonise applicable regulatory provisions have allowed the problematic behaviour in the banking sector to persist.

8.2.5 Action/interaction strategies

These strategies refer to 'deliberate acts that are taken to resolve a problem and in so doing shape the phenomenon in some way' (Strauss and Corbin, 1998, p.133) or to strategies devised to 'manage, handle, carry out, and respond to the phenomenon…under a specific set of perceived conditions' (Strauss and Corbin, 1990, p.104). Identifying action/interaction strategies requires us to ask questions such as the following:

What are the action/interaction strategies adopted by the banking sector in relation to corporate governance issues and within the causal, intervening and contextual conditions?

The main category of *corporate control strategies* helps to answer this question by indicating what might be the action/interaction strategies of the various banks as well as the CBN in response to the *phenomenon of human action* under the conditions discussed in the previous sections. The main category of *corporate control strategies* subsumes two open categories: *corporate transformation* and the *internal control mechanism*, as shown in Figure 8.1. In this instance, banks' action/interaction strategies fall within the interplay between the causal conditions (*organisational factors* and *improving competence*), the contextual conditions (*enforcement*) and the intervening conditions (*code/regulations*). These three conditions are the product of the structure in which the phenomenon is entrenched. The interplay of these conditions with the action/interaction is illustrated in Figure 8.2 below.

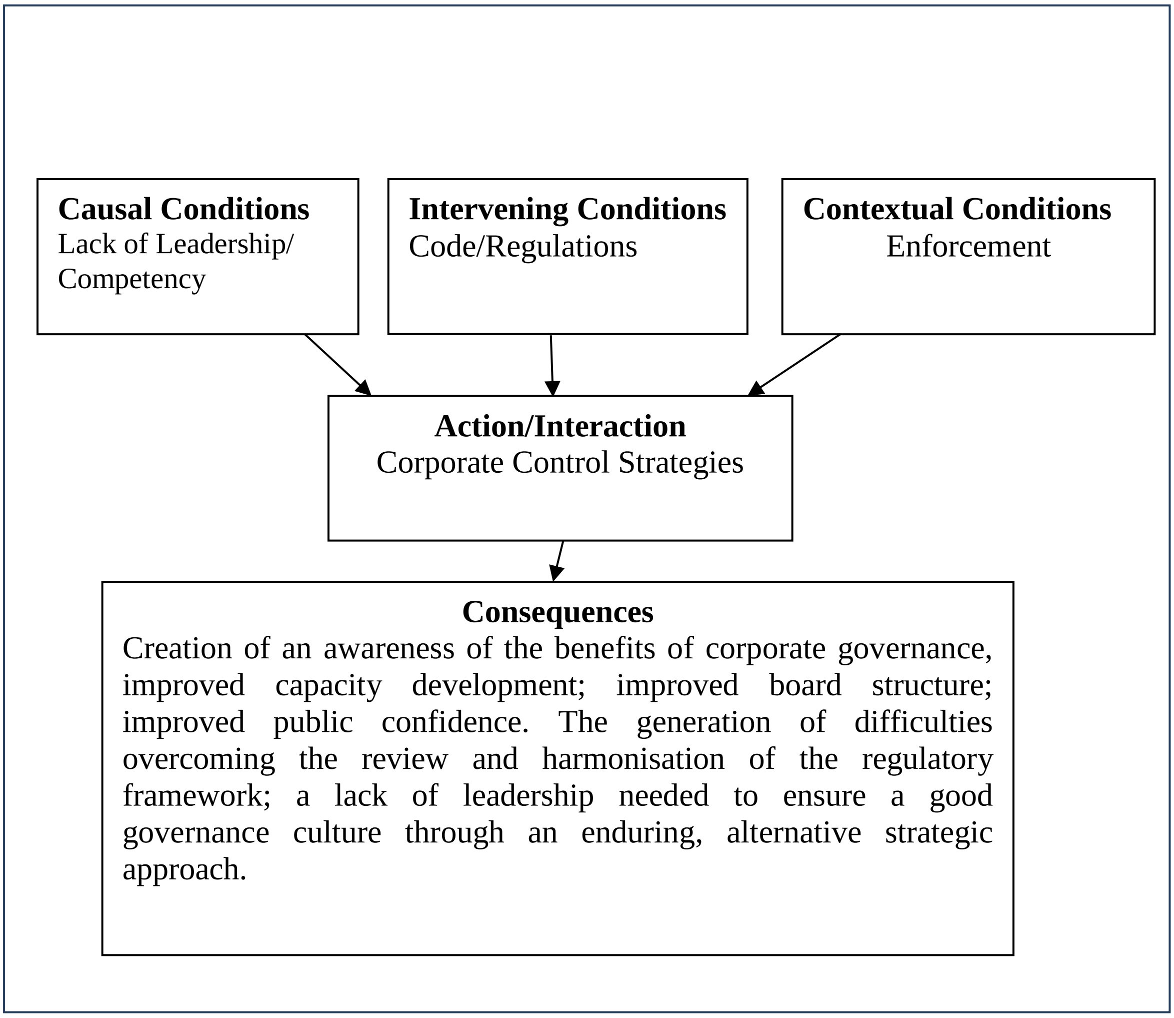

Figure 8-2 The interplay of actions/interactions with the three conditions

This interplay (Figure 8.2) demonstrates the significance of action/interaction as an intermediary process that occurs over time and space, changing or sometimes remaining the same in response to the situation or context (Strauss and Corbin, 1998). For instance, on the topic of corporate transformation (*board structure, tenure*), the participants agreed that the nature of board composition and the sit-tight attitude of some board members over time had affected the enforcement of the provisions of the Code of Corporate Governance and other rules. This situation had allowed decisions to be made favouring individuals and groups as opposed to corporate goals. In addition, a lack of transparency shown by the banks was also said to affect the banks' governance practice. There was also a general consensus among the participants that the previous ownership structure of the banks was one of the principal reasons for the CBN's intervention through a series of control measures. Indeed, family ownership is considered an important factor when assessing a firm's soundness (Zeitun and Tian, 2007). Similarly, the CBN's efforts towards board re-composition and restructuring were intended to improve the efficiency of the banks. The CBN has also included provisions relating to bank size, composition and the separation of power in the revised Code of Corporate Governance for Banks (CBN, 2010). For instance, it has provided that an equity holding of above 5% by any investor shall be subject to the CBN's prior approval. In addition, the code limits the tenure of the CEO to a maximum of two terms of five years. The participants contended that these measures have minimised the tendency for abuse, and improved the internal control of the decision-making processes in most banks.

Control strategies have also been used in an attempt to improve the internal corporate control of the banks. These strategies include the establishment of internal whistle-blowing mechanisms to encourage employees to report wrongdoing in their organisations.

Since *human action* is carried out in conjunction with others, it is believed that involving employees can help to discourage wrongdoing. Once unacceptable behaviour is noticed, staff can either report it by email, or through their employees' union or a management committee. Finally, the actions/interaction strategies taken by banks and the CBN were intended to address the various risk-taking abuses and other related behaviours motivated by greed and self-interest. Indeed, this is seen as the beginning of the process of developing good corporate governance in the banking sector in Nigeria.

8.2.6 Consequences

Consequences, as a subcategory, refer to the 'outcomes or results of action and interaction' (Strauss and Corbin, 1990, p.97). They are also the result of a lack of action/interaction in response to an issue or problem (Strauss and Corbin, 1998). They can be identified by asking the following question:

What are the consequences of the action/interaction strategies adopted by the banks and the CBN to curtail the self-interest and lack of transparency of actors in the banking sector in Nigeria?

Here, the banks' adoption of certain strategies is found to have resulted in their achieving the corporate governance and legitimacy expected of them. These strategies have also helped to restore public confidence in the sector, and assured the safeguarding of investors' returns and the banks' contribution to the national economy. On the other hand, the banks' refusal to comply with some regulatory provisions and other controlling strategies has equally led to the recent corporate failures of some banks. The strategies introduced have also widened awareness of the benefits of good corporate governance practice, skills development and training. For example, at the start of the post-consolidation reforms, improvements were seen in the aggregate financial performance of the 24 deposit banks in 2007 compared to that prior to the introduction of these control measures in 2005/6 (NDIC Report, 2008).

However, when the participants reflected on the outcome of the action/interaction or non-action by the banks and the regulatory agencies, certain challenges to the attainment of corporate governance in banks were identified. These included the following: consistent behavioural actions of actors towards non-compliance, the inadequacies of the provisions of the Code to address issues arising within the internal operating system and with the market competiveness of banks, insufficient trust within banks and between the banks and the regulatory authority due to the imposition of certain directives, namely, the unilateral appointments of some board members, and the restrictions placed on certain banking activities and other micro-issues that had been discovered. This means that further initiatives need to be taken in order for the banks to achieve best practice.

In summary, the axial coding analysis was used to restructure the categories developed in the open coding process and so demonstrate how each part of the data related to the other parts. This was done so as to present a better understanding of the phenomenon under study. In addition, the coding paradigm was used to integrate structure (the conditional context of the phenomenon) with process (the sequences of action/interaction over time). This was done in order to examine the relationships between the categories within the paradigm components. In GT, the process is used to achieve 'the linking of sequences of action/interaction as they pertain to the management of, control over or response to, a phenomenon' (Strauss and Corbin, 1990, p.143). Figure 8.3 presents a summary of the relationship between the axial coding and the paradigm model.

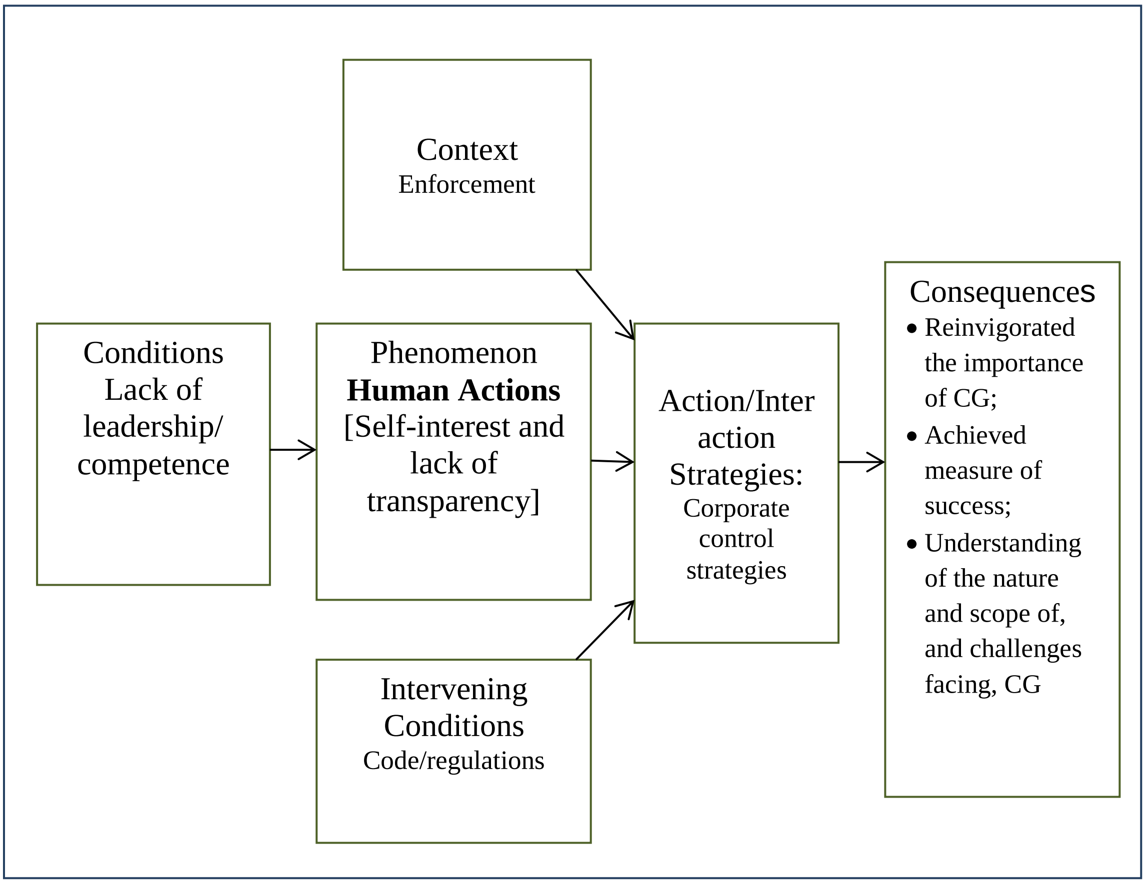

Figure 8-3 **Axial Coding Paradigm Model**

8.3 Selective Coding

This is the final stage of the analysis and the main stage of theorising, achieved through the connecting of the axial categories to the other categories. It is 'the process of selecting the core category, systematically relating it to other categories, and validating those relationships' (Strauss and Corbin, 1990, p.116). A core category 'pulls together all the strands in order to offer an explanation of the behaviour under study' (Goulding, 2002, p.88). While the early stages, namely the open and axial coding processes, are more concerned with discovering what is relevant to the phenomenon under study, 'it is not until the major categories are finally integrated to form a larger theoretical scheme that the research findings take the form of theory' (Strauss and Corbin, 1998, p.143). In other words, the selective coding process focuses on 'integrating and refining categories at a higher level of abstraction' (ibid.). The selective coding in this research began when the open categories were subsumed into the six main axial coding categories (as in Figure 8.1). It is these categories that the researcher interpreted as affecting corporate governance practice in Nigerian banks in the earlier section of this chapter. The verification and validation of the data and the identification of potential core variables as will be considered in the following sections.

8.3.1 Verification and validation of the data

This is an essential part of proving the credibility of any research process, and it 'can offer "plausible" explanation about it' (Corbin and Strauss, 2008, p.300). In other words, the findings of the research can be trustworthy and believable. In GT, theory emerges from the data but, by the time of integration, it represents an abstract rendition of that raw data, and as such it is important to validate the data that is part of the selective coding process. The validation of the data is done 'to determine how well that abstraction fits with the raw data and also to determine whether anything salient was omitted from the theoretical scheme' (Strauss and Corbin, 1998, p.159). Through this procedure, the researcher can account for variations both within and between categories. There are two analytical procedures involved: continually making comparisons and asking questions (Howell, 2003). In all cases, the questions asked continually by the researcher as the analysis progresses relate to 'what is the main analytical idea of the research?' (Strauss and Corbin, 1990, p.100), and this is done so as to identify what is happening in the data. Other questions relate to 'what patterns are occurring in the data?' That is, 'what does all the action/interaction seem to be about?' (ibid).

