

## Managerial Effectiveness and Corporate Performance: A Study of Micro Finance Bank Management in Nigeria

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**Abstract:** Poverty, unemployment which causes rural – urban migration and many other social problems has been witnessed in Nigeria in many ways. Yet the rural unemployed and uneducated farmers are blessed with ideas and are ready to work. This has made them over time to develop ways of helping themselves financial through cooperatives. The government of Nigeria over time have identified this ability and tried helping them with some schemes for empowerment which failed. As a reaction to that failure, the Microfinance banks were institutionalized to help the rural entrepreneurs in accessing micro-credit facilities easier than it could have been with commercial banks. Yet there is the issue of some firms who applied for the microfinance license but not qualified, and those who got the license but folded in a little while. This raises the fear of a failure of this policy like others before it. Therefore, this study on managerial effectiveness and corporate performance, seek to investigate the managerial structure and skills of the microfinance banks, effects of corporate governance on corporate performance and the performance of microfinance banks in Nigeria so far. It was discovered that the most of the microfinance banks in Nigeria do not follow the CBN regulations on managerial appointment as some of them don't even have graduate staff. Many of them was discovered to perform below expectation as some of them borrowed and spent more on operation cost than they earn. The study therefore, concluded that from research reports empirically analyzed, it is agreed that microfinance institutions have come to stay and is a veritable tool in the development of Nigeria. Yet it cannot achieve as it ought to except its managerial challenges are confronted.

**Keywords:** Managerial; Effectiveness; Corporate Performance; Micro Finance Bank; Management; Nigeria

### INTRODUCTION

When you talk about corporate performance, you talk about corporate governance because it has been proven that the level of performance of any organization lies much on administrative effectiveness [1]. The cases of collapses of companies and banks have raised the interest of stakeholders on the concept of corporate governance and its impact on these companies.

The Nigerian banking sector has had many experiences of bank collapses like that of Savannah Bank Plc, Society General Bank Ltd, and Alpha Merchant Bank Ltd. The problem is not only in Nigeria; other African countries like Kenya have faced similar experiences like the collapse of the Continental Bank of Kenya Ltd, Capital Finance Ltd, Consolidated Bank of Kenya Ltd and Trust Bank of Kenya [2, 3].

This has led the Nigerian government to accord a very high priority to corporate governance as has been reflected in the Peterside Committee on corporate governance as established by the Security and Exchange Commission, and in the banking sector by the

Bankers' Committee [1]. This goes to prove the importance of corporate governance in the development of any economy especially through the corporate institutions like the banks.

Corporate governance lies with the management as studies have shown that businesses and organizations face environmental challenges which to a very large extent affect the performance of the organizations. Therefore, how these organizations survive these environmental factors lies in the ability of the management to effectively plan and execute the plans [4, 5]. Therefore, many research reports have concluded a very significant relationship between managerial effectiveness and corporate performance of the organizations [6-10].

Micro-financing had existed in Nigeria for several decades in different forms. But the corporate characteristics of microfinance banks was acquired in 2005 when the then CBN Governor Professor Chukwuma Soludo launched the microfinance policy. The policy aimed at helping reduce poverty in Nigeria in the long run, since it will create jobs and offer micro

credit services to the active poor for entrepreneurial development [11]. Yet some of the organizations that applied for the microfinance license were denied the opportunity for lack of performance [11]. This makes one wonder why these ones could not perform even with the equal opportunity and enabling environment given to all to operate.

And it is on that note that this study seeks to study the managerial effectiveness and corporate performance as it has to do with microfinance banks management in Nigeria, using the following specific objectives:

1. To examine the management structures of microfinance banks in Nigeria.
2. To appraise the managerial skill of staff of microfinance banks in Nigeria.
3. To determine the effects of corporate governance on corporate performance of microfinance banks in Nigeria.
4. To evaluate the corporate performance of microfinance banks in Nigeria.

#### Research Questions

1. How is the management structure of microfinance banks in Nigeria?
2. What level of managerial skill has the staff of microfinance banks in Nigeria?
3. What are the effects of corporate governance on corporate performance of microfinance banks in Nigeria?
4. How much has the microfinance banks in Nigeria performed?

