EFFECTS OF MICRO-FINANCE'S CORPORATE GOVERNANCE ON SMEs FINANCING IN NORTHERN NIGERIA

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Abstract
The study investigated the general control machineries put in place in the administration of Micro-Finance Banks (MFBs) in their efforts toward providing financial assistance to Small and Medium sized Enterprises (SMEs) in Nigeria. Access to sustainable financial services by the SMEs remains a critical element in their transformation processes. It enables SMEs to increase earning capacities, build assets and reduce their vulnerability to both internal and external shocks (Magnus, 2005). It is generally agreed that for SMEs to achieve sustainable level of growth, access to credit is imperative. Inspite of this fact, the problem of accessibility to credit from conventional banks have been a major teething problems for SMEs. The study obtained data from 60 microfinance banks in Kaduna and Kano States. The secondary data were analyzed to confirm the appropriate relationships between corporate governance and SMEs financing by the MFBs. The likert scale format of five (5) points was used to analyse the data. The result revealed that there is a positive relationship between corporate governance and SMEs financing. The study therefore recommended that sound policies aimed at strengthening the corporate governance culture of MFBs be pursued with vigour.

Keywords: *Corporate Governance, Micro-Finance, SMEs Financing, Collateral*

Introduction
Sufficient funding is essential not only for small business start-ups but also for their continued operation. One main reason for the high failure rate of small businesses is inadequate or improper financing. Too often, insufficient attention has been paid to planning for financial needs, rendering the business open to sudden but predictable financial crises. Even small and medium enterprises (SMEs) that appear to be financially sound can be destroyed by financial problems, for one difficulty most commonly experienced by rapidly growing enterprise is that they are unable to finance the investment needed to support sales growth (Rock, 1997).

The governance structure of micro-finance banks (MFBs) is crucial for ensuring that they provide appropriate financial and other services to the SMEs. MFBs need to ensure that they are and are perceived to be sound financial intermediaries. Relationships with SMEs can help strengthen the confidence and trust of their depositors. MFBs that are traditionally focused on providing credit services to SMEs and other customers need to ensure that their identity is established as a safe place for deposits. This will also depend to a large extent on the quality of the financial services that they provide and their reputation as good lenders (Christen Elizbeth and Robert, 1995).

The role of financial regulation in influencing the development of corporate governance principles has become an important policy issue that has received little attention in the literature. To date, most research studies on corporate governance have addressed issues that affect companies and firms in the non-financial sector. The dearth of studies on corporate governance in the micro-finance banking sub-sector is even more pronounced (Yaron and Gerda, 1997).
Research studies by Renee & Hamid (2003) point to the fact that corporate governance reforms in the non-financial sector may not be appropriate for banks and other financial sector firms. This is in line with the view that a single corporate governance structure is inappropriate for all industry sectors. Therefore, applying governance models to microfinance sub-sector should take account of the institutional dynamics of the sub-sector. Corporate governance in the banking and financial sector defers from other non-financial sector because of the broader risk that banks pose to the entire national economy (Lan et al, 2000). Therefore, the Central Bank of Nigeria should play a more active role in establishing standards and rules guiding management practices in micro-finance banks such that they can be more accountable and efficient. Unlike the non-financial sector firms, a mis-managed bank can easily lead to a 'bank run' or outright collapse. This can result in micro-finance bank's failure to provide financing services to SMEs (Levitsky, 1997).

Board of directors' role in balancing the interest of shareholders and SMEs (including other stakeholders-customers) is indeed crucial. Consequently, bank regulators place additional responsibilities on bank board's concerning decision making practices. Experts have observed that these additional regulatory responsibilities for management are indeed a substitute for corporate governance. Proponents of this position are of the view that regulator represents the public interest and other stakeholders and can act more efficiently in ensuring that the bank adheres to its legal responsibilities than most stakeholder groups (Rhyne, 1996).

The role of micro-finance banks is integral to the any economy. They provide financing for business enterprises, access to payment systems, and a variety of retail services for the economy at large (Ledgerwood 2011). The microfinance banks have broader impact on the SMEs sector of the economy facilitating the transmission of monetary policy by making credit and liquidity available in difficult market conditions (Hawkings and Philip, 2000). The integral role that microfinance banks play in the national economy is demonstrated by the almost universal practice of states in regulating the industry and providing, in many cases a government safety net to compensate depositors when the banks fail. Financial regulation is necessary because of the multiple effects that micro-finance banking activities have on the rest of the economy.