I. Validation process for this research

The validation of the data used in this research is intended to add density based on evidence to the analysis. Strauss and Corbin (1998) suggested that this was necessary in order to ensure that the analysis was valid and that the next stage in the process could justifiably be undertaken. In this research, the validation started with a review of the interview data, including the transcripts and the memos made at the open coding stage and during the axial coding. After looking back at the properties and dimensions of the main categories, the need for a validation of the data arose, informing further questions that needed to be asked so as to clarify certain meanings and interpretations of the data. To achieve this, the researcher developed another round of interview questions (interview series III), building on the previous fieldwork results. As Charmaz (2006) said, in the initial fieldwork, both open and axial categories are suggestive, but not yet definitive, regarding the happenings. It is also important that, even though the properties and dimension of *human action*, as a phenomenon identified during the previous coding stages (open and axial), were kept in mind, relationships had to be established through this GT procedure between the core category and the subcategories, and these needed to be confirmed through the validation process, which is the essence of the selective coding stage.

The researcher's aim was to obtain additional data to help explicate the categories and further reflect qualities of the respondents' experiences that would provide a useful analytical understanding of their views. The first step taken here was to identify the critical sites, persons and other sources that could maximise opportunities for comparative analysis, which Strauss and Corbin (1998, p.211) referred to as 'engaged discriminate sampling'. In other words, this is a type of theoretical sampling associated with selective coding that seeks and collects pertinent data to elaborate and refine categories so as to allow a theory to emerge. It should also be noted that, in the GT approach, validation does not imply testing hypotheses in a quantitative way, but refers ‘more to a checking out of interpretations with participants and against data as the research moves along’ (Corbin and Strauss, 2008, p.48). Based on the theoretical sampling from the original interview series I and II and the focus group discussion, ten participants were strategically identified and contacted informally. At this stage, gaining their agreement to participate was not difficult since a relationship had already been established during the initial series of interviews and the focus group sessions. The selection of interviewees was based on the familiarity of the participants with the subject under consideration, the unwillingness to enter into a fresh process of formal communication and approval, their professional experience in banking, and observations of events and happenings around the sector. The breakdown of the ten participants and their organisations is given in Table 8.1 below.

Table 8-1 **Participants in Interview Series III**

SN.	Organisation	Participants
1	Bank: ▪ Mega-banks ▪ Medium-sized banks	Two top managers (one chief compliance officer and one company secretary). Two top managers (one from the legal department and one from Policy and Strategy)
2	Professional body (CIBM)	One member of top management
3	Regulatory bodies (CBN and NDIC)	Two top managers dealing with the banks' corporate governance policy and compliance
4	The general public	Three, comprising two shareholders and a depositor (stakeholder)

The testing of the validity of the data began with the researcher re-reading the previous interview transcripts and the outcomes from the focus group in order to validate the statement questions, and asking 'what is the data referring to?' (Strauss and Corbin, 1990, p.100) and 'what is the action/interaction all about' (ibid.). These questions played a significant part in the development of the six statements used in semi-structured interview series III, which reflected the main categories of the axial coding.

II. Developed interview statements and analysis (series III)

The six interview statements developed from the initial data in order to verify the relationships between the core categories and the subcategories were as follows:

1. Human action has been a major factor affecting the realisation of corporate governance in banks.

2. The banks' and the CBN's corporate transformation and control strategies have improved the banks' most recent corporate governance practice.

3. Boards of directors and management have a significant impact on effective corporate governance practice in banks.

4. The influence of the Code of Corporate Governance for Banks and other regulatory frameworks is not adequate to address the corporate governance issues in banks.

5. Banks respond to the effective corporate governance requirements resulting from the CBN's directives and other regulatory measures either by compliance or inadequate compliance.

6. The impact of the Code of Corporate Governance and other frameworks differs from bank to bank, depending on their leadership behaviours.

Even though the statements were in a structured form due to their discriminate nature, we followed the semi-structured style of interview that involves discussion and the raising of issues requiring clarification during the individual dialogues, as in the previous interview series I and II. The use of the semi-structured style was useful in the verification of the properties and dimensions discovered earlier. In addition, the analysis of the responses was necessary in order to further clarify and strengthen the impact of the six main categories of the axial coding. For instance, the researcher focused on the participants' understanding of the properties and dimensions that explained the phenomenon of human action, and how such human action broadly influences individuals and organisations regarding good corporate governance practice.

For sample, the interviewees' responses to statement 1 of the interview series III are shown below:

Interview Statement:

Human action has been a major factor affecting the realisation of corporate governance in banks.

Responses obtained:

> 'I agree fully because over time banks had been experiencing certain managerial abuses across some ranks. But with the measures in place now, things are getting better' (Chief Compliance Officer).
>
> 'Most of the issues raised in the various rules by the CBN were aimed at curtailing human excesses and restoring sanity. The Code of Governance is good for the banks, as is some of the pressure we receive from the CBN and other agencies, local and international' (Bank Official).
>
> 'Yes, I think our moral attitude in banks is very low and, under this situation, anything can happen. This is not good for a financial institution like banks, and that is why the CBN is so concerned' (CBN Official).

Comments from other participants:

> 'It is true that there have been questions on the quality of our financial statements, and this is something we have in common with some banks.'
>
> 'Like I said earlier, the audit performances were weak and as such everything went on unnoticed. We were also surprised when we heard of the depth of all kinds of fraud. This has been the problem with our leaders over time'.
>
> 'Yes, but the measures that have been taken are helping to address some of the issues. We are hoping for improvement in some fundamental areas, and the sustainment of those [things already achieved]'.
>
> 'Previous failures in banks were always due to the abuses of the leadership regarding the rules they were expected to protect. Now the financial crisis in banks is leading us to a new chapter of orientation. Let's hope we learn a lesson from that, and the issues are addressed strategically'.

In the initial stages of this research, the subcategories of *self-interest* and *lack of transparency* emerged from various properties and dimensions related to *human actions* as they combine to influence corporate governance practice. This final stage consists of refining the abstract nature of the properties identified previously. The analysis of the above remarks and other responses to the six questions highlight the questions' contributions to the verification and validation process, and indeed to the credibility of the findings. As Strauss and Corbin (1994) pointed out, checking or verification is simply part of the inductive process; hence, they help in articulating our basic cognitive processes.

8.3.2 Identification of core categories and storyline

The identification of the core categories in terms of their properties and dimension, as well as their relation to the subcategories, is the main purpose of selective coding (Strauss and Corbin, 1998). Building upon the open and axial coding, the selective coding process helps the researcher to integrate the categories so as to build a theory around the core categories. In a broader sense, a core category can consist of all the products of the analysis condensed into a few words that explain what the 'research is all about' (Strauss and Corbin, 1998, p.146) and 'account for considerable variation within categories where it exists' (ibid.). The results of the third set of semi-structured interviews offered this study significant clarification of the properties and dimensions of human action that have influenced corporate governance in the Nigerian banking sector. First, based on the participants' responses, regarding the properties and dimensions of the subcategories of *self-interest* and *lack of transparency* that were subsumed into *human action,* these interviews indicated the broader meaning and interpretation of the effects of human action, which can be summarised as follows:

a) The participants confirmed that personal greed and internal abuse of corporate rules by self-interested officials have been influencing factors behind the non-realisation of good corporate governance practice in banks. Indeed, the various reforms of the banks were intended to curtail the effects of self-interested behaviours and the lack of transparency that have been inimical to their corporate performance.

b) The responses also showed that self-interested behaviours have influenced corporate actors' decisions on which of the provisions of the Code of Corporate Governance and other rules to comply with and which to ignore, depending on whether they favour them. This explains why compliance with the existing frameworks, or enforcing compliance, is still a challenge that needs to be addressed.

c) The interviewees also agreed that the lack of transparency, comprising a lack of accountability and dishonest auditing, is not substantially different from motives of self-interest.

d) They further confirmed that certain measures have been put in place by the CBN as a consequence of the widespread self-interested behaviour and lack of transparency.

Second, the responses relating to the *lack of leadership* main category can be summarised as follows:

a) The participants further confirmed that leadership's inability to develop a corporate governance culture in banks was the main issue affecting corporate governance practice in banks. This inability can be linked to the leaders protecting their own personal interests.

b) The failure of the leadership has led to a disregard for the code of conduct and of professionalism in banking operations, which have in turn affected the banks' corporate governance practices.

c) The responses confirmed that leadership at various levels is critical in determining the corporate governance culture in the banking sector and, as such, control strategies can only succeed through leadership. This implies that there should be continued pressure from the CBN, international agencies, shareholders and depositors, and other stakeholders.

d) Overall, blame was placed on the leadership of both the banks and the regulatory authorities, regarding how they had managed the corporate governance process over time. This means that commitment to a new approach is required if banks are to realise the reform objectives. Also, the current market competitiveness requires a higher level of competence, uprightness and professionalism from the leadership if banks are to achieve the desired corporate excellence.

Following this confirmation by the participants in the third interview series, the researcher asked the following two additional questions: 'What about this area of study seems most striking? What do I think is the main problem?' (Strauss and Corbin, 1990, p.119). This is where Strauss and Corbin (1998, p.120) recommend 'the researcher to think beyond description and move to a conceptualisation that encompasses all the categories identified and how they are related to each other'. Here, the researcher aimed to reflect on what Strauss and Corbin (1998, p.146) meant when they stated that it was essential to think of the phenomenon and ask 'what are the salient issues or problems of the participants?' In this instance, it is clear that the action/interaction strategies adopted by the banks and the CBN show that the combination of two categories, *human action* and *a lack of leadership,* is the main force affecting the corporate governance of the banks. These two categories therefore provide the conceptual idea under which all the other categories and their properties can be subsumed. As Strauss (1987, p.36) explained, the criteria for choosing a central core category are as follows:

> '(a), it must be central, that is, related to as many other categories and their properties as possible, (b), must appear frequently in the data, (c), it relates easily to other categories, (d), must have clear implications for a more general theory in the substantive study, (e), the concept must be refined analytically, and (f), it must allow for building in the maximum variation to the analysis'.

8.3.3 Integrating the core categories into subcategories

As a result of the selective coding process, the core categories identified in this study represent the central phenomena or theoretical ideas around which all the other categories that have been developed are integrated. In integrating these other categories, the selective analysis serves to formulate the broader "story" of the core categories, and the prevailing framework of a possible set of conceptual relationships to be further validated and to serve as building blocks for a future theory (Strauss and Corbin, 1990). This relationship is synthesised with the help of the paradigm (Corbin and Strauss, 2008) based on the participants' responses to the six interview statements (as in Section 8.3.2 above) and the interpretation of the subsequent analysis. The next subsections therefore discuss this paradigm in relation to the central phenomena of this study, the interaction strategies, conditions and consequences of the actors' responses. This is followed with a GT for the study – a model of human action and lack of leadership.

I. The core phenomena: Human action and lack of leadership

The core phenomena have been widened as a consequence of the emphases given by the participants in interview series III regarding behaviours related to human action and lack of leadership. Human action consists of two phases of action. Firstly, the self-interested behaviours of individuals and organisations have led to the corporate failures of banks. These behaviours have had an impact on the investment returns of shareholders, the risk to depositors' funds and indeed to the national economy. Secondly, there is the lack of transparency relating to non-accounting and the lack of high-quality and trustworthy auditing based on a commitment to good corporate governance practice. This has also influenced the quality of financial reporting and the disclosures of various banks over time. On the other hand, the lack of leadership to steer an effective corporate culture of compliance and enforcement has also affected the realisation of good corporate governance within the banking system. Moreover, there are indications that this human action occurred because of the leadership, and that such behaviours along with the lack of competence of some banks' leadership influence most of the decision making and practices.

II. Action/interaction strategies: Corporate control strategies

These are responses/strategies of 'individuals or groups to situations, problems, happenings and events' (Corbin and Strauss, 2008, p.89). There are two action/interaction strategies that have been adopted to address the core phenomena. First, some internal strategies have been adopted by various banks in response to the calls for good corporate governance. These strategies vary from bank to bank. Second, a set of strategies has been initiated by the CBN to address some of the identified weaknesses in the banks that affect corporate governance practices. These include explicit and implicit requirements of the Code of Corporate Governance for Banks, and other complementary policy directives. For example, the provisions specify board restructuring, a reduction in the tenures of CEOs, a whistle-blowing mechanism, and measures to improve the risk-taking behaviours of banks. Some measures related to financial reporting standards have also been taken. Compliance with the Code's provisions is compulsory.

III. Conditions

The conditions are the causal, context and intervening components of the paradigm model. The causal condition refers to the events or characteristics that cause the core category to take place (Strauss and Corbin, 1998). In this study, competence is the causal condition. However, from the analysis, the influence of the causal condition varies from bank to bank. By context, we mean a certain set of properties associated with the central phenomenon that provides the basis within which certain actions relate to the core category (Strauss and Corbin, 1990). Here, the *enforcement* category describes the structural context that determines the occurrences of the phenomena. In this instance, an inability to monitor or enforce compliance and a virtual absence of trust among the players has enhanced the continued occurrence of the identified phenomena. Finally, the intervening conditions, which are the broader structural aspects that alter/mitigate the effects of the causal conditions on the phenomena of *human action* and *lack of leadership,* are created by the Code/regulation. The Code was an initiative undertaken by the CBN to mitigate the overall effects of the identified phenomena. It deals with broader structural aspects that were expected to alter/mitigate the impact of the causal conditions on the phenomena of *human action* and a *lack of leadership*.

IV. Consequences

These are the outcomes of the action/interaction strategies. The interplay of the banks' strategies and the CBN's strategies for internal control measures in relation to structure and process leads to gradual improvements in the governance activities of the banks. For instance, the strategies improve the understanding of the benefits of good governance among wider stakeholders, including the impact on the growth of the national economy. However, it has also exposed the limits and constraints of the Code of Corporate Governance that impede its enforcement in the banking sector. This further shows that any evolving governance mechanism for banks must fundamentally address some of these constraints.

Finally, based on the overall consensus of the participants regarding the six interview statements (series III), the paradigm model in the selective coding stage can be summarised as follows:

a) Effective corporate governance for banks is recognised as essential and will impact on wider stakeholders, by affecting shareholder value and increasing the growth in the national economy. The Code of Corporate Governance for Banks, introduced to address certain weaknesses identified in the banking sector before the consolidation reform in 2004, is seen as a first step towards developing a corporate governance framework for banks in Nigeria.
b) The effects of the Code of Corporate Governance vary across banks in relation to human action and the lack of leadership.
c) The banks' and the CBN's responses to the emerging corporate governance issues have been to comply with and enforce internal control strategies and the provisions of the Code of Corporate Governance for Banks and other policy directives.
d) The outcomes of the various strategies adopted to curtail the effects of the identified phenomena can be divided into three main areas: (1) An understanding has been created of the benefits of good corporate governance for the overall

objectives of the banking sector. (2) The limits and constraints of the Code and other regulatory provisions for the governance process in the banking sector have been identified. (3) It is indicated that a corporate governance practice in banks can be achieved only if a broader approach is considered.

