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Gender Relations in Nigeria's Democratic Governance

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Abstract

The imperative of popular participation to democratic governance has engendered intense academic discourse on the political alienation of women across the globe including Nigeria. Based on recent research study carried out, it has been realized that despite the increasing global agitations for gender equality, the situation in Nigeria, following the demise of military rule in 1999, is nothing to write home about as women representation in the national parliament in the 1999, 2003 and 2007 elections recorded a dismal 6.3%, 8.8% and 7.3% respectively. Of the factors explored, research findings reveal that four major factors are responsible for women's marginalization in political participation, namely; socioeconomic, cultural heritage, political acrimony and institutional designs. This paper therefore argues that any measure directed towards redressing the low political participation of women in Nigeria will only be superficial unless the structural factors that limit women's political empowerment in the country are addressed.

Keywords: Gender, Participation, Politics, Democracy, Nigeria

Background of Study and Statement of Problem

Democratic government is predicated upon freedom, justice and equal treatment of all citizens– men and women alike, by the society (Nwabueze, 1993:2). This is because democracy presupposes equal opportunity platform for political participation and decision making process (Sodaro, 2001:27). Since equal political participation is sin qua non to democracy (Anifowose, 2004), a society cannot be truly democratized without the full and active participation of women who constitute about 50% of the population of each country. Incorporation of gendered perspective in policy making process is thus imperative for sustainable democracy. Gender equality is globally accepted as a requisite for achieving development and democratic governance that give men and women equal voices in decision-making, policy implementation and attaining MDGs (Ezeilo, 2008).

Despite widespread democratization in most countries and the struggle by the feminist movements for the integration of gender balancing in the national politics of countries over the world however, women who constitute about 50% of Nigeria population still remain systematically alienated from politics and decision making process in the country (Agbalajobi, 2010 & Arowolo & Aluko, 2010).

The phenomenon of women low participation in Nigeria's politics became worrisome following the demise of military rule and then the transfer of power to a civilian democratic administration in 1999. Nigerian Government in its efforts to tackle this phenomenon of low women's political participation ratified some national and international instruments such as the Convention on the Elimination of All forms of Discrimination Against Women (CEDAW) in 1989 and adopted a National Policy on Women in 2000 (replaced by a National Policy on Gender Equality in 2007 and Platform for Action, the National Committee on Affirmative Action, the Additional Protocol to The African Charter on Human and People's Rights on the Rights of Women in Africa 2003, The African Union Solemn Declaration on Gender Equality 2004, The National Gender Policy 2006, etcetera (Akiyode-Afolabi & Arogundade, 2003; Ajayi, 2007). After three consecutive democratic change of government (1999, 2003 and 2007) however, gender inequalities, discriminations and stereotypes continue to exist in all spheres of the Nigerian polity, preventing women from developing and exercising their full human capabilities and to play a powerful role in sustainable democracy. The objective of democratic consolidation in Nigeria cannot be realised if the womenfolk who constitute about half of the national population continue to be marginalised.

It is against this backdrop that it has become important to interrogate the currency of the phenomenon, factors accentuating it and measures to reduce phenomenon or engender a gender balance. This paper is divided into five sections. Section one is the introduction while section two is the conceptual analysis. Section three undertakes an analysis of gender relation in Nigeria's politics. Section four is the research method and section five focuses on an empirical survey of factors responsible for this phenomenon. Section six concludes and draws policy recommendations for improved women's political participation in Nigeria.

Gender, and Democracy: A Conceptual Discourse

The relationships between gender and democracy are complex. It is necessary therefore, to make a conceptual clarification of the terms gender and democracy in order to enhance our understanding of the subject matter. Gender has been viewed as the socially constructed attributes, opportunities and relationships associated with being male and female and which determines what is expected, allowed and valued in a woman or a man in a given context (Waylen, 1994; Henderson, 2006). Oostergaard (1992) defined gender as the qualitative and interdependent character of women's and men's position in society. According to him, gender relations are constituted in terms of the relations of power and dominance that structure the life chances of women and men. Such relations are not necessarily biological but a matter of social convention. Thus Colley (1987) sees gender roles as referring to behaviour patterns which are differently displayed by the sexes. These patterns are also established through socialization and determine attitudes and life styles for men and women. Gender roles are therefore matters of socio-cultural determination and are subject to change (Ajayi, 2007; Enemuo, 2005:227). Shapiro (1991) emphasizes that we are all trying to pass as a gender which is decided by cultural systems, not our biological sex. Gender division are not fixed biology, but constitute an aspect of the wider social division of labour and in turn, is rooted in the conditions of productions and reproduction and reinforced by the cultural, religious and ideological systems prevailing in a society (Kendall, 2004; Frye, 1983:146 & Frank, 1995:144). Historically, these attributes, opportunities and relations are skewed against women in favour of men (Omotola, 2007). Thus the universal asymmetrical pattern of gender relationship in which women are subordinated to men is cultural and not biological or immutable.

Democracy though not a new phenomenon, has emerged as the most significant trend in the world politics over the past decade. Democracy entails equal opportunity for men and women to get involved and determine the control of power of a society (Pateman, 1970; Agbaje, 1999:193 and Anifowose, 2004:205). It is predicated upon freedom, justice and equal treatment of all citizens– men and women alike, by the society (Nwabueze, 1993:2). As noted by Sodaro, (2001:27), it presupposes equal opportunity platform for political participation and decision making process. Political participation is therefore germane to democracy and fundamental to the stability and legitimacy of every political system (Anifowose, 2004, Agbalajobi, 2010; 75). It occupies a vital place in Thus Almond and Verba (1963) conclude that combination of three political orientations -parochial, subject, and participatory, result into a routine, stable and democratic system. Since equal political participation is sin qua non to democracy, a society cannot be truly democratized without the full and active participation of women who constitute about 50% of the population of each country. The incorporation of gendered perspective in politics and policy making process is thus imperative for democratic. Giving men and women equal voices in decision-making and policy implementation is therefore a requisite for achieving democratic governance.

Gender Relations in Nigeria's Politics

Throughout the history of Nigeria, there has been varying levels of women's political participation. In pre-colonial Nigerian societies though women's political participation was not equal to that of men, the position of women in traditional political governance was complementary rather than subordinate (Mba, 1982:37; Nwankwo, 1996:20 & Ikpe, 2004:23; Akinboye, 2004:236; Ajayi, 2007; Awe, 1992:11). The complementarity role was however embedded in sex segregation, which determined gender position, status and power in the society and provided women their own spheres of operation and control (Olojede, 1990:82).

The advent of colonial administration however, destroyed the traditional systems of women's political participation in Nigeria (Allen, 1972; Omotola, 2007; Lewu, 2005:65; Mba, 1982; Ikpe, op.cit:30). The creation of patriarchal government by colonial administration, its gender policies and economic interests reinforced and generalized patriarchal values and perpetuated gender inequality in the country (Kamene, 1991, Olojede, 1999; Akinboye, 2004:237). The legislative council created in 1922 though with limited African representation for instance, is noteworthy in Nigerian political development. Yet the colonial government consciously excluded women from this council (Akiyode-Afolabi & Arogundade, 2003:77). These practices significantly marked the beginning of masculinity of politics and women's alienation from the mainstream Nigeria's politics (Allen, 1972; Ajayi, 2007:138). In fact while women in South Western Nigeria voted for the first time in the nation's electoral history in the 1959 general elections, their Northern counterparts did not enjoyed franchise rights until 1976, fifty-four years after the elective principle was introduced to Nigeria (Enemuo, 1999:232).

