

CORPORATE FAILURE: AN ASSESSMENT OF
THE NIGERIAN BANKING SECTOR

BY

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DECLARATION

I hereby declare that this project titled "Corporate Failure: An Assessment of the Nigerian Banking Sector", for the award of the degree of Master of Business Administration of Ahmadu Bello University, Zaria, is the product of my research findings. All sources of information used in this write up and where applicable, other writers views, have been duly acknowledged, by means of reference. I should be held responsible for any error of omission or commission in the project. It has not been submitted to any institution for the award of any certificate before.


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CERTIFICATION

This project entitled "Corporate Failure: An Assessment of the Nigerian Banking Sector" by AVIHITAR EDWARD IORDYE, meets the regulations and requirements governing the award of the degree of Master of Business Administration, in the Post-Graduate School, Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge and literary presentation.


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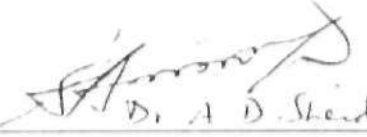
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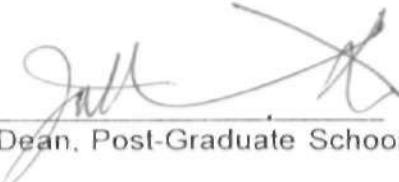

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DEDICATION

This project is dedicated with honour and glory to God, the Father Almighty for his mercies and kindness.

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Destiny is nothing but the people you meet at various points as you pass by the milestone on the highway of the journey through life. They make or mar your future and eventually you find yourself somewhere. The successful completion of the degree of Master of Business Administration, and this project work in particular, was made possible by certain forces - human and spiritual. I therefore wish to respectfully acknowledge and extend my sincere thanks to all such forces.

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ABSTRACT

The unfolding scenario in the Nigerian Banking Sector highlights once more the cyclical nature of our economy and the fall out of the Structural Adjustment Programme(SAP).

The attendant problems of loss of confidence in banking system, loss of employment and above all decrease in the standard of living of people created by amaze management incompetence, high capacity fraud, bad government regulations, inadequate capital base and general economic recession, all indicate the problems in the economy and the banking sector in particular are integrated and complex, and require integrated research approach to provide solution.

The study in this respect, explored the causes of bank failure in Nigeria. In the process the relative symptoms of failure, the impact of bank failure on the economy and the strategic measures to deal with bank failure were explored.

In addition, bank customers, depositors, employees and other beneficiaries of bcink services are provided with a model of bank "life cycle" and its financial implications.

The study further provided a basis for the development of strategies and activities to stem corporate failure, especially in the banking sector, thereby ensuring consistency in growth, profitability and survival, of corporate entities.

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CHAPTER ONE

INTRODUCTION

1.1 An Overview

In virtually every corner of the globe wherever goods and services are produced and sold, one can find some forms of business activities. Whether any society will prosper and grow or wither away depends directly on availability of goods and services. Business though a slice of the society in microcosm is the life line of the modern world.

In this respect, however, a business cannot be defined or explained in terms of profit making. A lot of people can give some sort of definitions or explanations depending on their own level and nature of involvement with business. Indeed, a typical businessman is likely to say it is an organisation to make profit. An economist will equally give the same answer. All these explanations are prevailing economic theory of profit maximisation motive.

According to Friedman; "there is one and only one responsibility of business, to use its resources and engage in activities designed to increase its profit so long as it stays within the rules of the game which is to say, engage in an open and free competition without deceit or fraud". A systematic harnessing of the functions and broad objectives by a firm with the resultant effect of producing qualitative goods and services gives it a credit for passing the crucible test of acceptance into the society.

On the other hand, where a business organisation is not able to perform its functions and carry out its objectives, the business is said to have failed. Corporate failure in the words of Osaze and Anao(1990:206) "is a situation in which a company finds itself unable to generate enough funds both internally and

from outside sources to finance its operations." In this respect, the cost of doing business outweigh the revenue obtainable therefrom and worst of all creditors begin to embrace the company by demanding for long overdue obligations. And in most cases the quality of its products/or services deteriorates. The company in view of this, loses her customers to competition and finally it is wound up or liquidated in the interest of its shareholders or at the instance of its creditors.

Ajayi(1983) linked corporate failure to a situation where a company cannot perform as planned or as required and not necessary its inability to report high level of profit or service its debts. In his words, "the incidence of corporate failure becomes more pronounced when there is recession in an economy."

In the context of this research work therefore, corporate failure is the inability of a corporate entity to perform its functions and to carry out effectively its broad objectives.

The term bank failure as it is, is as old as the banking institution in Nigeria. It was a prominent feature of the early indigenous banks who were groping to find their feet in the midst of highly competitive financial market, dominated by foreign banks established by the colonial administration. The era of colonialism is gone, and we have been ushered into an era of self governance and a new dispensation of indigenous banking. Our nation has been trapped in the web of economic recession and this has awoken another trial period for our banking sector.

For the past eight years, the story has been disheartening, a great number of banks have failed and many are still distressed, while some are liquidated, as result of the economic downturn. Despite government efforts to redress the issue, the toll has continued unabated. In fact, right now twenty six bank are on liquidation list, while some are on the danger list, kept in suspense waiting for the

approval of the federal government to determine their faith, whether to be liquidated or not, like a condemned criminal waiting to be sent to the gallows. To say the banking industry is prostrated would be saying the obvious.

Given this scenario, we cannot afford to close our eyes to the obvious effect, given the pivotal role of banking sector in the social-economic development of our nation. It is against this background that this study is undertaken to identify the symptoms and the causes of bank failure in Nigeria, as well as the effect of bank failure on our national psyche and proffer ways of curbing this ugly trend.

1.2 Statement of the Problem

Corporate failure or collapse results quite often from the inability of the management of a company to optimise the financing mix (getting the best combination of securities, in terms of cost and returns on its financial structure). In other instances, changes in government policies, actions of shareholders, creditors and fraud lead to corporate failure.

In respect to all these issues therefore, the research problem can be stated in a question form, thus, what are the underlying factors responsible for bank failure in Nigeria?

Below are the research questions which when properly answered will explain the causes of bank failure in Nigeria.

- (i) Is management incompetence or poor managerial skill the fundamental cause of bank failure?
- (ii) Does fraud and forgery contribute in any way to bank failure in Nigeria?
- (iii) Does changes in government policies affect the banks performances?
- (iv) Do banks fail because of under capitalization?

- (v) To what extent does misunderstandings at board room politics contribute to failure of banks in Nigeria?
- (vi) What are the remedies or opportunities available to a failing bank?

1.3 Objective of the Study

We cannot pretend or refuse to see the rate at which the banking sector, in Nigeria, is collapsing. Almost every year, since 1990, a whole lot of banks have gone down the abyss of financial distress. Thus the major objectives of this research is to:

- (i) Trace the history of bank failure in Nigeria.
- (ii) Find out the causes of bank failure.
- (iii) Evaluate the effect of changes in the economic environment on the performance of banks in Nigeria.
- (iv) Recommend efficient and effective measures that banks should undertake in order to reduce the causalities that do result to bank failure, in Nigeria.

1.4 Significance of the Study

The recent increase in the number of bank failure and subsequent liquidation of some of them was held as one of the major causes of lost of public confidence in the Nigerian banking sector. It could be seen that the viability of any economy of the world is determined largely on the strength hold of the banking sector. In this regard, it thus becomes vital importance to such banks to operate in a manner in which they can contribute positively to the economy and ensuring continuity in operation by avoiding a negative position for themselves.

This study is of great importance to the existing banks as its findings will form a sort of foot path to follow in the daily administration of banks and how causes and symptoms of bank failure could be dictated at early stages, as the control measures that could be taken to stamp out further bank failure in the economy, will be put forward. This research work, therefore, is apparently going to be useful to top bank officers as relevant recommendations will be made and various strategies suggested for the effective and efficient administration of banks.

The study will afford an evaluation of the causes of bank failure in Nigeria. Hence, it will be of tremendous benefit to potential investors, shareholders, professional bankers, creditors and bank regulatory bodies like the Central Bank of Nigeria (CBN), Nigeria Deposit Insurance Corporation (NDIC) and Securities Exchange Commission (SEC) just to mention but a few.

Other beneficiaries of financial services like depositors, employees of banks, the government and the society as a whole will equally gain a lot from the research study.



1.5 Scope of the Study

It is a common practice for every research work to have range of observation, hence, this study is no exception. In this regard, the scope of this study might be necessarily wide, due to the fact that the broad objectives of all corporate organisations have not changed. Moreover, the services of corporate organisations are interwoven as well as the generalization that applies across organisational boundaries is possible.

We equally recognise the fact that corporate failure cut across almost every business world, but in particular, this research work is narrowed to commercial and merchant banking of the economy.

Thus the study covers both commercial and merchant banks. The objective being to establish the causes of failure in Nigerian banks. For the purpose of this study however, a random sample was drawn across three cities and a town viz - Lagos, Kaduna, Kano and Zaria.

The research method used didn't involve hypothesis testing of complex statistical performance analysis techniques, rather it was based on empirical studies. As a whole the research study concentrated on the failure of Nigerian banks. Emphasis was placed only on the causes of bank failure and efficient management of the existing banks in the Nigerian economy.

1.6 Limitations of the Study

The major limitations of this study include the difficulty in obtaining certain essential information from the banks, due to the bank officials' constant reference to the "oath of secrecy" binding on them.

Prompt completion and return of questionnaire constituted another limitation faced by the researcher. Furthermore, there were cases of poor response to certain questions, outright refusal to accept questionnaires and leaving some questions unanswered. Besides, the disparity in knowledge and experience of the respondents, the validity of the responses has its own obvious handicap.

The current economic hardship had its effect in terms of the financial resources that could be committed to the study, considering the geographical

spread of the subject under study. It was difficult to obtain exact data in certain instances, for the fact that such data were regarded as classified information.

1.7 Abbreviations

ABN	-	Allied Bank of Nigeria Limited
ACB	-	African Continental Bank Plc
BBN	-	Broad Bank of Nigeria Limited
BOFID	-	Bank and other Financial Institutions Decree, 1991
CBN	-	Central Bank of Nigeria
FAB	-	First African Trust Bank Limited
GBN	-	Gamji Bank of Nigeria PLC
HBN	-	Hall-Mark Bank Nigeria Limited
HNB	-	Habib Nigerian Bank Limited
ICB	-	Intercity Bank PLC
LBN	-	Lion Bank of Nigeria PLC
NDIC	-	Nigerian Deposit Insurance Corporation
NUB	-	Nigerian Universal Bank Limited
SAP	-	Structural Adjustment Programme
SBN	-	Savannah Bank of Nigeria PLC
UBA	-	United Bank for Africa PLC
UBN	-	Union Bank of Nigeria PLC

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CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The objective of this research is to assess the causes of bank failure in Nigeria. Sequel to this, it is expedient to review related literature. This will set the issue of bank failure in a proper perspective, by taking a historical excursion back to the humble beginning of banking in Nigeria, a century ago. Attempt is made of a careful analysis of the progress of evolution of banking sector in Nigeria, looking at the place of the banking sector in our economy, the concept of corporate failure, the causes of corporate failure, the symptoms of corporate failure, the concept of bank and bank failure. We shall also review corporate failure in the Nigerian banking sector, the effect of bank failure and how to deal with corporate failure. Finally we shall review the action of government to the negative signals from the banking sector.

2.2 Historical Development of the Nigerian Banking Sector

Modern-day banking in Nigeria dates back to 1892, with the establishment of African Banking Corporation(ABC). The Bank for British West Africa (BBWA), presently First Bank of Nigeria, (which took over the assets of African Banking Corporation) was established soon after in 1894. Apart from BBWA, two other expatriate banks were established. These were the Barclays Bank DCO(1916) now Union Bank of Nigeria, then the British and French Bank (1948), currently United Bank for Africa (UBA). The period 1892 to 1952 has generally been described as the early free banking era. This period was characterised by lack of banking legislation. The most remarkable consequences of this was the establishment of twenty-five indigenous banks during the period. Adekanye(1983).

However, it is instructive to note that, of the many indigenous banks established during the period only four survived beyond this period. These are:

- (i) National Bank of Nigeria established in 1933 (liquidated).
- (ii) Agbomagbe Bank (Wema Bank), established in 1945.
- (iii) African Continental Bank, established in 1945 but recently liquidated.
- (iv) Merchant Bank (liquidated) established in 1952.