The paradigm model that analytically defines the relationship between the core categories and the subcategories as an explicatory framework of alternative corporate governance can also be presented diagrammatically, as shown in Figure 8.4 below. In fact, creating diagrams is one of the techniques that help in demonstrating the 'final integration of the core categories and with subcategories and their dimensions and properties' (Corbin and Strauss, 2008, p.274). Indeed, this is the end result of the selective coding step from which the theoretical explanation was constructed. While we acknowledge that the formation of theory is far from complete or exclusive as the end result of the research is not a universal theoretical explanation of corporate governance for banks, the developed substantive theory however only seeks to explain a specific phenomenon that takes place within a specific context and among specific actors.

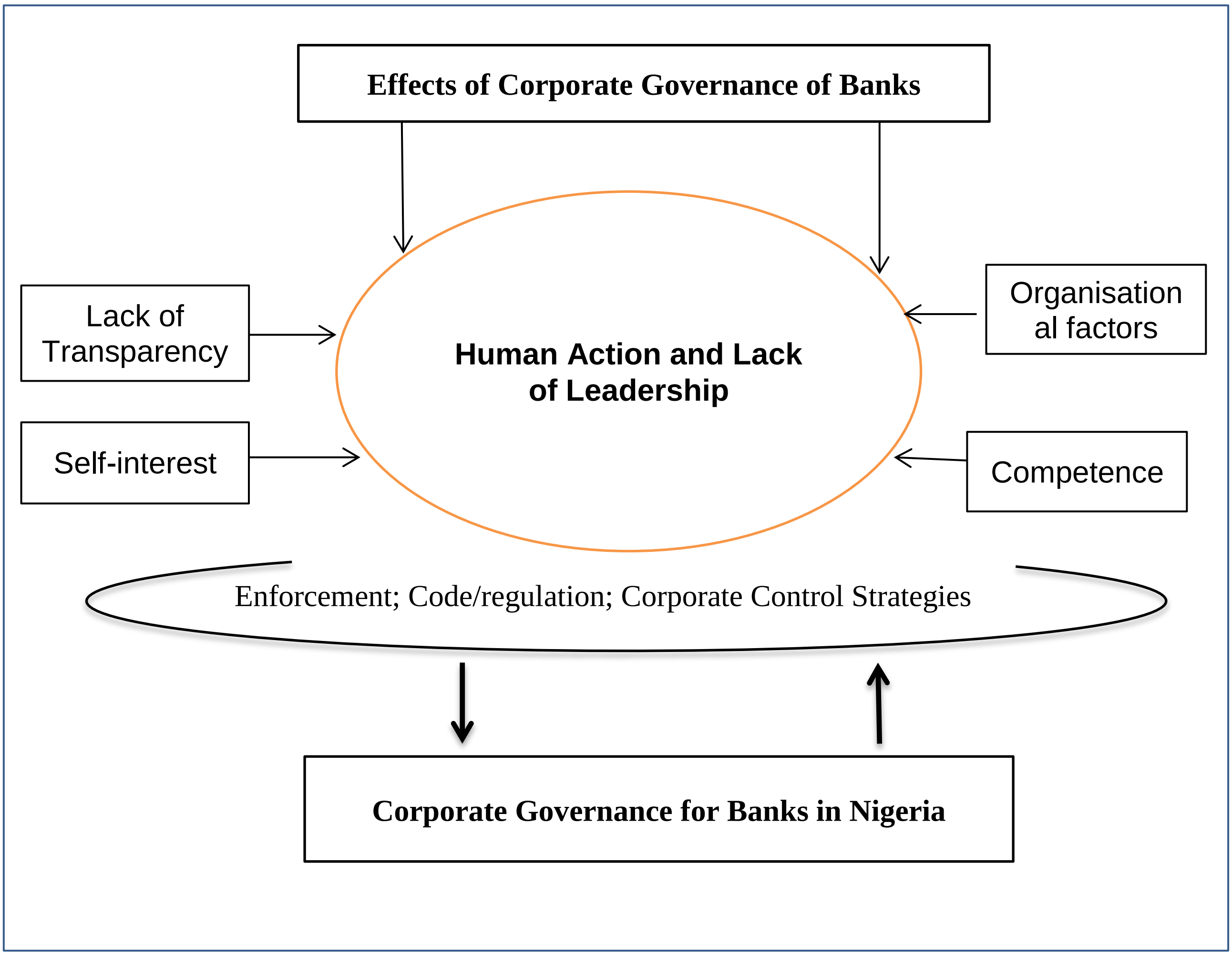

Figure 8-4 A Model Integrating the Core Categories with the Subcategories

From the model presented in Figure 8.4 above, one can observe that the central forces of the corporate governance of banks are the human action that occurs through acts of self-interest and the lack of transparency on the one hand, and the inability of the leadership to develop a corporate culture able to steer enforcement and compliance with the various control strategies and provisions of the Code of Corporate Governance published for banks in 2006. The down and up-pointing arrows from the box containing enforcement, control strategies and code/regulation suggest the overall expectations of the consolidation reform and the reforms that are to follow. In contrast, however, the findings revealed constraining factors related to the broader elements of the core categories of human action

- self-interest and transparency as indicated on the left hand side - and lack of leadership in relation to organisational factors and competence, as shown on the right hand side. The conclusion is that good corporate governance for banks in Nigeria can best be achieved by addressing these constraining factors.

8.4 Conclusion

This chapter has demonstrated the application of axial and selective coding within GT. Regarding axial coding, the chapter has shown how the eight initial categories identified during the open coding phase were reassembled into six main categories during the axial coding phase. The chapter has also shown how the categories were arranged and linked to form a coherent system (Howell, 2000). These main categories have been linked and their meanings explained through the use of a coding paradigm (Strauss and Corbin, 1998). In the selective coding phase, the researcher identified the core categories after verifying and validating the initial data through the application of discriminate sampling using six semi-structured interview statements. The aim of presenting the statements to the participants was to verify the relationships and develop the core categories in terms of their properties and dimensions. However, the results from the analysis of the responses suggested the need for a modification of the initial paradigm following the emergence of the two core categories – lack of leadership and human action. These two core categories were then integrated with the subcategories diagrammatically to explain their interplay in influencing corporate governance practice in banks. This chapter lays the foundation for the substantive theory that will be discussed in the next chapter.

Chapter 9. The Substantive Grounded Theory

‘A theory need not give us answers, but it should, perhaps question the questions until they bleed a little’ (Ansoff, 1979, p.8)

9.1 Introduction

Theory is not about the ‘discovery of immutable laws but the discovery of approximations to the truth’ (Howell, 2004, p.5). Moreover, it is concerned with ‘building substantive understanding, normativism and ideational simplification’ (Howell, 2013, p.24). This chapter presents the substantive theory of corporate governance for banks developed based on the opinions of the participants in this study, obtained through the process of data collection and the application of GT analytical procedures. The theory follows from the open, axial and selective coding analysis presented in Chapters 7 and 8, which eventually resulted in the core categories of human action and a lack of leadership and their relationship to the subcategories of code/regulation, enforcement, competency and corporate control strategies in the selective coding stage, as presented in Figure 8.3. A substantive theory is considered to be a process or ‘a way of accounting for, and explaining change’ (Strauss and Corbin, 1990, p.148).

This chapter also discusses the relevance of culture and leadership to corporate governance research and reviews corporate governance utilising culture and leadership theories. This is followed by a discussion on the limitations of the literature linking them. Furthermore, this chapter explores the substantive theory within the culture and leadership framework, and highlights the relationship between the developed substantive theory and formal theories. Although, formalising the substantive is not the aim of this thesis, it is simply an attempt to make GT a multi-area through constant comparison (Strauss, 1987;

Glaser and Strauss, 1967). This is also illustrated diagrammatically in Figure 9.1. In addition, this chapter explains the significance of a social contract theory approach with the constructs of cooperation and trust to address the fundamental findings in the substantive theory. Finally, a reflection on the chapter forms the basis for the concluding part of the thesis.

9.2 The Substantive Theory

The substantive theory developed in this study is based on the opinions expressed by the participants in this research (from the banking sector and other stakeholders) on banking regulation, monitoring, policy and implementation. The main objective of this study was to uncover the underlying reasons for corporate governance failure in banks in Nigeria and develop a substantive GT of corporate governance for banks. The basis of the substantive theory relates to the identification of what banking corporate governance in Nigeria entails, what phenomena are present, how they are related to each other, and what effects they have on corporate governance practice. This main objective was achieved through the analysis of data that were systematically collected through a series of interviews and a focus group discussion. In addition, documentary materials were used to complement the opinions generated and help capture the complexities of the topic. A further aim was to determine the reasons for the occurrence of the phenomena, the contextual conditions embedded in the responses of the parties involved in the governance processes of banks, and the consequences of their actions/interactions.

Through an inductive process, and indeed deduction, and the verification and refinement of the data, human action and a lack of leadership emerged as the core categories. In a GT study, the substantive theory revolves around the identification of the ‘core category’

(Glaser and Strauss 1967, p.40), which relates to the various sub-core categories. The developed substantive theory of corporate governance therefore recognises human action and the lack of leadership as forces that have, in many ways, shaped and refined the activities and achievements of corporate governance, varying according to the perspectives and understanding of the participants. The interplay of these forces provides a description of the causation, consequences and associated processes for the banks and other stakeholders in corporate governance. The highlights of the substantive GT are as follows:

(a) The substantive theory was developed around human action and a lack of leadership in relation to their subcategories, as determinants of corporate governance in banks.

(b) The theory maintains that human actions are a concern in the corporate governance practices of banks. Human action is defined here to mean actions and motives related to self-interest and a lack of transparency. Self-interest emerged as having two meanings in this context: First, there is the individual self-interest that emerges from individual greed, collusion, irrational human behaviour, unwillingness to act for the corporate good, fraud and corruption in handling the affairs of banks, such as in granting business loans, all to satisfy individual or group interests. The second aspect relates to organisational self-interest with the motive of maximising profit, which leads to the overstating of financial statements or the understating of risk exposures, often misleading public users of such information. These self-interested behaviours were revealed as constraining the effectiveness of corporate governance, and as one of the major causes of the various reforms and persistent corporate failures that have taken place in the banking sector over time.

(c) The lack of transparency aspect of human action represents what the participants considered as a lack of accounting and the inability of the auditing process to detect wrongdoing in the accounting processes of banks. These behaviours result in the manipulation of the financial and non-financial information of individual banks. Although the degree varies from bank to bank, its impact on overall corporate failure has been unimaginable in recent times. Indeed, self-interest and a lack of transparency is the culture in the banks, overriding acts of common good.

(d) Lack of leadership is another factor found to influence corporate governance in banks. In this regard, the participants agreed that, as a consequence of some managers' non-transparent behaviours and individualistic pursuits, the boards were unable to develop or encourage a corporate culture that would comply with the code, the regulatory framework and other directives. Thus, the corporate governance of banks is affected by the way these organisations are directed and managed.

(e) The substantive theory also indicates that, due to the broader effects of the human actions and lack of leadership, the enforcement of the existing rules and other regulations has been difficult in the banking sector in Nigeria.

(f) Given the effects of the identified human action and lack of leadership, the CBN and some banks have undertaken certain control strategies to address them. For instance, the CBN recognises banks' boards as critical to the process of governance, particularly in terms of internal control, and has therefore introduced some transformational measures involving changes in board structure, and the tenures of board members. The CBN has also made compliance with the provisions of the Code of Corporate Governance compulsory. In addition, the use of whistle blowing and other measures aimed at controlling risk-taking decisions have been introduced. In the interviews, both the CBN and the bank officials agreed that the introduction of changes in board structure, particularly the involvement of NEDs, had been timely. This relies on the understanding that competent and independent directors will serve as a check and balance in the board decision-making process. One interviewee referred to the changes in the tenures of board members as 'the best thing that has ever happened in my long banking career'.

(g) The findings further reveal that, apart from the problems associated with human action and the lack of leadership that posed difficulties in enforcing the codes/regulations guiding corporate governance practice in banks, there are also issues relating to overlaps between the provisions of the Code of Corporate Governance and other existing regulations and policy directives from the CBN, the SEC and the NDIC. Many participants from the banks felt that some of the provisions in the Code of Corporate Governance did not reflect the current reality, and as such were unenforceable. In order to address these constraints, the participants argued that a harmonisation and review of the overall framework was necessary, to give the mechanism a focus and clarity of purpose that could ease enforcement.

(h) This research also shows that, although certain strategies have been put in place by the CBN and some banks, corporate governance practice in banks has not yet achieved the level expected by the CBN and other stakeholders. It has also been suggested that the current measures are not only insufficient but also fail to recognise the root of the problem within the banks.

(i) The substantive theory further indicates that the enforcement of and compliance with the various control strategies and other rules is selective, and moreover varies from bank to bank. As such, the success achieved also differs, and this is clearly demonstrated by the financial performance of the banks.

(j) The substantive theory, through the paradigm model, recognises the effect of the interplay between the core categories of human action (self-interest and lack of transparency) and lack of leadership (organisational factors – corporate culture, leadership problem and public pressure) on the corporate governance practices in Nigerian banks.

(k) As a consequence of some of the strategies taken by the CBN and other banks, and the interaction between them, it is evident that a degree of corporate governance awareness has been instituted in the banking sector. Banks have started to recognise the benefits of effective corporate governance to performance and understanding the forces limiting the realisation of an effective governance practice.

(l) Finally, the substantive theory suggests that the existing corporate behaviour in banks needs a holistic review, and that a process needs to be developed to overcome the identified impediments so as to serve the stakeholders, namely, the shareholders, the depositors, the employees and the regulator. The development of such a process rests on the regulatory authority, as a stakeholder in the corporate governance mechanism for banks in collaboration with other key stakeholders including the boards of directors and management of banks.

In summary, the substantive theory developed here considers the interplay of various forces preventing effective corporate governance in banks, and the measures that could be adopted to overcome them. It clearly shows that the existing Code of Corporate Governance for Banks and other regulations are insufficient to control the identified phenomena that are embedded in the corporate system. The participants also recognised that some progress has been made as a consequence of the measures taken so far. Glaser and Strauss (2009, p.34) indicated that 'within a substantive theory that has been developed, a formal grounded theory can still be located', and doing so may help the GT to 'refine, extend, challenge or supersede' extant concepts (Charmaz, 2006, p.169). A substantive theory can also provide a 'link to a more formal theory' (D. K. Locke, 2003, p.36), which can help to produce arguments that make readers think about the explicitness of the substantive theory. Thus, the linkage of the substantive theory to the formal theory will be discussed in the next section.