Women political activism such as the Aba women riot against colonial tax policies of 1929/30, the Ngwa women's opposition against the municipalisation of their community in 1954, the Eastern Region women's opposition to new school fees in 1958; and the series of protests between 1946 and 1958 by the Abeokuta Women's Union led by Mrs. Funmilayo

Ransome-Kuti though were invaluable in the country's struggle for independence (Nwankwo, 1996:16; Adu, 2008:27), however, the limited gains made by women did not translate into participation in decision making during this colonial period. Men dominated in the first political parties. Women did not feature prominently in the leadership of the Nigerian National Democratic Party (NNDP), National Council of Nigeria and the Cameroons (NCNC), Nigerian Youth Movement (NYM) and other parties during the nationalist era and after independence (Ahonsi-Yakubu, 2001:151). In the 1958 elections only Wurola Esan got appointed to the Senate of 36 members, while no woman was elected to the 312-member House of Representatives and none was in the federal cabinet (Nwankwo, 1996:17).

The low participation of women in politics was also fostered by the nature of post-colonial politics. The ethnic and personality based, paternalistic and acrimonious politics of the post-independence era were detrimental to women's participation (Ojo, 2003; Aina, 2004:227; Ikpe, 2004:35). In the first republic, there were only four female legislators in the whole of the country, a number that was so negligible as to give women the necessary influence and they could not play any active role in decision-making process (Nwankwo, 1996:17, Omotola, 2007:37). The imposition of military, an era that followed this period from 1966 did not foster women's participation in politics and very little was heard of women at the helm of affairs (Anya, 2003). Military rule was an all-male affair and while it lasted women played only a peripheral role (Adeleke, 2002).

The year 1999 marked the beginning of a new dawn in Nigeria as it returned to civilian government after the demise of military rule. Women political participation though witnessed an improvement over previous experience; however, this new era saw women taking a similar low participation in the Nigeria's political process. The 1999 general elections saw only 181 positions worn by women out of the 11, 881 available positions throughout the country (Akiyode-Afolabi, 2003:63). In the same elections there were only five (4.6%) women out of 109 senators elected into the Senate, while 13 (3.6%) women were elected into the House of Representatives of 360 seats i.e. 6.3 percent women representation in the national parliament (Ajayi, 2007:139). While there were 36 gubernatorial seats, no female featured. Nigeria had only one female deputy Governor – Chief Kofoworola Akerele-Bucknor, deputy governor of Lagos State (1999 -2003), and of the 990 seats available for the States House of Assembly in the federation only 12 (1.21%) women were elected (Adu, 2008:27). At the local level, out of the 774 local government chairpersons across the nation, only 9 were women and 143 out of the 8,700 councillors were women (Babatunde, 2003; Anifowose, 2004:210).

The poor performance of women in this election was the basis for the national summit for all women politicians organised by the International Human Rights Law Group, Centre for Development and Population Activities (CEDPA) and Gender and Development Action (GADA) held on June 28, 2002 in Abuja with the objective of enhancing women's active participation in Nigerian politics (Akiyode-Afolabi & Arogundade, 2003:64). The 2003 elections did not witness any significant improvement however. In these elections, only 21 (6.1%) women out of the 339 members, worn seats in the House of Representatives. Similarly, of 109 senatorial seats, only 3 (2.7 %) women were elected in to the Senate (UNDP Report, 2005:47; Ojo, 2003:16). The 36 gubernatorial positions in the federation had no woman and out of the 990 seats available for the States House of Assembly in the country, only 38 (3.84%) women were elected (Adu, 2008:27). In the 2007 elections, a total of 7, 160 candidates (both men and women) contested in the April elections. Of this number, only 628 women representing 8.8% of the total candidates participated. A total of 3,141 candidates contested for seats in the National Assembly. Of this number, only 209 or 6.7% were women. In these elections, 25 (6.9%) women out of the 358 seats were elected into the House of Representatives and 9 (8.3%) women out of the 109 seats were elected in to the Senate that is 7.3 percent women representation in the national parliament. While out of the 36 gubernatorial seats available, no woman was elected, there were only 6 women out of the 36 deputy-governors in the country.

Of the 990 seats available for the States House of Assembly in the country, only 54 (5.5%) were women (INEC, 2007; Nigeria CEDAW NGO Coalition Shadow Report, 2008:10). Thus the percentages of women in the national assembly were 2%, 4% and 6% and in the States' Houses of Assembly across the nation were 1.21%, 3.84% and 5.5% in the country in the 1999, 2003 and 2007 elections respectively. In terms of ministerial appointments, only 4 out of 49 ministers were women in 1999, 6 in 2003 and 7 in 2007. The improvement in women political representation indicated in the analysis above was due to the conscious affirmative efforts of the Obasanjo administration to involve more women in political administration. As a result, political parties took a decision to waive for the women the payment of pre-registration levies for political aspirants in the country. In addition, the national summit for all women politicians organised by the International Human Rights Law Group, CEDPA, GADA held on June 28, 2002 in Abuja with the objective of enhancing women's active participation in Nigerian politics and the awareness campaigns by these and other gender-related organisations and NGOs spurred women in the federation to vie for political candidature in the 2003 and 2007 general elections (Akiyode-Afolabi & Arogundade, 2003:64; Adu, 2008:27). It is obvious from this analysis however, that women's political participation in the country still remains at a dismal level in spite of the affirmative actions and institutions of the government to encourage their participation, thus falling short of the desired result of giving women the opportunities and access to political advancement. Women's representation in the National Assembly currently stands at 6.9 per cent in the House of Representatives and 8.3 per cent in the Senate, far below the 35 per cent minimum representation stipulated in the National Gender Policy. Thus the perception that democracy would automatically boost women political participation has not been validated after nine years of return to civilian rule.

Research Methods

The study engaged survey research method. Primary data were collected through the use of in-depth interviews and well-structured questionnaires. However, secondary data involving extensive and thorough library research and examination of existing publications, existing reports and websites including reports from government agencies, international organizations, published and unpublished articles are used to construct supporting reviews of the study. The empirical study employs interview and questionnaire designed to collect data on factors militating against women's political participation in Nigeria. The population of the study consists of women within Lagos and Ogun State Nigeria. The choice of Lagos and Ogun State is based on the fact they are among the earliest politically civilized and vibrant states in Nigeria. Furthermore, each of these states belongs differently to each of the two dominant political parties in Nigeria. While Lagos State is Action Congress of Nigeria

(AC) controlled State, Ogun state is controlled by Peoples' Democratic Party (PDP). The choice of these two states as area of study therefore provided a platform for comprehensive investigation of women political participation in Nigeria. A total of 400 women were randomly selected and 400 questionnaires administered to them. Out of this number, 346 (86.5%) valid and complete responses were received and analyzed. The study uses five-point anchored Likert scale and also the instrument was adapted from similar study (Hossain, et' al, 2009) which established their validity. The reliability of the collected data was tested. The Cronbach's Alpha for the collected data is 0.978. In social studies research, 0.70 or more alpha value will be good enough to insure data reliability. Data gathered were analyzed using the Statistical Package for Social Sciences (SPSS Version 15.0). The data was analyzed based on statistical description and regression.

