THE EFFECTS OF LEADERSHIP ROLE OF BOARD OF DIRECTORS IN ENHANCING MICRO FINANCE BANKS' PERFORMANCE IN NORTHERN NIGERIA.

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Abstract

As Microfinance banks (MFBs) expand their outreach and enhance the economic status of small producers, and as the MFBs become regulated entities that can mobilize deposits, clear articulation of the functions of their board of directors is essential for effective governance. In exercising their governance responsibilities, board members must consider the perspectives of numerous actors. These actors include depositors, other financial institutions, employees, regulatory bodies, and other stakeholders. All board members are expected to carry out their governance roles and responsibilities in good faith. Unfortunately, poor performance of some MFBs are traced to weak corporate governance practices on the part of the Directors amongst other factors. This study examined the effects of leadership roles of Board members of MFBs viz-a viz the banks' performance. Ten (10) banks each were surveyed in Kaduna and Niger states. Questionnaires were administered accordingly. The results indicate that poor leadership practices in the form of insider abuses rank high amongst factors responsible for poor financial performance of MFBs. The study recommends that stringent measures be taken against erring directors to deter others. Strong systems of internal controls and close supervision by regulatory agencies are also suggested in the study.

Keywords: *Microfinance, Governance, Financial Performance, Leadership Practices, Banking Services.*

Introduction

It has been estimated that there are over 500 million people in the world operating microenterprises and small business who are economically active but poor (Ledgerwood, 2000). Most of these poor yet economically active entrepreneurs have little or no access to finance in the form of credit facilities. Microfinance institutions are expected to bridge this gap by contributing to the provision of microcredit and other financial services (Zohra and Shyam, 2011).

Microfinance has been an alternative development tool which has helped in achieving financial inclusion in some parts of the world. India is reputed to have a robust formal financial system, but it has failed to reach the deprived segment of it's population. A large segment of the Indian population are in the unbanked sector (World Bank, 2000). India is only next to china with the highest size of unbanked population in the world (Srinivasan and Sriram, 2006).

International Journal of Advanced Studies In Business Strategies and Management (IJASBSM)
Volume 2, No.1 January, 2014
Website: Http://www.internationalpolicybrief.org._ISSN (Electronic):1741-8771 ISSN (Print): 1741-8763

As microfinance institutions carryout their outreach services, a clear understanding of the leadership functions of the board of directors become essential for the attainment of goals.
Leadership is that process by which a Microfinance Banks (MFB's) board of directors, guide the institution in fulfilling its mission of providing financial and other services to entrepreneurs and other customers. Board of directors of Microfinance Banks (MFBs) must follow basic codes of best leadership practices. This paper investigates the links between distinctive leadership practices of board of directors and the performance of the MFBs.

Conceptual and Theoretical Framework

Microfinance has evolved as an economic development approach intended to benefit entrepreneurs and small producers. The term-microfinance refers to provision of financial services to low-income clients (Ledgerwood, 2000). Financial services include acceptance of deposits (savings), and provision of credit facilities. Some microfinance organizations also provide insurance and payment services (Rhyne, 1995). Although some microfinance institutions provide enterprise development services such as training, health care, marketing and other social services, these are not generally included in the definition of microfinance (Ledgerwood, 1997).

In Nigeria, microfinance services refer to loans, deposits, insurance, fund transfer services and other ancillary non-financial products specifically targeted at low-income clients (CBN, 2011). Three characteristics distinguish microfinance from other formal financial products namely:

i. Smallness of loans and savings
ii. Absence of strict collateral requirement
iii. Simplicity of operations

In 2005, the Central Bank of Nigeria (CBN) introduced the microfinance policy framework in order to enhance the access of micro-entrepreneurs to financial services needed to boost and expand their operations. The organization for economic cooperation and development (OECD) recently emphasized the need for corporate bodies to focus on best leadership practices. This renewed focus can be traced to the challenges facing policy makers and business leaders around the world. Leading is the management function of getting employees to do what the directors want them to do, by communicating with, motivating, and disciplining them (Megginson, Byrd and Megginson, 2006).

Leading is an important part of corporate governance. Leadership is the ability of one person to influence others to strive to attain goals or objectives. The three most popular theories of leadership are traitist, behavioural and contingency/situational theories. Most researchers now conclude that there is no specific style of leadership that can be used in all circumstances. Since our ever-changing and dynamic environment causes all situations to be different, it will be useful for directors of MFBs to adopt leadership styles that suits a particular situation at hand (Megginson, Geralyn and Byrd, 1995).

The effectiveness of the board of directors in steering the wheel of progress has assumed global concern. Fraudulent and corrupt practices and questionable board decisions leading to collapse of corporate organizations have attracted global attention (Pearce and Zahra 1991). Given the significance of leadership role for bank performance, it is necessary for studies on corporate governance and the leadership role of MFBs board of directors to have a clear focus. This will draw attention to the fact that the board of director's role is not merely confined to supervision as advocated by agency theory but also to provide expert leadership and advisory functions in line with stewardship theory focus (Dalton and Daily, 1999).

In view of the importance of leadership role of directors, attempts have been made to raise the standards of the corporate governance process by drawing up codes of best practices in many countries (Heracleous 2001). In Nigeria, there are three (3) codes of corporate governance in the banking industry. According to Ogubunka (2010), these are:

i. Code of best practice on corporate governance in Nigeria by SEC;
ii. Code of corporate governance for banks and other financial institutions by bankers committee (2003); and
iii. Code of corporate governance for banks in Nigeria post consolidation by CBN (2006).