9.3 Relevance of Culture and Leadership to Corporate Governance Research

The continued complexities of corporate governance issues have increased the need for alternative approaches or 'new theoretical perspectives and models of governance' (Daily et al., 2003, p.371). Although both culture and leadership may have been used differently, it can be argued that their integration within a given context allows for a more powerful explanation of organisational activities. Indeed, there are reasons for the use of culture and leadership to underpin this study and these are briefly explained below:

a) Both culture and leadership have been used to create powerful concepts that are also intrinsic to institutions (Howell, 2009) and strongly influencing the institutional setting (Parsons, 1991; Edgar and Peter, 2002; Bass, 1990; Geertz, 1993). For instance, leadership is useful for examining behavioural aspects and their impact on organisations' activities (Conger, 1990; Kanungo, 1988), while culture helps in the task of interpreting matters in hand or shared beliefs that influence actions (Geertz, 1993; Hofstede, 2001). The essence of an organisation's activities is the focus of any corporate governance study.

b) Culture deals with the phenomena that surround us all the time and those that are created by our interactions with others (Schein, 2004). It is this created culture that is shaped by the leadership within an organisation or corporate process. In this context, leadership is argued to be a 'social and relational influence process that occurs within a social system' (Parry, 1998, p.87).

c) Leadership and culture enable the analysis of organisations through context (Avolio et al., 1995) as they can vary across different environments, situations or time (D. N. Den Hartog et al., 1999; Osborn et al., 2002). These qualities are compatible with the idea of corporate governance as a social phenomenon that varies according to the nature of the firm and the environment in which it is located. Moreover, corporate governance as a social process is affected by non-economic factors whose analysis is uniquely affected by the surrounding environment (Letza et al., 2008)[42].

[42] This is one of the main criticisms of the traditional theorising on corporate governance.

d) Theories of culture and leadership have influenced several studies on management issues (Kuada, 2010). Although many of these studies have not been synthesised into coherent frameworks that might guide empirical investigations in the field, they do show fundamental insights that could be combined to explore related topics such as corporate governance (ibid.).

e) Furthermore, the study of culture and leadership pays attention to the importance of behaviour and actions, and how they are used by actors in organisations to influence others so as to achieve their interests (Parry, 2011; Schein, 2004; Kotter and Cohen, 2002). These concepts of behaviour and action are therefore central to the basic traditional theories of the agency relationship that appear in corporate governance studies. In fact, corporate governance reforms and regulations are said to have 'intensively channelled corporate behaviours and actions towards accountability and responsibility' (Sun et al., 2011, p.4). Moreover, the influence of power and behavioural considerations has always been present in corporate governance (Sonnenfeld, 2002) and this 'behaviour and culture are inextricably linked (Young and Thyil, 2011, p.374). As Hofstede (1991, p.170) stated, 'no part of our lives is exempt from culture's influence'.

f) Previous research utilising culture and leadership emphasised their quality of being adaptable to the process of change (Parry and Proctor-Thomson, 2003). For instance, through leadership, one can nurture a culture that is adaptive to change (Kotter, 1997), especially when transforming corporate culture to improve performance (Kotter and Heskett, 1992; Bass, 1985; Parry and Proctor-Thomson, 2003). This is compatible with corporate governance research that adopts an open systems approach in order to develop a more holistic view (Aguilera et al., 2008; Young and Thyil, 2008).

g) Significantly, both leadership and culture theories can be explored through the use of a qualitative research design (Parry, 1998; D. N. Den Hartog et al., 1999), which this research has employed. Moreover, in corporate governance, issues are diverse and require processes to be followed in order that the researcher may understand and uncover nuances, again something that the qualitative research design provides.

h) Finally, theoretical perspectives on culture and leadership are becoming more popular among researchers studying management issues, as well as corporate governance issues, as shown in the following section.

9.4 Reviewing Corporate Governance Research Utilising Culture and Leadership Theories

Many pieces of research on corporate governance have utilised culture or leadership as a theoretical framework. The basic strategy here is to understand how these two factors jointly influence or is influenced by corporate governance practice. In a broader sense, both elements deal with specific issues or contexts in which corporate governance takes place. This also suggests that organisation and behaviour are central to governance activities. It is argued that cultural norms act as a guide to ‘corporate behaviour and impact on what is seen as responsible’ (Young and Thyil, 2011, p.368). Sison (2000), based on the Olivencia report on structural changes in the Spanish business environment, explored the cultural dimension of codes of corporate governance, producing insights into the role of culture.

Similarly, Elkelish (2007) used Hofstede's (1980) five cultural dimensions of power distance, uncertainty avoidance, individualism/collectivism, masculinity/feminism and time orientation to investigate the relationship between cultural values and corporate governance systems across countries, and concluded that cultural values have an impact on several corporate governance systems used in various countries, with important consequences at both firm and country levels. This further supports Gorga's (2003) conclusion that culture influences corporate governance systems by determining the ultimate goals and objectives of organisations.[43] In addition, Licht's (2001) cultural value dimension (CVD) is based on the assertion that national cultures can be perceived as the mothers of all path dependencies. He argued that national cultures may have an impact on both the origin and the development of corporate governance systems in different countries. Indeed, he explained that the role of culture in corporate governance and securities regulation is an issue of growing importance (ibid.).

Viewing culture as a social factor, Sonnenfeld (2002) remarked, 'the key to governance isn't structural, it's social' (p.109). This further strengthens the view that cultural factors impact on corporate governance and can impede change and legal reforms (Matoussi and Jardak, 2012). B. Tricker (2012, p.26), in recognising the influence of cultural factors on corporate governance, concluded that all activities of business are affected by culture, arguing that

> 'the way in which business is done, the extent to which legal contracts or interpersonal trust form the basis for business decisions, the reliability of the court, the powers of the regulatory authorities…and overall the traditions of the country and the expectations of its people, all influence the way in which corporate governance develops'.

[43] For example, in some countries (e.g., the US or the UK) the ultimate goal of organisations is to maximise shareholders' wealth, while in others the goal is to maximise the interests of all stakeholders, including the government, employees and the community.

Other researchers have utilised leadership concepts to study corporate governance at both the firm and country levels. For example, Thomas et al. (2004, p.64) used strategic leadership regarding ethical behaviour in business and argued that an executive's strategic leadership responsibility should be seen as working 'with others to initiate changes that will create a viable future for organisations'. Furthermore, Awamleh and Al- Dmour (2004) conducted a test of the transformational leadership theory among managers at a functional level in Jordanian banks, and confirmed that the use of the transformational style by bank managers boosts employees' job satisfaction. Indeed, transformational leadership qualities stimulate higher-level needs among followers and result in feelings of satisfaction and better performance (Bass, 1985).

In developing countries, Blunt and Jones (1997) explored the limits of Western leadership theory in East Asia and Africa. They found that, African managers are more concerned about the quality of their relationships with their bosses than with their organisational effectiveness. Also, in addressing the effectiveness and efficiency of leadership in organisations, Hennessey (1998) asserted that leadership plays a major role in helping to improve the implementation of specific government reforms, which leads to attendant increases in the effectiveness and efficiency of organisations. In addition, Caldwell et al. (2012) confirmed that transformational leadership honours the governance obligations of leaders by demonstrating a commitment to the welfare of all stakeholders, particularly in terms of seeking to optimise long-term wealth creation. This is because leadership itself resonates when leaders show a commitment to individuals' welfare, growth and wholeness (Boyatzis and Mckee, 2005).

These pieces of research indicate that culture and leadership are relevant to explaining the corporate governance phenomenon. However, despite the implicit and explicit linking of leadership and culture in many works, including those on organisational theory (Fiedler, 1967), little critical attention has been devoted to understanding the interface between the two concepts and the impact their association might have on aspects of corporate governance as a process rather than as an output. Moreover, previous studies show no focus on understanding behaviour within the social context in which it takes place. It is significant to note that culture changes over time, and such changes in organisations can only be achieved through leadership, otherwise, 'if left alone, the culture may eventually become dysfunctional' (Kilmann, 1985, p.354). Finally, since organisations and institutions can (and often do) have multiple roles in society, they must start the process of changing the existing culture where the corporate activities are located.

9.5 Limitations of the Literature Linking Culture and Leadership to Corporate Governance

As it is considered in this thesis, transformational leadership is an all-embracing and far-reaching tool for social influence (Parry, 1998). Although leadership and culture concepts can be observed in a wide range of organisations (including business management organisations), it can also be argued that there are three main limitations in the literature on culture and leadership, in terms of its application to corporate governance research. First, its application may be constrained as a consequence of unusual attributes of organisations or cultures (Ardichvili and Kuchinke, 2002; D. N. Den Hartog et al., 1999; Blunt and Jones, 1997). Second, some attributes of leadership are universally seen as impediments to understanding leadership. This is because there is evidence that no single model of leadership can accommodate the significant variations in societal culture and their influence. Moreover, the transformational style of leadership utilised in many organisations is more effective in collectivist cultures than in individualist ones (Jung et al., 1995). This therefore suggests that the practice of leadership in organisation is often aspirational. Finally, there are also methodological limitations in studying leadership and culture (Hunt, 1999).

Notwithstanding these limitations, there are also overriding advantages of using the culture and leadership constructs. Many authors (e.g. Schein, 2004; Hofstede, 1991, 2001; Bass, 1985; Bass and Avolio, 1993; Parry and Proctor-Thomson, 2003) see culture and leadership as offering an excellent basis for exploring human actions within organisations or any other situation, as well as how such actions are socially constructed. Moreover, the qualitative research design utilised in this study has strengthen its limitations, which have been the major concerns of Hunt (1999) and by Beyer (1999). In conclusion, culture and leadership are found to be well-suited to exploring the findings of the substantive GT generated in this study for the reasons given above. More so, culture is compatible with a constructivist perspective in which the meanings of social events, behaviours or processes can be casually attributed (Geertz, 1993; Hofstede, 1991). Finally, most of the findings of the substantive theory are covered by the culture, leadership and corporate governance literature, which is explored in the next section.

9.6 Exploring the Substantive Theory within the Culture and Leadership Framework

This section discusses the findings of the substantive theory (see Section 9.2) in the context of culture and leadership. As indicated earlier, culture and leadership cover most of the findings of the substantive theory, as will be discussed in the following sections.

9.6.1 Examining corporate governance as a cultural process

The substantive theory holds that human actions affect corporate governance, which explains the influence of the self-interest of bank officials and the organisation itself, and the lack of transparency caused by the executive management’s non-accounting and dishonesty in the auditing process. The substantive theory indicates that the self-interested behaviour observed in this research was influenced by three factors: individual greed, protecting one's own or one's family's interests, and organisational self-interest aimed at maximising corporate profits. It is these behaviours exhibited by some officials and organisations that appear to have constrained the enforcement of various mechanisms in the banking industry over time. These elements have motivated most banks and individuals to resort to the manipulation of procedures, and to take various actions for individual or group material gain.

Such behaviours also dictate which of the regulations/provisions of the Code of Corporate Governance the leadership and the banks comply with. The interpretation expressed by the participants relates to the definitions of various scholars (Rilley, 1982; Kangas, 1997; Brennan, 1994; Etzioni, 1988; Kohn, 1990; D. T. Miller and Ratner, 1996), which have labelled self-interest as that cardinal human motive or activity carried out in search of personal advantage or gain. The substantive theory shows that self-interest, as defined by the participants, accounts for several of the bank crises experienced in recent times. It also accounts for the lack of transparency relating to the quality of accounting and auditing of the financial records of various banks, which further questions the reliability and credibility of the financial information disclosed to stakeholders and other public users.

Within a cultural context, the legitimacy of self-interested behaviour exhibited by executive managers has been incorporated into banking organisations as a distinctive and shared norm or collectively shared cultural value (Kohn, 1990; Miller and Ratner, 1996). This aspect of culture is consistent with what Bourdieu (1977) described as "Habitus", which he explained as a system of durable transposable dispositions learned from everyday practices and experiences. It also relates to what Hofstede (1991) referred to as the broad tendency to prefer certain states of affairs over others, leading to the development of new rules of conduct, making groups more powerful and impeding organisational change (Gorga, 2003). Finally, it is consistent with the argument that cultural influence refers to the norms and values of such systems and the behaviour of groups in their interactions within and across systems (Perera, 1989). Indeed, these are the behaviours that have continued to influence corporate governance activities such as the transparent disclosure of financial information, the work of audit committees, and the compliance with and enforcement of the regulatory framework in the banking sector in Nigeria.

Disclosure practice does not develop in a vacuum, but rather reflects the underlying environmental influences that affect managers and companies in different countries (Adhikari and Tondkar, 1992), environmental influences that include culture (Cook and Wallace, 1990). Moreover, disclosure is an accounting activity involving both human and non-human resources and techniques as well as the interaction between the two (Perera, 1994). For example, the substantive theory indicates that the CBN introduced certain strategies to address human action and the lack of leadership. One such strategy was the introduction of the IFRS template to facilitate the disclosure of information by banks. Though such disclosures are made regularly in the banks' annual financial reports, the CBN has found that most of the information does not represent the banks' true accounting positions and hence unreliable. This mirrors studies by Zarzeski (1996), Jaggi and Low (2000), Hope (2003), Qu and Leung (2006) and Akman (2011) on the influence of culture on financial disclosure. For example, Akman (2011) investigated whether culture was still playing a role in financial disclosure following the adoption of IFRS. His findings confirmed that culture, and particularly the individualism dimension as originally used by

Hofstede (2001) and others, was significantly related to the disclosure of companies in all years.

Similarly, Qu and Leung's (2006) exploratory study on the impact of the changed cultural environment on the voluntary disclosure behaviour of Chinese listed companies found that, even since the change in culture, there had been no voluntary disclosures related to party transactions among the sample companies. The change studied by Qu and Leung was related to the "Code of Corporate Governance for listed Companies in China". Their findings support an earlier study by Gray (1988) on the influence of Hofstede's four cultural dimensions on accounting disclosure, which confirmed that environmental factors such as culture impact on accounting practice and financial disclosure. Based on the above, it can be argued that resistance or refusal by the banks' leaders to comply with or enforce the provisions of the 2006 Code of Corporate Governance for Banks is due to the extent to which human action is embedded in the banking sector.

Indeed, the substantive theory also acknowledges that the CBN's actions in introducing various measures have led to some improvements in corporate governance activities. The measures taken cover critical areas such as whistle blowing, reforms relating to board structure (including NEDs on boards), and the reduction of the tenure of the CEO to a maximum of two terms of five years only, as well as risk management and the disclosure of financial information. The idea here has been to protect the larger stakeholders' interests and restore the soundness and safeness of banks for the benefit of the Nigeria's national economy. Within the context of culture, people's actions that aimed towards the common good, led by the strategies adopted by the CBN and other banks, can be considered a product of culture (Allison, 1992a, 1992b; Margolis, 1982; Boyd and Richerson, 1985). As Margolis (1982) explained, people can be driven by the desire to work towards a common good and as such hold societal contracts and norms in the highest regard. This is also consistent with V. L. Smith's (1998) argument that Adam Smith's proposition on human nature has two faces: both the desire for self-interest and working for the good of the society. Such actions also relate to the concept of culture 'as those social, political and other factors that influence an individual's behaviour and attitude' (P. B. Smith et al., 2002, p.189).

