Journal of Pol Dev Studies

An Open Access Journal
• ISSN: 0189-5958

Journal of Policy and Development Studies

JPDS Journal Pol Dev Studies

Research Article Homepage: www.arabianjbmr.com AGJ

DIGITAL BANKING, MANAGERIAL OPPORTUNISM AND THE PERFORMANCE OF MICROFINANCE BANKS IN NIGERIA

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ABSTRACT

The performance of Microfinance Banks' (MFBs') in Nigeria is an important economic and political issue that has been a subject of many studies. The relationship between the shareholders and the managers of MFBs is expected to translate to profitability if all norms in the act of funding, monitoring, management and work environment are fulfilled. However, quite a number of these banks had been forcefully closed down. Hence, government's efforts at using MFBs' as a tool of improving the standard of living of the rural dwellers, alleviate poverty and provide micro credits to rural and urban dwellers did not yield desired results. The presence of opportunistic distortion of financial information occasioned by manager's desire to achieve the set earnings targets may adversely affects the accounting choices and disclosures in financial reporting. As firm's underlying economic performance is measured by using accounting metrics, the violation of the contracting and controlling role of accounting metrics will impair the reliability and informational role of these metrics. Therefore, the metrics must be done with high degree of confidence reposed in the agents in order to play reliable, contracting and controlling roles expected by the principal. However, the agents usually backslide on this role due to managerial opportunistic behaviour leading to inability of the system to generate expected earnings with sincerity of the agent and the professionals. Digital banking is the digitization of all the traditional banking activities and programs that were previously only available to customers when physically inside of a bank branch. Since digitalization reduces human error and builds customer loyalty, digital banking may mitigate the effect of managerial opportunism on the performance of microfinance banks. This study examined within the context of digital banking, the effect of managerial opportunism on the performance of microfinance banks' in Nigeria. The results of both fixed and random effects estimations revealed that none of the variables included to explain the effects of managerial opportunism on microfinance banks performance in Nigeria is significant with digital banking as one of the control variables. This implies that, with digital banking, managerial opportunism does not have any significant effect on the performance of microfinance banks in Nigeria
KEY WORDS: Managerial Opportunism, Digital Banking, Microfinance Banks'

1. INTRODUCTION

The Nigerian Banking System is fashioned after the British Banking System. The system gradually moved from commercial Banking towards unit banking with the introduction of community banks in 1991 as a development effort of government. Prior to the introduction of Community Banks, several measures have been put in place by the Central Bank of Nigeria (CBN) to bring bank services to the door step of the rural populace and enhance credit delivery for boosting quality of rural life. These include the Rural Banking scheme, 1977, Agricultural Credit Guarantee Scheme, 1977, Nigeria Agricultural and Cooperative Bank and Nigeria Bank for Commerce and Industries. These banks were introduced to compliment the rural development scheme. According to CBN, none of these efforts yielded appreciable improvement in the quality of life of rural dwellers and these led to the introduction of Community Bank as a policy thrust of Structural Adjustment Programme started in 1986 (CBN Monetary Reports 1986), Despite these efforts, the Community Banks could not achieve these purpose and in 2005, regulated Microfinance Banks were introduced to replace the old Community Banks with the launching of the Microfinance policy in Nigeria by Central Bank of Nigeria. (CBN, 2005). This was influenced by the global acceptability of micro financing as the last hope in assisting the economically active poor. One of the essential ethics of banking business is trust and confidence which promotes sustainable relationship among the owners, managers of business, and the external environment leading to the achievement of optimum performance (Ekundayo, 1996). If this assurance is not guarantee, it becomes very difficult to win the trust and confidence of the banking public. This means that shareholders, board of directors and managers of banks must ensure sound performance of their institutions to key into the main objective of the policy thrust specified in the banking system to financial inclusion. However, CBN (205) reported that, microfinance banks (MFBs') have not been performing well despite huge financial commitments of government and regulators. According to Nigeria deposit insurance corporation (NDIC), out of 803 MFBs' registered as at the end of 2010, 224 were liquidated (NDIC, 2010). In 2014 another 83 MFBs' licenses were withdrawn out of 882 existing (NDIC Reports, 2014). Also, There were 563 MFBs categorized as unhealthy as at the end of 2014 (CBN, 2014). These situations have always created doubts and erode the confidence of the Nigerian banking public. Lack of corporate governance by the board of directors, undercapitalization, liquidity, bad lending and board characteristics were given as reasons for failures (NDIC, CBN Routine reports, 2014).

