

Corporate Governance and Organizational Performance in the Nigerian Banking Industry

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Abstract

The failure associated with corporate governance has assumed multifarious dimensions. In spite of several reforms put together by government to strengthen this sector, banks appear still prone to failure. As a result the survival and stability of any financial sector appear to be dependent on the quality of its corporate governance practice. The broad objective of this study is the impact of corporate governance on organizational performance in the Nigerian Banking Industry. Specifically the study also focused on the effect of ethical conduct on employees' productivity. The survey research design method was employed. The research instrument was a validated structured questionnaire. The major analytical tools comprised the correlation and multiple regression analysis. It is revealed that unethical behavior by employees seems to affect individuals, work teams, and even the organization. The study concludes that corporate governance through ethical behavior has positive effect on employees' productivity. Corporate governance is about ensuring transparency, building credibility and ensuring accountability as well as maintaining an effective channel of information disclosure that would enhance good corporate performance. Faithful adoption of corporate governance practices will help in contributing to effective organizational performance of the banking sector and the stability of the economy. It is recommended that organizations should emphasize on moral conduct of individual employees to avoid negative effect.

Keywords: corporate governance, ethical behavior, corporate social responsibility, corporate culture, employees' productivity, and organizational effectiveness

INTRODUCTION

In recent times, there has been increasing attention on corporate management hence the recent upsurge of interest in researches on corporate governance. No doubt, banks intermittently face uncertainty and chaotic capital problems and rapid change in processes, towards enhanced competitive advantage and effectiveness. There seems to be several corporate failures and large scale misappropriation of funds, which points to management style and audit independence, ethics, corporate social responsibilities, professionalism, conflict of interest and nefarious practices of board members. Good corporate governance in our contemporary economy appears paramount to the success of banks and other private and public establishments in Nigeria.

In 1997, for instance, 26 banks were liquidated as a result of loan (a large scale insider misappropriation of funds) to management staff, directors, some major stakeholders and their relations and companies (Sanusi, 2003). Nigerian banking system has over time experienced hiccups and corporate governance failures, which has compelled researchers to seek solutions to this menace. Corporate governance seems to be multi-faceted. Several definitions by various scholars have been given. According to O'

Donovan (2003), corporate governance appear to be internal system encompassing policies, processes and people which serve the needs of shareholders and other stakeholders, by directing and controlling activities with good business savvy, objectivity, accountability and integrity. The perceived quality of a company's corporate governance seems to influence its share prices as well as the cost of raising capital.

Gopalsamy (2006) viewed corporate governance as not just corporate management but something broader to include a fair efficient and transparent administration to meet certain predetermined objectives. It is a system of restructuring, operating and controlling a company with a need to achieving long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers and then complying with the legal and regulatory requirements apart from meeting environmental and local community needs. The survival and stability of any financial sector appear to be dependent on the quality of its governance.

In spite of several reforms put together by government to strengthen this sector, banks appear still prone to failure. Hence, regulators and

researchers attention have turned towards investigating the impact of the corporate governance mechanism on firm performance. Corporate governance failure seems to have heightened over time in the past decades and has accounted for the financial crises experienced by a wide array of firms across the globe. Banks and organizations became susceptible to bankruptcy and eventually collapse should corporate governance weaken. The crisis of confidence that had rocked nations' banking sector alerts government to the importance of maintaining efficient corporate governance mechanism to ensure stability of the economy.

THE PROBLEM

The failure associated with corporate governance has assumed multifarious dimensions with implications, especially for profit oriented business organizations like the banks and has become an issue of global significance. The potential for individuals and organization to behave unethically is limitless. Unfortunately, this potential is too frequently realized. Unfortunately, unethical organizational practices are embarrassingly very common today. It is easy to define such practices as defrauding customers' funds, overcharging of interest on loans and withdrawals, e.t.c. Yet these and many other unethical practices go on almost routinely in many organizations. Nigerian business encounters a number of challenges. For instance, there are a number of ethical concerns facing Nigerian business-persons. Corruption is a noteworthy challenge.

Despite the activities undertaken by volunteers (banks) in the local communities surrounding their operations, there seems to be little or no evidence of any Corporate Social Responsibility (CSR) projects focused on generating jobs and income for community members. Such actions could improve the quality of life within the local community. No CSR projects appear to focus on enhancing the value chain or social actions that could improve corporate competitiveness.