The intention behind the CBN's and other banks' strategies was to change the self-interested behaviour and lack of transparency shown by executive managers, and consequently reduce internal agency problems. As H. Schwartz and Davis (1981) argued, firms with internal cultures that are supportive of their strategies are more likely to be successful. This means that it is desirable to change culture so as to improve performance. Here, the substantive theory sees the cultural changes as commencing with the political will of the regulating authority to initiate a corporate governance process for banks, through strategic measures introduced through the Code of Corporate Governance for Banks and other directives.

9.6.2 Achieving corporate governance through leadership

The substantive theory emphasises internal compliance with, and monitoring of, the strategies initiated by the CBN and other banks. It also reveals that the banks' leadership has failed to steer corporate culture towards meeting the expectations of the regulatory authority, the shareholders and the depositors, as well as international standards. Here, the substantive theory indicates that the lack of an adequate corporate culture is due to the inability of boards of directors and CEOs to behave responsibly (being involved in widespread insider abuses and the manipulation of procedures for their own or corporate gain). Many studies have identified corporations where it is quite apparent that senior executive self-interest dominates (Byrne, 2002), as in the case of Enron and WorldCom (Osborn et al., 2002). Indeed, the leadership of boards of directors, in terms of monitoring and directing compliance with regulatory provisions and other directives, is considered to be 'the apex of the internal control system' (Jensen, 1993, p.862). In the leadership context, especially in terms of transformational leadership, boards of directors are the leaders through which desired change can be accomplished. This is consistent with Filatotchev and Nakajima (2010), who stated that the board represents an organisation's owners and is responsible for ensuring that the organisation is managed effectively through the adoption of control mechanisms aimed at ensuring that management behaviour is consistent with the interests of the owners.

Thus, the control strategies initiated for the banks by the CBN can be considered as a vital leadership transformation process, because transformative leadership would honour the governance obligations by demonstrating a commitment to the welfare of all stakeholders by influencing monitoring and compliance. This further relates to the definition by Caldwell et al. (2012, p.176) of transformational leadership 'as a leadership that integrates a commitment to value and outcomes, by optimising the long-term interest of stakeholders and society and honouring the moral duties owed by organisations to their stakeholders'. Under existing company law and the Code of Corporate Governance for Banks, boards of directors are responsible for the monitoring and supervision of the internal control of banks. This means that they have the power to change the organisation's internal cultural forms and substance. Thus, leadership is a culture-influencing activity (Bass and Avolio, 1994; Alvesson, 2011). From the context of leadership, all actors, but leaders especially, must embody the norms of their positions and persuade others in ways that are consistent with their normative obligations. In other words, they must protect societal and business cultures, and set limits for the kind of managerial behaviour and arrangements that are acceptable (Alvesson, 2011).

The substantive theory also reveals that the competence of a board of directors is assessed regularly, while training programmes are provided for management staff with the aim of improving their skills and competences. From a leadership perspective, such measures help to motivate followers by inspiring them, improving individual development, and increasing their intellectual stimulation, all aimed at increasing the corporate performance of their organisations (Avolio et al., 1995; Bass and Steidlmeier, 1999). It is also argued that, since culture is established as an integral part of an organisation (Schein, 2004; Hofstede, 1980), the thinking, feeling and responses of leaders are invariably moulded by culture (Bass and Avolio, 1993; Schein, 2004). Of significance is the fact that leadership is not only the incremental influence of a leader over his/her subordinates but, more importantly, the collective incremental influence of leaders in and around the system (Osborn et al., 2002). Thus, leadership plays a significant role in changing organisational performance (Parry and Proctor-Thomson, 2003).

Finally, the substantive theory acknowledges that, although there are constraints impeding corporate governance practice in the banking sector, the responses to the strategies and other control mechanisms implemented have created significant awareness of the importance of corporate governance to achieving greater corporate performance. Moreover, banks and their executive management are aware of the consequences of not heeding the corporate governance provisions. Indeed, using both culture and leadership offers an excellent basis for explaining the underlying reasons behind the corporate governance phenomenon, and how banks might improve their performance. This further confirms the arguments of previous studies that adopting culture and leadership in corporate governance-related activities not only enhances performance and improves organisational growth (Ardichvili and Kuchinke, 2002; Parry and Proctor-Thomson, 2003; Kuada, 2010; Munley, 2011), but also guides the understanding of the changing dynamics in organisational activities in any given situation. Overall, this supports the findings of the substantive theory, which demonstrate that leadership is reflected in the values, policy making and cultural dimensions of the banking sector.

9.7 Relationship between the Developed Substantive Theory and Other Formal Theories

Although the main objective of this study was to develop a substantive theory of corporate governance derived from data generated from the experiences of the participants, the GT approach adopted requires the researcher to understand the relationship of the developed substantive theory for formal theories (Strauss, 1987). Generally, substantive and formal theories exist at distinguishable levels of generality, differing only in terms of degree. Thus, the difference between substantive and formal theories is that the former 'evolves from the study of a phenomenon situated in one particular situational context' (Strauss and Corbin, 1990, p.174) as in this case, while the latter 'emerges from the study of a phenomenon examined under different types of situations' (ibid.). As with many developed substantive theories, the applicability of the one developed in this study to other contexts may be limited if the constant comparative method of modifying a theory is neglected. The essence here to attempt to show how the substantive GT generated in this research fits into a formal theory. This is because relating the substantive theory to a formal theory enables the generalisation and transferability of the research results to other scenarios elsewhere.

Furthermore, the principle behind comparing the developed substantive theory to a formal theory is to enhance 'the internal validity, generalizability and theoretical level of theory building' (Eisenhardt, 1989b, p.545). Glaser and Strauss (1967, p.34) added, 'to enable GT findings to be transferable between contexts, substantive theory should be moved to formal theory'. In fact, this process makes GT a multi-area theory. To achieve this, the substantive GT is matched back to the extant literature (D. K. Locke, 2001; Parker and Roffey, 1997), as a result of which cases are allowed to talk to one another (Ahrens et al., 2008). Indeed, doing so gives the theory 'greater meaning' (Glaser and Strauss, 1967, p.94). In fact, relating the developed substantive theory with formal theories can help to locate the arguments made in the substantive theory within the existing body of knowledge, thus making the substantive theory more explicit (Charmaz, 2006).

As earlier stated, the substantive theory generated in this thesis rests on a number of fundamental forces that have influenced the nature, structure, process and quality of corporate governance practice in the banking sector. In Chapters 2 and 3 it was argued that traditional theories and practices of corporate governance were unable to offer the required level of understanding to consider the corporate governance phenomenon to be a social process (Letza and Sun, 2002; Letza et al., 2008; Eisenhardt, 1989a; Rossouw, 2005). Moreo so, Young and Thyil (2008) contended that, some previous frameworks used for corporate governance were not compatible with the changing nature of organisations or did not reflect the current realities in a given situation (Zingales, 2000; Podrug and Racic, 2011). Moreover, the theoretical frameworks used previously were inadequate in dealing with the recent corporate governance scandals occurring on a global scale (G. Kirkpatrick, 2009), especially in banks within the developing countries of Africa. As Layder (1993, p.43) stated, 'all formal theories are dependent on initial substantive insight'. Thus, Figure

9.1 below shows how the substantive theory of this study can be located within the relationship of culture and leadership theories. These aspects, in essence, give a broader understanding of the implications of the substantive theory in terms of evolving a general theory for corporate governance practice in other contexts.

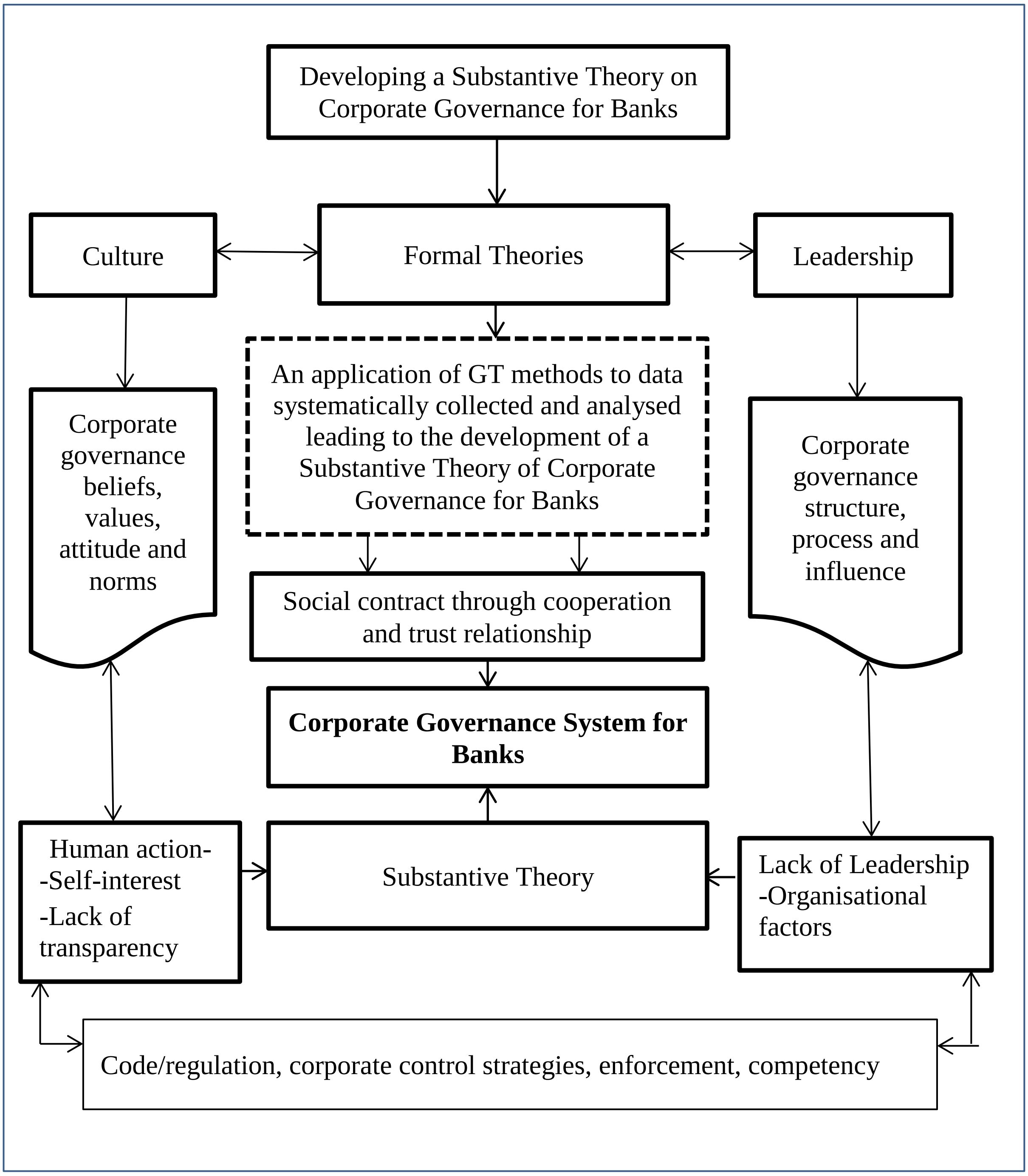

Figure 9-1 The Relationship of the Substantive within the Formal Theory

9.8 Strategic Approach to Substantive Grounded Theory

Jensen and Meckling (1976) stressed that a firm's success is dependent upon the successful management of all of its relationships with its stakeholders. From the substantive GT, many approaches could be available to the banks and the regulatory authority to address the identified human action and lack of leadership. However, in this thesis, we suggest a strategic approach that they can develop to ensure an effective corporate governance mechanism. Here, the use of the social contract is found to provide, not only a moral precept that is implicit to realising the objectives of the substantive GT, but also a more rational and acceptable approach to the situation. In corporations, apart from the formally specified obligations, there also exists 'a set of binding, abstract ones' (T. Donaldson, 1982, p.36).

The legitimacy of and justification for the social contract, which was founded on the early political theories of Hobbes 1651(1972), J. Locke 1690 (1980) and J. J. Rousseau 1762 (1987) on human nature and the state of nature, aimed at ensuring peace in society and communities, is significant in today's business environment. For instance, J. Lock's 1690 (1980) version of the social contract provides a reasonable guide to the legitimacy of government 'as a trustee and umpire…and the creation of a people through an act of consent' (Dienstag, 2001, p.1006). It is also significant in addressing issues related to free riders[44] who exist within industries, national economies, trade groups and corporations (T. Donaldson and Dunfee, 2002). Similarly, Axelrod (1986) contended, the idea of a social contract has been a powerful image for the support of democratic forms of governance and

[44] A free rider is someone who enjoys the benefits of others' compliance with a rule but violates it for the sake of personal advantage. As such, if everyone were allowed to behave as the free rider does, then the rule of law would lose its social legitimacy.

as such ‘a mythical agreement can be used to give legitimacy to a very real set of laws and institutions’ (p.1106).

In business organisations, this contract is seen as a process in which an individual’s environment is constantly adapting, revolving and evolving (Hung and Huang, 2010). In this context, we add that the construct of the social contract must reflect essential working elements such as cooperation[45] if the consent among the parties is to work well, since in agreements parties are required to show their commitment through actions rather than words. For instance, in relation to insider abuses in banks, Sheppele (1993, p.151) confirmed that the social contract supports restrictions on insider trading by providing ‘concrete guidance in working out how to think about the ethics of insider trading’. She argued that the restrictions were justified based upon a contractually derived desire to provide equal access to financial markets. Similarly, T. Donaldson and Dunfee (1999) indicated that the use of the social contract relationship led Shell Petroleum to recognise that people in Nigeria, and indeed citizens of other emerging economies, expect large multinationals to play a public role. In other words, Shell was forced to reconcile its own conception of responsibilities to the public conception. In effect, Shell eventually factored the social contract into its ethical decision making because, as a consequence of the Nigeria and Brent Spar episode, they came to view the ‘implicit agreements or “extant social contract” that evolved in Europe, Nigeria, and elsewhere as critical components of its business context’ (T. Donaldson and Dunfee, 1999, p.6).

[45] Cooperation here refers to how people work together to advance group or organisational goals and is considered a central organising process with important implications for organisations. It is a theoretical construct that can fit into any situation defined by its users (Keller and Loewenstein, 2011), and as such may be applied in this context.

As such, it should be a central concern for all actors. Indeed, cooperative behaviours, when reciprocated, tend to spiral into ever higher levels of cooperation (Axelrod, 1990). Here, we define cooperation in relation to maximising the collective interest rather than individual or group interests[46]. The cooperative construct also requires the incorporation of trust, which is essential in interpersonal and intergroup work activities, including leader-subordinate relationships (Dirks and Ferrin, 2002)[47]. Furthermore, trust increases one party's confidence that the other will act cooperatively rather than opportunistically, which then increases its own willingness to cooperate (Das and Teng, 2001).

