Sapientia Global Journal of Arts, Humanities and Development Studies (SGOJAHDS), Vol.7 No.3 September, 2024; p.g. 1 – 7; ISSN: 2695-2319 (Print); ISSN: 2695-2327 (Online)

CORPORATE GOVERNANCE AND THE NON-FINANCIAL PERFORMANCE OF MICROFINANCE BANKS IN NIGERIA

ADU, CECILIA ADURAYEMI (Ph.D)
Department of Accounting and Finance
Crawford University
Ogun State Nigeria
wuradare2420@gmail.com/prepet99@yahoo.com
&
ABDULKAFFEL, SAFIYAT LAMI
Department of Accounting and Finance
Crawford University
Ogun State Nigeria
abdulkafeel0002@gmail.com

Abstract

This study examined the effect of corporate governance on the non-financial performance of microfinance banks in Nigeria while the specific objectives are to: investigate the effect of board composition on customer's satisfaction and to explore the effect of internal controls on the employees' satisfaction of microfinance banks. The study adopted primary source of data through questionnaire administration to staff members of LAPO Microfinance Bank. It was found out from the regression analytical method that the overall model is fit and F = 0.321 & P < 0.05, and the null hypothesis was rejected which implied that board composition has a significant effect on the customer's satisfaction while for second hypothesis, the adjusted R square is 0.205 indicating that 20.5% variance in the dependent variable (employee satisfaction) From the ANOVA showed that the p-value of 0.000 is significant as it is less than the 0.05 level of significance which implied that internal control has a significant effect on the employees' satisfaction. It was suggested that microfinance banks should ensure that the board of directors is diverse and inclusive, with a balanced representation of skills, experience, and gender.

Keywords: Corporate Governance, Non-financial objectives, MFBs.

Introduction

The microfinance banks in Nigeria had been faced with innumerable problems since the initiation of the Microfinance Policy Framework in December, 2005. A substantial number of the Microfinance Banks (MFBs) were incomplete in their knowledge of the microfinance concept and the methodology for delivery of microfinance services to the target groups. Many of them lost focus and began to compete with commercial banks (deposit money banks) for customers and deposits, leaving their target market unattended, in spite of efforts of the regulatory authorities to put them back on path (Adu, Owualah and Babajide, 2023).

The global economic crunch on microfinance banks has been more severe than imagined which has led to credit lines dried up, poor board composition, weak internal control, and competition became more extreme and credit risk increased, as many customers of microfinance banks were unable to repay their credit facilities owing to the unfavourable

economic atmosphere. These factors had significantly weakened the microfinance sub-sector and its ability to achieve the policy objective of economic empowerment at the lower end of the market. Some microfinance banks failed to meet their matured obligations as well as several petitions were received from annoyed depositors, the Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC) embarked on a Target Examination of all MFBs in Nigeria, to identify the challenge and ascertain the scope as well as the extent of impairment done to the affected institutions (Adu and Uchehara, 2024).

Corporate governance focuses on transparency, boards, disclosure, investor involvement, and related concerns. The board composition and internal control system can significantly impact on microfinance bank's performance positively or negatively because they form the bedrock of the entity's performance. Corporate governance strikes a balance between economic, social, and individual goals. Corporate governance is regarded as ethics and a moral responsibility of businesses. Various Corporate Governance frameworks have been developed and implemented around the world (Udeh, Abiahu, and Tambou, 2017).

Statement of the Problem

The non-financial performance indicators encompass a wide range of aspects, including social impact, outreach to marginalized communities, client satisfaction, women empowerment, and overall contribution to sustainable development goals. Despite the increasing emphasis on the social mission of microfinance banks, there remains a gap in the literature regarding the comprehensive measurement and evaluation of their non-financial performance (Shasudin,Nurana, Aesya and Nabi, 2018).

The existing researches on microfinance have predominantly focused on corporate governance and financial metrics such as portfolio quality, loan repayment rates, and profitability. These indicators are essential for assessing the financial viability of microfinance banks but they do not provide a complete picture of the impact of corporate governance on the overall performance of microfinance banks. This paper stands to work on non-financial indicators which are equally important in understanding the effectiveness and sustainability of microfinance interventions, as they reflect the bank's ability to create positive social change and empower disadvantaged communities (Sihag and Rijsdiky, 2019).

Research Objectives

The main objective of this study is to examine the effect of corporate governance on the non-financial performance of microfinance banks in Nigeria while the specific objectives are to:

i. investigate the effect of board composition on customer's satisfaction of microfinance banks.

ii. explore the effect of internal controls on the employees' satisfaction of microfinance banks.

Research Questions

This research seeks to answer the following questions:

i) How does board composition have effect on the customer's satisfaction of microfinance banks?

ii) To what extent is the effect of internal controls on the employees' satisfaction of microfinance banks?

Research Hypotheses

Hypothesis One:

H_{01}: Board Composition has no significant impact on the customer's satisfaction of microfinance banks.