The free banking period came to an end when the banking Ordinance of 1952 was promulgated. This ushered in the era of banking legislation in Nigeria. The Ordinance for the first time restricted the establishment of banks and the practice of banking to companies holding valid and duly issued licences. A minimum paid-up capital of twelve-thousand five hundred pounds (£12,500) for indigenous bank and one hundred thousands pounds (£100,000) for the foreign were imposed, among other requirements for safe and sound banking environment. Ituwe(1983:7).

The promulgation of the 1958, Central Bank Ordinance ushered in the era of Central Banking and the stage was therefore, set for an orderly and rapid development of the Nigerian financial system. Major developments during the period were the promulgation of the Central Bank Act 1958, the 1962 amendment of the 1958 Banking Ordinance and other various amendments that culminated in the promulgation of the Banking Act of 1969. Other far-reaching developments were the establishment of the money and capital markets, and the establishment of development banks. Adekanye(1983).

The Banking Act of 1969 raised the minimum paid-up capital of indigenous banks to N600,000 and N1,500,000 for foreign banks. The Act empowered the CBN, after consultation with the commissioner of finance then, to specify the

minimum ratio licenced banks should maintain between their respective paid-up capital and retained earnings on one hand, and their loans and advances, on the other hand. The Act required commercial banks to transfer to its reserve fund, at least twenty-five percent (25%) of its profits, where the reserve fund is less than the paid-up capital. However, where the reserve is equal or in excess of the share capital, twelve and half percent (12½%) of its net profit shall be transferred to the reserve fund. The Banking Act 1969, by and large, consolidated all the amendments of the 1958 Banking Act, plugged all possible loopholes. The Banking Act 1969 remained enforce till 1991, when the Central Bank of Nigeria (CBN) Decree 24 of 1991 and the banks and other Financial Institutions Decree 25 of 1991 were promulgated.

Haven reviewed the legislative development that shaped the banking policy and practice, it is now appropriate at this stage to review other developments, particularly the growth in the number of banks.

Between 1959 and 1962, eight new commercial banks were established. Moreso, between 1962 and 1970, no new bank was established, this was due largely to the successive increase in the minimum paid-up capital requirement for establishing a bank. Adekanye(1983). Besides, whatever plan that might have been to establish a bank during the period, would have been scattered by the 1969-1970 civil war. The period was, by and large, used for consolidation by the banking industry.

The period, between 1970 to 1976, was characterised by growth in the banking system, especially the Merchant Bank subsector and licencing of State Government banks, and most importantly, the indigenisation of the banking sector.

The rise of economic nationalism, which was fuelled by the windfall oil revenue of the early 1970's, led to the indigenisation of the "Commanding Heights" of the Nigerian economy, including the banking industry. Bank fell under the category of business in which Nigerians were to have a minimum of sixty percent(60%) of the equity participation. But the equity restriction has been lifted by the enactment of the Investment Promotion Decree of 1996.

The period between 1970 to 1986, can be aptly described as one of the institutional re-assessment and moderate growth in the banking sector. The period beginning from 1959, when the Central Bank of Nigeria was established, had witnessed tremendous developments in the Nigerian banking industry, the economy and the society at large. The Civil War was fought from 1967 to 1970, then followed by the post war reconstruction and the indigenisation programme. The financial requirements of prosecuting the war effect put tremendous strains on the banking system, and the institutional autonomy of the CBN was considerably eroded to the Federal Government's determination to gain increasing access to cheap funds for her deficit financing programme.

The indigenisation of the banking system seemed to have achieved only nominal success as it left control in the hands of the minority expatriate shareholders. The political involvement of first, the nationalist, and the then regional government in the major indigenous banks gave them a regional orientation, thus, putting the banks at a competitive disadvantage, relative to the expatriate or "mixed owned" banks. This, thus made the Federal Government in 1976, to appoint the Financial System Review Committee, headed by Dr. Pius Okigbo, to study and recommend ways of improving the financial system.

The overall impact of the Committee's Report on the Nigerian Financial System was limited, due to the rejection of some of its far-reaching recommendations by the government, especially on the merging of the old indigenous banks, redirection of government equity participation in "mixed" banks and the granting to the Central Bank of Nigeria an increased measure of institutional autonomy.

It is the view of Professor G. O. Nwankwo that in doing so, the government failed to seize as historical opportunity to transform the Nigerian banking sector.

However, there were no major legislative developments during this period in the banking system. The Banking Act of 1969, having only recently been promulgated. There was, however, moderate growth in the system. The number of banks increased from twenty-one, comprising fifteen commercial/cooperative banks and Merchant Banks. Ituwe(1983). An increasing development beginning from 1977, was the establishment of new generation private banks, owned by Nigerians and foreign private interests. The first of such banks was Societe General Bank of Nigeria, established in 1977, ABC Merchant Bank became in 1984 the first Merchant Bank to be One hundred percent (100%) owned by Nigerian investors. Adekanye(1984).

The period between 1986 to 1992 can be rightly described as that of commercial deregulation and financial system liberalisation. This was as a result of the introduction of the Structural Adjustment Programme(SAP) on July 1, 1986. The introduction of SAP was a courageous attempt to address the structural basis of the economic crisis, Nigeria had been going through since 1980. This was to be achieved through developing our domestic capacity for growth, through backward integration and intersectional linkages, through the development of local

technology, through the use of appropriate price signals and incentive and through an overall shift in macro-economic policy from an administered public sector dominated economy, to a market driven private sector-led economy.

Inefficient public sector enterprises were to be either commercialised or privatised. Subsidies and other forms of wasteful public spending were to be curtailed. The agricultural and manufacturing sectors of the economy were to be developed and non-oil export was to be emphasised. Two of the most strategic aspect of the economic recovery programme were, deregulation of the foreign exchange market and the liberalisation of banking policy and practice.

The implementation of all these was to make tremendous demand on the banking system as crucial instruments for the realisation of the objective of Structural Adjustment, through a phased shift to the use of the market for resource allocation. The new responsibilities of the banking system now included the foreign exchange market, increased emphasis on export financing and enlarged volumes of capital issue, resulting from the privatisation and commercialisation programme. SAP therefore, tremendously expanded banking business and made the liberalisation of banking licencing imperative.

2.3 The Place of the Banking Sector Within the Economy

Essentially, banks are financial intermediaries, collecting savings of people who have more money than they immediately require and lending such money to people who require more money than they can immediately generate, thus matching the saving requirements of depositors with the investment requirements of borrowers. Even though this is the primary thrust of banks, the passage of time and development of commerce have given way to other services and functions of a bank today. These could be grouped as follows:

- Deposit collection: Current accounts; fixed deposits. Short-term deposit, savings account, night safe etc.
- Money transaction services: Cheque, cheque cards, cash card, gift cheque, credit card, credit transfer, direct debit, standing order, bank draft, certified cheques, mail transfer, telegraph transfer etc.
- Financial and general Services: Tax administration, unit trust, stock exchange services, investment advice, status enquiry, safe-custody services, etc.
- foreign Services: Travellers cheques, foreign currency, foreign draft, mail transfer, telegraphic transfer letter of credit, bills collection and settlement etc.

• The first and paramount banks: commercial bank, peoples bank or even mortgage institutions, are needed to mobilise deposit which constitutes the vast pool of loanable funds from which the lending business of the bank can be conducted. This deposit generation ability, however, depends inter alia, on what has now been popularly adopted as the three C's of banking viz:

- Confidence
- Convenience
- Cost

Confidence refers to the people's faith in the bank. That is, the extent to which people generally believe that their money is safe and that the possibility of loss is remote. This is synonymous with the overall rating of the bank in the market.

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Convenience on the other hand, is the ease with which business could be transacted, the rigours of formalities, the waiting time, the environment within the banking hall, etc.

Similarly, cost refers to what the customer pays to enjoy bank services.

The business of banking is very intricate in that money, is the main commodity of trade and the obligation to repay depositors fund remains, no matter what happen to the bank. It is essential to bear this in mind at all times and it is the inability of banks to see this as a guiding principle that may actually lead to bank failure.

2.4 The Concept of Corporate Failure

Corporate failure can have several definitions according to the various applications of the term and it may not necessarily result in the collapse or dissolution of a firm. Failure may have both economic and financial meanings.

According to Weston and Brigham(1977), in an economic sense, corporate failure usually signifies that a firm's revenues do not cover costs. A firm fails, if the rate of earnings on the historical cost of investment is less than the firm's cost of capital. Similarly, economic failure arises when a firm's actual returns have fallen below expected returns.

They went further to say that financial failure on the other hand can take place in two forms viz:

- technical insolvency
- bankruptcy (insolvency in bankruptcy)

A firm can be considered technically insolvent if it cannot meet its current debt obligations as they fall due, even though its total assets may exceed its total

liabilities. Here the firm has a positive net-worth position, but because of its illiquid assets and inadequate cash flow, it cannot meet its charges. Technical insolvency does not mean immediate dissolution of the firm. The firm can still operate for a long period of time as a recognised failure. It can also work itself back to a position of solvency, though a constant possibility of dissolution lurks in the background.

Similarly, bankruptcy or insolvency in bankruptcy represents the more severe situation where total liabilities of the firm exceed a fair valuation of total assets, resulting in a position of negative net-worth. The firm is unable to fulfil its obligations in full, no matter how liquid the assets. In this study the word "failure" will include both the technical insolvency and bankruptcy.

2.4.1 Causes of Corporate Failure

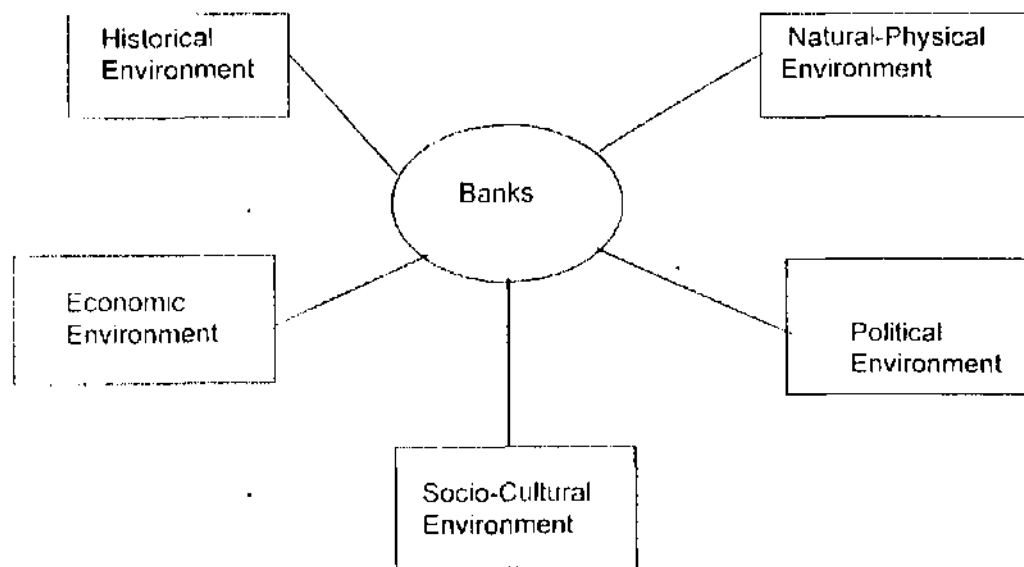
The fundamental issue in reviewing literature on the causes of corporate failure is perhaps the question of how much can be said meaningfully and usefully by way of generalisation on the causes of failure in corporate organisations especially in the banking industry.

From the study carried out on causes of corporate failure by Osaze and Anag (1990:207-208), they identified the following reasons as causes of corporate failure viz:

- (i) Poor managerial skill
- (ii) Under-capitalisation
- (iii) Inadequate Marketing and Sales Strategies
- (iv) General economic recession
- (v) Bad management regulations
- (vi) Fraud

According to them most of the cases of corporate failure in Africa and Nigeria in particular, arose from lack of managerial skill to deal with ever dynamic business environment. In this regard, banks operate in a dynamic environment. The economic environment is always changing. In the words of Richard (1984:26) "Successful businesses are those that can respond properly to these forces of changes. The relationship between banks and the business environment is reciprocal. The banks interrelates with the environment by providing services that will meet the demands of the environment. The environment in turn makes certain demands from the banks as shown below:

Figure 2.4.1A : Environmental Forces Affecting Banks



Extracted from: Richard M. H.(1984) Introduction to Business, Addison-Wesley Publishing Co. Inc. P.27

In addition, inability of management to delegate responsibility and authority adequately is also a contributing factor.

