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Effect of Management Principles on Investors in the Nigerian Banking Industry

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Abstract – *The objective of this study was to ascertain the extent to which adherence to corporate governance principles attract investors to the banking industry in Nigeria. The target population (1,500) of this study included senior, junior and top management of the four selected banks in Enugu, namely: First Bank of Nigeria Plc, United Banks for Africa, Diamond Bank Plc and Eco Bank located in Enugu metropolis. Based on the above population, the sample size (316) for this study was determined using Taro Yamani's formula. The study showed that 600 (46%) indicated agreement while 244 (18%) indicated disagreement as regards adherence to corporate governance principles and attracting investors to the Nigerian banking industry. The finding at the end of the study indicate that adherence to corporate governance does significantly attract investors to the banking industry ($Z_{cal} = 5.24 > Z_{critical} = 1.96$, $p < 0.05$). The study concludes that adherence to corporate governance does attract and has positive impact on attract investors to the banking industry. Corporate managers in the Nigerian banking industry are significantly adhering to the principles of good corporate governance and this has reflected on the positive returns on investment in the industry. There is need to strengthen the anti-corruption war in the banking industry so that investors will have more confidence in the system. Corporate managers should be recruited based on skills, experiences and qualification rather than personal connections or volume of cash, attracted to the bank, because when mediocre are in position of authority, it drags the system backward, but when the right people are in the right place, there is always room for better performance.*

Key words: *Banking industry, corporate governance principles, investors*

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1. Introduction

Molokwu (2004), states that corporate governance facilitates the achievement of economic development, provides the tools for plugging loopholes, checking of pilfering and leakages and encourages rationality and virtues which are highly needed in the Nigerian economy. It empowers and strengthens the enterprise culture, which is needed to motivate entrepreneurs.

In Nigeria, the economy has been threatened by corporate crisis thus impacting negatively on the quality and quantity of investment attracted into the country. Every year, the government proposes budgets hoping to realize part of it through local and foreign investments but these dreams are in most cases, not fulfilled. Also, investors are careful when investing in Nigeria due to poor practices of corporate governance, especially in the banking industry. The bottom-line of this failure is drifting economy, retrenchment in banks, loss of public confidence

in the system, underdevelopment, poor rate of returns on investment, corruption, criminality, and pariah status in the comity of nations. The major problems of corporate governance in Nigeria banking industry include the overbearing dominance of the Chief Executive Officer, non-adherence to internal control measures, manipulation of employment procedures, a situation whereby appointment goes to the highest bidder, family-affair ownership structure, doctored annual financial reports, ineptitude of the regulatory authorities, insider dealings, undeserved welfare packages for CEO and management, use of ad hoc (contract) staff, among others.

Bradley (2012) carried out a study to assess the reality of corporate governance in Jordan. It identifies the framework of corporate governance, which has here been set into two dimensions institutionalizations and regulations – and describes the five major principles of corporate governance. The study was carried out through interviews with key employees and the review of related laws and selected annual reports. The study found that (1) basic shareholder rights were honored in decision-making, except for large decisions such as major asset sales; (2) shareholders were not treated equitably in practice, although controllers sometimes took action and prohibited insider trading; (3) the role and rights of stakeholders in corporate governance were respected, and stakeholders had a number of legal protections, which were largely covered in Jordan's Company Law; (4) disclosure and transparency were observed to a large extent, although limited to quantity rather than quality, because Jordan has fully adopted IFRS and ISA and (5) boards largely fulfilled their responsibilities, as these are extensively defined by law and regulation. The study recommended that the regulatory authorities should take necessary steps to ensure that shareholders are treated equally in all major decisions concerning their organization.

1.1. Objective of the Study

The objective of this study is to ascertain the extent to which adherence to corporate governance principles attract investors to the banking industry in Nigeria.

1.2. Research Question

To what extent does adherence to corporate governance principles attract investors to the banking industry in Nigeria?

1.3. Research Hypothesis

Adherence to corporate governance principles does significantly attract investors to the banking industry in Nigeria.

2. Theoretical Framework

2.1. Conceptual Framework

2.1.1 Corporate Governance Defined

Corporate governance refers to the manner in which organizations, particularly limited companies are managed and the nature of accountability of the managers to the owners (Pallister and Isaac, 2002). Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation (or company) is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. To them, the most important theme of corporate governance is to ensure the accountability of certain individuals in an organization through mechanisms that try to reduce or eliminate the problem(s) that exist(s) between principal and agent (Dignam and Lowry, 2006).