Analysis of Data and Presentation of Result

Table 1.0 Socio-demographic Characteristics of Respondents

Age Distribution of Respondents		
Age	**Frequency**	**Percentage**
18 – 30	120	34.6
31 – 40	122	35.2
41 and above	104	30
Distribution of Marital Status of Respondents		
Status	**Frequency**	**Percentage**
Single	122	35.2
Married	160	46.2
Divorced	30	8.7
Widow	34	9.8
Occupational Distribution of Respondents		
Place of Work	**Frequency**	**Percentage**
Government Establishments	114	32.9
Private Establishments	136	39.3
NGOs	32	9.2
Others (students & unemployed)	64	18.5
Educational Distribution of Respondents		
Qualification	**Frequency**	**Percentage**
Tertiary Education	250	72
Secondary School Education	66	19
Primary School	30	8.7

From the analysis above, more of the respondents (226 or 65%) were above 31 years of age. Furthermore, there is a high level of literacy among the respondents as 250 or 72 % of them have education qualification up to tertiary level while 66 (19%) had maximum of secondary education and only 30 (8.7%), primary School education. These afforded the researcher the opportunity to gather very useful information as respondents are experienced, understood and are able to contribute to the subject matter.

Table 2.0. indicates participants' responses on the determining factors of low participation of women in Nigeria's politics.

Table 2. 0. Response to Factors Responsible for women's Low Political participation

Variables	Strongly disagree		Disagree		Undecided		Agree		Strongly agree	
	f	%	f	%	f	%	f	%	f	%
Socioeconomic factors										
Lack of adequate education	28	8.1	88	25.4	18	5.2	112	32.4	100	28.9
Lack of enough financial resources	24	6.9	48	13.9	54	15.6	128	37	92	26.6
Cultural Factors										
Patriarchal culture	28	8.1	88	25.4	10	2.9	140	40.5	80	23.1
Male Domination in the society	8	4.6	64	18.5	14	4.04	112	32.4	140	40.5
Women's multiple responsibilities	40	11.6	62	17.9	-	-	124	35.9	120	34.7
Religious binding	31	8.9	100	28.9	15	4.3	100	28.9	100	28.9
Acrimonious Politics										
The use of gangsters in Nigeria's politics	44	12.7	68	19.7	6	1.7	116	33.5	112	32.4
The use of thugs in Nigeria's political activities	40	15.1	60	17.3	5	1.4	80	23.1	161	46.5
The practice of godfathers in Nigeria's politics	30	16.2	64	18.5	8	2.3	82	23.7	162	46.8
Institutional Designs										
Majority Electoral System	28	8.2	40	11.6	26	7.5	148	44.8	104	30.1
Lack of Quotas system	32	9.2	24	6.9	18	5.2	140	40.5	132	38.2
Lack of provision for gender equality	28	8.1	32	9.2	4	1.2	142	41.0	140	40.5
Historical Legacies										
Legacy of Military rule	74	21	66	19	67	19.3	108	31.2	31	9
Legacy of Colonialism	92	26.6	124	35.8	68	19.7	42	12	20	5.8
Naturally women have no interest in politics	116	33.5	127	36.7	48	13.9	32	9.2	23	6.6

The result of the descriptive statistical tests on the factors responsible for the low political participation of women in Nigeria is presented in table 3 below.

Table 3.0. Descriptive Statistics of Factors responsible for Women's Political Participation in Nigeria.

	N	Minimum	Maximum	Mean	Std. Deviation
Lack of adequate education	346	1.00	5.00	3.5202	1.35171
Lack of enough financial resources	346	1.00	5.00	3.6243	1.21005
Patriarchal culture that pushes women back in the private sphere	346	1.00	5.00	3.4509	1.30735
Women multiple responsibilities	346	1.00	5.00	3.6445	1.40936
Religious binding	346	1.00	5.00	3.3988	1.39248
Male dominance in the society	346	1.00	5.00	3.9480	1.19062
The use of gangsters in Nigeria's politics	346	1.00	5.00	3.5318	1.43471
The use of thugs in Nigeria's political activities	346	1.00	5.00	3.7601	1.46958
The practice of godfathers in Nigeria's politics	346	1.00	5.00	3.6185	1.49360
Majority electoral system	346	1.00	5.00	3.7514	1.22844
Lack of specified percentage of seat reserved for women (quota system)	346	1.00	5.00	3.9480	1.24303
Lack of provision for equal gender representation in party nominees	346	1.00	5.00	3.9624	1.23066
Military legacy of women alienation from governance	346	1.00	5.00	2.8728	1.30596
Colonial legacy of women alienation from governance	346	1.00	5.00	2.3468	1.16268
Naturally women have no interest in politics	346	1.00	5.00	2.1879	1.18785
Valid N (list-wise)	346				

Socioeconomic Factors: A list of socio-economic factors that might affect women's political participation was included in the questionnaire and the participants were asked to express the extent of their agreement with each of them. Analysis of the participants' answers is summarized in Table 3. It can be seen from the reported mean in the table that lack of enough financial resources and inadequate education are the basic socioeconomic factors that hinder their political participation. Women do not own resources, they are usually co-owners and as such property lies in hands of men. The few literates among women are usually marginalized and isolated by the society. Consequently, women are unwilling to commit their meager financial resources to political activities since the likelihood of being supported by their political parties and men counterparts is low. The awareness campaign and other orientation activities of Gender and Development Action (GADA), Civil Liberties Organization, National Council of Women Societies (NCWS) Women in Nigeria (WIN) among others, though have helped to increase the level of women's political literacy this however, has not translated to women's significant featuring in the mainstream politics of the states.

Cultural Heritage: A number of cultural factors that may affect women's political participation were listed for the participants to see whether they affect them. The findings presented on table 2 shows that patriarchy system which recognizes male domination in the society, institutional arrangements that restrict women to family responsibilities and religious orthodoxy are cultural factors that affect women's political participation. While protestant religion is beginning to encourage women's prominence in public life, religious orthodoxy however, continues to place limitation on the extent of female's featuring in political activities. The mechanism of sex segregation and *pudah* are found to restrict women's empowerment by limiting their exposure to interact with male and female constituents and to attend public meetings. These factors have relegated women to be subordinate to men and has created women's inferiority complex.