Osaze and Anao, also advanced that many companies in Africa were under capitalised, such that when a liquidity problem arose from inadequate cash flow, these companies have little equity to capital to fall back on. For example, the minimum capital requirement for any commercial bank in Nigeria was N50 million. This amount was relatively too small when one considers the financial management and operational requirements of commercial banks, especially in the light of the present economic situation.

Osaze and Anao further argued that poor Marketing Strategy can also lead to business failure. A company that is unable to convince customers that the product it is offering is different from those already in the market is bound to fail. In addition, if the price of the product or services is too low, it will be interpreted to mean a poor quality item. Similarly, if the price is too high aggregate demand will be low; hence sales will fall drastically. This in turn can lead to failure of the company.

Similarly, Dewing (1952:11-12) attempted a summary of causes of corporate failure in a more concise manner as presented in his model:

Table 2.4.1.A: Dewing's Model of Causes of Corporate Failure

Factors	Percentage of Total Failure
i) Unfavourable Industry trend	20%
ii) Management Incompetence	60%
iii) Catastrophes	10%
iv) Miscellaneous	10%
Total	100

Adopted from Dewing, A.C.(1952), "Small Business Administration". Dickenson Publishing Company Inc.(11-12).

Dewing actually acknowledged management incompetence as a dominant factor in corporate failure. He however, pointed out that, unfavourable industry trend can be more detrimental. Osaze and Anao(1990:207), while admitting Dewing's model assert that the glaring lack of fore sight on the part of management for dealing with the dynamic and even ever-changing economic, and business environment, spell out the doom of many business in Nigeria.

Hence, changes in government policy such as regulation, deregulation and guided-deregulation of the banking sector, marred the activities of banks.

Another school of thought (Dun and Brustrest 1961) also advanced the following as the cause of corporate failure.

Table 2.4.1 B: Dun and Bradstrest's Model of Causes of Corporate Failure

Factors	% of Total Failure
1 Management Incompetence	90.8
2 Neglect	3.2
3 Fraud	1.7
4 Disaster	1.0
5 Reasons Unknown	3.3
Total	100

A look at the Dun and Brastrest's model shows that emphasis is on management incompetence accounting for 90.8% of the causes of corporate failure. This model tends to be the most detailed causes of corporate failure.

Moreso, they identified fraud as another cause of corporate failure. Because it reduces the liquidity strength of a company. Most of the distressed banks in Nigeria suffered from insider abuses and fraud. Bank property on

connivance could be abused by the board/management or even staff, to such an extent that the bank could be ruined. For instance, non-executive Chairmen have been known to maintain permanent official paraphernalia, (offices, cars) as if they were Executive Chairmen or Directors. These effectively duplicate cost to banks to bear. Besides, some banks have been ruined through collaboration of insiders, including members of the board, management and staff to defraud the Banks (Iornem, 1998). Most banking frauds are believed to be engineered and enhanced from within (Beita, 1993:20). In other words, outsiders penetrate the bank vaults only through the explicit connivance of insiders.

Table 2.4.1C: Forms of Fraud in Banks

1	Cheque Kitting
2	Account opening fraud
3	Letter of Credit fraud
4	Money Transfer fraud
5	Loan fraud
6	Counterfeit Securities fraud
7	Cheque fraud
8	Money laundering fraud
9	Clearing fraud
10	Computer fraud
11	Telex fraud

Extracted from NDIC Report 1994.

It has been indicated that the risk of computer fraud is not very popular in Nigerian banks because of the level of development.

Arm-length relationships are normally jettison through insider dealings. For instance, the directors/management or staff of banks float companies which are been financed with the bank resources. In most cases, such companies may not be viable as guidelines adopted in granting them the facilities are "abinitio" defective. When all these above are committed on a large scale they actually cause bank failure.

Between 1992 and 1994, about N507.2 million was lost to fraud and forgery in commercial banks. A breakdown of this figure is shown below:

Table 2.4.1.D Fraud in Nigerian Commercial Banks (1992-1994)

Year	Amount Involved
1992	N64.8 million
1993	241.0 million
1994	201.4 million
Total	N507.2 million

Adapted from Nkem,J.(1994:9) Banking Sector Losses Vanguard Newspaper, Monday 29th August, 1996.

Ajayi(1989:77) took a completely different dimension on the study of corporate failure. he classified causes of corporate failure into internal and external factors. According to him internal factors include:

- (i) Bad management
- (ii) Inadequate working capital
- (iii) Poor financial management

- (iv) High gearing
- (v) Boardroom crisis
- (vi) Over-trading.

• Majority is the management problem that precipitates into what we have as the rest of the factors above. However, for case of understanding they are discussed below under specified paragraph. They are factors which regardless of the economy passing through a recession, may result into corporate failure.

Bad Management: This singular factor bears high share of the causes of failure in organisations. The quality of management is usually determined by academic/professional qualifications, relevant experience, technical know-how, business reflex, ability to formulate and implement good policies, leadership qualities and styles, etc. However, because of the relative attractiveness of some organisations especially with respect to pay and prospect, (like in banking industry) people from different professions and callings find themselves in mid-stream of operations without proper grooming, ignoring the fact that such industries or organisations are distinct in profession of their own, with their intricacies and idiosyncrasies. The banking sector especially, became a free for all affairs and the time appears ripe now for the Chartered Institute of Bankers to insist on professionalism just as is done in other professions like accounting, law, medicine, etc. Ajayi(1989).

Furthermore, some organisations failed soon than expected because of inadequate working capital to commence full operations. (Osaze and Anao 1990:210) some did not even have the working capital with which to take off: and this is, in spite of taking a loan to acquire needed plants and equipments and having used up a substantial part of issued equity capital to meet pre-operational

expenses, less than enough fund is left for full operations. (Ajayi, 1989:77). The more working capital figure the more the capacity to pay short term debts.

In certain instances, organisations have the problem of risk-assets portfolio. This is common in the banking industry. (Afolabi 1994:7). Most banks do not have clear investment or credit policy, and there is absolutely no control on credit. This normally leads to granting of non-collateralised credit and consequently non-performing debts. For instance, in 1991, the percentage of non-performing bank credit to total credit, on average, was 34% (Afolabi 1994:13). And this can eventually give way to high incidence of bad and doubtful debt which erodes the working capital.

In the words of Ajayi (1989), some of the organisations relied too much on loan capital. Such that at the expiration of moratorium granted, interest starts accruing and in a short-while the gearing ratio will rise so high and debt servicing becomes difficult. This consequently threaten the very existence of the organisations.

Boardroom crisis also contributes a lot to corporate failure in most cases. Afolabi(1994), argued that it is unfortunate that a business which begins in a spirit of amity and cordiality at times turns into loss of face and tension among the sponsors. Problems have in the past arisen on such topics as to who plays what role and peoples' inability to concede to other people's opinions have caused dissentment in the boardroom, even physical fracas. Autocracy on the part of those who see themselves as the promoters or major shareholders can and often, cause board-room crises. In the banking industry, the Central Bank had to be called in to manage some banks when things get out of hand, until the crisis at the board level is resolved. Most at times board members engage in protracted legal battles and at the end of the day who losses? the rest of us Afolabi concluded.

Another factor is overtrading. According to Ajayi (1989), this happens when a business undertakes more business than it can conveniently handle, with the resources at its disposal. Most banks in Nigeria, for instance, tried to expand without adequate preparations. Afolabi (1994) sees this as semblance of good performance. During the SAP era, the banking sector witnessed a proliferation of banks; thus shown below:

Table 2.4.1.E

Growth of Commercial and Merchant Banks in Nigeria, 1985 to 1991

Year	Commercial	Merchant	Total	Growth (in number)
1985	28	12	40	-
1986	28	12	40	-
1987	33	16	49	9
1988	42	24	66	17
1989	48	33	81	15
1990	59	49	108	27
1991	68	52	120	12

Adopted from the Nigerian Banker, Journal of the Chartered Institute of Bankers of Nigeria, April-June, 1994, P.42.

The table above shows that banks multiplied during the SAP era, between 1985-1991. Among other objective of SAP is the deregulation of the financial sector - the removal of artificial tract barriers in order to let market forces govern decision-making, especially in respect of savings, consumption and investment (Ofuani 1993:116).

The story of the Nigerian economy and the Structural Adjustment Programme (SAP) policies aimed at correcting the Structural imbalance, is an irony in disguise. This is because SAP and its advocates left our economy worse than they met it, our Naira battered beyond repair and now standing at N82 to US \$1.

Ajayi(1989) opined that external factors are usually the result of government policies, change in trend of world economy and the resultant behavioural changes in the country's economic variables. However, for comprehensive understanding, the actors are expounded under appropriate paragraphs.

Government fiscal and monetary policies are usually not predictable. Organisations have to adopt to them as soon as they are put in place. In recent years, government changes her monetary policies so radically that organisations could not adjust easily enough to such changes. For instance, SAP introduction in the economy gave birth to the Second-Tier foreign Exchange Market (SFEM). This was followed by the establishment of Foreign Exchange Market (FEM). Now we have the Autonomous Foreign Exchange Market (AFEM). This unstable policies resulted to further devaluation of the country's currency, thereby causing higher cost of production. Most of the corporate organisations could not cope up and consequently they failed.

Moreso, deregulation of interest rate led to the establishment of inter-bank market (IBM) with the interest rate at 115% (Arowolo, 1993). The CBN did not help matters either, as the Apex Bank; through stabilisation of securities moped-up funds from the banking sector. This action left the financial service sector stranded. In the words of (Ughamadu, 1994) "SAP brought the proliferation of

banks, the same SAP swallowed them". All these policies led to failure in the banking and other sectors of the economy.

Furthermore, the global economic environment seems to be passing through a structural change manifesting in different forms. In Nigeria, for example, there is political instability, depressed aggregate demand, rising unemployment, social insecurity and many more. This majority informs the regular change of government policies and the consequent trouble in the financial service sector.

Since management incompetence has occupied a central position in views expressed on the causes of corporate failure, and because business operates in a dynamic society, management should be able to respond to environmental changes, in order to put itself in the best positive position to deal with changes.

2.4.2 Symptoms of Corporate Failure

In the words of Van Horne, (1989:600) "rarely is one poor financial decision the cause of the problem, very often the problem is a series of errors and the difficulty involved is gradual".

A number of empirical studies have been undertaken that test the predictive power of financial ratio in predicting corporate failure.

One of such studies was conducted by Altman(1968). He employed multiple Discriminant Analysis (MDA) to predict corporate failure using various financial ratios. Altman collected a paired sample of 33 non-failed firms on a stratified non-random basis starting with 22 financial ratios. He selected 5 ratios that did the best job for predicting failure. These ratios were used to discriminate between firms that failed from those non-failed firms.

Accordingly, the model predicted failure quite well up to two years before failure.

The model denoted as A score is thus:

$$1.2x_1 + 1.4x_2 + 3.3x_3 + 0.6x_4 + 1.0x_5$$

where x_1 = Working capital to total assets

x_2 = Accumulative retained earnings to total assets

x_3 = Earnings before interest and taxes to total assets

x_4 = Market value of equity to book value of total liabilities

x_5 = Sales to total assets

Altman founded that firms with Zscores below 1.81 always go out of Corporate Scene, where as Zscore above 2.99 represents healthy firms. Firms with Zscore between 1.81 and 1.99 were unclassified representing an area of doubt. On this basis, he suggested that one can predict whether or not a firm is likely to fail in the near future.

As a result of the need for improvement on the Zscore model, a new model was developed by Altman et al (1977), popularised as the Zetal model. They collected a sample of 58 failed firms and a matched sample of 58 non-failed firms. On the basis of discrimination ability,

27 initial variables were reduced to 7. The return on asset ratio, the stability of earnings, the interest-coverage ratio, the retained earnings to total assets ratio, the current ratio, the common equity to total capital ratio and the size of total assets. Using a linear discriminant analysis, they were able to predict failure up to five years prior to eventual failure.

In addition to the emperical studies it has also been aply suggested by Argenti(1979) that a failing or collapsing company usually exhibits two errors of omission and three errors of commission.