Accordingly, it is essential for the financial regulators in Nigeria to ensure that microfinance banking have strong governance structure, especially in the light of the pervasive changes in the nature and structure of both the micro-finance banking sub-sector and the regulation which governs its activities. The general consensus from literature and evidences from studies indicate most research studies on corporate governance have concentrated on issues relating to companies and firms in the non-financial sector. Research studies on corporate governance on micro-finance in northern Nigeria have not been exhaustively covered. The paucity of research work and the integral role of micro-finance to the growth of SMEs call for further investigation.

Statement of the Problem

Given the key role that banks play in promoting the health of a country's overall economy, maintaining a safe and sound banking sector is essential. Despite the fact that strong good corporate governance and risk management is a key part of successful financial system in the world today its impact on MFB's performance is still misunderstood. This is because; the impact of corporate governance on micro-finance banks' performance remains untested. Most of the existing studies focused on developed countries and on particular aspect of governance such as, board composition and size (Bhagat and Black 2002; Lehn, Patro, Zhao, 2003), shareholder activism (Black, 1997), turnover (Gibsoin, 2002) and executive compensation (Schmid, 2003). Much less research studies exist for developing countries (Black, Jang and Kim, 2004) and a few studies are carried out for transition economies (Zheka, 2005; Zelenyuk and Zheka, 2006).

Studies have not been done on effects of corporate governance on micro finance banks. Some studies have been carried out on the success of micro-finance banks in relation to savings mobilization and poverty reduction (Ledgerwood, 1999; Oladeji, 2011; Robinson, 2001; Schreiner, 2002; Ukeje, 2005; Wooler and Schreiner, 2006). However the extent to which micro-finance banks can impact on the poor through financial services will depend on sound corporate governance practices. Studies on corporate governance in the banking sector are very few. Most studies earlier carried out centered on impact analysis of microfinance banks in relation to their outreach services. These studies have produced mixed results. Osotimelin and Jegede (2011) concluded that the outreach impact have not been felt while Murdoch (2005) points out that MFBs have been achieving stable health position and growth as a result of granting credit facilities on a sustainable basis. Sustainability is synonymous with outreach (Yaron 1999). This mixed conclusion in terms results necessitate a study in the Nigerian context to establish the effect of corporate governance on financial performance of MFBs.

The Nigerian microfinance banks policy was targeted at creating an environment of financial inclusion to boost capacity of micro, small and medium enterprises (MSMEs) thereby contributing to economic growth and development through job creation which would lead to improved standard of living and poverty reduction (NDIC, 2010). The MFBs have continued to grow in numerical strength. From 233 MFBs (which included 95 approval in-principle) that were floated by new investors in 2005, the number grew to 866 MFBs as at December, 2010 (including 121 provisional approval) out of which 7 operated the state-wide system (NDIC 2010). In 2010 a total of 538 out of 866 MFBs that were in operation rendered returns to NDIC. From the financial analysis of the reporting MFBs, their total assets stood at N149. 92 billion, total deposit liabilities amounted to N60. 86 billion, total loans and advances stood at N41. 92 while total paid up capital was N29.15 billion as at December, 2010. The relationships between this MFBs impressive financial performance and corporate governance need to be studied.

Definition of Key Terms

'Corporate Governance' is a nebulous concept. It will however, be safe to say that it is all about the manner in which micro-finance institutions are controlled, directed and how they are held accountable for their actions. It has to do with overall effective leadership of the banks to ensure that they deliver on their promise as financial intermediates' and that they do so in a sustainable basis (Goodhart, 2001). Corporate governance is now a matter of global concern. International bodies such as the Organization for Economic Co-operation and Development (OECD) and the Basel committee on banking supervision have addressed the issue of corporate governance of banks. In one of it's report, the OECD emphasized the important role that banking and financial supervision plays in developing corporate governance standards for financial institutions (OECD, 2006). Consequently, banking supervisors have a strong interest in ensuring effective corporate governance at every banking organization. Supervisory experience underscores the necessity of having appropriate levels of accountability and managerial competence within each bank (Broderick, 2003).