For instance, where the disclosure of financial information is found to be inadequate to varying extents, the presence of trust in social contract can play a very significant role. As Parkhe (1998) argued, a party must spend less monitoring highly trustworthy individuals than less trustworthy individuals. Similarly, with respect to leadership, trust helps to harness efforts towards achieving a common goal (Dirks and Skarlicki, 2004). Also, a loss of trust can not only threaten the norms of collaboration and commitment (Hofstede, 1980) but also leadership effectiveness (Dirks and Ferrin, 2002). In organisations such as banking institutions, the existence of trust builds optimism about others' behaviour, which can lead to further gains based on mutual cooperation (Frank, 1990). As R. J. Macey (2008, p. vii) indicated, corporate governance is about promise, because 'the idea of promise captures the primordial fact that trust rather than reliance on the prospect of enforcement is the focal point of a successful system of corporate governance'. Moreover, as Shleifer and Vishny (1997) argued, corporate governance is an economic and legal institution that can be altered through the political process. This argument is also linked to

[46] Group interests in this context refer to the organisational drive towards its set objectives.

[47] Behaviour is used here in a subjective context. It includes not just overt or covert actions, but may also be constituted by failure to act, or by passive acquiescence.

the view that corporate governance as a process includes not just the regulation of the activities of firms but the 'web of relations that surround their operations between stakeholders, shareholders, employees and the state' (Rhodes and van Apeldoom, 1998, p.407). Thus, a social contract principle based on trust could be useful for decision makers adopting the substantive GT of this thesis, especially in a business environment like Nigeria.

9.9 Conclusion

This chapter has described in detail the substantive theory of corporate governance that resulted from the application of the GT process to a series of interviews and a focus discussion conducted in 2011. It reflects the opinions of the executive managers of banks, CBN and NDIC officials, and other stakeholders, showing human action and a lack of leadership to be critical forces affecting corporate governance in banks. The substantive theory captures the complexities of relevant events and happenings, and shows why they occur in Nigerian banks. Indeed, it is these events and happenings that have led to the various corporate failures, and the reforms and other policy directives that have followed, in recent times. These measures have been explained as a response by the CBN and other stakeholders aimed at improving the governance practices in Nigerian banks by controlling managerial abuses, irrational risk taking and other actions across the management hierarchy.

This chapter has discussed the relevance of culture and leadership to the study of corporate governance and reviewed corporate governance by utilising culture and leadership theories. It has also offered some limitations of linking them, while stressing that they are still relevant to understanding the corporate governance phenomenon, as explained by

Ardichvili and Kuchinke (2002), Parry and Protor-Thomson (2003), Kuada (2010) and Akman (2011). After this, the substantive GT was explored in the light of the culture and leadership theoretical framework. The chapter has also highlighted the relationship between the developed substantive theory and formal theories, in an attempt to give it more formality, making it into a formal substantive theory (Glaser and Strauss, 2009). This is illustrated in Figure 9.1. Finally, this chapter has suggested that social contract theory should be used, within the contexts of cooperation and trust, to address the findings of the substantive theory. This also forms the basis of the next chapter, which presents the conclusions of the thesis.

Chapter 10. Conclusions, Implications for Practice and Future Research

10.1 Introduction

This thesis has heeded the calls for an alternative corporate governance system reflecting the special nature of banks, particularly in developing countries such as Nigeria. Using the GT process, qualitative data were collected through interviews and a focus group involving bank officials and other stakeholders, and then systematically analysed. This led to the construction of a substantive theory aimed at enhancing our understanding of the corporate governance phenomenon in banks. This has met the objective of this study: to build a substantive theory of corporate governance for banks using a culture and leadership theoretical framework and the GT techniques of coding and comparative analysis. This study has therefore discovered and comprehended the nature of the corporate governance phenomenon and its interaction with certain processes, which led to various events and happenings within the banking sector. The substantive theory constructed herein joins the hierarchy of substantive/formal theories in corporate governance research. The formal GT of a corporate governance system for banks resulted from relating the substantive GT with culture and leadership theories and findings from other substantive areas. This final chapter offers some conclusions from the research and the theory, and discusses the contributions this study has made to knowledge. Drawing from the findings, the chapter also offers some implications for the achievement of good corporate governance using the social contract, trust and cooperation. The limitations of the study and recommended areas for future research follow.

10.2 An Overview of the Research and the Theory

The contemporary evolution of corporate governance, from the managerial capitalism that fuelled the US stock market crash in 1929 (Berle and Means, 1932), to the recent global financial crisis of 2007–2010, continues to play a role in public discourse and as a reference among scholars, policy analysts and corporate practitioners (Sun et al., 2011). While several corporate governance theories and practices have evolved over the years (Alchian and Demsetz, 1972; Jensen and Meckling, 1976; Shleifer and Vishnny, 1997; Daily et al., 2003), they have generated much debate over which is the best model for addressing emerging corporate governance issues (Eisenhardt, 1989a; M. O'Sullivan, 2000; Daily et al., 2003; Letza et al., 2004, 2008). Overall, these are indications of failures that have led to repeated calls for an alternative governance mechanism that reflects individual social/economic environments (Learmount , 2002; Sonnenfeld, 2002; Okeahalam and Akinboade, 2003; Okike, 2007; Letza et al., 2008; Inyang, 2009), especially for institutions such as those in the banking industry (J. Macey and O'Hara, 2003; Barth et al., 2006; Ariely, 2009; K. Alexander, 2010; Tomasic, 2011).

In developing countries, the experience of corporate failures in the banking industry is not especially different from the events in developed economies that have already established corporate governance systems (Arun and Turner, 2004. Even though reform initiatives such as regulatory measures, privatisation and consolidations have been undertaken by different regimes, including international organisations (the World Bank, IMF, ROSC and BCBS), such measures have in most cases been found inadequate (Reaz and Turner , 2006). For instance, in Nigeria, despite the existence of the Code of Corporate Governance and other regulations, the growing concern over banking failures has increased the calls for an alternative governance mechanism for banks (Wilson, 2006; Okike, 2007; Adegbite, 2010; Nworji et al., 2011). This thesis heeds these calls, and has as its main objective the development of a substantive theory of corporate governance for banks. To achieve this, the thesis adopted a theoretical framework of culture and leadership, which provided a unique opportunity to comprehend the underlying reasons for the corporate failures in the banking industry.

Furthermore, GT techniques were used in the systematic data collection and analysis, based on a series of interviews and a focus group discussion with bank officials and other stakeholders involved in corporate governance policy and implementation. GT has been found to offer new insights into old problems and can also open up entirely new areas for study. Moreover, it is an ideal methodology in domains where disparate substantive and frequently conjectured theories claim ultimate relevance while ignoring other theories that may contradict their own (Yee, 2001). Indeed, the use of GT helped with the development of the substantive theory of corporate governance (see Chapter 9), and the discussion of its relationship with the formal theory of culture and leadership. The cardinal reason for looking at this relationship was that, as valuable as the contribution of the substantive theory is, it is the contribution to formal theory that reveals the most powerful aspect of GT analysis (Glaser and Strauss, 1967). In other words, it is the utilisation of the formal theory in this research that has confirmed the influence culture and leadership have on the corporate governance of banks, and enhanced the other contributions to knowledge.

10.3 The Contributions of the Study

In the literature review section of this thesis (Chapters 2 and 3), a body of knowledge was introduced relating to the concerns regarding an alternative corporate governance mechanism, especially for banks. Evidence was presented of a lack of research addressing the phenomenon of corporate governance in the banking sector. The extant literature also identified a number of other issues relating to the inadequacy of the shareholder or stakeholder paradigm for understanding the corporate governance phenomenon. The main reasons suggested for this were that corporate governance issues lie on a continuum, changing over time and across different environments, and with the nature and peculiarities of institutions, especially for banking organisations in developing countries and, as is relevant to this thesis, Nigeria. This further emphasises the need for an alternative methodology to uncover the nuances of corporate governance practice within the banking sector. This study has produced a number of contributions to knowledge, relating to methodological, theoretical and practical aspects, as will be discussed in the following sections.

10.3.1 Methodological contributions

Methodologically, using GT heeded to the call of Daily et al. (2003) for the adoption of a new methodological approach in corporate governance, in an unexplored context. It also responded to the calls to use a qualitative research design when synthesising leadership and culture (Parry, 1998; Hunt, 1999). By attempting to understand the nature of the corporate governance of banks in Nigeria, and to interpret and construct it through the use of GT, this thesis has generated a substantive theory of corporate governance for banks in Nigeria. This has been achieved by basing the study on culture and leadership, as an alternative underpinning theoretical framework to the conventional agency or stakeholder-shareholder theories. In this context, the study has extended the application of GT based on the social constructivist paradigm of inquiry, leading to a fresh and faithful understanding of corporate governance in a new area. Overall, the substantive theory generated through the application of GT has added to the few extant studies of corporate governance that had utilised GT previously namely: Xiao et al. 2004: Goddard and Assad, 2006: Nwanji, 2005; Sorour, 2011.

The use of GT has also shown, through a variety of data sources,[48] how the interaction between culture and leadership explains the underlying phenomenon of corporate governance in banks. More so, GT-based qualitative data analysis added to the validity of the qualitative form of research used to explore these corporate governance issues, which was especially useful for the context of banks, which are distinctly specialised institutions. It also showed that using a constructivist approach to analyse participants' views qualitatively can help to better address aspects relating to human behaviour in a business environment (Fisher, 2007). Fourthly, employing GT in this study reaffirms its importance for investigating management issues. This is consistent with D. K. Locke's (2001) view that the methodology is an accepted and particularly appropriate theoretical approach for research in management studies aimed at producing 'action oriented theoretical products' (ibid., p.107). Finally, in relating the substantive findings to a formal theory using the culture and leadership theoretical framework, this research has further validated the significance of the GT approach in business management issues. Moreover, in this study, the explanation of the move from substantive to formal GT shows that the findings of a substantive theory can be cumulative (Glaser and Strauss, 1967; Strauss, 1987; Parker and Roffey, 1997).

10.3.2 Practical contributions

This research has a number of practical implications for policy makers involved in the corporate governance of banks, including the Nigerian regulatory authorities (the CBN and the NDIC). First, the substantive theory has identified the challenges that are currently impeding corporate governance practice in banks, namely the self-interested behaviour of certain individuals, and to some extent of the banks themselves, the lack of transparency, the difficulties of enforcing the existing code / regulatory frameworks, and the lack of an

[48] Interviews and focus groups complemented by reports and relevant documents.

acceptable corporate governance culture in banks. These are essential elements that will need to be addressed in developing a corporate governance mechanism for banks. For instance, some rules appear not to be used in practice due to deficiencies in terms of their adequacy and their overlaps with other provisions, a problem that requires both reviews and harmonisation. The research has also indicated the deep influence of both culture and leadership in directing corporate governance activities in banks. This needs to be understood if the corporate governance of banks is to be improved upon. This adds to criticisms of the reliance on regulatory or market mechanisms alone in designing corporate governance for banks. Moreover, this study has shown that in each environment there may be specific factors that impede governance practice, despite the existence of regulations. Finally, due to the complexities of culture and leadership, this thesis proposes the utilisation of social contract theory, along with the constructs of cooperation and trust, in order to actualise the findings of the substantive GT, as will be discussed in Section 10.4 below.

10.3.3 Theoretical contributions

The combination of the GT technique and the culture and leadership theoretical framework in studying corporate governance has added to the theoretical relevance of each for understanding organisations and how they are managed. It has also added to the theoretical arguments of Sun et al. (2011), Sonnenfeld (2002) and Letza et al. (2008) that corporate governance is a social process rather than an economic one. Moreover, it validates the idea that corporate governance is culture and leadership-laden, and socio-politically influenced (Demirguc-Kunt and Maksimovic , 2002; Licht, 2001). Furthermore, it justifies the need for a broader mechanism for banks that has been proposed by many scholars, including J. Macey and O'Hara (2003) and Tomasic (2011), and aids our understanding of the complexity of the internal agency problem (Eisenhardt, 1989a).

This study also makes a distinct contribution by exploring and affirming the general validity of certain agency theory assumptions in the banking sector – in particular the self-interested motives of economic agents such as executive directors/managers in Nigerian banks. Even though some evidence was found of some banks and other individuals cooperating and complying with the corporate governance codes and other rules, they are certainly failing to meet the overall corporate governance expectations. Finally, the findings can be considered a starting point for other researchers of culture and leadership in organisations, particularly in the banking sector. They provide researchers with an opportunity to present a more complete picture of corporate governance for banks, within the framework of culture and leadership, as well as for other countries that share similar difficulties to those faced by banks in Nigeria.

10.4 Implications of the Substantive Theory for Practice

A substantive theory is a single-area theory developed for a substantive/situational context (Glaser and Strauss, 1967; Strauss, 1987). As such, stating its implications for practice forms an important aspect of GT studies. The findings of the substantive GT in this research have several implications for the achievement of good corporate governance practice in banks in Nigeria. However, to utilise the substantive findings through the social contract, trust and cooperation, it is recommended that the policy makers regarding corporate governance for banks (i.e., the regulatory body the CBN, and the boards of directors and management of banks) consider the following:

1) By encouraging social contracts, the boards of directors of banks, along with the regulators, should develop the idea of rational agreement, which would work simultaneously in two directions. Firstly, it would give moral reasons for

perceiving the institution from an impartial and impersonal standpoint. Secondly, it would show the direct implications of personal incentives and motivations that could be implemented in practice.

2) They should encourage individual boards to take a moral perspective; this could be ensured through codes of practice specific to individual banks, as well as more generic ones relating to the whole of Nigeria.

3) The boards of directors/management and the regulatory agency (the CBN) should also create a stimulating and high-trust environment that will restore trust within the hierarchy and between the banks and their stakeholders. It is important that the boards of directors and indeed the stakeholders involved in corporate governance process are willing to accept the challenges of change and improve their commitment to banking organisations.

4) The board members/management should be encouraged to be continually aware of and sensitive to the impact their self-interest and lack of transparency has on the banking system. This will be possible if they are constantly made aware of and more knowledgeable about the need for integrity. As Hung and Huang (2010, p.81) contended, ‘the concept of integrity is closely bound to morality’.

5) In addition, the boards of directors and the regulatory body should convert their own perceptions into beliefs and attitudes among the bank employees through cooperation and trust so as to forge greater commitment towards good governance practice. This step would ensure long-term corporate performance and the rebuilding of business confidence in the banking sector.

6) The substantive theory findings offer suggestions about the underlying motives behind the current culture that is unreceptive to leadership, and ruled by self-interested attitudes and a lack of transparency. To improve the situation, the boards of directors and indeed the management should exhibit a spirit of transparency and the desire for common good.. This can be achieved through the entrenchment of trusting elements and mutual cooperation in the corporate culture of banks.

7) To achieve leader transparency, boards of directors should ensure that they share relevant information during their interactions with their followers, that they are open to giving and receiving feedback, and that they are forthright about the reasons behind their decisions.

8) Finally, without overlooking the legal and economic efficiency requirements of the present framework, it is indicative that the desired corporate governance for banks should consider the broader social products of corporate governance by incorporating an understanding of the continually changing cultural and leadership dynamics that impact on the effectiveness of corporate governance practice in Nigerian banks.

