

## THE EFFECTS OF CORPORATE GOVERNANCE ON PATRONAGE OF BANKING SERVICES IN NIGERIA

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### ABSTRACT

*The study was carried out to investigate banks' corporate governance practices and how they affect service patronage, how corporate image influences patronage and performance of banks. The study focused on selected banks in Port Harcourt, Rivers State. A descriptive research design was used in the conduct of the research since it enables data required for the study to be obtained and interpretation to be based on the data obtained. Primary data formed the nucleus of the data used for the research. Data analysis was initially done using tables and simple percentages and hypotheses postulated were tested using the chi-square analytical technique. Based on the data collected, it was found that corporate governance has a significant influence on the patronage of banking services hence banks' performance. Some of the recommendations made include; banks should enthrone good corporate governance practices to promote the patronage of banking services for long run profitability and should strive hard to put in place internal control mechanism that will promote customer loyalty and sustained patronage of services.*

**Keywords:** *Corporate Governance, Patronage, Banking Service in Nigeria*

### 1. BACKGROUND OF THE STUDY

The growth and development of every economy depends on the country's financial system. In Nigeria the banking industry practically commands the financial sector (Gbosi, 2010). The industry has undergone series of restructuring all geared towards protecting deposit funds, maintaining and ensuring soundness of banking, and improving welfare of employees and stakeholders. The banking sector has been bedeviled with internal (workers and investors) and external (depositors and general public) dissatisfaction, culminating to an image problem. As a result, most banks have sort for improved technology like information and communication technology (ICT), total quality management strategies, restructuring etc., to compete more effectively and to solve these problems. Though these strategies have brought about some changes, yet they have not successfully solved the most sensitive problems of people and governance. Shonibare, (2000) states, organizations (institutions) that have attempted to redefine their business strategies without understanding and appreciating the need to align and make "people" the bedrock of their strategies succeed only in compounding the problem they sought to solve. Hence Toby (2006) also stated that "banks must get to know their customers better if they are to compete successfully".

The success of any firm depends highly on the human element (the workers, managers, customers, shareholders, etc.) (Philip, 2002). This emphasizes a direct relationship between corporate governance and organizational performance and has been assumed to be the "internal system encompassing policies, processes and people which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity and integrity (O-Donnvoan, 2003). Corporate governance is a policy measure put in place by regulatory authorities to regulate operation and monitor the governance structure of

financial institutions to prevent failure or collapse in the sector as drawn from the experience of the Asian financial crisis, Enron/Anderson debacle collapse, Worldcom, Tyco, Global Crossing Adelphia in the USA and the recent accounting disclosure and Levers Brother Nig. (Tennyson, 2010, Olorunshola, 2007). The scandal revealed huge accounting fraud and corporate abuses. This however stresses and brought to limelight the importance of corporate governance as a tool for ensuring transparency, disclosure of financial report, accountability, effective external/internal audit and monitoring, good moral ethics and professionalism in operation and prompt adoption to certain standard in their management/leadership culture especially in banks which ownership is separated from management to ascertain deviation and protect customers as the core of banking services is based on depositors fund (Ekineh,2009).

In this era of rapid globalization and liberalization highly characterized with competitive business environment the importance of corporate governance cannot be overemphasized. However, the subject of corporate governance has received considerable attention worldwide in recent times. One reason for this is the realization that the quality of corporate governance in place affects the performance of individual institutions and ultimately that of the economy as a whole. It has been noted that sound corporate governance is dependent on the external market place commitment and legislation plus a healthy board culture that safeguard policies and processes (Adobe.Com) (Kojola, 2008). Though banks seem to operate under certain codes and standards as means of regulating their operations, there is a big doubt as to their compliance level and having likely negative impact on the patronage of the services of these banks.

Another problem interfacing between corporate governance and corporate performance, which is dependent on patronage is that of devolution (structuring and composition) of administration among members of the board, management and staff.

Yet other issues intermediating between corporate governance adopted by banking sector and service patronage are ethical practices and corporate image of Nigerian banks.

It is incontrovertible that corporate governance is one of the most critical issues in the business world today, and one of the key factors in facilitating good corporate governance practices is imbibing good ethical codes/practices and strict adherence to professionalism in corporate (business environment) imaging especially in the banking sectors, catalytic to stability and soundness in the system. Thus these and others problems not stated necessitated this study to ascertain the effects of corporate governance on patronage of banking services and performance in Nigeria.