### CONCEPTUAL AND THEORETICAL FRAMEWORK

#### Managerial Effectiveness

Managerial effectiveness is summarized from research arguments to involve knowledge, skills, personal traits and abilities that predict the success which can be achieved in the job that in turn affects the company's performance [12-16]. Therefore, Nicholas and Kiel [17] opined that managerial effectiveness produces positive performance. They furthered that managerial effectiveness is concerned with tasks outcomes and occurrences as they fulfill sets of roles.

#### Corporate Governance

Corporate governance depicts a set of relationships existing between the management, boards, shareholders and stakeholders of a company, which provides the structure that sets the company's objectives and means of attaining such objectives and monitoring the performance [18].

According to Shehu and Abubakar [19] corporate governance is the mechanism used in the

reduction of agency cost resulting from conflicting interest between management of the corporation and their shareholders; Which is why the Basel Committee [20] argued that poor corporate governance can result to bank failures, and in turn can cause unemployment in the country. This was supported by some further researches which asserted that these effects of poor corporate governance can rapidly increase and affect the smooth running of the country's financial system [21, 22].

#### Corporate Performance

Simons [23] used the market mechanism approach to define corporate performance as the process of active interaction between the company, financial, factor and customer product markets. Hasan *et al* [24] defining it from the accounting perspectives says it normally refers to financial aspects such as profit, return on assets (ROA) and economic value added (EVA). Therefore we could define corporate performance as the results of the actions and operations of the company's management. However, Akingunola and Adekunle [25] argued that performance is not determined only by inputs but inputs together with the operation environments of the corporation.

#### Micro Finance Bank

CBN [26] defines microfinance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low income households and their micro enterprises. Therefore, micro finance banks are the financial institutions established by the 2005 Soludo's microfinance bank policy, to offer the above described services.

Therefore, to understand corporate performance of the microfinance banks, one needs to understand corporate governance. McIlquham-Schmidt [6] identified four models of corporate governance as the simple finance model, the stewardship model, the stakeholder model and the political model. According to them, the simple finance model simply interacts with the political and cultural environments to enact internal rules to control the behaviors of the managers in relation to that of shareholders in the process of attaining corporate objectives. The extended logic is that how much the relationship of the managers with the shareholders of the company encourages the achievement of the corporate objectives is determined by how much such relationship is healthy to the point of allowing them to tap from the resources in the financial, political and cultural environment wherein they operate.

In explaining the stewardship model, Donaldson and Davis [27] asserted that here, managers are good stewards who diligently serve to achieve high

level of corporate profit and shareholders' return. This explains the non-profit organizations where people can offer their financial resources in order to be allowed membership into the boards.

Donaldson and Davis [27] argues that the stakeholders model sees the firms as a system of stakeholders who operate to convert their stakes into goods and services, using the markets created by the society wherein they operate with the intention of creating wealth or value for its stakeholders.

The political model derives from the politics of the environment of operation. It posits that the allocation of corporate power, privileges and profits between owners, managers and stakeholders is determined by how governments favour their various constituencies.

The agency theory states a conflict situation where the shareholders have interest that conflicts with that of the managers or agents. The agents are not really there to serve the principals but act with rational self-interest. They have monetary compensation, job stability as their interests, and therefore appease the shareholders only as much as it satisfies that interest. They arguably are not really serving the interest of the shareholders. This theory therefore, goes to explain as is the point of the modern corporate governance that for the corporation to achieve harmony in pursuing the corporate objectives there is the need to resolve this conflict through corporate governance.

The market theory on its own part argues that what the managers or agents see themselves as is insignificant. Whether they accept the status of stewards or not, what matters is that the shareholders will always sell in the market the shares of those companies that its management is not effective. Therefore, the theory posits that it will be of disadvantage to the managers and employees of the firm, as well as the consumers of their product if the management is ineffective, because the shareholders will always sell their shares to recover their investment.

#### **THE MANAGERIAL STRUCTURE AND SKILL OF MICROFINANCE BANKS IN NIGERIA**

The argument that the existing microfinance framework has failed is what brought into existence the new policy that licensed microfinance banks to start operations in 2007. Organizations, cooperative societies, NGOs that met the specifications for operations were licensed to operate. And to qualify for this license, an existing community bank or cooperative society were expected to raise their paid up capital from the formal N5m to N20m [28, 29].