The first error of omission is that managers of the company will begin to neglect accounting and other financial information system which provide all the data needed for monitoring the operational activities of the company and taking corrective actions when necessary. The second error of omission is the failure of response quickly and effectively to long term changes in the economic environment.

The first error of commission that appears in a collapsing company according to Argenti(1978), is the tendency to over trade. It does this by undertaking more business than it can conveniently handle with the resources at its disposal. The second error of commission involves the company increasing its leverage (debt/equity ratio) to such a level that the normal business cycle constitutes a serious threat to survival.

Finally, the company may engage in creative accounting by presenting a more optimistic financial statement to the public, by confidently stating that "better days are coming". and in some extreme cases, profit might be deliberately overstated to keep existing investors and attract new ones. In this regard, the case of R. T. Brisco of Nigeria, is appropriate example "This company slumped from the blue chip category in 1976 to a virtually collapsed company by the end of 1977".

Osaze and Anao (1990:210-211), contributing to symptoms of corporate failure stated that in failing firm, the following ratios begin to deteriorate and indeed, provide the early warning signal of collapse viz:

- (i) Cash-flow to total debt
- (ii) Stock price declining at an increasing rate
- (iii) Working capital to total assets

- (iv) Retained Projects to total assets
- (v) Net profit to total assets
- (vi) Total debt to total assets
- (vii) Current ratio
- (viii) Earnings before interest and tax to total assets
- (ix) Sales to total assets
- (x) Market value of equity to book value of debt

At this point, we can pose that it is easier to recognise imminent failure of a corporate body, by establishing key financial ratios from the basic financial statements of the firm.

It should be noted further that a failing company may also exhibits any or all of the followings:-

- (a) Inability to pay staff salaries and fringe benefits regularly as they fall due.
- (b) Massive retrenchment of staff
- (c) Closure of branches or centres
- (d) Inability to utilise excess capacity continuously
- (e) Withdrawal of staff fringe benefits

KASHIF IBRAHIM LIBRARY

2.5 The Concept of Bank and Bank Failure

The concept of bank, like other terms attracts a number of meaning or descriptions. In a more precise legal sense the Bills of Exchange Act(1882), defined a bank as "including a body of persons whether incorporated or not, who carry on the business of banking". The above definition is inadequate, because it does not highlights what constitutes the business of banking.

The Partons Commission (1948) defined the business of banking as "the business of receiving from the public on current account, money which is to be repayable on demand by cheque and making advances to customers". This definition was however, slightly modified in 1958 and 1962, and retained until 1969, when the Banking Act of that year defined banking business as "The business of receiving monies from outside sources as deposits irrespective of the payment of interest, and the granting of money loans and acceptance of credit or the purchase and sale of securities for the account of others or the invoicing of the obligation to acquire claims in respect of loans prior to their maturity or the consumptions of guarantees and other warranties for others or the effecting of transfers and clearings, and such other transactions as the commissioner may on the recommendation of the Central Bank, by order published in the Federal Gazette designated as banking business". (Adekanye 1986).

From the various definitions a bank can be said to be a financial intermediaries, collecting savings of people who have money than they immediately require, and lending such money to people who require more money than immediately generated, thus, matching the savings requirements of depositors with investment requirements of borrowers.

Thus in the Nigerian context, any person who carries on banking business as defined by the Banking Act(1969) can be called a bank. This includes a commercial bank, an acceptance house, discount house, and financial institution. A commercial bank is described as a bank whose business includes the acceptance of deposits withdrawable by cheques Adekanye (1986:13).

Adekanye further states that acceptance houses specialised in the granting of acceptance facilities, while discount houses are those whose main business

consists of trading in and holding commercial bills of exchange, treasury bills and other securities. Financial institution means those institutions allowed to transact banking business, but which are not commercial banks, an acceptance house, a discount house or a merchant bank. Adekanye(1986) defined a merchant bank as "any person in Nigeria who is engaged in wholesale banking, medium and long-term financing, equipment leasing, debt factoring, investment management, issue and acceptance of bills and management of unit trusts".

He further stressed that in practice these functions as stated above overlap, as commercial and merchant banks tend to compete freely for the same business. In his words "the trend in recent years is that commercial banks are moving away from their traditional short-term to medium and long-term financing, during economic boom. But then, during the period of economic recession as a result of general uncertainty and risk, they prefer to lend on a very short-term. Merchant banks also tend to move away from the provision of specialise services such as equipment leasing and other corporate services to typical commercial banking functions. Also in practice the distinction between merchant bank and discount house is not real."

Proceeding with our discussion on the concept of bank failure let us paraphrase once again the meaning of the word "failure." In ordinary parlance, the word failure means to be unsuccessful in attempts at achieving any set objective or aspiration. This we have earlier on highlighted. Another variance is the inability, refusal, fault or weakness which prevents the achievement of any set objective or aspirations. Both definitions really draw attention to the operative words 'unsuccessful', 'inability', 'refusal' 'fault' or 'weakness.'

Bank failure therefore is the inability of a bank to meet its obligations to its customers, owners, and the economy, occasioned by fault or weakness in its operations which render it either illiquid and or insolvent. Within this broad definition also includes deliberate refusal of the owners and operators of the bank, especially board and management to adhere to set rules and approved procedures. The effect of which precipitated the collapse of the banks.

2.6 Corporate Failure in the Nigerian Banking Sector

The incidence of bank failure in Nigeria dates back to the early days of banking in Nigeria. The annals of development within the sector is replete with so many cases of bank failure.

The period between 1922-1952 witnessed a rapid growth of indigenous banking in Nigeria. This was because prior to this time, the Nigerian banking scene was dominated by foreign banks whose services were principally in connection with international trade and their relationship were chiefly with expatriate companies and colonial government. Thus, the development of local entrepreneurship was ignored. The result was the establishment of the Nigerian first indigenous bank, the Industrial and Commercial Bank in 1922. This bank folded-up in 1930, due to under capitalisation, poor management, and aggressive competition from the foreign banks. Adekanye (1983:168).

Another indigenous bank - the Nigerian Merchantile Bank was established in 1931. For same reasons given above, the bank folded-up in 1936. However, with greater enthusiasm, courage and determination to succeed, the National Bank of Nigeria Limited was established in 1933, by the then Western Region Government. They equally folded-up in 1989 as a result of mismanagement,

erosion of capital base among other factors advanced by the Central Bank of Nigeria.

In 1940, the Nigerian Panny Bank was established but latter collapsed in 1946, under the weight of mismanagement. This was followed by the establishment of Agbonmogbe Bank in 1945. The bank was taken over in 1909 by the then Western Region government and changed its name to Wema Bank Ituwe(1983:5).

Also in 1947, two more indigenous banks were established. The Nigerian Farmers and commerce Bank which later failed in 1953 and the African Continental Bank which also collapsed in 1998. Another indigenous bank - the Merchant Bank opened for business in 1952 and closed in 1960. According to CBN report (1968) a total of 22 banks were registered in Nigeria between 1922 and 1952. However, in the words of Nwankwo (1980:22) 185 banks were registered between the said period. Most of these banks however, merely registered without commencing operations, he further stated.

Between 1892 and 1992, Nigerian banking sector recorded 31 failed banks and 34 others classified as distressed by the CBN. These figures are so significant that a study of cases of failure on Nigerian banks becomes inevitable. Recently a total of twenty-six banks were liquidated. This is shown in Appendix D.

Bank failure is neither new nor peculiar to Nigeria. In fact, the phenomenon is almost as old as the industry, in spite of their best endeavours, bank failure still occurs. In other banking societies like Britain, America, Spain, Indonesia, and many others till this moment bank failure occurs. United State alone witnessed 9,000 of its 27,00 (33.33%) financial institutions collapsed between 1928 and 1932 and one-third of the aggregate bank deposit lost in the process (Afolabi 1994:11).

2.7 The Effect of Bank Failure

The gargantuan impact of bank failure on different spheres of the society is not a respecter of level of development, whether a country is industrialised, developed, big or poorly underdeveloped and small, bank failure if not managed portends doom and collapse for any economy.

It is common knowledge that banks serve as intermediary institutions between the surplus and deficit under the economy. This intermediation role of banks given a unique position in the smooth working and overall development of an economy when banks fall, they cease to function effectively as true financial intermediaries, since both the surplus and the deficit units would not be adequately handled as monetary policy measures which affect interest rate, foreign exchange and other commercial transactions would become difficult to implement.

Moreso, bank failure could cause the erosion of public confidence in the system, especially if the failures are badly managed. Banking is built on trust and confidence; but once these are betrayed, they are not return easily. Banks will no longer be able to play effectively their role of financial intermediation. This loss of confidence will lead to many other effects.

Examining further, bank failure affects a wide range of economic activities which have severe consequences on a country's and the citizens in particular. The Nigerian economy for instance, is so depressed by the bank failure as companies cannot obtain necessary credit facilities to expand production. Most factories have remained closed, foreign investment diminished, while capital flight from the country continues unabated as returns on investment becomes unattractive. Several economic restriction are imposed as the inflation rate claims to a crippling height.

Bank failure also creates serious problems for the monetary authorities, especially the CBN and NDIC. As we are aware, most bank failures do not occur suddenly. The period of distress for a bank is also agonising for the regulatory bodies. Some of the problems during the "sick" period are usually administrative while some are operational as series of strategies are put in place to bring back the ailing bank back to life. The net effect of this, is increased burden on the regulatory authorities which are already saddled with many other responsibilities.

Similarly, bank failure affects all segments of the society. Credit facilities granted by banks from customers' deposits are either curtailed or completely stopped. The action obviously affected companies as factories would of necessity cannot expand production, since they will be operating below productive capacity.

Besides, unemployment will result from retrenchment, and loss of jobs from liquidated banks. And of course, the devil finds work for "idle hands", hence there would be increase in social vices in the society.

Finally, bank failure discourages and inhabits the monetization of the economy. The negative effect of the failure usually goes beyond the industry. It is, in fact, the whole economy that bears the burnt.

2.8 Governments' Reaction to the Negative Signals from the Banking Sector

Several attempts have been made by the government to stem the rate of corporate failure within the financial service sector of the economy. Starting with the Patrons Commission of Inquiry 1948, which culminated into the enactment of the Banking Ordinance of 1952, 1958 and the establishment of Central Bank of Nigeria (CBN) in 1959. The Banking Ordinance doubled the minimum capital

requirement of banks from N200,000 to N400,000. This again increase to N1.5 million in 1969 Adekanye(1983:169).

The banking sector also witnessed some changes due to the enactment of the Banking (Amendment) Decree of 1970, 1972, 1979 and the Central Bank of Nigeria Decree No.24 and Banks and Other Financial Institution's Decree (BOFID) No.25 of 1991.

As earlier stated, the deregulation process, by SAP, increased tremendously the tempo of activities in the banking subsector particularly in terms of number of banks (Commercial and Merchants) and profit margins. Just as the banks increased their branches and declared greater profits, provision for bad and doubts and actual debts were also increasing. Ekpenyong(1994:15).

Deregulation also led to the privatisation and commercialisation of some of the government-owned banks. This exercise led to boardroom changes which in some cases adversely affected the performance of some of the affected banks. But according to Ekpenyong, the one serious mistake the government made was its failure to take appropriate action in time. Ebhodagbe (1994) on the other hand states that, the crisis in the banking industry could be traced to the financial system's liberalisation without recognition of the need to clean up the system. According to him as a result of that omission, technically insolvent banks which could not perform efficiently under the new dispensation were not in position to compete favourably with more efficient banks.

The negative signals which came from the banks following deregulation, led the government to take certain actions to sanitise the subsector of the economy. Section 331(2a) of the Companies and Allied Matters Decree(1990) now requires banks to disclose with reasonable accuracy, at any time, the

financial position of their operations so as not to put in doubt their authenticity and reliability.

In line with the International Standards on capital adequacy recommended by BASLE Committee, the Nigerian Government in 1991 increase the minimum equity capital of merchant banks from N12 million to N40 million and for commercial banks from N20 million to N50 million and N500 million in 1997. Banks are also required to provide not less than 7.5 percent of their risk assets as capital and at least 50 percent of the banks' capital for the purpose should include paid-up capital and reserves.

By Decree No.22 of 1988, government established the Nigerian Deposit Insurance Corporation (NDIC) to: insure the deposit liabilities of licenced banks in the country, provide financial and technical assistance to the banks and contribute to the request for a stable and sound banking environment in Nigeria. By this Decree a creditor to any of the licensed banks is entitled to be paid a maximum of N50,000 in the event of the liquidation of the bank even where such initial deposits are higher than N50,000.00.