Managerial opportunism, such as earnings management, is a rampant practice among certain managers. Agency theory and the notion of conflict of interest are used as bases to assume that managers would resolve to engage with inappropriate activities for their personal benefits. Distortion of earnings would erode investor confidence and is detrimental to the capital market. Digital baking is the digitalization of all the traditional banking activities and programmes historically available to customers when physically inside of a bank branch. These activities include money deposit, withdrawals, and transfers. One of the advantages of digital banking is the ability to curb managerial opportunism. This study investigates the effects of managerial opportunism within the environment of digital banking on the performance of microfinance banks in Nigeria. The study covers microfinance banks in the Southwestern Nigeria within the period of 2005-2015. The period of 2005 to 2015 was chosen because microfinance banks policy was promulgated in 2005 and this period also coincide with the spread of digital banking in Nigeria. The study is organized into five sections. Section one contains introduction, section two focuses on review of related literature and theoretical frame work while section three examine research methodology. Section chapter four contains data presentation, analysis and interpretation of results, and finally section five contains findings, conclusion and policy recommendation.

2. REVIEW OF RELATED LITERATURE

Microfinance evolution can be divided into three periods of time in Nigeria: the 1980s, early 1990s, and late 1990s. During the 1950s to 1980s, the microfinance service was restricted to the microcredit program subsidized by governments and/or donors with a focus on the agricultural sector (Glaubitt et al, 2006). The success of the microcredit program in this period was outreach to the target clients, poor households and microenterprises, by not requiring collateral. However, this program was accompanied with many shortcomings (Glaubitt et al, 2006). From the beginning of the 1990s, the shortcomings in the last period were addressed through gradual integration into mainstream financial sector, which builds cost-efficient operations and expands the customer base microfinance programmes. In other words, microfinance programs transformed into microfinance models by imposing financial sustainability as one of their objectives and extending their clients as generally poor people, not just the poor in the agricultural sector (Glaubitt et al, 2006; Hamada, 2010). Microfinance models in the last period have been transforming into microfinance institutions (MFIs) since operating in the form of microfinance models subsidized by governments/donors was incompatible with the mainstream financial sector. This occurrence has resulted in a large scale of clients and qualified financial products; moreover, there has been the creation of networks that link MFIs together like commercial banks (Glaubitt et al, 2006).

In Nigeria, past governments at various levels introduced a number of publicly-financed micro/rural credit programs, schemes and policies targeted at the poor. These include: Rural Banking Program, Sect oral allocation of credits, Concessionary interest rate, and the Agricultural Credit Guarantee Scheme (ACGS). Government also established institutions like Nigerian Agricultural and Co-operative Bank Limited (NACB), the National Directorate of Employment (NDE), the Nigerian Agricultural Insurance Corporation (NAIC), the Peoples Bank of Nigeria (PBN), Family Economic Advancement Program (FEAP), Nigerian Agricultural Co-operative and Rural Development Bank Limited (NACRDB) to enhance the provision of finance to the agricultural sector. National Poverty Eradication Program (NAPEP) was also created with the mandate of providing financial services to alleviate poverty. Other policies/measures introduced to stimulate economy in addition to the micro credit programs include Operation Feed the Nation (OFN), Green Revolution, Petroleum Trust Fund (PTF), Better life for the rural dwellers and the Community Banks (CBs) which was a specific target to the poor. The shortcoming and failure of community banks led to the introduction of Microfinance Banks (MFB) in Nigeria. For efficiency and effectiveness and in line with regulations, the Central Bank of Nigeria (CBN), established three categories of Microfinance Banks: Unit, State, and National MFBs: a Unit Microfinance Bank is authorized to operate in one location. It is required to have a minimum paid-up capital of N20 million and is prohibited from having branches and/or cash centres, State Microfinance Bank is authorized to operate in one State or the Federal Capital Territory (FCT) and is required to have minimum paid-up capital N100 million. It is allowed to open branches within the same State or the FCT, subject to prior written approval of the CBN for each new branch or cash centre. The National Microfinance Bank is authorized to operate in more than one State including the FCT. It shall be required to have in minimum paid-up capital of N2 billion and is allowed to open branches in all States of the Federation and the FCT, subject to prior written approval of the CBN for each new branch or cash centre. According to CBN reports on MFBS, from 2005 to date, a large number of MFBs' licenses have been liquidated for non-performance. In 2010 alone, 224 MFBs were liquidated, CBN (2011) and in 2014, another 83 MFBs licenses were withdrawn out 900 existing; CBN (2015).