Hypothesis Two:

H_{02}: Internal Control has no significant impact on the employees' satisfaction of microfinance banks.

Literature Review

Conceptual Review

Corporate Governance

Corporate Governance is the process of managing and guiding business firms to improve accountability and prosperity, ultimately maximizing shareholder value. It was pronounced that corporate governance involves setting and achieving business objectives, as well as monitoring performance. Corporate governance provides legitimate frameworks and empowers stakeholders to understand their rights and responsibilities (Adu, 2023).

Board Composition

Boards often consist of both executive and non-executive directors, the executive directors are referred to as dependent directors, while non-executive directors are considered independent directors. Independent directors should make up at least one-third of the board to ensure effective and unbiased supervision. Dependent directors have intimate knowledge of the organization that outside directors do not have. However, they may exploit this expertise to shift wealth from other stockholders to themselves (Adu,Owualah and Babajide, 2019).

Internal Control

Internal corporate governance helps organizations achieve their goals by implementing effective systems and conducting regular reviews. There are several aspects that contribute to effective internal corporate governance. The board of directors oversees the legal authority in terms of dismissal, hiring, capital investment, and top-level compensation. Internal auditors and internal control procedures are used by audit committees, management, boards of directors, and other individuals to ensure compliance with financial reporting rules and regulations (Szegedi,Khan and Letner, 2020).

Non-Financial Performance

Non-financial performance focuses on a firm's long-term success, including customer happiness, internal business process efficiency, innovation, and staff contentment. These characteristics contribute to enhanced organizational and financial performance. Globalization, competition, and technology have led to firms using a combination of financial and non-financial measures to assess success (Waheed, Abbass and Malik, 2018). Non-financial performance measures are applied to generate forward looking information that cannot be captured using its counterpart, financial performance measures. In addition, some academics say that the use of non-financial performance measures make employees more flexible do their action (Sharma, 2015).

Employee's Satisfaction

Job satisfaction is described as a sense of accomplishment and success among employees. It is often regarded to be directly related to productivity, work performance, and personal well-being. Job satisfaction is defined as doing what one enjoys, doing it well, and being rewarded for one's efforts. People might also take diverse approaches to many parts of their jobs, such as the type of work they do, their co-workers, superiors or subordinates, and their pay. Every employee responds differently to varied leadership and motivational approaches, which can boost output and job happiness (Talley, Jared, Schneide, Jen and Lindquist, 2016).

Customer's Satisfaction

Customer satisfaction can be defined as an individual's contentment or dissatisfaction with a product's performance or perceived results in relation to expectations. The consumer is not happy if the experience or performance does not live up to their expectations. If it fulfills expectations, the client is happy. In the event that it surpasses expectations, the client is ecstatic. Customer satisfaction is an assessment conducted after a transaction in which the customer feels that the substitute product or service they selected performed as expected or better than expected prior to the transaction (Zimmernann, 2019).

Microfinance Banks

Microfinance banks target clients who are economically poor like low-income earners, low income households, unbanked and underserved people; vulnerable groups –women, physically challenged people, jobless youths, micro-entrepreneurs, informal sector operators, peasant farmers in rural and urban areas. Microfinance loans are granted to micro-entrepreneurs such as peasant farmers, artisans, fishermen, youths, women, senior citizens and non-salaried workers in the formal and informal sectors. Loans are not secured by collaterals but granted on the basis of the applicant's character, combined cash-flows of business and households with one or more guarantors (Adu, 2021).

Methodology

Method of Data Collection

Primary source of data was adopted through the administration of questionnaire

Method of Data Analyses

Regression analytical method was adopted for this paper

Data Analyses

Hypothesis Testing

Restatement of Hypothesis One

H_{01}: Board Composition has no significant impact on the customer's satisfaction of microfinance banks.

H_{01}: Board Composition has a significant impact on the customer's satisfaction of microfinance banks.

Table 1.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.302[a]	.340	.310	.471

a. Predictors: (Constant), Board composition

The regression model is applied in order to evaluate the hypotheses. The model of summary suggests that 34% through R-square and 31%; the model, can explain the variability in the dependent variable by the independent variable.

Table 1.2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	1	.000	.321	0.000[b]
	Residual	23.520	76	.477		
	Total	23.520	77			

a. Dependent Variable: Customer Satisfaction

b. Predictors: (Constant), Board Composition

The ANOVA table suggests that the overall model is fit and F = 0.321 & P < 0.05, and the null hypothesis is rejected and further strengthens the dependent and independent variable. This therefore implies – Board Composition has a significant impact on the customer's satisfaction of microfinance banks.