Besides, the government through the CBN, also issued the Prudential Guidelines for Licenced Banks in 1990. The coming in operation of both the Prudential Guidelines and the Statement of Accounting Standards (SAS 10) tried to bring order into chaotic situation which had developed in the banking industry since the economic adjustment programme. The two documents addressed three main areas of concern in assessing the performance of a bank's operation. These are: income recognition, loss recognition and balance sheet classification in terms of performing and non-performing credit facilities. The two documents spelled out criteria to be employed by banks for classification of

performing and non-performing credit facilities, the minimum amount of provisions to be made for each category of such loans and the conditions attached to interest recognition in respect of classified loans, as well as, providing rules for classifying banks "other assets and treatment of off-balance sheet transactions".

Similarly, the government in its major move to combat insider dealings which had emerged as one of the measure causes of corporate failure in banks promulgated the Failed Banks (Recovery of Debt) and Financial Malpractice in Banks, Decree of 1994. This is to help check the activities of bank operators.

According to Ekpenyong(1994), the recent failure in the banking sector is traceable to the introduction of the Structural Adjustment Programme in 1986, followed by subsequent policies, which rendered the banking industry totally deregulated. This led to the proliferation of banks and other financial institutions which have turn out to be "unhealthy".

It is necessary to restate that at the doors of the regulatory institutions seems to lie the blame for this disaster and that timing is the factor. Had the regulatory agencies anticipated the fallout from deregulating the subsector and issued guidelines simultaneously with the deregulation exercise the current situation could have been prevented or at the worst minimised.

2.8.1 Monetary Authorities and Bank Failure

The bank failures of the 1950s may have led to the power of control of banking being vested in the Financial Secretary. This according to Adekanye(1983:141) triggered on two oppositions, the Nationalists who were of the view that a Central Bank was needed and the colonies who believed that it was prematured to introduce a Central Bank.

Thus between 1953 and 1957, three studies were conducted, viz:

1. J. L. Fisher's Report 1953
2. I.B.T.D. Nussion Report 1957
3. J.B. Loyne's Report 1957

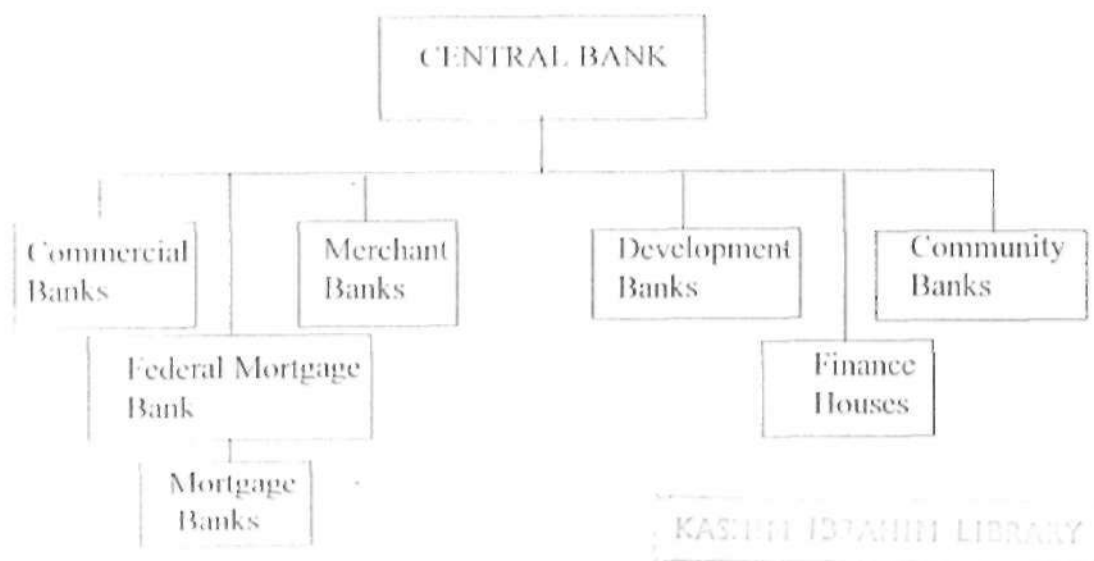
As a fall out of these studies the CBN Ordinance was promulgated on 17th March 1958 and became fully operational on the 1st July 1959 (Adekanye 1983:142). Major trust of the Ordinance include among others:

1. Promotion of monetary stability and a sound financial system and
2. Safeguard the internal value of the currency.

The millinaire question at this juncture is whether the CBN has been able to meet these objectives.

The Central Bank of Nigeria stands at the Apex of the banking system.

See Figure 2.8.1A : STRUCTURE OF NIGERIAN BANKING SYSTEM



Extracted from Ofuani C.(1993) Financial Intermediation: Emerging Trend in an old Trade Financing. The Economy Vol.1No.1, P.116.

Hence, the CBN has a role to play in ensuring sanity in the banking system. The regulatory power of CBN were amplified under the CBN Decree No.24 of 1990 and Banks and other Financial Institutions Decree (BOFID) 25, 1991, Section 38 of the CBN Decree No.24 of 1991 states interlia that the bank shall, whenever necessary seek the cooperation of and cooperate with other banks in Nigeria:

1. To promote and maintain adequate and reasonable financial services to the public.
2. To ensure high standard of conduct and management throughout the banking system.

The power conferred on CBN from these two decrees are such that the following objectives, according to Afolabi(1994) will be achieved:

1. Ensure safety of depositors' fund.
2. Control of bank charges
3. Ensure healthy competition
4. Limit the risk taken by banks
5. Ensure adequate conduct of directors and employee of banks.

In addition to the CBN, Decree No.22 of 1988 established the Nigerian Deposit Insurance Corporation (NDIC). The NDIC was established to serve the following functions (NDIC Decree No.28, 1988):

1. Insure the deposit liabilities of licenced banks in the country.
2. Provide financial and technical assistance to bank in the country, and
3. Contribute to the quest for a stable and sound banking environment in Nigeria.

By this decree, a creditor to any of the licenced banks is insured up to a maximum amount of N50,000. This is regardless of the size of the initial deposits.

The CBN was central to the introduction of SAP in 1986 to address the general structural economic disequilibrium in Nigeria. The underlying philosophy of SAP is the use of the market forces for the allocation of economic resources. Major features of SAP includes: the substantial deregulation of the foreign exchange rate of the Naira; the deregulation of banking operations and interest rate.

The main trust of these monetary policies is to maintain a balance budget, ensure economic self-reliance and control inflation, by obtaining a stable value for the Naira, since it was deemed to be over-valued before the introduction of SAP. However, these were not achieved due to high level of monetary and fiscal undiscipline by the government. The result of course is depression in aggregate demand, disruptions in economic activities, inflation and business failure to mention a few.

The deregulation of foreign exchange market - a fall out of SAP - resulted in major devaluation of the Naira. Today, the market rate is U.S. \$1 to N85 as against US \$1 to N in 1985. Given the fact that banks were all engaged in foreign exchange business, the deregulation and or regulation of the market, had adverse effect on their performance. The combined effect of these policy measures is manifested by the number of banks in financial distress while some were liquidated recently.

The decision to classify a bank financially distressed may be reached under a variety of circumstances and for a variety of reasons. According to Ekpenyong(1994:5) the CBN designed a criteria for classifying banks based on

whether it is distressed or not. Thus the following are the criteria for determining bank distress.

1. Capital adequacy
2. Asset quality
3. Management competence
4. Liquidity sufficiency
5. Earnings strength.

The CBN and NDIC use aggregate ratios of performance in the above mentioned areas to classify whether a bank is distressed or not.

Moreso, distress in the system is not easily known to the public until it reaches a cancerous proportion. However, according to the News magazine March 27, 1997 Vol.8 No.11 article entitled "Unsafe Banks", here are some fomulars for early detecting of sickness, either masked or not in banks.

- (a) Debt Burden: If the bank is carrying a debt portfolio out of proportion to its capital deposit base, it is time for customers to move their money away. Especially, if most of the loans are insecured, don't wait for explanation, run.
- (b) Inside Abuse: If you are a high profile depositor, establish an independent grapevine with the bank. Once you have information that managers are helping themselves and their friends, of the banks money, it is time to move your money.
- (c) What does your bank do with your money? Does it invest in high risk venture, unguardedly or uncouthously? Be interested in all these issues.
- (d) Clearing House: If your bank gets suspended from clearing house, don't panic for the first time. If it repeats itself, it is a sign of ill-health, that your bank is insolvent.

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- (e) Liquidity Position: How solvent is your bank? Do you have to wait for a whole day to make withdrawals from your accounts? It is a sign of trouble.
- (f) Participation at AFEM and OMO: If your bank is not a regular player here, and does not have a good track of record there, get worried about its health.

2.9 Dealing with Corporate Failure

If the situation of total collapse and subsequent liquidation can be avoided, failure can equally be handled in various ways; to revamp the company. However, the basic step is to avoid another default.

In the words of Ajayi(1989), if the business is experiencing a gradual depletion of its resources resulting from inability to show a profit, it is likely to turn out to be one of the number of courses of actions which will tend to face it out of business.

Of course, this preventive package is meant for rescuing companies from any of the effects of failure manifesting themselves especially liquidation and receiverships. In order to apply the preventive techniques, management must have been able to recognise the early warning signals at a stage when prevention is still possible.

Ajayi(1989) suggested that the first step is to undertake a full assessment of the company's circumstances, with the aim of meeting the following objectives viz:

- (i) To determine the cause(s) of difficulty.
- (ii) To understand the financial and trading position of the company.
- (iii) To assess its ability and the desirability of continuous trading (business).

- (iv) To determine the changes that must be made in its ownership, management, objective, organisation, and control in order to achieve the newly identified and viable objectives, and
- (v) To calculate the additional financial resources necessary for its continuance; the risk involved and the ultimate return.

Ajayi(1989) went further to suggest the following steps depending on the type of problem diagnosed on strategy for survival of the company:

- (a) Re-organisation of the entire company or part thereof.
- (b) Refinancing the company's through loans so as to make working capital available.
- (c) Contracting out the management to those who specialise in that line of business e.g. Lion Bank of Nigeria was formerly under the management of International Merchant Bank Limited (IBM).
- (d) Introduction of improved or supplementary products.
- (e) A merger with another efficient company.
- (f) Acquisition of minor or additional activities by purchase or take-over.
- (g) The amalgamation of separate companies in a group into one corporate unit having separate operating unit.

Pearson et al (1961:584), also suggested the following courses of action:

- (i) Convert non-essential assets into cash. However, what is considered essential depends on severity of the situation.
- (ii) Cut back or defer payments which are not absolutely required by contract e.g. (a) defer accounts payable (b) cut down preferred and common stock dividends.
- (iii) Replace debt of imminent maturity with debt of more distant maturity.

- (iv) Extract new capital from those who have a reason from preserving the company - officers and shareholders for some firms. These may do the magic but for others, they will prove to be only temporary expedient, which merely postpone the day of reckoning.

In addition, Osaze and Anao(1990:211), suggested the following steps, if the situation of total collapse can be avoided:

- (i) Management should be completely overhauled.
- (ii) Inventory level will need to be reduced to cut down the general cost of keeping and maintaining inventory.
- (iii) An efficient plant and machinery will be needed to replace old ones and more modern facilities to reduce long-term fixed cost and variable overhead.
- (iv) Sales and finance operations may need improvement to introduce a more dynamic sales-team, to improve corrupt officials and financial information system of the company.
- (v) Assets valuation exercise may be required to improve financial ratios.

Perhaps in an event that the above recourse cannot do the magic, the only option for preserving the business lies in a direct negotiation to restructure the debt by way of rescheduling or extension of payment period. This is because of the cost and greater effect of liquidation on the creditors themselves.

However, in the words of Osaze and Anao (1990) liquidation is the final step and last resort for a company that is beyond redemption. A company is said to be candidate for liquidation if it is estimated that the value of its assets when disposed of, is greater than their value in use. A company may be liquidated in three ways viz:

- (i) Voluntary - at the instance of the creditors
- (ii) Statutory - by the order of the Court
- (iii) Bankruptcy - by the owners of the company.

The steps listed above are not exhaustive. They are just meant to give an insight into the available survival strategies, from which an ailing company can avail itself.