Moreover, this research recognises that some strategic efforts have been made by some banks and the CBN to improve corporate governance practice. This shows that there is some good stewardship and a desire to work diligently for the common good of the banking sector. However, it has also been proven that the human action and leadership issues cannot be addressed sufficiently through code/regulation alone; the governance system must continue to incorporate other social processes.

10.5 Limitations of the Study

The main limitations of this study cover four areas: generalisation, time span, the application of the substantive theory and the research sites. These are highlighted in the following paragraphs.

a) Generalisation of the findings

In an interpretive study, the generalisation of the substantive theory is not a major concern. As such, the contributions to knowledge are explained in alternative terms. As Charmaz (2006, p.153) argued, 'if you offer a fresh or deeper understanding of the studied phenomena, you can make an original contribution. Grounded theorists can contribute to a speciality field and simultaneously extend general theoretical interpretations that cut across fields'. Along these lines, this interpretive study has provided a deep understanding of the effects of corporate governance for banks and does not aim to facilitate any wide-ranging generalisation. Moreover, due to the nature of corporate governance as a process, as well as the underpinning theories of culture and leadership, the wider application of the substantive theory may be limited as no two situations are the same.

b) Time span

The data collection for this research focused on the period from post-consolidation to 2011. This may have limited the understanding of the corporate governance events studied. Moreover, some of the respondents might not have worked in the industry before the consolidation era, while others may not have been involved in critical areas of governance. Nevertheless, these limitations were reduced to a minimum through the use of a broad range of interviews and the focus group discussion. In addition, some documents were obtained from the banks to complement the interviews, and these provided valuable insights into the governance practices in the banks.

c) Research sites

The research sites included the banks and the offices of other parties related to policy and the implementation of corporate governance in the banking sector. A more in-depth investigation would have included social elements, such as university academics who had contributed to governance issues, and other non-quoted financial institutions that share similar constraints. However, this was not feasible, owing to the time period within which the study had to be completed.

d) The application of the substantive theory

Finally, the conclusions reached through the substantive theory should not be assumed to constitute a concrete or highly "objective" reality but rather an interpretation, a credible and convincing reality that has been mediated and constructed by the researcher through set-out procedures and analysis. Indeed, this is very much an exploratory study that has nevertheless responded sufficiently to the established research questions and the main aim of the study. As such, areas for possible future developments that might extend and expand upon the findings are proposed in the next section.

10.6 Areas for Further Research

This thesis has explored the general literature relating to the main theories and practices of corporate governance, especially for banks, in an effort to gain a greater understanding of its practice in Nigeria. Through the application of GT procedures within a social constructivist paradigm of inquiry, a substantive theory of corporate governance for banks in Nigeria was developed. An approach of this sort considers social reality not to be objective and as such able to be comprehended and constructed through subjective interactions between the researcher and the social world. The objective of this thesis has been to provide further understanding of the corporate governance of Nigerian banks within the context of a culture and leadership theoretical framework. This approach has allowed the author to propose solutions to a number of problems identified with various corporate governance systems and their application in the banking sector.

However, a significant point to note is that the substantive theory developed here is only a construction of the opinions of the study participants drawn from within the banking sector in Nigeria. Although this substantive theory was given more formality through further exploration using the culture and leadership theoretical framework, this does not automatically upgrade the theory to a formal one. This will only be achieved by studying corporate governance for banks within many different substantive areas. Indeed, other researchers can consider, firstly, investigating the corporate governance of banks in different banking sectors, and expanding and refining the GT applied in this study, using culture and leadership as an alternative framework to examine the explanation of the corporate governance of banks.

Secondly, the findings of this thesis are based on a qualitative research design, which opens up the possibility for other researchers to use alternative research designs to investigate the determinants of corporate governance practice in banks that have been identified here. Thirdly, the utilisation of GT to investigate corporate governance in banks is only a starting point. It does not provide full conceptual descriptions, factual accuracy or verification of the phenomenon. This suggests the need for further theoretical developments through continued conceptual modifications and verifications, since corporate governance itself is an evolving process. Fourthly, the substantive theory focuses on Nigerian banks and, since culture and leadership parameters are by no means homogeneous (Rossouw, 2005), researchers can use these findings as a guide to applying the theory elsewhere. In addition, though we propose social contract principles to guide the implementation of the findings of the substantive theory, alternative strategies could be considered depending on the context.

Fifthly, although the research process followed here did reduce the effects of the above limitations, future studies should still consider how to address them further. In addition, since corporate governance itself is an evolving phenomenon, similar research in any developing country, particularly other African countries, may provide further explanations of the corporate governance process for banks. Finally, despite the attention being paid to banks' corporate governance at present, the expected change in practice will only happen if policy makers (the CBN, the banks and other stakeholders) can learn significantly from the substantive theory presented herein. It is our understanding that research findings are more meaningful if they are used to some degree in the area concerned, and we hope very much that our findings will be used by policy makers as recommended earlier.

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Appendix A: Post Consolidation Banks

SN.	Bank	Remark
1	Access Bank	Note: The asterisk banks were in the process of being acquired during data collection and analysis of this thesis. As such, the banks may likely assume different name or status.
2	Afribank	
3	Diamond Bank	
4	EcoBank	
5	Equitorial Trust Bank	
6	First City Monument Bank	
7	Fidelity Bank	
8	First Bank Plc.	
9	First Inland Bank	
10	Guaranty Trust Bank	
11	IBTC Chartered Bank	
12	Intercontinental Bank*	
13	Oceanic Bank*	
14	Platinum Bank*	
15	Sky Bank	
16	Spring*	
17	Stanbic Bank	
18	Standard Chartered Bank	
19	Sterling Bank	
20	United Bank for Africa	
21	Union Bank	
22	Unity Bank	
23	Wema Bank	
24	Zenith Bank Plc.	
25	CENTRAL BANK OF NIGERIA: The Regulatory Authority of Banks	

Appendix B: Ten Statements Questionnaire

A Survey of CEOs and Managers on Corporate Governance Practice of their Organisations

Please answer by ticking one: Strongly Agree; Agree; No View; Disagree; Strongly Disagree
Ans 1 2 3 4 5

Please **Specify the Bank**:

1. Corporate governance practice in your company has improved since the introduction of the new code of corporate governance for banks in 2006.
   Ans 1 2 3 4 5
2. The code of corporate governance for banks does not meet your corporate objectives.
   Ans. 1 2 3 4 5
3. The role of the audit committee for your bank has performed well in its activities
   Ans. 1 2 3 4 5
4. Your board considers best corporate governance practice as a priority in your organisation. Ans. 1 2 3 4 5
5. Your employees have not understood the essence of corporate governance in the organisation.
   Ans. 1 2 3 4 5
6. Your boards' main strategic goals relate to a culture of compliance to ensure rules and regulations that achieve effective control.
   Ans. 1 2 3 4 5
7. Disclosure of information in the organisation has been the major challenge the Board of Directors expected to address.
   Ans. 1 2 3 4 5
8. Your bank still needs improvements in some aspects of corporate practice in order to meet expectations of the code of governance.
   Ans. 1 2 3 4 5
9. Your corporate governance challenges are a reflection of some cultural elements than with the provisions of the code.
   Ans. 1 2 3 4 5
10. The nature of policy making and monitoring organisations are the main problems in achieving your corporate objectives
    Ans. 1 2 3 4 5

Your time is sincerely appreciated in completing this form. We assure you of confidentiality and personal details will not be included in any part of the research or made public.

Please if you would like to take part in an interview for 25-30 minutes, indicate your contact below:

Name: ________________________________Email:_________________________________

Appendix C: The University Introductory Letter

To Whom It May Concern

This letter is to introduce Mr Umar Abbas Ibrahim, a PhD research student at the University of Plymouth Business School in the UK. Mr Ibrahim is conducting research on corporate governance in Nigerian banks. The purpose of the enclosed survey questionnaire is to help identify and understand the effects of the corporate governance mechanism for banks in Nigeria. Your thoughts on this issue will contribute towards the development of a substantive theory on corporate governance for Nigerian banks. It would be appreciated if you would identify a senior manager in your bank who is knowledgeable about the issues in the questionnaire. We also wish to confirm that the university's Research and Ethics Committee has reviewed this study; any information obtained will be treated with the utmost confidentiality. In addition, organisations and persons providing information will not be mentioned or disclosed, and participants will be provided with a summary of the interviews, analysis and interpretations of the research, if they so require. The university counts on organisations and communities to assist research students in their data collection for research purposes. We would therefore appreciate your organisation's assistance.

Yours Sincerely,

Appendix D: Code of Corporate Governance for Banks in Nigeria Post Consolidation

CENTRAL BANK OF NIGERIA

CODE OF CORPORATE GOVERNANCE FOR BANKS IN NIGERIA POST CONSOLIDATION

(Effective Date: April 3, 2006)

MARCH 1, 2006

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PART I: NEED FOR A NEW CODE OF CORPORATE GOVERNANCE

1.0 Introduction

1.1 Financial scandals around the world and the recent collapse of major corporate institutions in the USA and Europe have brought to the fore, once again, the need for the practice of good corporate governance, which is a system by which corporations are governed and controlled with a view to increasing shareholder value and meeting the expectations of the other stakeholders.

1.2 For the financial industry, the retention of public confidence through the enthronement of good corporate governance remains of utmost importance given the role of the industry in the mobilization of funds, the allocation of credit to the needy sectors of the economy, the payment and settlement system and the implementation of monetary policy.

1.3 In Nigeria, a survey, by the Securities and Exchange Commission (SEC) reported in a publication in April 2003, showed that corporate governance was at a rudimentary stage, as only about 40% of quoted companies, including banks, had recognized codes of corporate governance in place. Specifically for the financial sector, poor corporate governance was identified as one of the major factors in virtually all known instances of a financial institution's distress in the country.

1.4 Yet, the on-going industry consolidation is likely to pose additional corporate governance challenges arising from integration of processes, IT and culture. Research had shown that two-thirds of mergers, world-wide, fail due to inability to integrate personnel and systems as well as due to irreconcilable differences in corporate culture and management, resulting in Board and Management squabbles. In addition, the emergence of mega banks in the post-consolidation era is bound to task the skills and competencies of Boards and Managements in improving shareholder values and balance same against other stakeholder interests in a competitive environment. A well-defined code of corporate governance practices should help organizations overcome such difficulties.

1.5 Since 2003 when the Nigerian Securities and Exchange Commission released a Code of Best Practices on Corporate Governance for public quoted companies, the relevant banks had been expected to comply with its provisions. This was in addition to a Code of Corporate Governance for Banks and Other Financial Institutions approved earlier in the same year by the Bankers' Committee.

1.6 The consolidation of the banking industry, however, necessitated a review of the existing code for the Nigerian Banks. This new code therefore was developed to compliment the earlier ones and enhance their effectiveness for the Nigeria n banking industry.

1.7 Compliance with the provisions of this Code is mandatory.

2.0 Weaknesses in Corporate Governance of Banks in Nigeria

2.1 Disagreements between Board and Management giving rise to Board squabbles.

2.2 Ineffective Board oversight functions.

2.3 Fraudulent and self-serving practices among members of the board, management and staff.

2.4 Overbearing influence of chairman or MD/CEO, especially in family-controlled banks.

2.5 Weak internal controls.

2.6 Non-compliance with laid-down internal controls and operation procedures.

2.7 Ignorance of and non-compliance with rules, laws and regulations guiding banking business.

2.8 Passive shareholders.

2.9 Poor risk management practices resulting in large quantum of non-performing credits including insider-related credits.

2.10 Abuses in lending, including lending in excess of single obligor limit.

2.11 Sit-tight Directors – even where such directors fail to make meaningful contributions to the growth and development of the bank.

2.12 Succumbing to pressure from other stakeholders e.g. shareholder's appetite for high dividend and depositors quest for high interest on deposits.

2.13 Technical incompetence, poor leadership and administrative ability.

2.14 Inability to plan and respond to changing business circumstances.

2.15 Ineffective management information system.

3.0 Challenges of Corporate Governance for Banks Post Consolidation

3.1 Technical Incompetence of Board and Management: In view of the greatly enhanced resources of the consolidated entities, Board members may lack the requisite skills and competencies to effectively redefine, re-strategize, restructure, expand and/or refocus the enlarged entities in the areas of change of corporate identities, new business acquisitions, branch consolidation, expansion and product development.

3.2 Relationships among Directors: Boardroom squabbles could be an issue due to different business cultures and high ownership concentration especially in banks that were formerly family or "one-man" entities. The dominance of a "key man" could also emerge with the attendant problems.

3.3 Relationship between Management and Staff: Squabbles arising from knowledge gaps, harmonization of roles and salary structure could also manifest among staff and management of consolidating banks with the potential to create unhealthy competition and a counter-productive working environment.

3.4 Increased Levels of Risks: Currently, very few banks have a robust risk management system in place. With the huge amount of funds that will be available to them and the significantly increased legal lending limits, banks will be financing more long-term mega projects in the real sectors of the economy as opposed to the existing working capital/trade financing. Given the expected significant increase in the level of operations, the banks will be facing various kinds of risks which, if not well managed, will result in significant losses. The management of risks in a transparent and ethical way will thus present some issues bordering on corporate governance.

3.5 Ineffective Integration of Entities: Banks that would have completed the process of merging might continue to operate independently rather than as a single entity. For example, an investment bank's merger with a retail bank in which the MD of the investment bank continues to manage his arm of the business and the MD of the retail bank does the same and the operating results of the two entities are then consolidated for reporting purposes.

3.6 Poor Integration and Development of Information Technology Systems, Accounting Systems and Records: Banks with different IT systems (banking application, database platform, operating systems, human resource applications, hardware, server configuration, and network and telecommunication infrastructure) as well as different accounting systems and records will have to fuse and this could pose problems if not well managed. There will also be increased use of technology to power the consolidated business and this too will have to be well managed to ensure efficient operations and quality service delivery.

3.7 Inadequate Management Capacity: Directors and Managers will be running a much larger organization and controlling a significantly higher level of resources. Adequate management capacity is needed to efficiently and profitably run a larger organization.

3.8 Resurgence of High Level Malpractices: To boost income as a result of intense competition and lack of enough viable projects, malpractices may resurface post consolidation. Such sharp practices could include round-tripping of forex, excessive customer charges, falsification of records etc. , and adoption of unethical methods to poach customers.

3.9 Insider-Related Lending: If consolidation should fail to achieve transparency through diversification in bank ownership, the pervasive influence of family and related party affiliations may continue, resulting in huge levels of insider-abuses and connected lendings.

3.10 Rendition of False Returns: Similarly, rendition of false returns to the regulatory authorities and concealment of information from Examiners to prevent timely detection of unhealthy situations in the banks may continue as a result of lack of transparency and pressure to boost income.

3.11 Continued Concealment: Continued concealment of material issues discovered by banks during their pre-merger due-diligence will also compromise good corporate governance.