Getting employees to do their best in their work, even in trying circumstances, seems to be one of managers' most enduring and slippery challenges. This study therefore is focused on the impact of corporate governance on organizational performance in the Nigerian banking industry

THEORETICAL CONSIDERATION

Corporate Governance

Corporate governance is about promoting corporate fairness, transparency and accountability. It is a uniquely complex and multi-faceted subject. Devoid of a unified or systematic theory, its paradigm, diagnosis and solutions lie in multidisciplinary fields i.e. economics, accountancy, finance among others (Cadbury, 2002). As such it is essential that a

comprehensive framework be codified in the accounting framework of any organization. In any organization, corporate governance is one of the key factors that determine the health of the system and its ability to survive economic shocks. The health of the organization depends on the underlying soundness of its individual components and the connections between them.

Corporate governance has been looked at and defined variedly by different scholars and practitioners. However they all have pointed to the same end, hence giving more of a consensus in the definition. Coleman and Nicholas-Biekpe (2006) defined corporate governance as the relationship of the enterprise to shareholders or in the wider sense as the relationship of the enterprise to society as a whole. Corporate governance involves a system by which governing institutions and all other organizations relate to their communities and stakeholders to improve their quality of life. (Ato, 2002). It is therefore important that good corporate governance ensures transparency, accountability and fairness in reporting. In this regard, corporate governance is not only concerned with corporate efficiency, it relates to a much wider range of company strategies and life cycle development. (Mayer, 2007). It is also concerned with the ways parties (stake holders) interested in the wellbeing of firms ensure that managers and other insiders adopt mechanism to safeguard the interest of the shareholders. (Ahmadu and Tukur, 2005). Corporate governance is based on the level of corporate responsibility a company exhibits with regard to accountability, transparency and ethical values.

Ethical Conduct

Ethical conduct is acting in ways that are consistent with ones' personal values and the commonly held values of the organization and society (Nielsen,1999). Unethical conduct by employees can affect individuals, work teams, and even the organization (Arlow, 2000). Organizations thus depend on individuals to act ethically. Several years ago, a company launched a program to integrate its ethical standards into everyday business conduct (Wagel, 1987). It developed a booklet of ethical standards, distributed it to all employees, and undertook a massive training effort to express to all employees the importance of ethical behaviour.

Interestingly, today, it is worthy to note that high-intensity business environment makes it more important than ever to have a strong ethical program in place. Ethics and ethical behavior go hand in hand. Formally defined, ethical behavior refers to that which is morally accepted as 'good and right' as opposed to 'bad and wrong' in a particular situation. Silver Stein (1989). It is therefore the principle relating to what is right and wrong. Scholars have

enumerated some essential elements of ethical behaviour as regards organizational concerns. These essential elements according to Crosby (1997); Robbins (2001) and Bucholz (2003) amongst others, include: Integrity; Accountability; Code of ethics/ethical programmes; ethical decision making; and ethical environment.

As regards ethical climate of an organization, it is the shared set of undertakings about what correct behavior is and how ethical issues will be handled. This climate sets the tone for decision making at all levels and in all circumstances. Some of the factors that may be emphasized in different ethical climate of organizations according to Hunt (1991); Robbins (2001); are: personal self interest; company profit; operating efficiency; individual friendships; team interest; social responsibility; personal morality; Rules and standard procedures; Laws and professional codes e.t.c.

Corporate Social Responsibility

Corporate social responsibility (CSR) involves companies voluntarily choosing to improve their social and environmental standards and so reduce their negative impacts on the environment. Corporate accountability can be defined as the ability of those affected by a corporation to control that corporation's operations. This concept demands fundamentals changes to the legal framework in which companies operate. Managers of companies today understand that CSR forms an indestructible part of their reputations and brand identities. They know that a critical source of difference between firms is the resources and capabilities that they possess and contribute to their potential competitive advantage, but CSR represents a very valuable strategic asset. They spend ever-increasing amounts of corporate resources on improving the social, human, and environmental conditions under which companies operate. Jose et al (2010) view corporate social responsibility is a form of management that is defined by the ethical relationship and transparency of the company with all the stakeholders with whom it has a relationship as well as with the establishment of corporate goals that are compatible with the sustainable development of society, preserving environmental and cultural resources for future generations, respecting diversity and promoting the reduction of social problems. CSR activities contribute to social progress and are intended to enhance corporate images.