### **CORPORATE GOVERNANCE FRAMEWORK AND PARTIES**

Emphasis on corporate governance in Nigeria's corporate world has been on the rise for several reasons some of which are the rate of high profile corporate failures in Nigeria and the whole world, the increasingly clear separation of ownership from management, and the need to install appropriate framework to ensure transparency and accountability in the management of the business ventures. Infact, researchers have asserted that lack of good corporate governance, reliable and functioning system of internal control, improper coordination of operations, lack of uniformity in the standards of acceptable and best practices and the non-enforcement of the various regulatory laws and rules have contributed to the failure of many companies in the various sector (especially the banking sector) of the economy (Oladimeji, 2007).

Consequently, several attempts have been made to define the scope and the whole framework of corporate governance. Ordinarily, corporate governance can be described as the holistic system of control or the manner of management and the nature of accountability resource managers of companies (especially limited liability companies) are expected to employ in the drive towards the achievement of their set corporate objectives of the owners of these firms (Asien, 2001).

By framework, corporate governance is concerned with the intrinsic nature, purpose, integrity and identity of the institution with a primary focus on the entity's relevance, continuity and fiduciary aspects, and the determination of whom the organization is there to serve and how the purposes and priorities of the organization should be decided (Mueller, 1985). It is a vital instrument for building healthy investment climate and boosting investors' confidence (Nwachukwu, 2006; Kwakwa and Nzekwu,2003). It is a set of rules that defines the relationship between shareholders, managers, creditors, the government, employees and other internal and external stakeholders in respect to their

rights and responsibilities or the system by which companies are directed and controlled (Ibrahim, Rehman & Raoof, 2010; O'Donovan, 2003; Agrawal & Chadha, 2005). Thus corporate governance is a system of structuring, operating and controlling a company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers and complying with the legal and regulatory requirement, with a view to command large market share through good corporate image that attracts a sustained service patronage and thus the parties involved in the controlling and directing of those corporate policies, processes to achieve these goals are necessary (O'Donovan (2003).

Parties involved in corporate governance include the regulatory bodies the Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC), shareholders, board of directors, management the chief executive officer, and employees, creditors, depositors, customers and the community at large (Toyin, 2007).

There is no single model of good corporate governance. However, there are some internationally recognised principles that are as capable of promoting sound corporate governance as spelt out by the Organization for Economic Corporation and Development (OECD). These principles include the rights of shareholders, the equitable treatment of shareholders and the role of stakeholders, disclosure and transparency and the responsibilities of the Board of directors (Rogers, 2008).

## **2. CHALLENGES OF CORPORATE GOVERNANCE IN NIGERIA**

Every system is subject to some challenges but the ability to overcome such depends largely on the system operators (managers, regulatory bodies, board of directors). Peni & Vehamaa (2012) affirms that for organizations (especially the banking institutions) to achieve their set goals they must strive to address the challenges or issue of corporate governance because it is by doing these that organizations can successfully achieve their long term goals. However, researchers have identified some challenges facing good corporate governance in the industry, six (6) of which are: (Bolton, 2008; Toyin, 2004)

- i) Establishing the Codes
- ii) The Challenge of Enlightenment
- iii) Emplacement of an Appropriate Institutional Framework
- iv) Value and Orientation
- v) Poverty Trap
- vi) The Ineffectiveness of our Governance Bureaucracy

## **3. CORPORATE GOVERNANCE IN THE NIGERIA BANKING INDUSTRY PRIOR TO THE CONSOLIDATION PROGRAMME**

Given the pivotal role of banks in the economic development of any country it is crucial for the banking industry to be virile, safe and sound (Ekezie, 2006). This explains why the issue of sound corporate governance in the industry cannot be taken lightly. Prior to the introduction of the consolidation programme, emphasis was not much on corporate governance, though the Central Bank of Nigeria (CBN) identified major weaknesses in corporate governance like disagreements between board and management, giving rise to board squabbles, infective board oversight functions, overbearing influence of the chairman or the managing directors/chief executive officer, especially in family-controlled banks, weak internal controls, non-compliance with laid-down internal controls and operation procedure, ignorance of and non-compliance with rules, laws and regulation guiding banking business, poor risk management practices resulting in large quantum of non-performing credits including insider-related credits, abuses in lending, technical incompetence, poor leadership and administrative ability and ineffective management of information system (CBN,2006). Lemo (2007) states that the poor governance practices in Nigerian banking system prior to the reform programme was compounded by the fact that a number of operators resulted to ethical and unprofessional practices in a bid to survive the staff competition in the market. Some institutions even ventured into businesses that could not be classified as banking business which brought about corporate failure. In view of this, attempt will be made to assess the effect of overbearing influence of board members on corporate governance. When eventually much emphasis was made, issues like corporate culture and human treatments were added (Philip Consulting,2000; Jaja, 2000).