There are different views on what performance is, one view is concerned with record of outcomes achieved, that is, performance is regarded as accomplishments. Another view is that performance is about doing the work which is behavioural in nature. Akintonde, (2013) observed that performance is a multi-dimensional construct, the measurement of which varies depending on whether the measurement objective is to assess performance outcomes or behaviour. Nnabuife, (2009) sees performance as individual efforts that lead to a specific outcome matched with expected reward by managers. Armstrong (2004) in Akintonde, (2013) defined performance as the outcomes of work because they provide the strongest linkage to the strategic goals of the organization, customer satisfaction, and economic contributions. Hornby, et al., (2010) see performance as the act or process of performing a task, an action that involves a lot of effort, or how well or badly you do something or something works. Brumbach (1988) in Akintonde, (2013) has a comprehensive view of performance. It means both behaviours and results. Behaviours emanate from the performer and transform performance from abstraction to action. Not just the instruments for results, behaviours are also out-comes in their own right (product of mental and physical effort applied to tasks) and can be judged from the results. This definition embraces both the behaviour and outcomes and indicates that when managing the performance of teams and individuals, both inputs and outputs need to be considered. That is, there is need for performance evaluation, assessment or appraisal which assists management to plan, control activities and to make viable economic financial decision (Adeniyi, 2011).

Under the agency relationship between principal and agents, the presence of opportunistic distortion of financial information occasioned by manager's desire to achieve the set earnings targets adversely affected the accounting choices and disclosures in financial reporting (Levitt, 1998; Healy et al., 1987; Healy, 1985). The agents are given task of performing functions assigned by the principal for the benefit of the principal. Where the agent employs the services of professional like auditors or contractors, he must not make secret profit or join third party to the detriment of the principal. As firm 's underlying economic performance is measured by using accounting metrics, in violation of the contracting and controlling role of accounting metrics will impair the reliability and informational role of these metrics (Watts & Zimmerman, 1990). Therefore, the metrics in order to play reliable and informational, contracting and controlling roles expected by the principal must be done with high degree of confidence reposed in the agents. However, the agents usually backslide on this role because of managerial opportunistic behaviour leading to inability of the system to generate expected earnings with sincerity of the agent and the professionals. This is a common occurrence in MFBs administration. A serious threat to reliability of accounting information in controlling and monitoring management efficacy, value judgment and safeguarding stakeholder interests is the fraudulent activities of external auditor appointed by the agents who would increase their audit fees on firms with higher amount of free cash flow which translate to breaches in governance and violation to financial reporting integrity (Tsui, 2001). The increasing corporate scandals involving accounting irregularities erode the true and fair notion of accounting information accrual basis accounting allows adjustments to cash basis accounting for a more relevant representation of firm financial position (Whelan & McNamara, 2004). From the information perspective, the accrual accounting practice provides a signal to the market. However, if accrual accounting is used opportunistically then, earnings measure might become unreliable (DeFond & Jiambalvo, 1994; Watts & Zimmerman, 1978).