From the micro finance banking perspective, good corporate governance demands that microfinance banks will operate in a sound manner, and will comply with relevant laws and regulations and will protect the interests of depositors. However, not many microfinance banks in Nigeria are known to observe good corporate governance practices and high ethical standards in their operations (Unegbu, 2004).

'Microfinance' refers to the provision of financial services to low income clients, including the self-employed (Ledgerwood 2011). Financial services provided by microfinance institutions generally include savings and credit. However, some microfinance organizations also provide insurance and payment services. In addition to financial intermediation, many MFIs provide social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus definition of microfinance often includes both financial intermediation and social intermediation. Microfinance is not simply banking; it is a development tool (Ledgerwood 2011). In Nigeria, microfinance institutions are categorized into: Formal and Informal Institutions (IFAD/World Bank/CBN 2001). An example of formal institution is micro-finance banks. Informal microfinance sector comprised mainly of the self-help groups (SHGs), such as savings and credit associations locally referred to as “Isusu”, “Esusu” or “Asusu”.

SMEs Financing - Accessing finance has been identified as a key element for the Small and Medium Enterprises (SMEs) success in their drive to build productive capacity in the developing countries (Osotimehin, Jegede and Charles, 2011). SMEs have been accepted as the engine or economic growth world-wide, thereby promoting equitable development. The major advantage of the sector is its employment potential at low capital cost. The banking sector through loans and other forms of advances serve as a veritable source of finance for the SMEs. However, SMEs draw financing from other sources. OECD (2006) point to the fact that savings, retained earnings and family networks are also sources of finance to the SMEs.

Collaterals are securities for bank loans. Generally, microfinance institutions lend to low-income clients who often have very few assets. Consequently, traditional collateral such as property, land, machinery, and other capital assets is often not available. Various innovative means of reducing the risk of loan loss have been developed, including collateral substitutes (Ledgerwood 2011). One of the most common collateral substitutes is 'peer pressure', either on its own or jointly with group guarantees.

Objectives of the Study

The main objective of the study is to examine the effects of microfinance's corporate governance on SMEs financing in Northern Nigeria.

In order to fulfill the research aim, the study tried to:

i. Investigate the influence of management's leadership skills and professionalism on MFBs services to SMEs.
ii. Investigate the influence of government regulations on MFBs ability to provide financing services to SMEs.

Theoretical Framework

This paper was anchored on the systems theory as propounded by Miller and Rice (1967) who describe commercial organizations as an open system. The systems approach views the organization within its total environment and emphasizes the importance of multiple channels of interaction (Lane, Snow and Labrow, 2000). Criticisms of earlier approaches to organization are based in part on the attempt to study the activities and problems of the organization solely in terms of the internal environment.

The systems approach views the organization as a whole and involved the study of the organization in terms of the relationship between technical and social variables within the system. Changes in one part, technical or social, will affect other parts and thus the whole system (Miller and Rice, 1967). It follows therefore, that defects in liquidity management can result in a loss of customer confidence which in turn can lead to bank failure (Ledgerwood 2011). The concept of the bank as a 'socio-technical system directs attention to the series of activities through which the bank attempts to achieve its objectives. The socio-technical system is concerned with the interactions between the psychological and social factors and the needs and demands of the human part of the organization, and its structural and technological requirements (Robinson 2001).

Recognition of the socio-technical approach is of particular importance today. People must be considered as at least an equal priority along with investment in technology. For example, lane et al (2000) point out that major technological change has brought about dramatic changes in worker behavior and requirements. It is people who unlock the benefits and opportunities of information and communication technology.

Notwithstanding the existence of codes of corporate governance in Nigeria (Bankers committee and CBN 2006), the governance in banks has been acknowledge, at the highest regulatory and operational levels of leadership to have failed. The Governor of Central Bank of Nigeria Sanusi (2010) confirms that "corporate governance in many banks failed". The reasons advanced for the failure include the fact that "boards ignored these practices (good corporate governance) for reasons including being misled by executive management, participating themselves in obtaining unsecured loans at the expense of depositors and not having the qualifications to enforce good governance on bank management.