#### 4. RESEARCH METHODOLOGY AND DATA ANALYSIS

The researcher adopted the cross-sectional research design and empirically analyzed data from 10 randomly selected banks of different categories within Rivers State of Nigeria, out of a population of 22 banks (using the Yaro Yemen scientific sampling formula).

Rivers State is the home of oil and gas business, and the 2<sup>nd</sup> largest commercial centre in Nigeria (Seminitari, 2009). It is the researcher's belief that information gathered from these mega banks with diverse interests provided a good basis for the generalization of the opinions about the entire banking industry.

100 copies of questionnaire made up of structured and unstructured questions were administered on the staff of the sampled banks, out of which 68 only were correctly answered and returned, as shown in the table below. For the purpose of a reliable data collection, banks were chosen according to relative experience in terms of strength, ICT compliance, age and spread, while bankers were grouped into three categories; the senior, middle and junior cadres.

**Table 1: Questionnaire Administered**

Banks	No of Questionnaire Administered	No of Questionnaire Retrieved	No of Questionnaire Not Retrieved	% of Questionnaire Retrieved	% of Questionnaire not Retrieved
First Bank Plc	10	8	2	0.8	0.2
Enterprise Plc	10	6	4	0.6	0.4
FCMB	10	8	2	0.8	0.2
U.B.A. Plc.	10	7	3	0.7	0.3
Keystone Bank	10	3	7	0.3	0.7
Skye Bank	10	9	1	0.9	0.1
Diamond Bank	10	6	4	0.6	0.4
Guaranty Trust Bank	10	8	2	0.8	0.2
EcoBank	10	5	5	0.5	0.5
Access Bank	10	8	2	0.8	0.2
Total	100	68	32	68%	32%

*Source: Survey Data, 2012*

Data collated were used to test the following hypotheses, using the Chi-square ( $\chi^2$ ) Test at 5% significance level.

- Ho<sub>1</sub>: There is no significant relationship between corporate governance and patronage of banks.  
 Ho<sub>2</sub>: There is no relationship between corporate image and patronage of banks.  
 Ho<sub>3</sub>: There is no positive relationship between corporate ethics and banks performance.

In this study all banks are assumed to be differentiated by their governance structure, policy implementations and sustenance. Hence issues such as service rendered and operations system were only highlighted as they are assumed to be uniform.

#### 5. FINDINGS

The study found that corporate governance has a significant relationship with patronage of banking services and greatly influences business performance, given that performance is based on customer loyalty, return on investment and long run profitability. This finding is deduced from the result of the statistical (chi-square) test of hypothesis 1, using the responses to 5 questions in the questionnaire, which shows that  $\chi^2_{tab} = 12.59$  is less than  $\chi^2_{cal} = 106.82$  thus, we accept the alternate hypothesis. This is congruent with the position of Hawley and William (1996) who stated that corporate governance has a direct relationship with business performance. The finding is further supported by Gladson (2007) who stated that corporate performance and customer loyalty are the long-run benefits of a well structured and governed corporate organization.