Idolor, (2010) in his studies on Bank Frauds in Nigeria: Underlying Causes, Effects and Possible Remedies examined the common types of bank fraud that are frequently carried out in the banking system. The essence is to relate this to Microfinance frauds. A sample of 100 respondents taken in Benin City, capital of Edo State, Nigeria was studied by means of field survey tool of questionnaire and the response to rating scale questions were tested for significance using the "t-test". The analysis revealed that respondents did not view unofficial borrowing malpractice as forms of bank fraud since they were common and an industry wide practice. It also revealed that there was an equal level of staff involvement in initiating and executing fraud, with the concealment of fraud coming last in their agenda. Also, among the factors hypothesized to encourage bank fraud; the major individual based factors were greed, infidelity and poverty, while organizational factors were inadequate staffing, poor internal controls, inadequate training and poor working conditions. These were similarly some of the causes of MFBs failure in Nigeria. Respondents also viewed greed, lack of personal ethics and weak corporate governance as managerial factors that help propagate frauds in banks like MFBs.

Furthermore, Ikpefan and Ayeni (2015) in their paper on ethics and professionalism in Nigeria focused their study on investigating the impact of ethics and professionalism in the banking sector in Nigeria reveals that many Nigerian Banks and Bankers are aware of the Code of Ethics and Professionalism in the Banking Industry but not all Nigerian banks have adopted the Code. It was also found that unethical behaviour is responsible for distress in banks. The sanctions for unethical/unprofessional conducts appear to be too weak. They recommended the need to promote greater awareness of Ethics and the Code of Ethics in the Nigerian Banking Industry, as this is the best way of promoting ethical behaviour.

Apere, (2016), on “The Impact of Microfinance Banks on Economic Growth in Nigeria” investigated the impact of microfinance banks on economic growth in Nigeria over the period of 1992-2013. This study made use of quantitative secondary data from the Central Bank of Nigeria (CBN) statistical bulletin (2013) to carry out this study. Empirical evidence from the study shows that the activities of microfinance bank have the capacity to influence the entire economy if it is well coordinated. The results of the study indicated that microfinance bank loans and domestic investment significantly and positively affect the growth of Nigeria’s economy based on the magnitude and the level of significance of the coefficient and p-value and there is a long-run relationship between microfinance bank loans, investment and economic growth in Nigeria. Egbo (2012), on “Universal Basis of Bank Failure – The Nigeria Case” appraised the causes and outcomes of bank failures and looked at the theoretical level and other root causes, consequences of bank failure and lessons within the Nigeria perspective. Balago (2014), on Conceptual Review of Agency Models of Performance Evaluation adopted by a conceptual review using explorative research and utilizes existing secondary data obtained from the survey of wide theoretical and empirical studies on agency models for the purpose of generating and presenting its arguments. In summary, the study found that agency theory provides a coherent framework which can be used to analyse managerial accounting issues. The model offers unique, realistic and empirically testable perspective on problems of cooperative effort and can therefore be argued for adoption when investigating agent-principal problems facing firms.

3. METHODOLOGY

The study is anchored on agency theory. Agency theory was developed by Jensen and Mekling (1976) to explain the contractual relationship between the owners of business entity and the managers. In the broadest sense, whenever one party (the principal) depends on the action of another party (the agent), agency relationship arises (Pratt & Zeckhauser, 1985,). The basic reason for establishing an agency relationship is usually that the principal needs a certain task to be performed. The principal acquires the services of the agent typically because the agent possesses those skills and abilities that are needed for performing the task. The principal himself may either lack these skills and abilities or he is less effective in performing the tasks than the agent. Petersen, (1993). The principal and the agent are considered to be self-interested actors. Additionally, some of the agency theorists postulate principals and agents as utility maximizers whereas others do not (explicitly) make such an assumption. The utility maximization assumption is especially important for mathematically oriented principal-agent researchers, because it allows different situations to be modeled and predicted mathematically in a way that would not be otherwise possible.