The new framework allows Microfinance banks to open branches within the state, if they can reserve a paid up capital of N1billion. This situation raised the level of competition between the banks as many were able to acquire the license of operation. This competition, according to Akintoye's Stewardship theory, is what calls the attention of the shareholders to the need for managers, who will be able to take prompt and necessary decisions that can drive the banks to achieve its corporate objectives. Therefore it is necessary to understand the structure of management of microfinance banks in Nigeria so as to infer how much it affects or influence the managerial effectiveness and banks' performance.

In view of this, the CBN have outlined regulations and guidelines for Microfinance banks to follow in the selection of their management team which are as follows:

#### **Managing Director/Executive Director**

- i. A minimum of first degree or its equivalent in any discipline (additional qualification or degree in any finance or business related discipline may be an advantage).
- ii. Minimum of eight (8) years post-qualification experience out of which, at least, five (5) must be in the financial services industry and at least, three (3) at the senior management level.
- iii. Evidence that the candidate possesses proven skills and competences in practical microfinance banking and has undergone the Microfinance Certification Programme and obtained a Certificate in Microfinance Banking issued by the Chartered Institute of Bankers of Nigeria (CIBN).

#### **Departmental Head**

- i. A minimum of first degree or its equivalent in any discipline (additional qualification or degree in any finance or business related discipline may be an advantage).
- ii. A minimum of five (5) years post-qualification experience out of which, at least four (4) must have been in the financial services industry and at least, two (2) at the senior management level.
- iii. Evidence that the candidate possesses proven skills and competences in practical microfinance banking and has undergone the Microfinance Certification Programme and obtained a Certificate in Microfinance Banking issued by the Chartered Institute of Bankers of Nigeria (CIBN) (CBN, 2012).

Jenyo and Ola [30] conducted a performance appraisal on selected microfinance banks in kwara state, Nigeria. Their study reveals that of the 50 sampled staff, 25 (50%) do not have university degree, 21 are degree holders, probably in accordance with the CBN

regulations above. They also found that 23 of the 50 respondents who are staff of the selected microfinance banks had 6-10 years post qualification experience, 17 respondents had 1-5 years experience and 7 had 11-15 years experience. This goes to reflect the cost of operation incurred by these banks as the staff members are definitely paid by qualification and years of experience.

They revealed that some of the banks studied do not have any graduate staff at all, which raises the question of the extent to which the CBN regulation is enforced because it is believed that those banks without graduates have managerial staff whose qualification according to the CBN guidelines should be a minimum of university degree. Their study went further to reveal that the banks under study spend much and borrow capital which is very dangerous for the banks. This situation indicates probably that either the guideline for the managerial staff as outlined by CBN is beyond what the microfinance banks can afford or the banks' boards are not sincerely following the guidelines as stipulated and is not being checked by the regulatory body [29, 31-35]. There are some other research findings arguing same facts as Jenyo and Ola [30].

Studies [12, 13, 15] have shown managerial skills to involve knowledge, personal traits, skills and abilities that predicts success in the job. And how much the managers of the microfinance banks wield this quality, will to a large extent determine how far they can go in productivity and corporate performance [14].

Reports from research findings have shown that many microfinance banks managerial staff are lacking of these qualities [16, 36-38]. Such studies have indicated that some managers are lacking in transparency of financial reports, which raises challenges of trust between them and the shareholders, and this is dangerous to corporate governance.

The agency theory posits that for effective management and good corporate performance, the positions of the board chairman and chief executive officer should not be held by same person. But studies have shown that many microfinance banks have these positions held by one and same person who in many cases is the owner or founder of the MFB [28, 39-41]. This implies that the control mechanisms meant to protect the shareholders from managerial conflict as posited by the agency theory is defeated [42].

#### **CORPORATE GOVERNANCE AND CORPORATE PERFORMANCE OF MICROFINANCE BANKS IN NIGERIA**

Studies have shown that banks with good corporate governance enjoy lower cost of capital and

lower cash operating expenses which improves the bank's corporate performance [43, 44].

Miller [45] argued that banks that use governance tools effectively in the control of operation costs will in the long run specialize in business that has greater managerial discretion.

In Myers and Smith [46], a complementary relationship exist between board independence and 'pay for performance' for managers.