Conceptualizing Corporate Governance

Corporate governance in relation to the microfinance bank (MFB) refers to a system of checks and balances whereby a board of directors is established to oversee the management of the MFB (Clarkson and Deck 1997). The board of directors is responsible for reviewing, confirming and approving the plans and performance of senior management and ensuring that the vision of the MFB is maintained (Ledgerwood, 2011) management is responsible for the daily operations of translating the vision into action.

Ledgerwood (2011) identified the basic responsibilities of the board as:

1. Fiduciary: Here, the board has the responsibility to safeguard the interests of all the institution's stakeholders. It serves as a check and balance to ensure the MFB's investors, staff, clients, and other key stakeholders that the managers will operate in the best interest of the MFB.

2. Strategic: The board participates in the MFB's long-term strategy by critically considering the principal risks to which the bank is exposed and approving plans presented by the management. Otero (1993) asserts that the board does not generate corporate strategy but instead reviews management's business plans in the light of the bank's mission and approves them accordingly.

3. Supervisory: The board delegates the authority for operations to the management and supervises the execution of the approved strategic plan. The board also evaluates the performance of management in the context of the goals and time frame contained the plan.

4. Management Development: Ledgerwood (2011) points out that the board supervises the selection, evaluation and compensation of the bank's management team. This includes succession planning for the executive. In the transition from a small growing bank to an established state microfinance bank, effective governance ensures that the bank survives and serves the SMEs and other customers effectively. Corporate governance moves an institution beyond dependency on the visionary (Clarkson ad Deck 1997).

Corporate governance is a nebulous concept but it is safe to say that it is all about the way and manner through which micro-finance banks are directed, controlled and held to account for their actions. It is about effective leadership aimed at ensuring that banks provide financial services on a sustainable basis.

Materials and Methodology

In this study, a mixed method strategy was used. A mixed-method strategy is one in which more than one method is used in data collection and analysis (Nevman, 2000). This multiple method was adopted in this study in order to minimize the possible occurrence of personal biases that could be present when a single method is used (Kumar, 2005).

The study used both quantitative and qualitative variables. Social scientists routinely collect data that is both qualitative and quantitative and carefully examine patterns that emerge in an attempt to interpret, understand and explain situations (Neuman, 2000). Data were collected in terms of general perception of micro-finance corporate governance by corporate customers as well as other stakeholders. Semi-structured interviews based on open-ended, flexible questionnaires and some structured interviews were conducted. Views were sought from the following groups:

1. Directors and managers of microfinance banks
2. Officials of regulatory bodies i.e. central bank of Nigeria, (CBN), Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC).
3. Selected customers of micro-finance banks.
4. Managers of selected small and medium enterprises (SMEs).

The microfinance banks operating in Kaduna and Kano States comprised the study population. The total population of the study was 60 micro-finance institutions made up of 28 in Kaduna State and 32 in Kano State. The choice of these banks is based on the fact that information is readily made available and they have a huge number of SMEs customers.

Source of Data

Primary and secondary source of data were used in this research study. Panel data were collected from the selected micro-finance banks in Kaduna and Kano State for a period of six years from 2007 to 2012. Annual micro-finance level data were extracted from the profit / loss account and the balance sheets of the micro-finance banks. By studying the repeated cross section of observations, panel data are well suited to study the dynamics of change.

Results

The socio-demographic characteristics of respondents: The study revealed that most of the respondents fall within the age bracket of 25 to 29 years. 58% were male while 42% were females. The findings showed that of the younger respondents (20-24 years), 67% were male and 33% were female. Table 1 below also reveals that 36% of the respondents were holders of either H.N.D or first Degree out of these 24% were male and 12% represent the female folk. Only 09% of the respondents have higher degrees but 55% have either national diploma or NCE. 40% of the respondents are in the banking profession while 28% are traders.