3.1 Population, Sample Size and Sampling Technique

The study covered three hundred microfinance banks (300) out of three hundred and thirty-two (332) MFBs spread across the six states of the South western Nigeria as at December 2015; (CBN,2015). The affected states are Lagos, Ogun, Osun, Ondo, Ekiti and Oyo States. Also, the three types of MFBs namely; National, State and Unit were covered. Lagos is the only state in the south west that have 5 National MFBs out of 6 in Nigeria, the remaining 1 is in the south-south, 30 out of the 33 state MFBs and 266 out of the 293 Unit MFBs in Southwest are licensed for operation in Lagos state (CBN, 2015). Therefore, the study covered most of the MFBs in South West from Lagos state. The study is an ex-post facto research concerned with examining and assessing relationship among variables concerned, A cross sectional design was used to assess the relationship between Principal/Agents and performance of MFBs in the South Western Nigeria between years 2005 – 2015.The sample size for the study was determined by the use of the Proportional Stratified sampling technique. This was chosen because samples were to be chosen from each type of MFB (Unit, State and National). According to Hassan T (1995), “Proportional Stratified sampling technique yields satisfactory results if the dispersion in the various strata is of approximately equal magnitude”. Also, Hansen, Morriset al(1953) posited that” The underlying idea in stratified sampling is that already existing knowledge of the population is used to divide it into groups so that elements within each group are more alike than are the elements in the population as a whole”. The study focused on 300 MFBs out of the population of 332. ThirKettle (1976) argued that” a reasonable large number of items were on the average be representative of the characteristics of the large group (or population)”. In this study, Questionnaire was stratified into the types of MFBs before the selection was analysed In Lagos State, 138 units, 24 states and 5 national MFBs was proportionally sampled, In Ogun State, 44 units, 1 States and was proportionally sampled, In Oyo State, 41 units, 6 states was proportionally sampled, In Osun State, 24 units, 2 states was proportionally sampled, In Ondo State, 10 units was proportionally sampled, In Ekiti State, 6 units was proportionally sampled. One Questionnaire was given to each Chief Executive Officer, Top level manager and middle-level manager, Head of operations or Director of the bank to complete. The officer was expected to be in a position to represent other agents.

Table1: Extracts from CBN Report (Dec. 2015) on MFBs in South-West, Nigeria.

States	No. of MFBS	Nat.	State	Unit	Total group sampled			
					NATL.	State	Unit	Total Sampled
LAGOS	173	-	24	143	5	24	138	
OGUN	50	-	1	49	-	1	44	
OYO	54	-	6	48	-	6	41	
OSUN	31	-	2	29	-	2	24	
ONDO	14	-	-	14	-	-	10	
EKITI	10	-	-	10	-	-	6	
TOTAL	332	5	33	293	5	33	263	300

Source: Author's computation (2016)

3.1.1 Research Technique

The questionnaire was administered by the researcher. As mentioned earlier, the questionnaire survey mainly answers research questions related to Principal-agent relationship. However, this research used not only questionnaire but secondary data to measure the variables of Principal-agent relationship mechanisms, as well as the MFBs' performance variables. Any information that could not be gotten from primary data was gotten through secondary data. To achieve the objective the study this is an examination of the influence of digital banking within the environment of managerial opportunism on the performance of microfinance banks in Nigeria. The study employed both parametric and non-parametric technique. The parametric strategies assisted the study to generalize the outcome of the research through the sample parameter. The non-parametric method included simple percentage, ratios and averages while the parametric statistics used the multiple regression analysis for the purpose of generalizing the result obtained from 300 MFBs used for the study. The first ten (10) questions were based on demographic information to extract personal information about each bank's respondent. The remaining one hundred questions are based on the four (4) objectives of the research. The relationship among the shareholders, directors, management employees, government policies and environment as captured in the questionnaires were to be used for the analysis. The shareholders developed mechanism used to control the activities and decision of the management in order to maximize the long term firm's value. The MFBs banks were classified according to the bank minimum paid-up capital requirements (i.e. N20 million, N100million and N2 billion for Unit, State and National MFBanks' respectively).Therefore, the sample size was made up of MFBs' shareholders, stratified into three strata (that is, Unit, State and National Banks) that were considered very crucial in the study; The questionnaires were distributed based on the board size of the banks to ensure fair representation; The sample size of 300 was used from 332 MFBs in the south western state as reported by CBN as at the end of December 2015.