Principles of Corporate Governance

For a given system to work very well, there must be laid down principles i.e. rules and regulations in which it will operate. Ezigbo (2011) identifies the following as the basic principles guiding corporate governance:

a) Right and equitable treatment of shareholders.
b) Adherence to the interest of other stakeholders.
c) Separation of the roles and responsibilities of the board (example, Chairman should be separated from the CEO).
d) There should be integrity and ethical behaviour in accordance with the code of conduct.
e) Disclosure and transparency should be in place, etc.

This implies that there are certain fundamental rights of the shareholders which organizations must respect and strictly uphold.

Atedo (2009) identifies the following principles on which corporate governance must operate:

a) Business models should not be taken as corporate governance.
b) A "one-size all" approach should not be applied in corporate governance.
c) People (management) should be judged individually and not collectively.
d) A good accounting standard should be in place to avoid being misled or outsmarted.
e) International research findings on corporate governance should be embraced for comparative analysis.

2.2. The Theoretical Review

2.2.1. Agency Theory

Agency theory suggests that the firm can be viewed as a nexus of contracts (loosely defined) between resource holders. According to Bamberg and Klaus (1987), an agency relationship arises wherever one or more individuals, called principals, hire one or more other individuals called agents, to perform some service and then delegate decision- making authority to agents. The scholars were of the opinion that the primary agency relationships in business are those (1) between stockholders and managers and (2) between debt holders and stockholders. These

relationships are not necessarily harmonious; indeed agency theory is concerned with so-called agency conflict, or conflicts of interest among other things, corporate governance and business ethics. Agency theory which in the formal sense originated in the early 1970s actually emerged as a dominant model in the financial economics literature and is widely discussed in business ethic texts. From the Ethicists point of view, "it is pointed out that the classical version of agency theory assumes that agents (that is, managers) should always act in principals (owners') interests. However, if taken either (a) the principals interest are always morally acceptable ones or (b) managers should act unethically in order to fulfil their "contract" in the agency relationship. Clearly, these stances do not conform to any practicable model of business ethics (Bowie and Freeman, 1992). To fulfil the ultimate goal of the agency theory by the so-called agents, the need to apply corporate governance is such that it is inevitable to the whole process and operations of the corporate organisations. The recent Nigerian experience of failed banks is a reflection of poor understanding and application of agency theory which led to bad practice of corporate governance.

Agency theory is based on the idea that in a modern corporation, there is separation of ownership (principal) and management (agent), and this leads to costs associated with resolving conflict between the owners and the agents (Berle and Means, 1932; Jensen and Meckling, 1976; Eisenhardt, 1989). The fundamental premise of agency theory is that managers act out of self-interest and are self centered, thereby, giving less attention to shareholder interests. For example, the managers may be more interested in consuming perquisites like luxurious offices, company cars and other benefits, since the cost is borne by the owners. The managers who possess superior knowledge and expertise about the firm are in a position to pursue self-interests rather than shareholders (owners) interests (Fama, 1980; Fama and Jensen, 1983).

This pursuit of self-interests increases the costs to the firm, which may include the costs of structuring the contracts, costs of monitoring and controlling the behaviour of the agents, and loss incurred due to sub-optimal decisions being taken by the agents. Shareholder interests can clearly be compromised if managers maximize their self-interest at the expense of organizational profitability, i.e., the managers expropriating shareholders interests. In essence, the managers cannot be trusted and therefore there is a need for strict monitoring of management by the board, in order to protect shareholder's interest. Further, in a large corporation with widely dispersed ownership, small shareholders do not have a sufficient payoff to expend resources for monitoring the behaviour of managers or agents. Eisenhardt (1989) explains that agency problem arrives when "(a) the desires or goals of the principal and agent conflict and (b) it is difficult or expensive for the principal to verify what the agent is actually doing". Consequently, the monitoring of management activities is seen as a

fundamental duty of a board, so that agency problems can be minimized, and superior organizational performance can be achieved.

Agency theory as posited by Jensen and Meckling (1976) assumes that agency problems can be resolved with appropriately designed contracts by specifying the rights belonging to agents and principals. Fama and Jensen (1983) refer to such contracts as "internal rules of the game which specify the rights of each agent in the organization, performance criteria on which agents are evaluated and the payoff functions they face." However, unforeseen events or circumstances require allocation of residual rights, most of which end up with the agents (managers), giving them discretion to allocate funds as they choose (Shleifer and Vishny, 1997). The inability or difficulty in writing perfect contracts, therefore, leads to increased managerial discretion which encapsulates the same agency problem. Further, when principals monitor agents to ensure that agents act in the best interests of the principals, they incur monitoring costs, which further reduce the value of the firm.