Many studies have argued there is no conclusive empirical result of a significant relationship between corporate governance and corporate performance [47] and some others opined vividly there is no significant relationship between these variables [48].

Yet many other reports from empirical studies maintain there is a significant relationship between corporate performance and corporate governance [43, 49-51]. This indicates that in as much as corporate governance may be a factor in the performance of corporate organizations, there could exist, some other factors that researchers of this field should seek in order to explain effectively, the concept of corporate performance.

Transparency therefore, has been identified as a major building block in corporate governance, without which trust will be far from the relationship existing between the managers and the board [37, 38]. Hebb [52] identified transparency as a tool in the hand of the agents to gain the trust of the stakeholders by making information available to them and vis versa.

According to Ball [53] if the firm's managerial system must be seen as effective, then they should always be timely in the publication of financial statements which should incorporate their economic losses. This confirms the assertions of researchers above of the necessity of timely dissemination of information for effective management, as that portrays transparency which breeds trust in the management of microfinance banks and other firms.

Drawing from Owolabi and Makinde [54] study on the Effects of Strategic Planning on Corporate Performance in university education, one will discover there is more to managerial effectiveness. They argued that strategic planning is a forward looking exercise which all managers should involve in. they tested three hypotheses and came to the following conclusions: firstly, that the categories of workers used in strategic planning determines how effective the plan will come out. This agrees with other research studies [6, 55] who

agreed that strategic planning has a significant relationship with corporate governance and performance, and is beneficial to staff, managers and shareholders.

Secondly, Owolabi and Makinde concluded that the level of compliance with strategic plan has significant effect on corporate performance. Arguing from this conclusion, it becomes very clear why the banks studied by Jenyo and Ola [30] did not perform well. This is so because while the CBN [56] strategic plan through 'The Regulatory and Supervisory Guidelines for Microfinance Banks (MFBs) in Nigeria' stipulated a B.Sc. minimum qualification for managerial staff, some of these banks as reported did not have graduate staff. Therefore, non compliance (at the macro or micro level) to the dictates of strategic plan can affect the performance of microfinance banks.

Thirdly, the report of Owolabi and Makinde [54] concluded that strategic planning correlates positively with corporate performance. This conclusion is in consonance with some other researches that have come to the conclusion that strategic planning is the major activity of management which makes it effective or ineffective, and in its application or non application determines the performance of such organization [10, 57].

#### **REVIEW OF CORPORATE PERFORMANCE OF MICROFINANCE BANKS IN NIGERIA**

For an objective analysis of the performance of the microfinance banks in Nigeria, it is pertinent to take a look at the factors underlying the policy establishing the microfinance banks in Nigeria.

Okpara [58] identified some informal financial institutions (Esusu, Cooperative societies) that exist beside the formal financial institutions (CBN, NSE, Banks etc), and all of them exist to serve the financial needs of the Nigerian entrepreneurs. And the governments of Nigeria have recognized over time that this informal financial sector arose as a reaction of the poor, uneducated, unemployed, but skilled with ideas and ready to work average Nigerians, to solve their financial challenge. The government therefore saw the need to institutionalize it in order to encourage the rural entrepreneurs towards self development and consequent development of the economy [29, 59-61].

Prior to 2007, the government established many schemes in order to formalize the efforts of the informal financial sector in solving the financial needs of the rural population. Some of those schemes as outlined by Acha [29] include rural banking scheme, Peoples Bank, operation feed the nation, Nigerian Bank of Commerce and Industry, Nigerian Agricultural and

Cooperative Bank to mention few. Yet these schemes seemed not to meet the objectives of its formation as the community banking was the last that gave way for the microfinance bank.

The microfinance bank established by the Soludo 2005 Microfinance bank policy and licensed to start operation in 2007, is with the objectives as identified in an earlier section of this study, as reported by Ngutor *et al*, [11]. How much these objectives (corporately) have been met therefore, portrays the level of performance (corporate) of the microfinance banks in Nigeria.

Jenyo and Ola [30] identified credit delivery as one of the most important roles of the MFB. CBN [62] agreed that credit delivery by the MFB has increased between 2007 and 2014. This is expected to develop, among other sectors, the agricultural sector's productivity within this period because these reports argue that these credit facilities are disbursed to the rural areas and majorly for agricultural activities.