Table 1: Percentage distribution of respondents by background information (age, level of educational attainment and occupation)

Age range	Male	Female	Total
20-24	20 (12%)	10 (6%)	30 (18%)
25-29	40 (24%)	30 (18%)	70 (42%)
30-34	25 (16%)	20 (12%)	45 (28%)
35 and above	10 (6%)	10 (6%)	20 (12%)
Total	95 (58%)	70 (42%)	165 (100%)

Source: Field Survey

Educational Attainment

Type of Qualification	Male	Female	Total
WAEC/NECO	15 (09%)	20 (12%)	35 (21%)
ND/NCE	30 (18%)	25 (16%)	55 (34%)
HND/BSc. Degree	40 (24%)	20 (12%)	60 (36%)
Higher Degrees	10 (6%)	05 (03%)	15 (09%)
Total	95 (57%)	70 (43%)	165 (100%)

Source: Field Survey

Occupation of Respondents	Male	Female	Total
Public servants	25 (16%)	20 (12%)	45 (28%)
Bankers	40 (24%)	25 (16%)	65 (40%)
Traders	25 (16%)	20 (12%)	45 (28%)
Others	05 (03%)	05 (05%)	10 (6%)
Total	95 (57%)	70 (43%)	165 (100%)

Source: Field Survey

Table 2: Respondents perception of the state of corporate governance and professionalism in the micro-finance
banking sub-sector

S/N	Attestation item	SA	A	D	SD	Mean	Remark
1.	The managers and directors of MFBs have complied with code of best practices in performing their duties.	10	15	60	80	0.60	Disagreed
2.	The management of microfinance banks have displayed high level of professionalism in the conduct of banking business.	8	10	45	102	0.43	Disagreed
	Grand Mean					0.51	

Source: Field Survey

Using the likert scale format of five points (Defined as: SA-Strongly Agreed, A-Agreed, UD-Undecided, SD-Strongly Disagreedm and D-Disagreed), table 2 above show the respondent's perception of the present state of corporate governance and professionalism in the microfinance banking sub-sector. A total of 200 questionnaires were administered out o which 165 responses were received. From the responses, 79% were of the view that the banks have failed to comply with code of best practices. Only 21% feel that there have been compliance with best practices code. Similarly, 88% of the respondents believed that the banks have failed to display high level of professionalism. Only 12% of the respondents are in agreement with the fact that high level of professionalism exist in the sub-sector.

	Attestation item	SA	A	D	SD	Mean	Remark
1.	There are adequate banking regulations on corporate governance	55	53	47	10	2.62	Agreed
2.	Existence of good corporate	10	20	79	76	0.72	Disagreed
3.	Adhering to the contents of codes of corporate governance will produce safe and growing microfinance banking	150	10	4	1	3.87	Agreed
	Grand Mean					2.40	

Source: Field Survey

Table 3 above presents the result of respondents' assessment on MFB's ability to provide financial services to the SMEs. Of the 165 respondents, 108 (i.e 65%) agreed that there are adequate banking regulations on corporate governance, while 35% feel otherwise. 79% of the respondents were of the view that absence of good corporate governance in microfinance have hindered their abilities to provide credit facilities to SMEs. 21% of the respondents were of the opposite view.

However, a whopping 97% of the respondents (i.e. 160 out of 165) point to the fact that if banks adhere to the codes of corporate governance, the economy will experience safe sound and growing banking services that will guarantee provision of financial services to the SMEs and other customers.

Table 4: respondents' views on challenges of corporate governance in the micro finance banking sub sector.

S/N	Attestation item	SA	A	D	SD	Mean	Remark
1.	Ignorance of good corporate governance exist among board of directors of MFBs	100	25	25	15	3.03	Agreed
2.	Many practitioners lack the requisite professional knowledge to accomplish desirable tasks	101	44	10	10	3.51	Agreed
3.	Serious weaknesses in internal control systems are responsible for poor corporate governance	80	70	20	15	3.63	Agreed
	Grand Mean					3.39	

Source: Field Survey

Table 4 above presents respondents views on the challenges of corporate governance in the microfinance banking sub-sector. 75% of the respondents were convinced that ignorance of good corporate governance code still exist among the directors of the MFBs. Only 25% disagreed with this position. Also 140 out of 165 respondents (i.e. 85%) feel that many practitioners in the sub-sector lack the needed skills and knowledge to function effectively. 79% of the respondents attribute poor corporate governance practices to severe weaknesses in internal control systems.

Discussions

The major issues of this research were to investigate the influence of leadership skills and professionalism on MFBs performance as well as to determine whether the present regulations have strengthened MFBs ability to provide financial services to the SMEs. Some vital corporate governance issues were drawn from the empirical findings. The findings of the study indicated that 79% of the respondents were of the view that micro-finance banks have failed to comply with the various codes of good corporate governance. Also, the study revealed that there are adequate regulations in place on corporate governance (65% of the respondents attested this fact).