Corporate social responsibility (Prahalad, 2004) is about creating sustainable products or service for very low-income people in developing countries while respecting the norms of good citizenship. It also includes investing in small-scale sustainable ventures in those countries and thereby promotes entrepreneurship. There are numerous studies on

corporate social responsibility, corporate ethics, and social sponsorship that suggest a link between social initiatives and improved financial performance, as well as studies that demonstrate the link between social initiatives and positive affective, cognitive, and behavioral responses by consumers (Ellen, 2000). The correlation between CSR and financial performance is particularly close in the case of corporate governance.

Organizational Culture

An organizational culture encompasses the shared, articulated, or not articulated values, beliefs, and behaviours that contribute to the unique social and psychological environment of an organization; it is "the 'glue' that guides behaviour and shapes organizational decision-making" (Haberberg and Rieple, 2008). Organizational culture is reinforced by artifacts, such as icons, stories, heroes, rites, and rituals reminding people what an organization stands for. This is backed up by efforts to measure behaviour and corrective actions when behaviours of some employees become unacceptable to the organization (Heskett, 2011). Organizational development has certain factors that improve sustainability on basis of effectiveness. The improvement in productivity leads to employee commitment as norms, values and objectives helps in improving culture of an organization. It is often explained as "the way we do things around here" (Bower, 1966) and "what goes and what doesn't" (Heskett, 2011). Myriad factors affect the creation and evolution of organizational culture, such as the presence or absence of competitors, economic conditions, nature of the business, and nature of the employee base (Dickson *et al.*, 2004). It is distinctively different from an organization's mission or from its deliberate strategies, which both incorporate an element of consciousness (Haberberg and Rieple, 2008). In management circles, culture is often viewed as something which can be used to manipulate employees; Kaplan and Norton (2004) find that "shaping the culture" is an often cited priority in balanced scorecard projects. Just as often, culture is viewed as the humanizing element of corporate business, which helps to establish expectations between an employee and the organization the employee works for, foster trust facilitate.

Organizational Performance

The degree of an achievement to which an employee fulfills the organizational mission at workplace is called performance (Cascio, 2006). Performance has been perceived differently by various researchers, but most of the scholars relate performance with measurement of transactional efficiency and effectiveness towards organizational goals (Stannack, 1996; Barne, 1991). Certain researchers' measurement of input and output efficiency measures

that lead to transactional association. (Stannack, 1996) The capability of an organization to establish perfect relationship with resources presents effective and efficient management of resources. (Daft, 2000) In order to achieve goals and objectives of organization strategies have been designed based upon organizational performance (Richardo, 2001). The equity based upon high returns helps in effective management of organization resources so that performance improves (Ricardo, 2001).

METHOD, RESULTS AND FINDINGS

The survey research design method was employed in this study. The research instrument was a validated structured questionnaire. A five point likert scale was used to measure responses. The reliability of questionnaire was estimated by assessing the internal consistency of the items representing each construct. Using cronbach's alpha to establish reliability of each construct, total correlations were as follows: ethical behaviour = 0.63; corporate social responsibility = 0.76 and corporate culture = 0.68. Favorable reliable score were obtained from all items, since all values were above 0.60, which exceeded the common threshold value recommended by Malhotra (2004). Out of the 200 sets of questionnaire administered, 182 were returned and 18 were rejected due to incomplete information. Therefore only 164 (81%) were found usable.

In the light of the above theoretical considerations, a research model is proposed. With a focus on corporate governance, employee productivity has been seen to be linked to the degree of ethical conduct that organization adopts in her operation. Ethical conduct is acting in ways that are consistent with ones' personal values and the commonly held values of the organization and society (Nielsen, 1999). Unethical conducts by employees can affect individuals, work teams, and even the organization (Arlow, 2000), which is capable of hampering productivity and performance.

Thus we hypothesize that;

H₁: *Ethical conduct instituted within the organization has a significant relationship with employees' productivity.*

Intangible asset seem to create significant benefits in terms of reputation and returns as well as organisation's competitive advantage. Thus corporate governance literature indicate that competing firms offering competing products could differentiate themselves from competitors by and could enjoy certain competitive advantage by engaging in certain corporate social responsibility initiative. CSR can also contribute toward strengthening valuable partnerships (Pearce & Doh, 2005).