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CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The aim of this research work is to assess the causes of corporate collapse in the Nigerian banking sector. The research is also aimed at looking for ways of redressing the research problem. To do this, attempts were made towards identifying the various types of research methods available and specify the research framework within which the research problem can be tackled.

This chapter focuses on describing the techniques employed and procedures followed in the conduct of the study and their justification.

3.2 Research methods

A research work must lead itself to some methodology of data collection, analysis and interpretation.

In pursuit of the objective of this study - assessing the causes of corporate failure in the Nigerian banking sector, the descriptive or survey research method was adopted. The major aim was to describe systematically the state of the phenomenon.

As Osuala E.O.(1982:145) puts it "the need for systematic ways of telling what a situation is, means that the situation is no longer simple. It can no longer be understood directly and without synthesis".

The choice of this method is based on the study's objective, which is to highlight the causes of corporate failure, in order to find ways of solving it. To this end, a cross-sectional sample of both commercial and merchant banks is drawn from the population. On this sample, a uniform questionnaire was administered.

The advantage of questionnaire as a research technique and from the point of view of the researcher lended weight to its usage.

3.3 Population

The population of this study consists of Nigerian - commercial and merchant banks. The objective is to establish the causes of failure in Nigerian banks.

The non-random sampling techniques is adopted in this research work. The reason being to reduce sampling errors. After a survey and reference to necessary directory, a non-random sample was drawn across three cities and a town:- Lagos, Kaduna, Kano and Zaria, respectively. Subjects were drawn from among the seven viable banks in Nigeria and those still on the distressed list.

3.4 Sample Size

A total of thirty-nine banks were selected from the research population of seventy-three banks, using a stratified non-random sampling method. The sample is made up of the seven most viable banks, sixteen other strong and reliable banks and sixteen others below the linear. (Appendix C)

Statistics from the sample shows that most of the seven most viable banks were first generation banks with tract records of past achievements. They are followed by the banks who rank as reliable banks too, which are at close range in terms of performance and participation (AFEM).

The sample also shows that banks below the linear are mostly new generation banks and some of them are distressed and are still groping in the dark to find their feet.

The Appendix also reveals that the banks below the linear in the study constitute 41% of the total sample size and the viable banks constitute only 8% while those in the middle take the balance of 41% of the sample size. This shows the precarious disposition of our banking sector.

3.5 Data Collection

Basically there are two sources of data: Primary and Secondary sources.

3.5.1 Primary Source of Data

The researcher envisaged the sensitive nature of the topic under consideration as it may not permit respondents to express the "whole truth" in the questionnaire. In the light of this short-coming, the questionnaire was augmented with the conduct of extensive oral interviews, while questionnaire may be subjected to misinterpretation, depending on the perception of the respondents, this was minimised by the use of oral discussions held between the researcher and some respondents.

Beyond this generally accepted feature, a wide range of views on the subject matter were discussed that helped revealed certain element of truth that were not covered by the questionnaire.

Attached to the questionnaire was a cover letter which readily introduces the research topic to the respondents (Appendix B). The questionnaire was divided into four sections to permit wide coverage of the subject in a logical sequence, with related items grouped together.

Section "A" contained symptoms of corporate failure. Questions that relate to potential signs of failure and how they can be detected were enlisted here.

Section "B" of the questionnaire dealt with causes of bank failure, while Section "C" was on ways of dealing with corporate failure in banks. Section "D" provided other aspects that a respondent has to give his/her own view on items not covered by the questionnaire.

The distribution of the questionnaire was done by personal visits to the banks' premises. The questionnaire copies were left with the respondents, to be filled at their leisure, unless where immediate response were granted, then the searcher had to wait to collect them immediately. Similarly, the collection of the questionnaire copies was mostly done by personal visits back, except for some respondents where stamped self-addressed envelopes were left with them to send their responses through post.

A total of one hundred copies of the questionnaire were distributed. In each of the cities covered by the research, twenty-five copies were distributed, with the aim of getting at least fifteen completed and returned copies of the questionnaire.

3.5.2 Secondary Source of Data

This research exercise started with the collection of secondary data. Various relevant books in the libraries, publications in journals, National Newspapers and unpublished materials relating to the topic were carefully examined.

The research made use of summary tables in presenting data collected, through the questionnaire and secondary data from various literatures. Percentages were used in some instances to analyse data obtained through the primary and secondary sources of data for the study.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND RESULTS

4.1 Introduction

The aim of this chapter of the project work is to present, analyse and report the findings from the data collected in the course of the study. In order to enhance the clear analysis and interpretation of data in such a way that would synchronise the problem with the research design, summary tables were used in presenting the data and in some instance percentages were used in the analysis.

4.2 Data Presentation

As earlier on stated in chapter three, twenty-five questionnaire copies were distributed in three cities and a town. These were Lagos, Kano, Kaduna and Zaria town. On a whole, a total of one-hundred questionnaire copies were distributed. Out of the twenty-five questionnaire copies distributed in each of the areas covered 15, 18, 20, and 22, were dully completed and returned from Lagos, Kano, Kaduna and Zaria, respectively.

The success rate of 60% (Lagos), 80% (Kaduna), 72% (Kano) and 88% (Zaria town) were recorded. Thus the analysis was based on the responses of the 75 bank employees from thirty-nine banks covered by the study.

4.3 Data Analysis-analysis of Bank Employees Responses

The analysis was based on four sections of the questionnaires. Section "A" deals with the causes of bank failure, Section "B" treats the symptoms of bank failure, Section "C" analysed how to deal with bank failure, while Section "D"

which is the last section treats other matters concerning the topic under study like the monetary authorities and bank failure.

4.3.1 Causes of Bank Failure in Nigeria

Causes of bank failure has been classified into internal and external factors.

Internal factors centred around management. They are factors which regardless of the economic condition may result into corporate failure.

External factors are usually the result of government policies, changes in the trend of World economy and the resultant behavioural changes in the country's economic variables.

1. In your own opinion what is or are the cause(s) of bank failure in Nigeria?

The answers to this question by respondents relate and correlate and revealed the following as the causes of bank failure.

- (a) Poor managerial skill
- (b) Under-capitalisation
- (c) Boardroom crisis
- (d) Over-trading
- (e) High gearing
- (f) Unfavourable Industry trends
- (g) Catastrophes

From this it could be seen that there are many causes of bank failure but not just one factor.

2. Do you think poor management is the major cause of bank failure in Nigerian banks?

Table 4.3.1A: Poor Management as a major cause of Bank Failure in Nigeria

Response	Yes	No	Total
Percentage	96%	4%	100

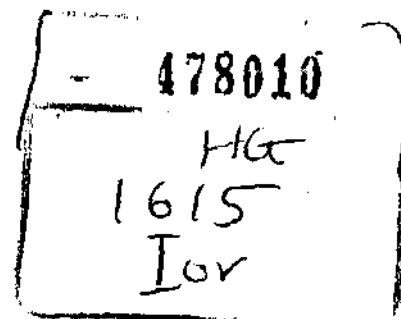
The above table shows that 96% or 72 respondents agreed that poor management is one of the major causes of failure in Nigerian banks.

In the words of Afolabi(1994:7) "poor management, lack of experience in the field, or incompetence" bear a high share of the causes of failure in banks.

3. In what way(s) do you think poor management manifest into bank failure in Nigerian banks.

Response to this question shows that the following manifest into bank failure.

- (a) Poor credit policy
- (b) Board room crisis
- (c) Inability to adopt to changes
- (d) Lack of Planning
- (e) Overtrading
- (f) Neglect



4. What type of lending is practice in your bank?

An analysis of data shows that a combination of secured and unsecured lending activity is being practiced by banks. Sometimes secured lending prevails while at other times, unsecured lending. However, 4 respondents said that only unsecured lending exists in the banks. These respondents may not have a full knowledge of the lending practice of their banks.

5. With what qualification did you join the bank?

Table 4.3.1B : A Comparison of qualifications of Bank Employees

Qualification	Total
Primary Sch.Cert.	---
WASC/GCE	34
Diploma/Equivalent	21
University Degree	20
Grand Total	75

From the above table, 34 out of the 75 respondents are with WASC/GCE and 21 of the 75, Diploma or its equivalent, while 20 of the employees have University degree in different field. Thus it could be traced that employees with lower academic qualifications are more than those that have higher certificates and sound theoretical background. This might equally account for bank failure. However, Nigerian banks prefer employees who stay longer on their jobs and acquired sound and practical training over the years.

6. In what discipline was your qualification?

Table 4.3.1C : A Comparison of Relevance of Academic Qualifications of the Employees to Banking Profession.

Discipline	Total
Business Administration	8
Banking & Finance	7
Economic	8
Accounting	4
Marketing	6
Others	42
Grand Total	75

In any banking profession, the first five disciplines, that is, Business Administration, Banking & Finance, Economic, Accounting and Marketing, are the most significant.

The analysis of the data above gives us a clear picture that only 44% of the employees are from these disciplines, while 56% are from other disciplines which are less vital to the banking profession. These employees have basic general qualifications comprising other disciplines. Perhaps, this deficiency could affect the ability of the employees to effectively and efficiently evaluate the applications for loans and advances by customers. This could be initiating contributory factor to the accrual of bad and doubtful accounts which has ruined the banking industry in Nigeria.

7. Indicate the total number of your bank branches for the following period
(a) 1992, (b) 1993 (c) 1994

Table 4.3.1D : Banks Branches

S/No	NAME OF BANK	1992	1993	1994
1	Bank of the North Ltd	202	204	210
2	Broad Bank of Nigeria Ltd	4	7	7
3	First Bank of Nigeria PLC	284	285	287
4	First Bank of Nigeria PLC	12	14	20
5	Gamji Bank of Nigeria PLC	20	23	26
6	Nigeria Universal Bank Ltd	13	17	21
7	Intercity Bank PLC	2	3	4
8	Savannah Bank PLC	102	104	104
9	Union Bank of Nigeria PLC	247	252	255

8. Do you consider your bank over-branched?

Yes 60%

No 40%

Table 4.3.5E shows in aggregate terms, that there has been a phenomenal growth in the number of branches opened by banks in recent years. The fundamental issue is whether the banks are over-branched or not. 60% of respondents believed that their banks are over-branched.

The effect is of course over-trading leading to huge overhead and maintenance cost which accumulates into low profits. This in effect can eventually lead a bank to a distress or total collapse condition.

10. To what extent does fraud contributes to bank failure in Nigeria?

(a) High (b) Low

Table 4.3.1F: The extent to which Fraud Contributes to Bank Failure in Nigeria

Response	High	Low	Total
Percentage	86%	14%	100

11. In what form or combination of activities does fraud manifest in Nigerian Bank?

Fraud is another serious problem facing banks in Nigeria. 86% of the respondents indicates that fraud contributes highly to the distress of banks in Nigeria. Beita(1993:199) is also in support of this, "fraud has been the biggest single cause of bank failure all over the words. For instance, in 1994, a U.S. Congressional Committee reported that out of 75 commercial banks failure between 1980-1983, 61% involved criminal misconduct by insiders." In Nigeria also, it has been reported that the average loss from fraud is approximately N169 billion.

Responses to question 11 above equally indicate that fraud manifest in Nigeria banks in several forms not just one. Their response indicated the following:

- (a) Outright theft
- (b) Manipulation of account
- (c) Misuse of fixed assets
- (d) Forgery
- (e) Unlawful simulation of signatures of account holders.

11. Do you think changes in government monetary and fiscal policies affect your bank?

- (a) No
- (b) Yes, adversely
- (c) Yes, favourably.

Table 4.3.1F: Effect of Government Monetary & Fiscal Policies on Banks.

Response	Percentage
No.	---
Yes Adversely	79%
Yes favourably	21%
Total	100

As indicated in Table 4.3.1F, 79% of respondents believed that inconsistency in government monetary and fiscal policies affect banks performance adversely. Government policies are usually not predictable. Banks have to adopt to them as quickly as possible as they come. The unstable monetary and fiscal policies of the government have set many banks down the drain.

12. Do you consider the general economic recession having unfavourable effect on your bank's operations?

(a) Yes 100%

(b) No 0

All the respondents to this question agreed that the general economic recession has affected the operations of banks adversely. This then can be one of the causes of bank failure.