Given the problems in mitigating agency problems through the use of contracts, scholars have suggested various governance mechanisms to address the agency problems. Agency theory thus provides a basis for firm governance through the use of internal and external mechanisms (Weir *et al.* 2002; Roberts *et al*. 2005). The governance mechanisms are designed to "protect shareholder interests, minimize agency costs and ensure agent-principal interest alignment" (Davis *et al.* 1997).

3. Methodology

3.1. The Population of the Study

The population of a study is the entire aggregate of individuals or items relevant to a phenomenon under investigation (Franklin, 2011). The target population of this study includes senior, junior and top management of the four selected banks in Enugu, namely: First Bank of Nigeria Plc, United Banks for Africa, Diamond Bank Plc and Eco Bank located in Enugu metropolis. The breakdown of the population of the selected commercial banks is shown in table 3.1 below:

Table 3.1 Population Distribution

Name of Firm	Population
EcoBank	350
UBA Plc	350
First Bank	400
Diamond Bank	400
Total	**1,500**

Source: Field Survey, 2014

3.2. Sample Size Determination

Sampling is the act of selecting and observing only a specific subset of the population unit (Ugwu, 2003). Based on the above population, the sample size for this study was determined using Taro Yamani's formula. This formula is used where the population size for the study is known:

$$n = \frac{N}{1 + N(e)^2}$$

Where, n = Sample size
N = Population size
e = Degree of tolerance error
I = Statistical constant

Substituting in the above formular, we obtain:
n = unknown
N = 1,500
e = 5% or 0.05%
I = Constant

Therefore:

$$n = \frac{1500}{1+1500(0.05)^2}$$

$$n = \frac{1500}{1+1500(0.0025)}$$

$$n = \frac{1500}{1+3.75}$$

$$n = \frac{1500}{4.75}$$

$$n = 315.7894737$$

$$n \sim 316$$

A stratified sampling method was adopted so as to give a fair representation to the designated organizations using proportional formular. A stratified sampling method involves division of the population into classes or groups with each group or stratum having some definite (similar) characteristics or features.

Thus: Q = A/N x n/1

Where:
Q = the number of questionnaire to be allocated to each bank.
A = the proportion of each bank
N = the total population of all the banks
n = the estimated sample size used in the study.

Thus:

Sample size for EcoBank

$$Q = \frac{350}{1500} \times \frac{316}{1} = 73.73 = 74$$

United Bank for Africa

$$\frac{350}{} \times \frac{316}{} = 73.73 = 74$$

Q = 1500 1

First Bank of Nigeria

$$Q = \frac{400}{1500} \times \frac{316}{1} = 84.26 = 84$$

Diamond Bank

$$Q = \frac{400}{1500} \times \frac{316}{1} = 84.26 = 84$$

Table 3.2 Breakdown of the Sample Size

Name of Firm	Population	Sample Size
EcoBank	350	74
UBA Plc	350	74
First Bank	400	84
Diamond Bank	400	84
Total	**1,500**	**316**

Source: Field Work 2014

4. Data Presentation, Analysis and Interpretation

4.1. Questionnaire Distributed and Retrieval

The data generated from the field survey using the questionnaire as instrument were presented in tables and percentages. The Z-test, simple regression and Chi-square statistical techniques were used in testing the hypothesis.

Table 4.1 Analysis of Questionnaire Distributed and Returned

Organization	Number Distributed	Number Returned	% Returned	Not Returned	% Not Returned
Eco Bank	74	68	92.0	6	8.0
UBA	74	52	71.0	22	19.0
First Bank	84	78	93.0	6	7.0
Diamond Bank	84	72	85.7	12	14.3
Total	**316**	**270**	**85.4**	**46**	**14.6**

Source: Field Survey, 2014

Table 4.1 shows that a total of 316 copies of the questionnaire were distributed to respondents. 270 copies of the questionnaire representing 85.4% were returned while 46 (14.6%) were not returned.