Thus we propose that;

H₂: *There is a significant relationship between corporate social responsibility and organizational competitive edge.*

Corporate culture as an indicator of corporate governance has also been conceptualized as a stimulant to organizational effectiveness in that an organizational culture encompasses the shared, articulated, or not articulated values, beliefs, and behaviors that contribute to the unique social and psychological environment of an organization; it is "the 'glue' that guides behavior and shapes organizational decision-making" (Haberberg and Rieple, 2008). Which may suggest entrenching good work culture for operational effectiveness within the organization.

Thus we hypothesize that;

H₃: *There is a significant relationship between corporate culture and organizational effectiveness*

Table 1: Correlation Matrix for Ethical Conduct (EC), Corporate Social Responsibility (CSR), Corporate Culture (CC) and Organizational Performance (Org. PERF)

	EC	CSR	CC	ORG. PERF
EC	1			
CSR	.68**	1		
CC	.71**	.64**	1	
ORG. PERF	.61**	.77**	.62**	1

Source: SPSS Output 2014.

Note:

I.

n = 200 and **P<.0.1

II.

The above table examined the correlation among ethical conduct (EC), Corporate Social Responsibility (CSR), Corporate Culture (CC) and Organizational Performance (Org. Perf)

III.

C, CSR, CC and Org. Perf were positively and significantly correlated with EC (r = .68, P<.01); (r = .71, P < 0.01); (r = .61, P<.01). On the other hand, CC and Org. Perf were positively and significantly correlated with CSR (r = .64, P<.01); (r = .77, P < .01). CC and Org. Perf were also positively correlated (r = .62, P<.01).

Table 2: Summary of Multiple Regression Analysis of Ethical Conduct (EC), Corporate Social Responsibility (CSR), Corporate Culture (CC) on Organizational Performance (Org. Perf)

S/No	Variables	Standard Beta
1	EC	0.241**
2	CSR	0.281**
3	CC	0.177**
4	Org. Perf	0.210**
5	R ²	0.355
6	Adjusted R ²	0.227
7	F value	16.051
8	Sig	.001
9	Durbin Watson	1.311

Dependent variable: Organisational Performance

*P<0.01

**P<0.001

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Regression analysis was conducted to access H_1 , H_2 and H_3 . As depicted in the regression table the regression coefficient of R^2 adjusted was 0.227, indicating that the three dimensions of independent variables explained 23% of the variance in organizational performance. In hypotheses H_1 , H_2 and H_3 we investigated the influence of Ethical Conduct (EC), Corporate Social Responsibility (CSR), Corporate Culture (CC) and Organizational Performance (Org. Perf). It was revealed that EC ($\beta = 0.241$, $P = .001$); CSR ($\beta = 0.281$, $P < .001$) and CC ($\beta = 0.177$, $P < .001$) were respectively significant and exhibited significant positive effects on organizational performance. Invariably H_1 , H_2 , and H_3 were supported. Hypotheses H_1 , H_2 and H_3 examined the path from Ethical Conduct, Corporate Social Responsibility and Corporate Culture on organizational Performance.

DISCUSSION OF FINDINGS

The purpose of the study was to determine the effect of corporate governance on organizational performance in the Nigerian banking industry. The results of the correlation analyses involving all dimensions of corporate governance reported positive correlation among the indicators. This suggests that they are appropriate components and indicators of corporate governance. Specifically ethical conduct exhibited a relatively high level of coefficient value with corporate social responsibility ($r = .77$, $P < .01$). On the other hand, the result of the regression analysis show that Ethical Conduct (EC) has a statistically positive effect on organizational performance ($\beta = .241$, $P < .001$). This result provides support for H_1 . This is consistent with the views of Arlow (2000) that ethical conduct is acting in ways that are consistent with ones' personal values and the commonly held values of the organization and society (Nielsen, 1999). Unethical conducts by employees can affect individuals, work teams, and even the organization thus capable of hampering productivity and performance. This affirmed that ethical conduct as a dimension of corporate governance is an antecedent of increased level of employee productivity.

Also the result of regression analysis shows that Corporate Social Responsibility exhibited significant positive effect on the firm's ability to derive competitive edge ($\beta = 0.281$, $P > .001$). Invariably, this result provided support for H_2 . This is in agreement with Sow (2011) and Onuoha (1999) findings that CSR focused businesses would proactively promote the public interest and restraint ultimate destructive activities. This suggests that a company's CRS as part of her corporate policies can foster corporate reputation which may serve as quality promise for customers thus attaining a strategic position in the minds of the stakeholders. This may not be unconnected with why most firms in

the banking industry embark on different CSR activities, towards improving stakeholders' welfare, value judgment and good reputation that supports organizational performance.