The setting of roles is to ensure MFBs live above board in other to fulfill the purpose for which it was created. The model for the estimation of the effects of managerial opportunism on the performance of MFBs' given digital banking is expressed in equation 1 below:

MFB =f (FCF, LEV, ROA, BSZE, ESOS) (1)

Where:
LEV = Financial Leverage
ROA = Profit before Tax
BSZE = Bank size to improve on
FCF = Digital Banking
ESOS = Expected gain by the managers

Equation (1) can be explicitly written as:

$$MFB = \beta 0 + \beta 1LEV + \beta 2ROA + \beta 3BSZE + \beta 4FCF + \beta 5ESOS + \varepsilon$$

4. EMPIRICAL ANALYSIS

In order to present accurate characteristics of the variables examined, the descriptive statistics are presented below. The minimum values, maximum values, mean and standard deviation of the variables are reported in the Table 2. Also, the results of correlation matrix are presented in Table 3. These show that the problem of multicollinearity is non-existent among the variables examined. The results of the effects of managerial opportunism within the environment of digital banking on the performance of microfinance banks in Nigeria are presented in Table 4. To ensure robustness of the estimates, both fixed and random effects estimation are explored. The results reveal that none of the variables included to explain the effects of managerial opportunism within the environment of digital banking on microfinance banks performance in Nigeria is significant. This implies that the study could not detect the presence of managerial opportunism in Nigeria microfinance banks, given digital banking. This indicates that the sharp practices of managers are greatly curbed. The insignificance of the parameters estimated as presented in Table 4 signifies that given digital banking practice, managerial opportunism has no significant effect on the performance of microfinance banks in Nigeria.

Table 1: Descriptive Statistics

	ROA	FCF	ESOS	LEV	BSZE
Mean	-0.0325	76.8517	23.3377	0.4167	236.8354
Median	0.0046	63.2500	11.5700	0.3969	149.2500
Maximum	1.7636	2559.9800	368.0000	1.8570	1351.6300
Minimum	-8.2508	0.0000	-107.1200	0.0088	15.4500
Std. Dev.	0.4491	123.3598	41.2187	0.2208	226.7521
Observations	510	510	510	510	510

Source: Author's calculations

Table 2: Correlation Matrix

	ROA	FCF	ESOS	LEV	BSZE
ROA	1.0000				
FCF	0.0213	1.0000			
ESOS	0.0039	-0.0311	1.0000		
LEV	0.0001	-0.2136	0.1432	1.0000	
BSZE	0.0460	-0.0237	0.3936	-0.0765	1.0000

Source: Author's calculations

Table 3: The effects of managerial opportunism on microfinance banks performance

	Dependent Variable: PROF (ROA, Return on Asset)			
	Fixed Effects		Random Effects	
Variable	**Coefficient**	**Prob**	**Coefficient**	**Prob**
C	-0.1158	0.4585	-0.0708	0.1908
FCF	0.0000	0.9968	0.0001	0.5912
ESOS	0.0006	0.6218	-0.0002	0.7067
LEV	0.0405	0.8605	0.0250	0.7933
BSZE	0.0002	0.6151	0.0001	0.2656
R-squared	0.3754		0.0030	
F-statistic	0.9518		0.3772	
Prob(F-statistic)	0.6454		0.8250	
Durbin-Watson stat	3.5503		2.2210	

Source: Author's calculations

5. CONCLUSION AND RECOMMENDATIONS

The main purpose of this study is to analyse the effects of managerial opportunism on the performance of micro finance banks given digital banking. The result obtained reveals that managerial opportunism does not significantly microfinance banks given digital banking. Earnings management reflects the opportunistic behaviour of management, this situation though still occurs, does not significantly affect the performance of microfinance banks. In line with the Nigerian government objective of using microfinance banks to channel credit facilities to rural people and agricultural sector, regulatory bodies, particularly the NDIC, should consider revising the criteria and screening process for microfinance banks in Nigeria. Moreover, considering the characteristics and findings of this study would create awareness, provide guidance to boards, and simultaneously enhance public confidence in the microfinance banks. However, limitations that could influence the underlying factors could yield insignificant results. Government should also encourage more use of digital banking for enhancing microfinance banks activities in Nigeria.

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