4.3.2 Symptoms of Corporate Failure in Nigerian Banks

13. Is it possible to recognise potential failure in Banks? (a) Yes (b) No

Table 4.3.2A : Recognition of Potential Failure in Nigerian Banks

Response in Percentage	
Yes	59%
No	41%
Total	100

14. Do you think it is possible for signs of Potential Failure to be evident in the basic financial statements of banks? (a) Yes (b) No

Table 4.3.2B : Signs of Potential Failure in the Basic Financial Statements of Banks.

Response in Percentage	
Yes	59%
No	41%
Total	100

59% of the responses to this question shows that it is possible for banks to recognise potential failure before its eventuality. Another 59% have also

indicated that it is usual for such signs of failure to be evident in the basic financial statements.

The import is that this responses call for further questioning. If management of banks can recognise potential failure, then management should adopt strategies to prevent it from occurring.

15. If your answer to question 15 above, is no, why are signs of potential failure not evident in the basic financial statements of banks? Comment briefly.

The response to this question by respondents correlate and indicated the following:

- (a) Different financial statements are prepared for different users.
- (b) Annual financial statements of banks do not represent their true state of affairs.
- (c) Financial statements only represent management desire.

16 In what way(s) potential failure manifest in banks? Comment briefly.

Among the signs of potential failure advanced by respondents include:

- (a) Poor performance
- (b) Financial distress
- (c) Inability to utilise excess capacity
- (d) Inability to contribute to social welfare
- (e) Retrenchment of staff

Financial distress however, is a relative term. The CBN Annual had this to say "the expression, financial distress is commonly employed to describe two conditions of business enterprise. These conditions are (a) Insolvency (b) Illiquidity."

The scale of financial distress in Nigeria, according to some reports was generally modest and traceable among others to:

- (a) Unhealthy competition arising from the rapid expansion of banks.
- (b) The relative large stock of non-performing assets in the portfolio of a number of banks.
- (c) The limited capital base of several of the relative new banks.
- (d) Volatility of interest rates especially in the inter-bank market for reserve balances and
- (e) Insider abuses and unprofessional conduct in a number of banks.

From 1990, the number of banks adjudged distressed rose steadily to 24 in 1993, 34 in 1994, 42 in 1995 and to over 50 in 1997. While the initial core group of distressed banks identified in 1990, were mostly owned by State governments. Their composition has since become diversified in terms of ownership and includes a significant number of privately-owned banks.

4.3.3 Dealing with bank failure

Every bank failure situation goes with a loss of resources; employment opportunity and loss of public revenue/confidence in the industry. The failure of a bank will usually have a debilitating effect on the macro-economic variables of a nation.

There are many ways of dealing with bank failure as there are many causes of bank failure.

17. Identify ways of dealing with bank failure in Nigeria?

The response given by 58 respondents seems to be similar and inter-related. The following represent the responses of all respondents.

- Complete overhaul of management team.
- Cut-down operations
- A possible merger with another bank but with efficient and competent management
- Effective Internal Control system to minimise fraud, insider dealings, and misappropriation of banks' resources.
- Efficient information system
- Re-financing the capital structure to provide adequate working capital
- Massive debt recovery
- Staff rationalisation

The first step in dealing with failure is to undertake a full assessment of bank's circumstances. There are five basic objectives to be achieved in such an assessment of bank's difficult situation. They are:

- To determine the cause of difficulty.
- To understand the financial position of the bank.
- To assess its ability and the desirability of its continuing existence.
- To determine the changes that must be made in its ownership, management, objectives, organisation and control, in order to achieve newly identified and viable objectives.
- To calculate the additional financial resources necessary for its continuance, the risk involved and the ultimate return or benefit.

- 18 Identify the form of liquidation you consider more appropriate when a bank cannot be revamped from a distressed situation.
- (a) Formal liquidation
 - (b) Informal liquidation
19. Why do you consider the above choice more appropriate? Comment briefly.

The responses given to this question by 52 of the 75, respondents indicated the following.

- Relatively speedy
- Effective and efficient
- Economical

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Ten of the 75 respondents have indicated formal liquidation proceedings as the more appropriate measure. This usually involve the sale of the assets of the company to distribute the proceeds. 65 of the respondents believed, however, that an informal liquidation is better, because of it relative speed, efficiency and economical. This not withstanding the fact, all 26 causes of banks liquidation recently did not go informal See Appendix

In the words of Osaze and Anao(1990:11) "Liquidation is the final step and last resort for a business that is beyond redemption " liquidation can take form in two broad types: Voluntary and involuntary.

Voluntary liquidation is one initiated by the owners of the business while involuntary liquidation is one initiated by one or more creditors with valid and satisfied claims against the business. The form of arrangement of such liquidation depends on the wishes of creditors and owners.

20. Which of the following options do you think is appropriate for CBN in dealing with distressed banks?

- (a) Merger of the banks
- (b) Acquisition of the banks by the CBN
- (c) Liquidation
- (d) Outright sale of the banks

The responses given to this question indicated that 34 out of the 75 respondents were in support of merger of distressed banks, 7 were of the opinion that the CBN should acquire the banks, while 13 out of the 75 respondents are in support of liquidation of the distressed banks. But 21 were of the opinion that the CBN should undertake outright sale of the distressed banks. From this it could be deduced that merger of the distressed bank is more favoured by the respondents because of the devastating effect of liquidation.

In the words of Osaze(1995:1) "a merger is an arrangement whereby the assets of two companies are placed under the control of a single company which is owned jointly by the shareholders of both companies combined". Thus, in a merger, only one of the two companies survives. A cardinal motivating factor behind mergers is the need to stay alive (survive).

21. Do you think CBN and the NDIC have adequate resources to manage all the recently distressed and liquidated banks? (a) Yes (b) No

Table 4.3.3A : CBN and NDIC Managing the distressed and

Liquidated banks

Response in Percentage	
Yes	28%
No	72%
Total	100

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From the above table it is clear that 28% out of the 75 respondents held that CBN and NDIC have adequate resources to manage the distressed and liquidated banks. On the other hand, 72% or 54 out of the 75 respondents were of the view that CBN and NDIC cannot adequately manage the distressed and liquidated banks, in recent times. This can be attributed to the fact that the amount of money involved is too much within the reach of the organisations.

22. Is the insurance cover provided by NDIC on depositors funds in banks adequate? (a) Yes (b) No

All the 75 respondents held that the insurance cover provided by the NDIC on depositors funds is inadequate. This may be for the fact that most banks depositors have more than N50,000 in their accounts prior to the liquidation or distressed state of the banks.

23. If your answer to question 23 above is no, suggest how much should be the maximum insurance cover by NDIC. Comment briefly.

All the 75 respondents to this question expressed different suggestions. However, the core issue expression by most of them is that the NDIC should provide the insurance cover for the whole balances in depositors accounts as at the date of distress or liquidation of banks. This of course will restore the lost confidence in the banking industry by the general public.

4.3.4 Other Matters Relating to Bank Failure in Nigeria

24. In your own opinion, do you consider CBN has lived up to expectations in performing its functions? (a) Yes (b) No.

In all 36% or 27 out of the 75 respondents perceived that the CBN have lived up to expectations in its responsibilities while 65% or 48 of the 75

respondents were of the view that the CBN has not lived up to its expectations in performing its functions. This indicates that there are lapses in discharging of its duties which of course lead most banks to liquidation while some in distressed conditions.

25. If your answer to question 25 is No, suggest the areas that the CBN has to improve in its responsibilities. Be brief.

The responses given by the 75 respondents seems to be similar and inter-related and revealed the following areas which the CBN has to improve on in discharging its functions.

- The CBN should step up in its supervisory and examination machinery.
- The CBN should tighten licencing of banks.
- Should ensure adequate information disclosure by banks.
- The CBN should be consistent and stable in its monetary policies
- The CBN should take decisive steps in dealing with distressed banks.

26. Do you consider prudential Guidelines issued by the CBN to banks have significant impacts on their financial reporting ?

88% or 66 of the 75 respondents indicated that the CBN prudential guidelines have significant impacts on the reporting pattern of banks. This perhaps explains why some banks suddenly became distressed after the guidelines were promulgated.

Ekpenyong(1994:5) had this to say about the prudential guidelines. "Before the promulgation of the prudential guidelines and the introduction of statement of accounting standard (SAS 10),banks prepared their financial statement to suit a particular and peculiar "interest."

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Reporting on the impression he had during an interview with most banks officials in 1994, Afolabi said that some banks charged interest income on non-performing credit facilities thereby overstating their profits. Following the promulgation of the prudential guidelines, the situation has changed. The guidelines addressed three areas of concern, in assessing the performance of banks operations. These are: income recognition, loss recognition, and balance sheet classification in terms of performing and non-performing credit facilities.

4.3 Research Findings

With due regard given to the general analysis of the data for the research study, several findings were encountered as regard bank failure in Nigeria. These include:

- The general economic recession is affecting banks performances.
- Bank failure has adverse effect on the Nigerian economy.
- The deregulation of the banking industry resulted in the proliferation of banks.
- The cause of bank failure may be as a result of internal or external factors
- The major cause of bank failure is poor management.
- Fraud is a serious problem facing banks in Nigeria.
- Many banks do not embark on long term planning.
- Merger and acquisition remains the best options for the distressed problem in banks.
- Bank failure is a situation which prevent it from meeting any or all of its objectives.
- Government failed to introduce necessary policy guidelines earlier enough to regulate the banking sector (check the activities of banks)

- Government monetary and fiscal policies are not consistent with measures required for economic growth and development.
- CBN and NDIC have not lived up to expectations in discharging their responsibilities.
- Economic recession is not a permanent phenomenon, and bank failure can occur outside period of economic recession.
- The fundamental objective of a corporate business is to serve the society, profit is a strategy for survival.
- Banks play pivotal roles in the process of economic development, by mobilising resources of savers and matching them with investors demands.
- Banks prepare financial statements to suit management desire.

From the study it was also possible for the researcher to trace the many causes of bank failure in the Nigerian economy. Some of these causes have earlier on been pointed out in the review of literature. Some of them form part of the findings. They include:-

- Poor management
- Inadequate working capital
- Over-trading
- Boardroom crisis
- Inability to adopt to changes
- Poor credit policy
- Huge bad and doubtful debts
- Insider dealings/abuses
- Professional misconduct of bank officials

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CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The term corporate failure as used in the context of this research work means to be unsuccessful in attempts at achieving any set objectives or aspirations. Another variance is the inability, refusal, fault or weakness which prevent the achievement of any set objectives or aspirations. Within this broad definition, corporate failure includes, the deliberate "refusal" of the owners and the operators of an organisation, especially a bank, to adhere to set rules and approved procedures.

A journey down the home of memory showed that bank failure is as old as the development of the banking sector in Nigeria. The period of 1947 and 1952 witnessed a rapid growth of indigenous bank in Nigeria. This was the same case as from 1986 to 1990. The increase in the number of indigenous banks in Nigeria was correspondingly followed by a high rate of collapse, such that by 1954, 21 out of 25 indigenous banks operating then in Nigeria failed (Nwanko 1988), and in 1998 alone 26 banks were liquidated (New Nigerian Newspaper, Monday, January, 26 1998, P.9).

The place of the banking sector in the economy as financial intermediaries was also seen. They help in matching the savings requirements of depositors with the investment requirements of borrowers.

A review of literature on the theoretical and empirical aspect of corporate failure has helped us to have a considerable understanding of causes of corporate failure. These factors range from management inefficiency, fraud, unfavourable industrial trends, unstable government policies, under-capitalisation to insider

abuses.

The effect of corporate failure were equally visited. These include among others, further depression of the economy, erosion of confidence in the economic structures just to mention but a few.

The research adopted a survey method, selected a number of banks and administered questionnaires and responses presented for analysis.

The study was divided into five chapters. Each chapter was further subdivided to permit easy legibility and comprehension.

Chapter One gives a brief and general introduction of the vital aspect of the project. It states the problem, objective, and the scope of the study, as well as the significance, limitations and delimitations of the study. The definition of abbreviations are also stated in this chapter of the study.

Chapter Two provides the conceptual framework or background of the research topic. It sets the theoretical base of the research work. The chapter basically contained a review of literature which covers the writings and opinions of others in the area under study.

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Chapter Three contains the research methodology adopted. It carries information on the research methods, population, the sample frame and size.

Chapter Four presents, data collection, analysis and interpretation. It is the core of this study since it reports the research findings based on a uniform copies of a questionnaire administered.

Chapter Five provides the summary of the research as well as conclusions and recommendations of the project study.