But the report by FAOSTAT [63] says the contrary. The food price index report by the FASOSTAT shows a continuous but unsteady increase on the food price index between 2007 and 2014. In 2007 the food price index stood at 161.4 and kept increasing till 201.8 in 2014 which questions the performance of the microfinance banks in achieving this particular objective of developing the agricultural sector through easy access to credit facilities by the rural entrepreneurs.

These credit facilities are disbursed to the large number of poor farmers living in the rural areas of Nigeria [64] in order to boost rural entrepreneurship and agriculture. But this can only be realized through strategic planning by the disbursing financial institutions to ensure that those who receive these facilities put it in good use in accordance with the objectives of the facilities. Contrary to these, it may just end up as some other schemes previously established by the governments who ended up distributing cash that were not really used for the purpose of distribution. And the agricultural price index as reported by FAOSTAT [63] calls attention to that possibility.

Olowe *et al* [35] argues that the establishment of microfinance banks in Nigeria have helped in the development of Small and Medium Enterprises since the SMEs can now easily access loans that would have been difficult if not impossible from the commercial banks. This agrees with Kolawole [65] assertions and confirms the actualization of a CBN [26] MFB objective that the microfinance bank is to make accessible micro credits to the rural entrepreneurs.

Ngutor *et al* [11] taking a case study of Standard Microfinance Bank, Yola came with the conclusion that microfinance bank loan disbursement have been on the increase, leading to a no doubt conclusion that the sector has come to stay and has the capacity of developing the Nigerian economy if well explored. Nevertheless, their report show that in the much credit facilities disbursed over the year in review, a very meager amount was dedicated for agriculture which was suppose to be the main stay of microfinance banks. According to the report, the reason for the low disbursement of loans to the agricultural sector is hinged on bank's policies like no insurance for agriculture. But if insurance hinders the disbursement of loans to rural farmers, how much of the CBN guidelines for Microfinance banks' loan credit facilities administration are they following?

### CONCLUSIONS

Solving the problem of the failure of other financial schemes previously made by the government to light the financial plight of the poor rural entrepreneurs through microfinance is possible only if the reasons for the failure of those other schemes are identified and tackled.

This study on the managerial effectiveness and corporate performance using microfinance banks in Nigeria, examined the management structure, managerial skills of staff of microfinance banks in Nigeria in order to determine the effect of corporate governance on corporate performance of microfinance banks in Nigeria. This led the study to the examination of the performance of the microfinance banks in Nigeria since its inception from 2007.

It was discovered that management structure of most of the microfinance banks in Nigeria are not in accordance with the CBN regulatory and supervisory guidelines for microfinance banks in Nigeria. And this explains the low level of corporate performance as registered by the microfinance banks so far, compared to the high expectation on it as a sector with the capacity of developing the Nigerian economy and thus equipped.

### RECOMMENDATION

Having discovered a low level of corporate performance due to some lags in managerial effectiveness, the study recommends as follows:

1. A review of the CBN regulatory and supervisory guidelines for microfinance banks in Nigeria. This is due to the fact that the study discovered that some microfinance banks do not have graduate staff in their bank, which is the list qualification for managerial position as

outlined by CBN. This situation may be because the banks do not meet up this guideline or for reason known to them refused to follow the guidelines. Whichever is the case, a review of the guidelines will spell out what should be done to arrest such situation.

2. Moreover, the CBN should beef up the monitoring and evaluation of the microfinance banks. This is in order to enable them know the banks that default in the guidelines, as it was discovered that some microfinance banks pay less attention to agricultural sector.
3. Strategic planning has been identified as a tool for effective management. Therefore, the management of microfinance banks is encouraged to adopt strategic plans that suit the policies of their banks. In this plans, they should incorporate policies on micro credit to enable them monitor who they give loans and the effective use of these loans in accordance with the CBN policies on micro credit facilities for rural entrepreneurs.
4. Transparency has been identified as another veritable tool in managerial effectiveness because it breeds trust. And trust is a valued asset when it comes to business relationship where one has to commit resources into another's hand like in the case of the principals to the agents. Therefore, the study recommends transparency through timely and accurate financial report publication and information circulation between stakeholders of the microfinance banks.

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