There are three (3) codes of corporate governance in the Nigerian banking industry. Sanusi (2010) explained these to include (i) code of best practices o corporate governance in Nigeria by SEC (ii) code of corporate governance for banks and other financial institutions by the bankers committee (2003), and (iii) code of corporate governance for banks in Nigeria post consolidation by the CBN (2006). Adhering to the provisions of the codes, promises to produce safe, sound, stable and growing banking institution. 97% of the respondents in this study confirmed this assertion. Notwithstanding the existence of these codes, corporate governance at various levels of leadership in Nigerian banking have failed. Dozie (2003) acknowledged the failure of governance in banks when he asserts that "the industry stands to be indicted in the arena of public opinion for a multiplicity of misdemeanors, ranging from insider abuses both at the board and management/staff levels…"

The past banking crises the country has witnessed were found to have occurred as a result of weaknesses or failure in governance and unprofessional activities of practitioners. Indeed, the industry's regulators and supervisors continuously finger the failure of corporate governance and professionalism as major culprits in community banking failure in Nigeria. In 2010, the governor of CBN removed some executives of banks for "acting in manner detrimental to the interest of their depositors and creditors". There acts manifested in "excessively high level of non-performing loans". This in part is attributedable to poor corporate governance practices (Sanusi, 2010).

Other evidences of poor corporate governance in banks include incessant board/management crisis, ineffectiveness of board committees, rendition of inaccurate returns, non-disclosure of vital information to stakeholders, non-compliance with statutory and regulatory provisions, and general lack of transparency and accountability. Closely related to the corporate governance issue is that of professionalism in the industry. Some practitioners lack requisite professional skills needed to accomplish desirable tasks. Incompetence and deliberate violations of professional codes persist in the industry. This situation is mainly responsible for the loss confidence in the MFBs by the SMEs. There have also been cases of conflicts of interest, unfair treatment of employees and non-conformity with standards and guidelines (CBN, 2011).

Conclusion

From the above findings, the study revealed that past banking failures is partly due to poor corporate governance practices. The study also showed that poor corporate governance practices still persists inspite of the various codes of best practices and corporate governance in place. This state of affairs has hindered the abilities of MFBs from providing adequate financial services to the SMEs. Both codes of good corporate governance and ethics/professionalism that exist in the Nigerian banking industry have significantly provided for how banks should be governed and how practitioners should practice banking in order to achieve a safe, sound and stable banking environment. It is the conclusion in this study, that if the micro finance banks are indeed governed and bankers practice along the provisions of the codes, the problems of MFBs which affect their ability to serve the SMEs will be substantially reduced. The challenge therefore is on how the practice of good governance can be achieved in the micro-finance banks. The following recommendations will suffice here.

Recommendations

The study recommends the following:

1. The board and management of microfinance banks should clearly identify the SMEs that will require their services, and make necessary efforts to cater for their financial needs.

2. Board and management of the MFBs should demonstrate empathy in dealing with the SMEs. They should try to 'walk in the shoes' of the SMEs such that will stimulate cordial and trusting relationships.

3. Power domination must be avoided. Unnecessary interference in day to day management of the banks by the directors should be avoided. Responsibilities should be clearly defined and divided evenly between board and management.

4. Re-orientation for the inculcation of positive attitude should be re-established. When banks realize the inter-dependence that should exist between them and the SMEs, they will begin to re-culture themselves. These will forester confidence and cordiality.

5. MFBs must become accountable to all stakeholders not just shareholders. This is a wider scope, The CBNs policy on full disclosure and transparency should be enforced.

6. The government should establish another regulatory body that will be solely charged with the responsibility of supervising the activities of the MFBs. This is necessary because of their numerical strength and the limited staff strength of the CBN.

That people are aware of the right thing to do does not mean they will do the right things. Deferent measures, such as punishing the offenders must be put in place to enforce compliance.
The board members of micro-finance banks should comprise people who have a number of different skills, including financial, legal and managerial skills. Also the ability to critically analyze management's plans as well as provide effective guidance is paramount when selecting a board of an MFB.

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