Political Acrimony: The results of table 2 show that the acrimonious patrimonial system of political godfatherism, thuggery and gangsterism which made the political terrain too dangerous for the female gender to tread constitutes great hindrance to women's political participation in Nigeria. In addition, the society's belief that politics is for men and only boorish women get involved, constitute a barrier to women's featuring in the mainstream politics. Women who get involved in it are stigmatized by fellow women and most men as a result would not encourage their wives to be involved in politics. This situation is further worsened by the practice by political parties of holding meetings at odd periods, e.g. nocturnal meetings.

Institutional Designs: The institutional designs which this study found to hinder women's political participation in the mainstream politics include the practice of majority electoral system instead of proportional representation, lack of gender electoral quota systems and constitutional provision for equal gender representation in parties' political nominees. All these institutional designs impede women's significant involvement in political activities. Though affirmative action and gender equality have been appreciated in the country, however, there is hitherto no specific guideline and modality of affirmative actions and no conscious efforts made by the government to entrench such constitutional policies for implementation in Nigeria.

The results presented in table 2 shows that the legacies of colonial and military administration in Nigeria have weak impact on the low women's involvement in the mainstream politics in Nigeria. Participants did not also agree that low political participation among women is a result of the apolitical nature of the female gender.

Conclusion and Recommendations

Despite global campaign for gender equality, women's political representation in Nigeria is still at dismal level failing to achieve the critical mass of 30% women's representation in the country's parliament. The imperative of democratic consolidation in Nigeria requires that women, who constitute half of the national population, find prominence in the mainstream political development of the nation since democracy is only achievable on the altar of equal participation of every citizen of the society, males and females alike. It is therefore conclusive that any corrective measure adopted to address the low participation of women in Nigerian politics will only be superficial unless the nation's socioeconomic, cultural and political factors that limit women empowerment are decisively addressed. On the basis of findings of this study, the following policy recommendations are suggested for enhancing women's political participation in Nigeria.

The Federal Government of Nigeria ratified the Convention on the Elimination of All forms of Discrimination Against Women (CEDAW) in 1995. CEDAW should be domesticated in Nigeria immediately. This will expunge the conflicting and discriminatory provisions in Nigerian Statutory, Customary and Religious laws that reinforce male supremacy and perpetuate patriarchal system in Nigeria. An Electoral bill explicitly specifying and clarifying guidelines for modalities and implementations of affirmative actions that enhance women's empowerment should be passed into law in the country. For instance, 50% of financial cost of registration as a candidate for political positions and election campaign should be borne by the government. Every national political party should reserve 30% of all elective positions for women. The Independent National Electoral Commission (INEC) should ensure that this policy is obeyed and any political party that fails to follow it should be disqualified. Electoral quota system is an effective tool for addressing low women's political representation. There should be constitutional provision for electoral quota system of 50% of the seats in the National Assembly, States' House of Assembly and Local Government Councils in Nigeria reserved for women in Nigeria.

Government should engage the support of the mass media and partner with women's movement, NGOs and civil society for vehement campaign against women subordination, discrimination and stigmatization in the society. Furthermore, education of women is useful to destroying inferiority complex and to give aspiring women courage and confidence to compete with men. Women education should target the adult population both in the cities and rural areas. Governments should therefore establish evening and week-end education programme for adult women who as a result of one limitation or the other could not attend the formal education. National Youth Service Corps members should be engaged in this programme instead of deploying them to various organisations where they are rejected or redundant for a whole year of their services. Lastly the creation of a political environment supportive of and conducive for women's participation is a responsibility of the government. Government must curb the menace of electoral violence and the use of political thugs and gangsters to suppress and witch-hunt political opponents in the country. Election Task Force should be established by the government with membership drawn from The Nigerian Police which should be on ground throughout election periods for immediate investigation of the use of political thugs and gangsters during political campaigns and voting by political parties or aspirants, and conviction of such acts through the adjudication of Election Tribunal should lead to automatic disqualification of such political party or aspirants by the Independent National Electoral Commission (INEC).

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Performance Analysis through CAMEL Rating: A Comparative Study of Selected Private Commercial Banks in Bangladesh

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Abstract

CAMEL Rating has been considered as one of the widely used tools for judging capital adequacy, asset quality, management capacity, earnings ability, and liquidity of the financial institutions including commercial banks by the principal regulators all around the world. This paper examines the comparative performance of two leading private sector commercial banks, namely, IFIC and EXIM bank, through CAMEL Rating. The findings of the study reveal that in case of the band 'capital adequacy', IFIC Bank's, capital adequacy ratio and leverage ratio show better performance than EXIM Bank, but, in respect of return on equity and net worth protection, IFIC shows poorer performance than the other. With regard to 'asset quality', percentage of classified loan of IFIC Bank shows a much stronger performance than EXIM Bank and in relation to ' management capacity', income per share of EXIM bank is higher than IFIC. Further, expenses per employee of EXIM bank is less than the IFIC bank which confirms EXIM bank's better management capacity to deal with administrative and office overheads. With respect to 'earning ability', net investment margin of IFIC Bank shows a laudable performance but for other criteria, such as, net profit margin, diversification ratio and earnings per share, EXIM Bank has been showing better performance. Finally, with regard to 'Liquidity', loan to deposit ratio and earning assets to deposit ratio of IFIC Bank have been showing excellent performance but liquid asset to total deposit ratio shows poor performance than the EXIM Bank.

Keywords: Banks (EXIM and IFIC), CAMEL Rating System, Performance Measurement.

Introduction

A Performance measure is the specific quantitative representation of a capacity, process, or outcome deemed relevant to the assessment of performanc*e.* Performance measurement is the process whereby an organization establishes the parameters within which programs, investments, and acquisitions are reaching the desired results (Wikipedia, 2010).

CAMEL is a rating system generally used by the government policy circle, regulating bodies regulating commercial banks, that is, central banks and non-governmental policy research centers for the purpose of assessing the soundness of a savings association or a bank. As regards to the background of introducing CAMEL, it was originally adopted by the regulators of North American Commercial banks and it covers five areas of performance, namely, Capital Adequacy, Asset quality, Management quality, Earning ability and Liquidity. In the early 1970s; federal regulators of the US developed CAMEL rating system to appraise the performance of the Commercial banks. Later in 1979, the uniform financial institution's rating system was adopted to provide federal regulatory agencies with a framework for rating financial condition and individual banks (Siems and Barr, 1998). Since then, the application of CAMEL has spread up dramatically in respect of examining the financial strengths of one of the basic constituents of money market i.e. commercial banks. In this connection, Piyu rightly observed: **"**Currently, financial ratios are often used to measure the overall soundness of a bank and the quality of bank management. Thus, bank regulators may use financial ratios to help evaluate a bank's performance as part of CAMEL rating system**"** (Piyu, 1992).

The Concepts of CAMEL Ratings

The criteria for the performance of all the commercial banks under CAMEL Ratings include capital adequacy, asset's quality, management standard, earnings and liquidity maintenance (CAMEL). In some countries it is called CAMELS; because in addition to above mentioned five areas, system and sensibility is also considered as a barometer to judge a bank's success or failure. In a nutshell, the following table shows different areas as well as significant accountings ratios used for denoting strengths or weaknesses of a banking company under CAMEL ratings. Ratios under CAMEL ratings is given in Table 1.