Table 1.3 : Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.850	.177		10.454	.000
	Credit facilities	.000	.102	.000	.280	1.000

a. Dependent Variable: Customer Satisfaction

The coefficient table explains the impact of the independent variable (Board Composition) with t = 0.280 and P < 0.05, therefore, the null hypothesis is rejected and it is further concluded that the independent variable has an overall impact on the dependent variable

Therefore, on the basis of the above results it is finally concluded that Board Composition has a significant impact on the customer's satisfaction of microfinance banks.

Restatement of Hypothesis Two

H_{02}: Internal Control has no significant impact on the employees' satisfaction of microfinance banks.

H_{02}: Internal Control has a significant impact on the employees' satisfaction of microfinance banks.

Table 1.4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.363[a]	.214	.205	.324

a. Predictors: (Constant), Internal Control

From the model summary table above, the adjusted R square is 0.205 indicating that 20.5% variance in the dependent variable (employee satisfaction) is explained by the independent variables (Internal Control).

Table 1.5: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	32.345	2	11.847	29.731	.000[b]
	Residual	15.612	37	.375		
	Total	72.720	39			

a. Dependent Variable: employee satisfaction
b. Predictors: (Constant), Internal Control

The table shows that the p-value of 0.000 is significant as it is less than the 0.05 level of significance. This indicates that the independent variables (Internal Control) models are fitted.

Table 1.6: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.573	.347		4.539	.000
	Internal Control	.057	.070	.073	.814	.000

a. Dependent Variable: employee satisfaction

As the table above shows, the standard of error of Internal Control is .070 with a t-value of 0.814. The p-value is 0.000 which is less than the level of significance .000. As a result, the null hypothesis is therefore rejected and the alternate hypothesis is accepted, this therefore implies that, Internal Control has a significant impact on the employees' satisfaction of microfinance banks.

Summary, Conclusion and Recommendations

Summary of the Findings

The results showed that board composition has a significant effect on customer's satisfaction, and that internal control has a significant effect on employee's satisfaction.

Conclusion

From the findings of this study, it was concluded that corporate governance is essential in determining non-financial performance of microfinance banks.

Recommendations

It was recommended from the study that microfinance banks should ensure that the board of directors is diverse and inclusive, with a balanced representation of skills, experience, and gender. This could lead to better decision-making and improved customer satisfaction; microfinance banks should strengthen the internal controls to ensure the integrity of financial reporting and operational efficiency. This could lead to improved employee satisfaction and reduced turnover.

REFERENCES

Adu, C.A., Owualah S.I., and Babajide, A.A (2019). Microfinance client-enterprise profitability and loan failure in Ogun State, Nigeria, *International E-Journal of Advances in Social Sciences, 5(13):386-393.*

Adu,C.A (2021). Impact of microfinance banks on the saving habits of rural dwellers in Igbesa. *Crawford Journal of Postgraduate Studies, 1(1):71-84.*

Adu, C.A., Owualah S.I., and Babajide, A.A (2023). MFBs loan size and default in some selected MFBs in Lagos State, Nigeria. *Global Journal of Applied Sciences, Management and Social Sciences, 25(1):19-28*

Adu, C.A (2023). Corporate governance and SMEs financial performance in Nigeria International *Journal of Arts, Languages and Business Studies, 13(1): 94-100.*

Adu, C.A and Uchehara, C.C (2024). Microfinance bank's loans and micro, small and medium enterprises financial performance in Ota Town Ogun State. *International Journal of Management and Business Intelligence, 1(4):337-354.*

Shamsudin, M. F., Nurana, N., Aesya, A., and Nabi, M. A. (2018). Role of university reputation towards student choice to private universities. Opcion, 34 (Special Issue 16), 285–294

Sharma P.K (2015). Codes and standards of corporate governance. In corporate governance practices in India. Palgrave Macmillan, London, 28-42.

Shil, N.C. Hoque, M. and Akter, M. (2015). Applying management accounting practices to ensure balance governance. The Certified National Accountant. Nov. – Dec. 24 – 32.

Sihag, V. and Rijsdijk, S. A. (2019). Organizational controls and performance outcomes: A meta analytic assessment and extension. *Journal of Management Studies*, 56(1), 91-133.

Szegedi, K., Khan, Y., and Lentner, C. (2020). Corporate social responsibility and financial performance: Evidence from Pakistani listed banks. Sustainability, 12(10),

Talley, Jared and Schneider, Jen and Lindquist (2016). A simplified approach to stakeholder engagement in natural resource management: The Five-Feature Framework. Ecology and Society. 21.

Udeh, Abiahu, and Tambou, (2017). Impact of corporate governance on firms' financial performance: A study of quoted banks in Nigeria. The Nigerian Accountant. 50. 54-62.

Waheed, A., Abbas, Q., and Malik, O. F. (2018). Perceptions of performance appraisal quality _and employee innovative behavior: do psychological empowerment and _perceptions of HRM system strength _matter? Behavioral Sciences, 8(12), 114

Zimmermann (2019). Same but different: How and why banks approach sustainability. Sustainability, 11(8), 2267.