4.2. Data Analysis

Table 4.2 Extent to which Adherence to Corporate Governance principles attract Investors in Nigerian Banking Sector

S/N		A	SA	D	SD	Total
1	The boards of Nigerian banks ensure that ethical values are entrenched and enforced in the management of the banks	174	28	34	34	270

2	The board ensures that bank management do not engage in unethical practices that could endanger investors interests in the bank	100	102	34	34	270
3	The board ensures that there is reasonable returns to investors through regular declaration of dividends	102	66	68	34	270
4	There is appropriate diffusion of authority through the separation of the position of the Managing Director and that of Chairman of the Board	90	78	68	34	270
5	Adherence to corporate governance principles does significantly attract investors to the Nigerian banking industry	134	74	40	22	270
		600(46%)	348(26%)	244(18%)	124(10%)	1350

Source: Field Survey, 2014

From Table 4.2, 600 (46%) indicated agreement while 244 (18%) indicated disagreement. This shows that adherence to corporate governance principles significantly attract investors to the banking in Nigeria.

4.3. Test of the Research Hypothesis

H_o: Adherence to corporate governance principles does significantly attract investors to the Nigerian banking industry.

H_1: Adherence to corporate governance principles does not significantly attract investors to the Nigerian banking industry.

Table 4.3: Contingency Table Referred Table 4.2 for Testing Hypothesis

S/N		Agreement	Disagreement	Total
1.	The boards of Nigerian banks ensure that ethical values are entrenched and enforced in the management of the banks	202 (189.6)	68 (119.6)	270
2.	The board ensures that bank management do not engage in unethical practices that could endanger investors interests in the bank	202 (189.6)	68 (119.6)	270

3.	The board ensures that there is reasonable returns to investors through regular declaration of dividends	168 (189.6)	102 (119.6)	270
4.	There is appropriate diffusion of authority through the separation of the position of the Managing Director and that of Chairman of the Board	168 (189.6)	102 (119.6)	270
5.	Adherence to corporate governance principles does significantly attract investors to the Nigerian banking industry	208 (189.6)	62 (119.6)	270
		948 (70%)	598 (30%)	1350

Source: Field Survey, 2014

Table 4.4: Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
Adherence to corporate principles governance does significantly attract investors to the banking industry	1350	4.16592	.26431	3.7453	4.5865

Table 4.5: One-Sample Kolmogorov-Smirnov Test

		Adherence to corporate governance principles does significantly attract investors to the banking industry
N		1350
Normal Parameters(a,b)	Mean	4.1659
	Std. Deviation	.26431
Most Extreme Differences	Absolute	.13216

Positive	.3.745
Negative	.4.586
Kolmogorov-Smirnov Z	5.243
Asymp. Sig. (2-tailed)	.000

a Test distribution is Normal.

b Calculated from data.

Table 4.5 is the output of the computed One-Sample Kolmogorov-Smirnov Test**;** the response options of agreement and disagreement based on the responses of the research subjects from the selected banks. Z-calculated Value (Z_c= 5.243) is greater than the Z- tabulated value (Z_t = 1.96)

Decision Rule

The decision rule is to accept the alternate hypothesis if the computed Z value is greater than tabulated Z value otherwise accept the null hypothesis.

Decision

Since the Z_c= 5.243 is greater than Z_t = 1.96, the null hypothesis is rejected and alternate hypothesis is accepted. Thus, we conclude that adherence to corporate governance principles does significantly attract investors to the banking industry.

Discussion of Results

Hypothesis was tested using Z-test and the result states that adherence to corporate governance does significantly attracts investors to the banking industry ($Z_C = 9.417 > Z_t = 1.96; p<0.05$).

5. Summary of Findings, Conclusion and Recommendations

5.1. Summary of Findings

The finding at the end of the study indicate that adherence to corporate governance does significantly attract investors to the banking industry ($Z_{cal} = 5.24 > Z_{critical} = 1.96, p< 0.05$).

5.2. Conclusion

The study concludes that adherence to corporate governance does attract and has positive impact on investors to the banking industry. Corporate managers in the Nigerian banking industry are significantly adhering to the principles of good corporate governance and this has reflected on the positive returns on investment in the industry.

5.3. Recommendations

Based on the findings of this study, the following recommendations are proffered

1. There is need to strengthen the anti-corruption war in the banking industry so that investors will have more confidence in the system.

2. Corporate managers should be recruited based on skills, experiences and qualification rather than personal connections or volume of cash, attracted to the bank, because when mediocre are in position of authority, it drags the system backward, but when the right people are in the right place, there is always room for better performance.
3. Banks should as a matter of right, give transparent information to investors on how their funds are managed. Also, this information should be available as at when due. A situation whereby investors get stale information regarding their investment portfolio is not in the best interest of investment in Nigeria.

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