Rationale of CAMEL Rating

The application of CAMEL rating system for evaluating financial strengths of commercial banks have been growing both local and internationally. At international level, several academic studies examined whether and to what extent private supervisory information is useful in supervisory monitoring of banks. With respect to predicting banks failure, Barker and Holdsworth find evidence that CAMEL ratings are useful, even after controlling a wide range of publicly available information about the condition and performance of banks (Barker, D., and Holdsworth, D., 1993). Cole and Gunther examined a similar question and found that CAMEL ratings contain useful information (Cole, R.A. and Gunther, J.W., 1998). Hirtle and Lopez also inquired into the worth of CAMEL ratings in assessing banks current condition. While comparing to past CAMEL ratings to current CAMEL ratings, they found that the private supervisory information contained in the past CAMEL ratings provides further insight into bank current conditions, as summarized by current CAMEL ratings and that for the period from 1989 to 1995, the private supervisory information gathered during the last on-site exam remains useful with respect to current condition of a bank for 6 to 12 quarters (Hirtle, B.J. and Lopez, J.A: 1999).

In Bangladesh, Bangladesh Bank as a regulatory body has been calculating this rating till now. Apart from the prime regulator of commercial banks, academicians are also found taking interest in utilizing CAMEL ratings to assess the financial soundness of commercial banks. Purohit and Mazumder in a recent research paper used this technique to measure the performance of BASIC, a government owned commercial bank promoting basically small and medium enterprises (Purohit & Mazumder, 2003). All of the above mentioned academic studies made an overall conclusion that private supervisory information, as summarized by CAMEL ratings, is clearly useful in the supervisory monitoring of bank conditions.

Objectives of the Study

The overall objective of the study is to investigate into the comparative financial soundness of two leading private sector commercial banking companies through using CAMEL ratings. In order to achieve this, the study makes an examination on the following issues:

- Comparative analysis of capital adequacy of sample banking companies.
- Comparative analysis of asset quality of sample banking companies.
- Comparative analysis of management capacity of sample banking companies.
- Comparative analysis of earning ability of sample banking companies.
- Comparative analysis of liquidity of sample banking companies.

Scope and Methodology of the Study

The scope of the study is limited to two well established banking companies of Bangladesh, namely, IFIC bank and EXIM bank. This paper has taken into account the performance of the sample banks for the period ranging from 2004 to 2007.The study can be considered as a desk research as it has made an in-depth search on existing literature and recent and relevant researches published in domestic and international Journals. The study has relied basically on secondary sounds of information which includes: text books, journals research articles, bibliographies, annual reports of the sample banks and electronic library resources. Data collected for the purpose of study have been tabulated through computer spread sheets and only CAMEL ratings have been used to examine the financial strength of sample banks with regard to capital adequacy, asset quality, management capacity, earning ability and liquidity. Finally, these spreadsheets have been interpreted through the standard criteria set by CAMEL ratings.

Findings of the Study

The sample banking Companies: The sample banking companies, that is, IFIC Bank and EXIM Bank have been involved in almost all general banking functions over the years and they have been serving to the same target market. At this stage, a brief description of the sample commercial banks featuring their background and current operations have been presented in Table 2.

The CAMEL Ratings: Capital Adequacy

Capital adequacy of a commercial bank can be measured by calculating a number of ratios, such as, capital adequacy ratio, leverage ratio return on equity and net worth protection. The comparative performance of the selected banking companies with regard to these ratios for the year ranking from 2004 to 2007 has been given in Table 3.

It is evident from table-3 that both IFIC and EXIM bank have achieved a better result than the standard in relation to capital adequacy ratio although IFIC bank has demonstrated a slightly better performance. As per as leverage ratio is concerned, both the banks superseded the standard score. More so, like capital adequacy ratio, for leverage ratio, IFIC bank has achieved a better position. With regard to return on equity, IFIC bank has shown a poor result (score 16.8) which is for behind the standard (score30.0) whereas EXIM bank has shown a laudable performance (score 25.05). As to net worth protection, IFIC Bank has shown a tremendous growth in the performance in the later years although the average performance is a bit inferior (score 81.34) to the standard (score100). Last but not the least, with respect to net worth protection, EXIM bank has shown a far better performance (average score 533.03) than the IFIC.

The CAMEL Ratings: Asset Quality

Asset quality of a banking company is primarily assessed on the basis of its ability to recover the outstanding loans and advances made in due time. Hence, percentage of classified loan to total loan granted is considered as the principal ratio for judging the quality of the assets. At this stage, the performance of the both banking companies has been shown in Table 4. It is apparent from Table 4 that IFIC bank's performance in respect of asset quality is slightly better (10.18) than the standard score (10.00) whereas EXIM bank demonstrated a much stronger position (Score 5.42) as compared to IFIC.

The CAMEL Ratings: Management Capacity

The management capacity of commercial banks can be attributed to a number of variables, such as operating ratio, profit per employee, expenses per employee, gross earning assets to total assets etc. At this stage, the management capacity of the sample banks has been presented through two important ratios in Table 5.

It is revealed from the above table that with regard to profit per employee, both the banks demonstrated an outstanding performance as compared to the standard score. However, as to comparative performance between the sample banks with regard to income per employee, EXIM bank (score 1.96) has shown a better result than IFIC (score 1.50), alongside, with respect to expenses per employee EXIM bank (score 3.10) has shown a better performance than IFIC (score 3.38) and both the companies have demonstrated an excellent performance as compared to the standard score.

The CAMEL Ratings: Earning Ability

Earning ability of a commercial bank can be assessed through a number of accounting ratios, such as net investment margin, return on assets, diversification ratio, net profit margin, earnings per share, return on capital employed etc. For the purpose of appraising earnings ability of the sample banks, this paper has taken into consideration some significant accounting ratios, namely, net investment margin, net profit margin, diversification ratio and earning per share. The performance of the sample banks in respect of these ratios has been tabulated in Table 6.

It is revealed in the above table that IFIC bank has been showing a much stronger performance than EXIM bank over the years with regard to net investment margin. Moreover, the performance of IFIC bank (average score 9.83) is stronger than the standard (score 6.0) whereas EXIM bank has been demonstrating a substantially poorer result (score 2.11) than the average (score 6.0) and it has been showing underperformance steadily throughout the years. However, the net profit margin of EXIM bank (score 2.10) is much better than IFIC bank (score 1.27) and like net profit margin, earning per share of EXIM bank (Tk. 49.09) is a bit better than IFIC (Tk. 46.77). Finally, with respect to diversification ratio, both the banks demonstrated marginal results and that the performance of both the banks is below than the standard score.

The CAMEL Ratings: Liquidity

Theoretically, commercial banks need to deal with the "horns of dilemma", that is, liquidity versus profitability and for resolving this dilemma, they have to pay regard to a number of factors, specifically (a) maintenance of cash reserve ratio (CRR) and statutory reserve ratio (SLR); (b) adequate loan- deposit ratio; (c) dependence on inter-band deposit and (d) profitability. By taking consideration into these factors, this paper has identified two significant accounting ratios which adequately presenting the liquidity position of commercial banks. These are: (i) Loan to deposit ratio and,(ii) Liquid assets to total deposit ratio. Table 7 presents liquidity of sample banks.