Similarly the result of the regression analysis recorded that corporate culture (CC) has significantly positive effect on organizational effectiveness ($\beta = 0.198$, $P < 0.01$). These findings provide support for H_3 . This is consistent with Haberberg and Rieple (2008), which stressed that corporate culture as an indicator of corporate governance has also been conceptualized as a stimulant to organizational effectiveness. Thus an organizational culture encompasses the shared, articulated, or not articulated values, beliefs, and behaviors that contribute to the unique social and psychological environment of an organization; it is "the 'glue' that guides behavior and shapes organizational decision-making, thus eliciting good work culture for operational effectiveness within the organization.

CONTRIBUTIONS TO KNOWLEDGE

This study contributed to knowledge in the following ways:

It provided insight for managerial attention into the importance of incorporating ethical behaviour among the elements of corporate governance in making strategic decisions towards effective organizational performance in the Nigerian banking industry. It has established that corporate governance is a multidimensional construct whose aspects have relationship with the survival and stability of any financial sector.

It provides additional insight which highlights increased attention in involving corporate social responsibility initiatives as a principle of corporate governance by encompassing policies, which serve the needs of shareholders and other stakeholders, by directing and controlling activities with good business savvy.

It offers researchers, regulators and professionals the impetus to develop separate measures of corporate governance as important aspect of corporate culture and value strategies to predict behaviour and develop their integrity and positioning strategy as appropriate.

CONCLUSION

This study examines the impact of corporate governance on organizational performance in the Nigerian banking industry. It assesses how corporate ethical behavior, corporate social responsibility and corporate culture affect corporate competitive advantage. On the bases of the discussion above, the study concludes as follows:

The study confirmed the overwhelming influence of corporate social responsibility as an indicator of corporate governance on organizational performance. Thus when companies integrate social and environmental responsibility into their brands, an impression of rational and emotional appeal is created that serve as promotional efforts and fosters customer loyalty.

The potential importance of ethical conduct as a means of increasing employees' productivity is revealed in this study. In the banking industry, Corporate ethics is a concern that an organization should reflect the values of its stakeholders, accept the rules and regulations of society within which it operates both in practice and in spirit, and develop a broader consciousness beyond simple delivery of returns to its shareholders.

Furthermore, it is also inferred that corporate culture and organizational effectiveness seem to play important roles in engendering positive organizational outcomes. There is a positive relationship between corporate culture and organizational effectiveness as corporate culture encompasses mixture of values, sets, beliefs, communications and explanation of behaviour that provides guidance to people. The competitive advantage of an organization is attained through strong association and establishment of culture, in the competitive banking industry.

Given the competitive marketing environment, good corporate governance seems to be a strategic tool that could help modern day financial institutions to gain competitive edge over competitors.

RECOMMENDATIONS

Operationally this study develops and validates separate measures of corporate governance. In the competitive context managers should determine which dimensions of corporate governance policies are appropriate for their performance and corresponding excellence.

Regulatory measures can be improved towards addressing ethical conducts that are capable of improving performance within the organization in the industry. This suggests that regulatory agencies should encourage the kind of healthy competition that will promote good quality service and ethical standards.

Specifically, organizations should intensify efforts to professionally develop booklets of ethical standards, distributed it to all employees, and undertake massive training efforts to express to all employees the importance of ethical behaviour.

Banks should consistently undertake social courses that would improve customers' delight in the organization and services they render. This will go beyond connecting customers to the brand to improvement in stakeholder welfare.

Organizational development could also be attained by adhering to organizational set tenets, beliefs and culture this in turn would result in sustainability on basis of effectiveness. The improvement in productivity leads to employee commitment as norms, values and objectives helps in improving culture of an organization.

SUGGESTION FOR FURTHER STUDIES

The limitations in this study can be addressed in further research.

Data used were collected from few sample objects in Delta State, thus the findings may not be generalized to larger population of other financial institutions within the country. Further research may need to examine other aspects of corporate governance in other sectors apart from banking sector in order to make valid conclusions about the concept. This is because corporate governance seems to have strategic relevance that cuts across all industries.

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