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3.12 Ineffective Board/Statutory Audit Committee: The audit committee, which comprises both directors and shareholders who are not board directors, may be composed of people who are not knowledgeable in accounting and financial matters thus rendering the committee less effective.

3.13 Inadequate Operational and Financial Controls: There might be absence of such controls to cater for the increased size and complexity of operations.

3.14 Absence of a Robust Risk Management System: The huge amount of funds that would be available to banks post consolidation would significantly increase their legal lending limits and make them engage in financing long term mega projects. The management of the attendant risks in a transparent and ethical manner would require, as part of sound practices, the institutionalization of a robust risk management system.

3.15 Disposal of Surplus Assets: After consolidation, some branches of banks that are closely located may be sold to insiders at below market price. Other surplus assets may also be similarly sold. Fixed assets may also be sold indiscriminately and the profit from the sale used to boost profits with the intention of covering operational losses and inefficiencies.

3.16 Transparency and Adequate Disclosure of Information: These are key attributes of good corporate governance which the merged banks must cultivate with new zeal in order to provide stakeholders with the necessary information to judge whether their interests are being taken care of. Currently there are many deficiencies in the information disclosed, particularly in the area of risk management strategies, risk concentration, performance measures etc. These shortcomings will need to be addressed.

PART II: CODE OF BEST PRACTICES ON CORPORATE GOVERNANCE

4.0 Principles and Practices that Promote Good Corporate Governance

4.1 The establishment of strategic objectives and a set of corporate values, clear lines of responsibility and accountability.

4.2 Installation of a committed and focused Board of Directors which will exercise its oversight functions with a high degree of independence from management and individual shareholders .

4.3 A proactive and committed management team.

4.4 There should be adequate procedures to reasonably manage inevitable disagreements between the Board, Management and staff of the bank.

4.5 The Board should meet regularly at a minimum of four (4) regular meetings in a financial year. There should also be adequate advance notice for all Board meetings as specified in the Memorandum and Article of Association.

4.6 The Board should have full and effective oversight on the bank and monitor its executive management.

4.7 There is a well-defined and acceptable division of responsibilities among various cadres within the structure of the organisation.

4.8 There is balance of power and authority so that no individual or coalition of individuals has unfettered powers of decision making.

4.9 The Articles of Association should clearly specify those matters that are exclusively the rights of the Board to approve apart from those for notification.

4.10 The number of non-executive directors should exceed that of executive directors.

4.11 All Directors should be knowledgeable in business and financial matters and also possess the requisite experience.

4.12 There should be a definite management succession plan.

4.13 Shareholders need to be responsive, responsible and enlightened.

4.14 Culture of compliance with rules and regulations.

4.15 Effective and efficient Audit Committee of the Board.

4.16 External and internal auditors of high integrity, independence and competence.

4.17 Internal monitoring and enforcement of a well articulated code of conduct/ethics for Directors, Management and staff.

4.18 Regular management reporting and monitoring system.

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5.0 Code of Corporate Governance Practices for Banks Post Consolidation

5.1 Equity Ownership

5.1.1 **Preamble:** The current practice of free, non-restrictive equity holding has led to serious abuses by individuals and their family members as well as governments in the management of banks. However, to encourage a private sector-led economy, holdings by individuals and corporate bodies in banks should be more than that of governments. It is also recognised that individuals who form part of management of banks in which they also have equity ownership have a compelling business interest to run them well. Such arrangements should be encouraged.

5.1.2 Government direct and indirect equity holding in any bank shall be limited to 10% by end of 2007.

5.1.3 An equity holding of above 10% by any investor is subject to CBN's prior approval.

5.2 Organizational Structure

5.2.0 Executive Duality

5.2.1 The responsibilities of the head of the Board, that is the Chairman, should be clearly separated from that of the head of Management, i.e. MD/CEO, such that no one individual/related party has unfettered powers of decision making by occupying the two positions at the same time.

5.2.2 No one person should combine the post of Chairman/Chief Executive Officer of any bank. For the avoidance of doubt, also no executive vice-chairman is recognised in the structure.

5.2.3 No two members of the same extended family[1] should occupy the position of Chairman and that of Chief Executive Officer or Executive Director of a bank at the same time.

5.3 Quality of Board Membership

5.3.1 Institutions should be headed by an effective Board composed of qualified individuals that are conversant with its oversight functions.

5.3.2 Existing CBN guidelines on appointment to the board of financial institutions should continue to be observed. Only people of proven integrity and who are knowledgeable in business and financial matters should be on the Board.

5.3.3 Regular training and education of board members on issues pertaining to their oversight functions should be institutionalized and budgeted for annually by banks.

[1] The term 'extended family' here refers to the members of a nuclear family comprising the husband, wife and their siblings plus (+) parents and brothers/sisters of both the husband and the wife.

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5.3.4 The Board should have the latitude to hire independent consultants to advise it on certain issues and the cost borne by the banks.

5.3.5 The number of non-executive directors should be more than that of executive directors subject to a maximum board size of 20 directors.

5.3.6 At least two (2) non-executive board members should be independent directors (who do not represent any particular shareholder interest and hold no special business interest with the bank) appointed by the bank on merit.

5.3.7 A committee of non-executive directors should determine the remuneration of executive directors.

5.3.8 There should be strict adherence to the existing Code of Conduct for bank directors, failing which the regulatory authorities would impose appropriate sanctions including removal of the erring director from the board.

5.3.9 Non-executive directors' remuneration should be limited to sitting allowances, directors' fees and reimbursable travel and hotel expenses.

5.3.10 In order to ensure both continuity and injection of fresh ideas, non-executive directors should not remain on the board of a bank continuously for more than 3 terms of 4 years each, i.e. 12 years.

5.3.11 Banks should have clear succession plans for their top executives.

5.3.12 There should be, as a minimum, the following board committees – Risk Management Committee, Audit Committee, and the Credit Committee.

5.3.13 The practice of the Board Chairman serving simultaneously as chairman/member of any of the board committees is against the concept of independence and

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sound corporate governance practice, and should be discontinued.

5.4 Board Performance Appraisal

5.4.1 Preamble: While adherence to corporate governance principles is recognised as necessary for successful performance of Boards, it is often not a sufficient condition. Hence, the need for Board performance reviews or appraisals as a new concept to ensure successful or exceptional performance.

5.4.2 Each Board should identify and adopt, in the light of the company's future strategy, its critical success factors or key strategic objectives.

5.4.3 Boards should determine the skills, knowledge and experience that members require to achieve those objectives.

5.4.4 A Board should work effectively as a team towards those strategic objectives.

5.4.5 There should be annual Board and Directors' review/appraisal covering all aspects of the Board's structure and composition, responsibilities, processes and relationships, as well as individual members' competencies and respective roles in the Board's performance.

5.4.6 The review should be carried out by an outside consultant.

5.4.7 The review report is to be presented at the AGM and a copy sent to the CBN.

5.5 Quality of Management

5.5.1 Appointments to top management positions should be based on merit rather than some other considerations.

5.5.2 Existing guidelines on appointments to top management of banks should continue to be observed.

5.5.3 Track record of appointees should be an additional eligibility requirement. Such records should cover both integrity ('fit and proper' as revealed by the CBN 'blackbook', CRMS etc) and past performance (visible achievements in previous place(s) of work).

5.6 Reporting Relationship

5.6.1 Officers should be held accountable for duties and responsibilities attached to their respective offices.

5.6.2 The structure of any bank should reflect clearly defined and acceptable lines of responsibility and hierarchy.

6.0 Industry Transparency, Due Process, Data Integrity and Disclosure Requirements

6.1.1 The above are core attributes of sound corporate governance practices that are essential to installing stakeholder confidence.

6.1.2 Where board directors and companies/entities/persons related to them are engaged as service providers or suppliers to the bank, full disclosure of such interests should be made to the CBN.

6.1.3 Chief Executive Officers and Chief Finance Officers of banks should continue to certify in each statutory return submitted to the CBN that they (the signing officers) have reviewed the reports, and that based on their knowledge:

- The report does not contain any untrue statement of a material fact
- The financial statements and other financial information in the report, fairly represent, in all material respects the financial condition and results of operations of the bank as of, and for the periods presented in the report.

6.1.4 False rendition to CBN shall attract very stiff sanction of fine plus suspension of the CEO for six months in the first instance and removal and blacklisting in the second. In addition, the erring staff would be referred to the relevant professional body for disciplinary action.

6.1.5 There should be due process in all the procedures of banks.

6.1.6 All insider credit applications pertaining to directors and top management staff (i.e. AGM and above) and parties related to them, irrespective of size, should be sent for consideration/approval to the Board Credit Committee.

6.1.7 The Board Credit Committee should have neither the Chairman of the Board nor the MD as its chairman.

6.1.8 Any director whose facility or that of his/her related interests remains non-performing for more than one year should cease to be on the board of the bank and could be blacklisted from sitting on the board of any other bank.

6.1.9 The Board Credit Committee should be composed of members knowledgeable in credit analysis.

6.1.10 The practice/use of Anticipatory Approvals by Board Committees should be limited strictly to emergency cases only and ratified within one month at the next committee meeting.

6.1.11 Banks' Chief Compliance Officers (CCO) should, in addition to monitoring compliance with money laundering requirements, monitor the implementation of the corporate governance code.

6.1.12 Banks should also establish 'whistle blowing' procedures that encourage(including by assurance of confidentiality) all stakeholders (staff, customers, suppliers, applicants etc) to report any unethical activity/breach of the corporate governance code using, among others, a special email or hotline to both the bank and the CBN.

6.1.13 The CCO shall make monthly returns to the CBN on all whistle blowing reports and corporate governance related breaches.

6.1.14 The CCO together with the CEO of each bank should certify each year to the CBN that they are not (apart from 6.1.14) aware of any other violation of the Corporate Governance Code.

6.1.15 The corporate governance compliance status report should be included in the audited financial statements.

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7.0 Risk Management

7.1.1 The Board/Board Risk Management Committee should establish policies on risk oversight and management.

7.1.2 Banks should put in place a risk management framework including a risk management unit that should be headed by a Senior Executive, in line with the directive of the Board Risk Management Committee.

7.1.3 The internal control system should be documented and designed to achieve efficiency and effectiveness of operations; reliability of financial reporting, and compliance with applicable laws and regulations at all levels of the bank.

7.1.4 External auditors should render reports to the CBN on banks' risk management practices, internal controls and level of compliance with regulatory directives.

8.0 Role of Auditors

8.1.0 Internal Auditors

8.1.1 Internal auditors should be largely independent, highly competent and people of integrity.

8.1.2 The Head of Internal Audit should not be below the rank of AGM and should be a member of a relevant professional body.

8.1.3 He should report directly to the Board Audit Committee but forward a copy of the report to the MD/CEO of the bank. Quarterly reports of audit must be made to the Audit Committee, and made available to examiners on field visits.

8.1.4 Members of the Board Audit Committee should be non-executive directors and ordinary shareholders appointed at AGM and some of them should be knowledgeable in internal control processes. One of such appointed ordinary shareholders should serve as the Chairman of the Committee.

8.1.5 The Audit Committee will be responsible for the review of the integrity of the bank's financial reporting and oversee the independence and objectivity of the external auditors.

8.1.6 The Committee should have access to external auditors to seek for explanations and additional information without management presence.

8.1.7 Internal Audit Unit should be adequately staffed.

8.2.0 <u>External Auditors</u>

8.2.1 External auditors should maintain arms-length relationship with the banks they audit.

8.2.2 Appointment of External Auditors will continue to be approved by the CBN.

8.2.3 The tenure of the auditors in a given bank shall be for a maximum period of ten years after which the audit firm shall not be reappointed in the bank until after a period of another ten years.

8.2.4 A bank's external auditors should not provide the following services to their clients:

1. Bookkeeping or other services related to the accounting records or financial statements of the audit client;
2. Appraisal or valuation services, fairness opinion or contribution-in-kind reports;
3. Actuarial services;
4. Internal audit outsourcing services;
5. Management or human resource functions including broker or dealer, investment banking services and legal or expert services unrelated to the audit contract.

8.2.5 Quality assurance auditing should be engaged whenever the CBN suspects a cover-up by auditors, and where proved, erring firms would be blacklisted from being auditors of banks and other financial institutions for a length of time to be determined by the CBN.

8.2.6 An audit firm would not provide audit services to a bank if one of bank's top officials (Directors, CFO, and CAO etc) was employed by the firm and worked on the bank's audit during the previous year.

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Appendix E: A Sample of Conceptual Memos

Harmonisation of Regulatory Frameworks (Memo)

Bank participants expressed concern over the diverse provisions of the code and the regulatory mechanism with which they are expected to comply. They may not be able to cope with the challenges that emerge in practice. The banks are, however, of the view that the provisions of the various codes and regulations could be more meaningful if they were harmonised and, in some cases, reviewed. This finding indicates the connection between one of the difficulties in achieving compliance with the existing Code of Corporate Governance for Banks and its enforcement.

Accountability and Auditing (Memos)

Lack of accountability as a property of lack of transparency was variously echoed by the participants. Indeed, it has consistently been found to be one of the major failures in the banking sector, affecting the quality and reliability of financial and non-financial disclosure by banks to both shareholders and the general public. The lack of accountability property emerged from what the participants expressed as "manipulations of financial information" by some banks. Similarly, a lack of auditing quality indicates compromises in relation to auditing ethics within the banking sector.

Code/Regulation (Memo)

The growing number of banking weaknesses in the early 2000s influenced the Federal Government of Nigeria through the CBN to initiate consolidation reforms of the banks, which results in the establishment of the Code of Corporate Governance for Banks in 2006 to improve banks' internal control and enable the banks perform its responsibilities. While the Code and other regulatory frameworks are understood to have improved certain aspects of corporate practice, various participants raised concerns over the inadequacy of the Code to influence corporate governance practice in banks effectively. The concerns relate to various difficulties identified by the participants, ranging from deep-rooted self-interest and a lack of transparent corporate behaviour by the leadership, to difficulties in operationalising the provisions of the Code in a changing business environment.

Training and Skills Development (Memos)

This relates to improving internal control in banks through training and skills development programmes for management and board members. It is believed that adequate and relevant skills are required by those responsible for policy decisions and implementation, so as to enhance their organisational corporate practice.

Lack of Corporate Culture (Memo)

The concept of a “lack of corporate culture” is defined in terms of the inability of the boards of directors of banks to produce an effective mechanism so as to ensure good corporate governance practices in their organisations. The consensus among the interviewees and the focus group participants was that the underlying effect of corporate governance in banks rests on the ability of the leadership to change the preferences of banks’ employees in favour of its set goals.

As a result of the interplay between self-interest and a lack of transparency, and the various control mechanisms initiated by the CBN and the banks, certain consequences emerged, such as the gradual recognition of the benefits of good corporate governance. However, also revealed were certain issues that constrain the realisation of an overall culture of good governance practice in the banks.