As per as liquid assets to total deposit is concerned, the performance of the both banking companies seems to the very strong as the scores of IFIC and EXIM bank are 31.34% and 33.35% respectively which are even better performance than the score of a bank having strong liquidity position (score 30%). In case of IFIC bank, loan to deposit ratio (score 95.68) is more than the EXIM bank (score 89.29).But the average earning assets to deposit ratio of sample banks were score 125.2 and 100.71 respectively. With this criterion, both the sample banks were found more consistent over the years.

Summary and Conclusion

Due to radical changes in the banking sector in the recent years, the central banks of all around the world have improved their supervision quality and techniques. In evaluating the function of the banks, many of the developed countries are now following uniform financial rating system (CAMEL RATING) along with other existing procedures and techniques; Bangladesh Bank is also following the above techniques in respect of evaluating scheduled Commercial banks. Keeping these developments in view, this paper has applied CAMEL Ratings techniques for assessing financial strength of IFIC bank and EXIM bank and the findings have been summarized in Table 8.

From Table 8 it is evident that in case of the band 'capital adequacy', IFIC Bank's, capital adequacy ratio and leverage ratio show better performance than EXIM Bank, but, in respect of return on equity and net worth protection, IFIC shows poorer performance than the other. With regard to 'asset quality', percentage of classified loan of IFIC Bank shows a much stronger performance than EXIM Bank and in relation to 'management capacity'**,** income per share of EXIM bank is higher than IFIC. Further, expenses per employee of EXIM bank is less than the IFIC bank which confirms EXIM bank's better management capacity to deal with administrative and office overheads. With respect to 'earning ability', net investment margin of IFIC Bank shows a laudable performance but for other criteria, such as, net profit margin, diversification ratio and earnings per share, EXIM Bank has been exhibiting better performance. Finally, with regard to 'Liquidity', loan to deposit ratio and earning assets to deposit ratio of IFIC Bank have been showing excellent performance but liquid asset to total deposit ratio shows poor performance than the EXIM Bank.

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Table 1: Ratios under CAMEL Ratings

Aspect	Ratios	Formula	Standard	Symbol
Capital Adequacy	a) Capital Adequacy Ratio	Capital & Reserve Total Risk Weighted Assets	**8**	**C**
	b) Leverage Ratio	Debt Total Shareholder's Equity	**8**	
	c) Return on Equity	Net profit Paid up Capital + free Reserves	**30**	
	d) Net-worth Protection	Total equity Non-performing Loan	**100**	
Asset Quality	a) Percentage of Classified Loan	Non-performing Loan Total Loan	**10**	**A**
Management Capacity	a) Income per Employee	Total profit Total employees	**.50**	**M**
	b) Expenses per Employee	Total Cost Total employees	**.25**	
Earnings Ability	a) Net Investment Margin	profit from Investment Total Investment	**6**	**E**
	b) Net Profit Margin	Profit After tax Total Loan & Advance	**......**	
	c) Diversification Ratio	Non-Interest Income Total Income	**50**	

	d) Earning per share	profit After tax Total Number of Share	.....	
Liquidity	a) Loan to Deposit Ratio	Total Loan Total Deposit	....	**L**
	b) Liquid Assets to Total Deposit Ratios	Liquid Asset Total Deposit	....	
	c) Earning assets to deposit	Earning Asset Total Deposit	....	

Source: Bangladesh Bank's CAMEL Rating analysis (Module 1 & 2)

Table 2: Information about IFIC Bank and EXIM Bank

SL No	**Issues**	**Year**	**IFIC Bank (Tk)**	**EXIM Bank (Tk)**
1	Year of Establishment		1976	1999
2	No of branches		85	56
3	Paid up Capital	2007	Tk.670715700	Tk.2142196800
4	Profit after Tax	2007	Tk 964927945	Tk. 930843607
5	Earning per share	2007	Tk. 143.87	Tk.43.45
6	Price earning ratio	2007	16.13 times	9.02 times
7	Net income per share	2007	Tk. 774.77	Tk.43.45

Source: Annual Reports of IFIC and EXIM Bank

Table 3: Capital adequacy of Sample Banks (in percentages)

Ratios	2004		2005		2006		2007		Average		Standard
	IFIC	EXIM	IFIC	EXIM	IFIC	EXIM	IFIC	EXIM	IFIC	EXIM	
Capital Adequacy Ratio	10.52	9.49	10.27	8.49	9.84	10.70	12.69	11.2	10.83	9.97	**8**
Leverage Ratio	17.09	13.62	16.53	14.81	17.50	11.25	11.43	10.27	15.64	12.48	**8**
Return on Equity	7.41	27.27	7.76	29.03	21.06	20.89	31.69	23.02	16.98	25.05	**30**
Net-worth	33.02	548.97	64.97	417.61	113.74	529.04	113.74	636.5	81.34	533.03	**100**

Protection											

Source: Annual Reports of IFIC and EXIM Bank for the periods 2004-2007

Table 5: Management Capacity of sample Banks (in million taka)

Ratios	2004		2005		2006		2007		Average		standard
	IFIC	EXIM	IFIC	EXIM	IFIC	EXIM	IFIC	EXIM	IFIC	EXIM	**.50**
Income per Employee	1.35	1.60	1.20	1.73	1.44	1.97	2.01	2.55	1.50	1.96	
Expenses per Employee	1.03	2.37	0.95	2.43	1.10	3.53	1.43	4.08	3.38	3.10	**.25**

Source: Annual Reports of IFIC and EXIM Bank for the periods 2004-2007

Table 6: Earning ability of Sample Banks (in percentages)

Ratios	2004		2005		2006		2007		Average		Standard
	IFIC	EXIM	IFIC	EXIM	IFIC	EXIM	IFIC	EXIM	IFIC	EXIM	**6**
Net Investment Margin	9.23	2.16	6.82	2.13	8.51	1.9	14.77	2.25	9.83	2.11	
Net Profit Margin	.33	2	.37	2.13	.99	1.99	3.40	2.3	1.27	2.10	------
Diversification Ratio	34.72	19.47	31.12	115.16	31.56	18.1	46.60	16	36.0	42.18	**50**
Earning per share	16.09	60.82	20.24	48.61	37.84	43.48	143.84	43.45	46.77	49.09	-------

Source: Annual Reports of IFIC and EXIM Bank for the periods 2004-2007

Table 7: Liquidity of Sample Banks (in percentages)

Ratios	2004		2005		2006		2007		Average		Standard
	IFIC	EXIM	IFIC	EXIM	IFIC	EXIM	IFIC	EXIM	IFIC	EXIM	------
Loan to Deposit Ratio	102.43	55.19	96.39	91.97	89.06	113	94.85	97	95.68	89.29	
Liquid Assets to Total Deposit Ratio	28.51	3.45	31.63	9.94	32.44	9	32.80	111	31.34	33.35	------
Earning assets to deposit	129.34	100.37	126.11	101.49	119.91	100	125.55	101	125.2	100.71	------