Finally, some reference and bibliography are provided at the end of the project for further information or consultation.

In the course of this research, it was discovered that there was poor asset/liability management. There was no clear rule of investment in place. It was not uncommon for banks financing long term projects with short term funds. Moreover, most banks did not have credit policy and absolutely no clear credit control.

5.2 Conclusion

In conclusion, it has been established that business of banking is very intricate, in that money is the main commodity of trade and the obligation to repay depositors' funds remains unchanged and paramount. It is the inability of bank officials to bear this in minds that leads to bank failure.

Moreover the study has shown that misplacement of priority manifests as a cause of bank failure viz: bad management, inadequate capital base, lack of proper planning, overtrading, fraud, bad credit policy and lack of business reflex and bad investment management, among others.

The study has identified management deficiencies as the underlying cause of a bank failure in Nigeria. In essence, adherence to professional ethics, balance display of business reflex and ability to formulate and implement good policies and proper knowledge about the intricacies of the banking system will take care of more than 80% of bank failure in Nigeria.

In addition, we have observed that bank failure has a direct effect on depositors. The NDIC established to insure the deposits of banks in Nigeria, only provides insurance cover to a maximum of N50,000 per depositor, regardless of the amount in the account as at the date of liquidation. This is grossly inadequate to restore confidence in the public over the safety of their money in banks.

The study has equally succeeded in identifying many ways of dealing with bank failure as there are different degrees of failure. These range from complete overhaul of management, reorganisation of the banks, merger with other banks with competent management. It is observed that merger is the most viable option. Liquidation will not help matters. It will lead to loss of jobs, revenues, confidence in the banking sector among others. Last but not the least, banking is unlike other businesses. It is a distinct business of its own, with its intricacies. Its soul is public confidence and must not be allowed to be shaken. Once this is the case, obviously, the banks know it is time to pack-up. And where we willingly cause its (banking sector) collapse by mismanagement, the whole economy will record slow if not negative growth. The banking sector will not only fail to support government economic goals squarely, but will also be unable to stimulate economic activities in the productive industrial sector. Our banking industry must therefore be helped to get over this incidence of bank failure.

5.3 Recommendation

The diction may be true that whatever is a problem, there is equally a solution to it. Attempt is made in this section to proffer recommendations based on analysis of data collected for the research work. From this analysis it is crystally clear that effective remedies to bank failure can only be found in the thorough reappraisal of its causes and the mechanism for the implementation of policies jointly designed by the monetary authorities and operators, to ensure the soundness of the financial system.

It should be noted however, that the undermentioned recommendations are based on the limitations encountered in the course of this research. On the basis of the foregoing corpus of findings, the researcher recommends the following:

- (1) Banking education should be encouraged. Operators should be well trained, and the existing training institutions should be supported by monetary authorities to train bankers.
- (2) The Central Bank of Nigeria (CBN) needs to set up its strong supervising and examination machinery. This will ensure close regular examination of banks, so that problems are detected early enough to forestall eventual failure of our banks.
- (3) *Interim measures should be taken when a bank shows sings of distress.* Such measures may take the form of ownership restructuring, staff reationalisation, massive debt recovery et cetra.
- (4) Government should be consistent over policy measures that affect the operations of banks.
- (5) There should be unanimous campaign to fight against fraud among banks, and the best weapon is information.
- (6) The quality of management team should be determined by academic, professional qualification, relevant experience, technical know-how, business reflex, ability to innovate and implement good policies, leadership qualities among others.
- (7) The Central Bank in conjunction with NDIC should enforce the need for all banks to have approved policies in all their operational areas, and strong inspection division to enforce these policies.

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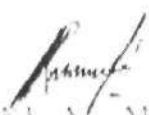
TO WHOM IT MAY CONCERN

LETTER OF INTRODUCTION

Mr/Ms/Msrs/Mrs. AVHETAP, EDWARD (EDDY) (097BAF7025) has completed his course work leading to the award of the Degree of Master of Business Administration (MBA) in this University. He is currently undertaking a research study entitled "CORPORATE CULTURE: AN ASSESSMENT OF THE NIGERIAN BANKING SECTOR".

For this purpose, we urge you to assist him with the necessary data and information he requires. The department has given instruction to the students that data and information so obtained should be kept in strict confidence and should be used only for the purposes of research.

We would be very pleased if permission is granted and the above named student receives as much assistance as possible.


M.A. KASE A. YEDDELAY
Coordinator, MBA
Exec. Head,
Department of Business Administration

COORDINATOR
MBA PROGRAMME
DEPT. OF BUS. ADMIN.
A. B. U. ZARIA

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APPENDIX B

BANK EMPLOYEES' QUESTIONNAIRE

TOPIC : CORPORATE FAILURE: AN ASSESSMENT OF THE NIGERIAN BANKING SECTOR

Dear Sir/Madam,

I am conducting a research on the above mentioned topic, and your bank has been chosen for this investigation. I am a post-graduate student, Department of Business Administration, Ahmadu Bello University, Zaria. This exercise is purely academic and have nothing to do with anything that may be detrimental or jeopardise the chances of your organisation in its business efforts.

The information you send will be treated in strict confidence and no quotation will be made without your permission. Moreso, your name and signature is not required.

I would be grateful if you could complete this questionnaire and pass it to the bearer. If you have any query relating to this questionnaire, kindly contact me.

Thank you for your cooperation.

Yours faithfully,

Avihitar, E.I.

HINT: Multiple choice answers have been provided to some questions, out of which you are to tick the one which most accurately provide the answer to the question asked. Other questions are asked which you are to give a very brief comment. Please feel free to express your feelings as all information supplied will be treated as confidential.

Section "A": Causes of Bank Failure

(1) In your own opinion what is or are the causes of bank failure in Nigeria?

(i) -----

(ii) -----

(iii) -----

(iv) -----

(v) -----

- (2) Do you think that poor management is the major cause of bank failure in Nigerian banks?
- (a) Yes
(b) No
- (3) In what way(s) do you think poor management manifest into bank failures in Nigerian banks.
- (4) What type of leading is practice in your bank?
- (a) Secured lending (b) Unsecured lending
(c) Both secured and unsecured.
- (5) With what qualification did you join the bank?
- (a) Primary school certification (b) WASC/GCE
(c) Diploma/"A" Level Certificate (d) Degree/Equivalent
- (6) In what discipline was your qualification?
- (a) Banking and finance (b) Economics
(c) Business Administration (d) Accountancy
(e) Others
- (7) Indicate the total number of your bank branches for the following periods.
- (a) 1992
(b) 1993
(c) 1994
- (8) Do you consider your bank over-branched.
- (a) Yes
(b) No
- (9) To what extent does fraud contributes to bank failure in Nigerian banks.
- (a) High
(b) Low
- (10) In what form or combination of activities does fraud manifest in Nigerian banks?
- (11) Do you think changes in government monetary and fiscal policies affect your bank?
- (a) No
(b) Yes, adversely
(c) Yes, favourably

- (12) Do you consider the general economic recession having unfavourable effect on your bank's operations?
- (a) Yes
 - (b) No

Section "B": Symptoms of Bank Failure

- (13) Is it possible to recognize potential failure in banks?
- (a) yes
 - (b) No
- (14) Do you think it is possible for signs of potential failure to be evident in the basic financial statements of banks?
- (a) Yes
 - (b) No
- (15) If your answer to question 14 above is "No", why are signs of potential failure not evident in the basic financial statements of banks? Comment briefly.
- (16) In what way(s) potential failure manifest in Banks? comment briefly
- (i) -----
 - (ii) -----
 - (iii) -----
 - (iv) -----

Section C: Dealing with Bank Failure.

- (17) Identify ways of dealing with bank failure in Nigeria
- (i) -----
 - (ii) -----
 - (iii) -----
 - (iv) -----
- (18) Identify the form of liquidation you consider more appropriate when a bank cannot be revamped from distressed situation?
- (a) Formal liquidation
 - (b) Informal liquidation

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- (19) Why do you consider the above choice more appropriate? Comment briefly.
- (i) -----
- (ii) -----
- (iii) -----
- (iv) -----
- (20) Which of the following forms of options do you thin is appropriate for CBN in dealing with distressed banks?
- (a) Outright sale of the banks
 - (b) Merger of the banks
 - (c) Acquisition by the CBN
 - (d) Liquidation
- (21) Do you think CBN and NDIC have adequate resources to manage all the recently distressed and liquidated banks?
- (a) Yes
 - (b) No
- (22) Is the insurance cover provided by NDIC on depositors funds in banks adequate?
- (a) Yes
 - (b) No
- (23) If your answer to question 23 is no, suggest how much should be the maximum insurance cover by NDIC
- (i) -----
- (ii) -----

Section "D" Other Matters.

- (24) In your own opinion, do you consider CBN has lived up to expectations in performing its functions?
- (a) Yes
 - (b) No

(25) If your answer to question 25 is No, suggest the areas that the CBN has to improve on in its responsibilities. Be brief.

(i) -----

(ii) -----

(iii) -----

(iv) -----

(v) -----

(26) Do you consider Prudential Guidelines issued by CBN to banks, have significant impacts on their financial reporting?

(a) Yes

(b) No

(27) Do you have any observation on the topic or the questionnaire to make? Comment briefly.

Thank you for your participation.

APPENDIX C

STATUS AND NUMBER OF BANK SAMPLED

Nigerian Seven Strongest Banks.

1. First Bank of Nigeria PLC
2. Union Bank of Nigeria PLC
3. United Bank for Africa PLC
4. Zenith International Bank PLC
5. Africa International Bank PLC
6. International Merchant Bank PLC
7. Nigeria International Bank Ltd

Other Strong Banks.

8. African International Bank Ltd
9. Afribank Nigeria PLC
10. Citizens International Bank Ltd
11. Equatorial Trust Bank Ltd
12. Guaranty Trust Bank PLC
13. FSB International Bank Ltd
14. Wema Bank PLC
15. Citi Bank (Nig.) Ltd.
16. First City Merchant Bank Ltd
17. Investment Banking and Trust Company Ltd.
18. FBN (Merchant Bankers) Ltd.
19. Diamond Bank Ltd
20. NDC Merchant Bank Ltd
21. Liberty Merchant Bank Ltd
22. Trans International Bank Ltd
23. Trade Bank PLC
24. Universal Trust Bank (Nig.) Ltd

Below the Liners.

25. Savannah Bank Nigeria PLC
26. Highland Bank of (Nig). PLC
27. Intercity Bank Ltd.
28. Lion Bank of Nigeria PLC
29. Gulf Bank of Nigeria Ltd
30. Gateway Bank(Nig) Ltd
31. Owena Bank (Nig.) PLC
32. Hallmark Bank Ltd
33. Habib Nigeria Bank Ltd
34. Meridien Equity Bank

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35. Oceanic Bank International Ltd
36. Societe Generale Bank(Nig.) Ltd
37. Triumph Merchant Bank
38. Ecobank PLC
39. Crystal Bank of Africa Ltd

APPENDIX D

REVOCATION OF BANKING LICENCES AND WINDING-UP OF THE AFFAIRS OF TWENTY-SIX(26) BANKS

S/No. Commercial Banks

1. Allied Bank of Nigeria PLC
2. Amicable Bank of Nigeria Ltd
3. Commerce Bank Limited
4. Commercial Trust Bank Ltd
5. Cooperative and Commerce Bank Ltd
6. Credite Bank Ltd
7. Highland Bank of Nigeria PLC
8. Lobi Bank of Nigeria Ltd
9. Merchantile Bank of Nigeria PLC
10. North-South Bank (Nig.) PLC
11. Pan African Bank Ltd
12. Pinnacle Commercial Bank Ltd
13. Progress Bank of Nigeria PLC

Merchant Banks.

14. Abacus Merchant Bank Ltd
15. ABC Merchant Bank Ltd
16. Century Merchant Bank Ltd
17. Continental Merchant Bank PLC
18. Crown Merchant Bank Ltd
19. Great Merchant Bank Ltd
20. Group Merchant Bank Ltd
21. ICON Ltd (Merchant Bankers)
22. Merchant Bank of Africa Ltd
23. Nigerian Merchant Bank PLC
24. Prime Merchant Bank Ltd
25. Royal Merchant Bank Ltd
26. Victory Merchant Bank Ltd.

Adopted from New Nigerian Newspaper Monday; January 26, 1998, PP.9.