Codes of best leadership practices aimed at promoting ethical conducts and professionalism have also been drawn up by global institutions, professional bodies (like the chartered institute of bankers of Nigeria) and institutional investor organizations (Heracleous, 2001). These various codes are aimed at ensuring proper and effective governance of banking institutions and the practice of banking with the desired professionalism. In other words, adhering to the contents of the codes, will ensure enhanced performance through sound leadership practices. Notwithstanding the existence of the codes of corporate governance and best leadership practices, the governance in conventional and microfinance banks have been acknowledged to have failed (Sanusi 2010). This failure at both regulatory and operational levels have been attributed to the fact that directors engage in sharp practices at the expense of the depositors (Sanusi, 2010). This study seeks to investigate the effects of leadership practices of directors on MFBs performance.

Study Objectives

The general objective of this study is to investigate the effects of leadership role of board of directors on the performance of microfinance banks in Northern Nigeria. The study specifically investigated the institutional factors affecting MFBs performance, and determine the ways of improving performance.

Methods of the Study

The study was carried out in two (2) Northern states of Nigeria comprising of Kaduna and Niger states. The choice of the area is because of their closeness to the federal capital (Abuja) and the intense activities of micro small and medium enterprises in the area. Also, there is a high degree of socio-cultural homogeneity in the study area as virtually all ethnic groups in the country are represented in these states. Questionnaires were administered. Multi-stage sampling technique was employed in the selection of respondents who were mainly MFB customers. Stage two involved the selection of MFBs based on the intensity of their activities.

Lastly, from each of the 10 MFBs selected in each state, four (4) respondents were selected randomly. The data collected were subjected to both descriptive and quantitative techniques to achieve the objective of the study.

Hypothesis

H_0: There is high display of professional and ethical practices by directors in MFBs

H_1: There is no high display of professional and ethical practices by directors in MFBs

Results and Discussions

The display of skills, professionalism and ethical standards are important sign post in explaining the leadership practices of MFBs directors. This in turn have great consequences on the performance of MFBs.

Table 1: Contingency Table of X^2 Chi-square

Obs	Exp	O-E	$\frac{(O-E)^2}{E}$
40	100	(60)	36
150	100	50	25
160	100	60	36
100	100	0	0
20	100	(80)	64
130	100	30	9
140	80	60	45
30	80	(50)	31.25
20	80	(60)	45
80	80	0	0
160	80	80	80
50	80	(30)	11.25 $X^2 = 382.5$

Where: Obs = Observed Values

Exp = Expected values from observations

0-E = Difference between observed and expected values

$\frac{(0-E)^2}{E}$ = Chi square formula

Decision Rule: When calculated value is greater than critical value (chi square table value) reject H_0 and vice versa.

Df = Degrees of freedom

X= Significant level
X^2 at df_5, ? 0.05 = 11.07
X^2 at df_5, ? 0.07 = 15.09

Results in table 1 above, confirm severe poor ethical and professional practices in microfinance banks. The calculated chi-square value (x^2)) is 382.5 while the table vale at df_5 and significant level of 5% is 11.07. The table value at df_5 and significant level of 1% (15.09) is also far less than the calculated values. The implication of this is that there exist high rate of insider abuses, and other forms of unprofessional practices. These negative practices have significant consequence on the performance of the banks.

This picture, sad as it is confirms the assertion of Ogubunka (2010) when he opined that professionalism in the banking industry is at unacceptable level. Many practitioners lack the requisite professional knowledge and skills to accomplish the desirable tasks. Where the knowledge exist, it is not being professionally practiced. Incompetence and deliberate violation of professional codes persist in the sector with impunity. This situation accounts for the poor financial performance of MFBs.

Table 2: Respondents Observed Value

	Yes	No	Total
HEB	40	140	180
HIS	100	80	180
HIA	150	30	180
Total	290	250	540

Source: Authors' Field Survey

Contingency (Table 3) of Chi Square

Obs	Exp	O-E	$\frac{(O-E)^2}{E}$
40	96.67	(56.67)	33.22
100	96.67	3.33	0.11
150	96.67	53.33	29.42
140	83.33	56.67	38.54
80	83.33	(3.33)	0.13
30	83.33	(53.33)	34.13 ?? = 135.55

Where: HEB = High Ethical Behaviour
HIS = High Internal Supervision
HIA = High Insider Abuse

x^2 at df_2, ? 0.05 = 5.99
x^2 at df_2, ? 0.07 = 9.21

From table 2 and 3 above, it is clear that high ethical standard of behaviour expected from directors is lacking, just as there is severe weaknesses in internal controls and supervision. The calculated chi-square value of 135.55 is greater than the table value of 5.99 at df_2, and significant level of 5%. At 1% the chi-square table value is 9.21. both table values are less than the calculated value, hence we reject the null hypothesis (H_0), thereby accepting H_1 which state that:

"there is no high display of professional and ethical practices by directors".

This result is in line with the views expressed in the literature. This also confirms Sanusi's (2010) expression when he affirms that "boards ignored (good leadership practices) for reasons including being misled by bank managers, participating themselves in obtaining unsecured loan at the expense of depositors…..".

Conclusion and Recommendations

The board of directors of an MFB is the hub of it's internal governance. Aside from providing strategic direction, directors also should lead by examples. The challenge of using good leadership practices in rebuilding confidence and enhancing the performance of the banks rest essentially on all stakeholders (especially regulators and directors).

Directors of MFBs must commit themselves to best leadership practices such as following due process, compliance with laws, rules and regulation, and leadership by example. Regulators should ensure strict enforcement of rules and offenders should be adequately punished to serve as deterrent to others.

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