Source: Annual Reports of IFIC and EXIM Bank for the periods 2004-2007

Table 8: Summary Of performance of sample banking companies

Aspects	Score		
	IFIC	**EXIM**	**Standard**
1) Capital Adequacy :			
a) Capital Adequacy Ratio	10.83	9.97	8
b) Leverage Ratio	15.64	12.48	8
c) Return on Equity	16.98	25.05	30
d) Net-worth Protection	81.34	533.03	100
2) Asset Quality:			
a) Percentage of Classified Loan	10.18	5.42	10
3) Management Capacity:			
a) Income per Employee	1.50	1.96	0.50
b) Expenses per Employee	3.38	3.10	0.25
4) Earnings Ability:			
a) Net Investment Margin	9.83	2.11	6
b) Net Profit Margin	1.27	2.10	….
c) Diversification Ratio	36.0	42.18	50
d) Earning per share	46.77	49.09	….

5) Liquidity:			
a) Loan to Deposit Ratio	95.68	89.29	…..
b) Liquid Assets to Total Deposit Ratio	31.34	33.35	…..
c) Earning Assets to Deposit	125.23	100.71	…..

Source: Table 2 through Table 7

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Efficacy of Independent Directors in Corporate Governance: Indian Scenario

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Abstract

Empirical evidences as well as conceptual knowledge on value of independent directors or rationale of their presence in the boards are unusually scarce. Based on random anecdotal evidences, role of independent directors are dismissed as insignificant, indifferent and undesirable. Companies generally appoint or co-opt independent directors to comply with regulatory norms instead of improving governance and ensuring transparency. Interestingly, large numbers of independent directors do not take their job seriously, giving credence to the popular perception about their role and relevance in corporate governance. This paper tries to explore the ground realities vis-à-vis effectiveness of independent directors in ensuring good corporate governance in India.

Keywords: Corporate Governance, Independent Directors, India

Introduction

Empirical evidences as well as conceptual knowledge on value of independent directors or rationale of their presence in the boards are unusually scarce. Based on random anecdotal evidences, role of independent directors are dismissed as insignificant, indifferent and undesirable. Companies generally appoint or co-opt independent directors to comply with regulatory norms instead of improving governance and ensuring transparency. Interestingly, large numbers of independent directors do not take their job seriously giving credence to the popular perception about their role and relevance in corporate governance. This paper tries to explore the ground realities vis-à-vis role of independent directors in Indian scenario.

The idea of independent directors is quite exciting. They are supposed to function as vigilant watchdogs, conscience-keepers of the boards, implementers of regulatory norms and protectors of the interests of minority shareholders as well as other stakeholders who are not represented in the corporate decision-making. Independent directors are also viewed as counterpoise against managerial domination of the corporate boards (Eisenberg, 2005). They are also expected to bring out malpractices, corporate fraud, misappropriation, non-compliance of legal provisions, etc. to the notice of regulatory bodies. As they are supposed work in public interest, they should be guided only by their conscience rather than any other concern. Also, the independent directors need to exercise utmost due diligence over all the financial and executive decisions of the company they are associated with.

Researchers have tried to study the linkage between independent directors and effective board functioning. Patton & Baker (1987) rightly observe: 'Non-executive director may not be able to understand each business well enough to be truly effective but can bring a wide functional, product or market knowledge of different industries and companies to the board. In addition they often have external contact, which enables them to enhance management's ability to secure scarce resources and to align the external environment. They represent change agents and bring new perspectives.' Further, independent directors, non-executive chair and committees comprising only independent directors enable the boards to overcome reflexive obedience and stimulate rationale debate (Morck, 2004).

Gordon (2007) observes: 'Independent directors have a comparative advantage for these different tasks. They are less dependent on the CEO and more sensitive to external assessments of their performance as directors; they are less wedded to inside accounts of the firm's prospects and less worried about the disclosure of potentially competitively sensitive information. They also have credibility in the "checking" of market signals against intrinsic measures of the firm's prospects. In other words, genuinely independent directors might create significant value in the allocation of resources, not just in their firm but more generally as other firms are forced to adapt to the best performers'.

The best-developed evidence of board composition effects is the positive association between board independence and financial reporting accuracy; the exact channel of this effect is not well-specified, but some studies suggest it could be through the independent audit committee Gordon, 2007). Role of independent directors in preventing financial statement fraud has also been underscored by a few researchers (Beasley, 1996). Some of the research findings indicate a correlation between performance of the firms and presence of independent directors on the board (Daily & Dalton, 1992 for example). Shareholder benefits also increase in case the board has independent directors (Byrd & Hickman, 1992). Indeed, the independent directors are the trustees of good corporate governance; an active and involved board consisting of professional and truly independent directors plays an important role in creating trust between a company and its investors and is the best guarantor of good corporate governance (Bose, 2009).

Independent Directors in Indian Context

Concept of independent directors in the board of directors of Indian companies gained currency in the aftermath of a number of scandals that rocked the stock exchange in early 1990s. CII Code of Corporate Governance made a bold statement about need for independent directors in 1998: 'A company with a turnover of Rs. 100 crore and above should have professionally competent Independent non-executive directors, who should constitute at least 50 % of board if chairman and management director are same person'.

In 1999, Securities & Exchange Board of India (SEBI) appointed a Committee on Corporate Governance under chairmanship of Kumar Mangalam Birla. Among other things, the committee advocated a significant role for independent directors in corporate boards in the country so as to bring in transparency, accountability, disclosure and oversight and prevent insider trading, misappropriation and corporate fraud. The Birla Committee envisioned a greater role for independent directors in corporate governance.

Defining independent directors was quite challenging as non-executive members often formed part of the corporate boards. Kumar Mangalam Birla Committee defined independent director as a director who apart from receiving director's remuneration does not have any material pecuniary relationship or transactions with the company, its promoters, its management or its subsidiaries, which in the judgment of Board may affect independent judgment of directors. Taking cure from the Birla Committee Report, SEBI defined independent directors under Clause 49 of the Listing Agreement in the following manner in 2000:

Clause 49 Article I (A) (iii) states that an independent director is a nonexecutive of the firm who:

a) apart from receiving director's remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries and associates which may affect independence of the director;
b) is not related to promoters or persons occupying management positions at the board level or at one level below the board;
c) has not been an executive of the company in the immediately preceding three financial years;
d) is not a partner or an executive or was not partner or an executive during the preceding three years, of any of the following:
    i. the statutory audit firm or the internal audit firm that is associated with the company, and
    ii. the legal firm(s) and consulting firm(s) that have a material association with the company.
e) is not a material supplier, service provider or customer or a lessor or lessee of the company, which may affect independence of the director;
f) is not a substantial shareholder of the company i.e. owning two percent or more of the block of voting shares;
g) is not less than 21 years of age.