It was also found that there is a relationship between corporate image and patronage of banking services, based on the fact that the statistical analysis of the responses to relevant questions led to rejection of the null hypothesis, which states that there is no relationship between corporate image and banks' patronage. The statistical analysis reveals that at  $\alpha=0.05$ ,  $\chi^2_{\text{tab}}$  of 3.841 is less than  $\chi^2_{\text{cal}}$  of 46.10. It is worth mentioning that transparency and disclosure are essential ingredients of good governance in banks, which leads to positive corporate image and influence customers' patronage. Disclosure and transparency, demonstrated by high quality, timely, reliable and standard information (financial and non-financial) reporting to regulatory authorities and the general public, are essential for good governance to influence investors, shareholders and the public to invest more in banks or corporate bodies. This is supported by and in line with the works of Hawley and William (1996) which asserted that high standard of transparency and disclosure can have a material impact on the cost of capital, and that reliable and timely information increases confidence among decision-makers within the organization and enable them to make good business decision directly affecting growth and profitability of banks. Also disclosure helps public understanding of company's activities (policies and performance) with regards to environmental and ethical standard, as well as its relationship with the communities where the company operates. Another aspect of corporate image is the public view on the quality of administration of any firm. One of our surreptitious findings, related to the issue of corporate image, is that governance composition and structure, especially the division of authority between management, shareholders and board members, significantly impact on the patronage of the services of banks. This is true since the composition (quality) of a firm's board of directors to a large extent builds investors confidence and trust which directly attract customers' patronage to a bank. Examples abound in the Nigerian banking sector, where differences and/or in the composition of Boards of banks have led to bank runs, distress and consequential revocation of banking licenses, as in the case of Savannah Bank of Nigeria Plc and Societe Generale Bank Plc.

Findings from the study also revealed that corporate ethics have a positive relationship with business performance, based on the fact that the null hypothesis: there is no positive relationship between corporate ethics and bank performance; was rejected since the  $\chi^2_{\text{tab}}$  of 3.841 was less than  $\chi^2_{\text{cal}}$  of 19.06 at  $\alpha=0.05$  significance level. The reality is that code of ethics makes employees to aspire to professionalism through adherence to self development with available codes. Ethical behaviour produces good customers' relation, making customers hopeful of fair and honest (timely) business transaction (services) in a conducive banking atmosphere. These paradoxically promote customers confidence and the result is sustained patronage of services. Also the consistency between what is said and what is done which springs from "ethicisism" builds trust in banks and thus eliminates customers drain to other bank.

Findings from the study also revealed that though standard codes of practice are made available by the regulatory bodies to guide individual bank's operation, banks have not fully complied and implemented these codes in their various banks. This finding contradicts the assertion of Oladimeji (2007) that states that banks have complied with standard codes, and the existence of this standard codes has given confidence to investors, creditors and all stakeholders and further strengthened banks operations locally and internationally to meet the international best standards of practices in corporate management. Based on the findings, the researcher asserts that banks are still operating outside the confines of the available codes provided by the regulatory bodies, which is supposed to serve as a guide for the operation, management and sustenance of corporate governance in banks.

It was also discovered that political interference, high competition, stringent regulatory requirement, poverty trap and erosion of value and orientation militate against the compliance and implementation standard code of governance.

## 6. CONCLUSION

Based on the finding of the research, we conclude that:

- 1) Corporate governance has a positive impact on customers' patronage of banking services and this influence banks' performance.
- 2) Customer loyalty and corporate image are dependent on the level of transparency, accountability, integrity, and disclosure of information prevailing in individual banks.
- 3) Apart from corporate governance, corporate ethics, corporate image and corporate culture also impact on banks' performance and profitability.
- 4) In spite of the available code of governance, banks have not fully complied with the code of practice.

- 5) Factors like erosion of values and orientation, political interference, stringent regulatory requirement, high competition in the banking sector, variation in the business environment, poverty trap, and lack of enlightenment of stakeholders; militate against the compliance and implementation of standard codes in banks.
- 6) Ethics and professionalism in service delivery to significant extent determine banks' image and promote customer loyalty and banks performance.
- 7) Patronage of banking services is dependent on corporate governance practices prevailing in individual banks.

## 7. RECOMMENDATIONS

- 1) Banks should enthrone good corporate governance practices to promote sustained patronage of banking services and long-term profitability.
- 2) Banks should adopt high standard of disclosure, transparency, accountability and integrity in the reporting of information (financial and non-financial) to all stakeholder to boost patronage.
- 3) A zero tolerance for unethical and unprofessional practices and breaches of rules and regulations must be strictly enforced on individual banks.
- 4) Codes should be formulated in consonance with the peculiar business environment in which banks operates
- 5) Banks should strive hard to put in place internal control mechanism that will promote customer loyalty through sustained positive image (corporate culture).
- 6) The regulatory authorities should review the existing codes of conduct/practice of banks to accommodate variation and volatility of the Nigerian financial system, given that responsive corporate governance remains a critical success factor for the viability and survival of banking institutions.

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