The issue of nominee directors of financial institutions being independent directors, however, remains ambiguous. The Narayanamurthy Committee categorically ruled out nominee directors to be on boards of companies, saying that all directors should be appointed by the shareholders. Naresh Chandra Committee also recommended their exclusion from the pool of independent directors. However, as per the provisions under Clause 49, nominee directors of financial institutions are deemed as independent directors.

Clause 49 of Listing Agreement with Stock Exchange has notified the following with respect to composition of board:

i. The Board of directors of the company shall have an optimum combination of executive and non-executive directors with not less than fifty percent of the board of directors comprising of non-executive directors.
ii. Where the Chairman of the Board is a non-executive director, at least one-third of the Board should comprise of independent directors and in case he is an executive director, at least half of the Board should comprise of independent directors.
iii. Provided that where the non-executive Chairman is a promoter of the company or is related to any promoter or person occupying management positions at the Board

level or at one level below the Board, at least one-half of the Board of the company shall consist of independent directors.

[For the purpose of the expression "related to any promoter" referred to in sub-clause (ii) means:
a. If the promoter is a listed entity, its directors other than the independent directors, its employees or its nominees shall be deemed to be related to it;
b. If the promoter is an unlisted entity, its directors, its employees or its nominees shall be deemed to be related to it."]

Clause 49 prescribes certain duties for directors such as reviewing company efforts to comply with all applicable laws and laying down a general code of conduct. However, Clause 49 imposes the most specific requirements for independent directors who also serve on the audit committee. Specific duties for audit committee members include supervising the financial reporting process, matters related to the appointment of the statutory auditor, reviewing financial statements with management before submitting them to the board, reviewing the internal control systems, reviewing internal investigations on suspected fraud, reviewing the whistle blower mechanism (if any), reviewing disclosure on use of proceeds from public issuance of securities, reviewing disclosures on related party transactions, and other related matters.

A Reality Check on Efficacy of Independent Directors

Independent directors of corporate boards have been in news primarily for their passive and indifferent role. In spite of their presence on the boards, corporate fraud has not stopped. The case of Satyam Computers is a glaring example. Interestingly, Satyam's board had some of the finest individuals as the independent directors. Indeed, the independent directors have generally failed to bring about any visible improvement in corporate decision-making at the board level and significant exercise of oversight in corporate dealings. However we need empirical researches to prove this point. At the moment, the preceding observation is based on media coverage and general public perception. There are a number of reasons for seemingly poor performance of independent directors on corporate boards in India.

Motives of the Independent Directors: Being an independent director is close to a status symbol in the corporate world as well as social circles. Thus, the independent directors take their positions to fulfill their social needs. Professional motives of helping the company in terms of reviewing the strategies of the companies, monitoring the financial and non-financial transactions and exercising oversight are missing by and large. They look forward to hospitality instead of looking at any leakages or weak spots in the financial statements and reports of the company.

Quality of the Independent Directors: The quality of independent directors is also a matter of great concern. SEBI guidelines on composition of corporate boards have generated a huge demand of independent directors. However qualifications, experience, training, etc. are not defined. As a result, appointment of independent directors is driven by personal contact of the Management. The companies usually look for such independent directors who would ask fewer questions, attend fewer meetings, and spend minimum time on reviewing the financial statements. Thus the corporate world nurtures mediocrity instead of professionalism so far as independent directors are concerned. There are a few institutions which provide training for the present or prospective independent directors. However, there are only a small number of takers for such training programmes as they are not sure whether they will get appointment as independent directors after the course.

In fact, the independent directors need deeper understanding of business matters, environment, markets, financial acumen, and knowledge of laws and regulations that bind Indian companies. Besides, they need personal courage, integrity, objectivity, holistic perspective, and a sense of purpose to fulfill the professional commitments attached with appointment as independent directors. Unfortunately, we do not have a cadre of professional independent directors in the country capable of ensuring good corporate governance practices and protecting the interests of all the stakeholders.

Access to Information: Limited access to information affects the functioning of independent directors in a big way. Non-availability of desired information comes in the way of their independent judgment and objective application of expertise. Generally, information is tuned by executive management to suit their purpose. Independent directors depend on management for supply of adequate and timely information. Mostly, information is delayed and ‘filtered ‘and assurances are given that details would be discussed at the board meeting. The Board agenda is also in the control of management and there is no practice of discussing the same with independent directors. Often agenda papers and annexures are delivered to the members of the board of directors at the last minute, leaving no time to review the documents properly. As a result, independent directors invariably fail to raise difficult and uncomfortable questions at the board meetings.

Remuneration: Remuneration of the independent directors is awfully low. Sitting fee for the board meetings and other meetings of other committees of the company is not commensurate with expected level of work attached to such assignments. As a result, independent directors tend to do a routine job instead of making meticulous contribution towards reviewing strategic documents, financial statements, reports, etc. They stick to bare minimum efforts while discharging their duties and obligations as independent directors. Unattractive remuneration might be one of the reasons behind poor report card of independent directors in instilling good corporate governance practices in India.

Boardroom Environment: There is a remarkable tendency among the executive directors to ‘manage’ the moves and responses of independent directors so that there is minimum questioning discussion on contentious issues. The executive directors overemphasize consensus in decision-making, thus sidelining minority views during the deliberations of the board. Besides, the board members are also induced by lavish hospitality and gifts. As executive directors are instrumental in continuance or reappointment of independent directors, they do not wish to annoy the former. Generally, boardroom environment is not at all conducive for exercising independent mind by the independent directors.

Shortage of Independent Directors: India needs 18,000 independent directors to ensure good corporate governance practices as estimated by Indian Institute of Independent Directors (Economic Times, 2009). Attracting people with appropriate competencies to work as independent directors is becoming difficult day by day. Besides low remuneration, extent of individual liability under various laws and regulations imposed on independent directors stop people from accepting appointments as independent directors in a big way. Besides, positions of independent directors are part time assignments. Hence, one cannot take up independent directorship as a career. On the contrary, their professional commitments towards their full-time employment would not allow him to devote enough time to discharge their duties as independent directors. Thus, availability of adequate number of independent directors to fill positions in the boards of companies listed with various stock exchanges of the country is quite challenging. Indian Institute of Independent Directors has been set up under PPP model to attract and train independent directors of the future. This initiative is supported by SEBI.

Conclusion

The foregoing discussion brings out some of the inadequacies affecting the efficacy of independent directors in ensuring good corporate governance practices in India. Interestingly, even the independent directors perceive their role just as that of strategic advisors to the promoters rather than that of a watchdog (Khanna & Mathew, 2010). Majority of the independent directors consider any monitoring responsibility as impractical, detrimental to the board functioning and contrary to the realities of modern board services (Khanna & Mathew, 2010).

Issues raised in this paper need attention of all the stakeholders so as to make the institution of independent directors as fulcrum of good corporate governance practices. The corporate world alongside the regulators has already started the consultation process to guarantee independence of the independent directors in true sense. In due course, the independent directors will overcome all the impediments and play active role in transforming boardrooms into transparent, objective and accountable platforms of sincere governance. Current rumpus in corporate governance arena leaves us with hope of a better tomorrow.

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