2021 INTERNATIONAL CONFERENCE ON ACCOUNTING AND FINANCE (ICAF)

ACCOUNTING AND FINANCE PROGRAMME
COLLEGE OF MANAGEMENT AND SOCIAL SCIENCES (COMSS)
BOWEN UNIVERSITY, IWO, OSUN STATE, NIGERIA

29 NOVEMBER – 1 DECEMBER 2021

THEME

ACCOUNTING AND FINANCE PROFESSION – FOSTERING SUSTAINABILITY INITIATIVES

PUBLISHED IN THE

INTERNATIONAL CONFERENCE ON ACCOUNTING AND FINANCE PROCEEDING

(ISSN: 2814-0257)

VOLUME 2

UNETHICAL PRACTICES AND SUSTAINABILITY OF NIGERIAN BANKS

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ABSTRACT

Ethical behaviour is fundamentally a part of the social responsibility of a banking business. The survival of banks depends much on reputation and its ethical standards. Good ethical practices encourage sustainable practices and moral practices. Efficient delivery of banking services and adherence to good ethical are of paramount importance for the growth and sustainability of the banking system and the economy as a whole but unfortunately unethical practices are prevalent in the banking industry. It is on this background that this study examines the nature of unethical practices in the Nigerian banks and its implication for bank failure. Qualitative research design was adopted to discuss different dimensions of unethical practices. Therefore, discourse analysis was employed. This is a method of analysis of occurring events in talks and all types of written text. The study concludes that efficient delivery of banking services and adherence to good ethical are of paramount importance for the growth and sustainability of the banking industry and the economy.

Keywords: Unethical practices, Sustainability, Nigerian banks

INTRODUCTION

The evolution of modern banking industry in Nigeria can be traced to colonial era dates to 1883 with the establishment of African Banking Corporation and establishment of British Bank of West Africa in 1884. Other foreign banks were also established by the foreigners during this era. These banks were established to cater for banking needs of the colonial masters as indigenous businesses were denied access to credit facilities. This led to agitation for nationalization of the foreign banks and establishment of indigenous banks in Nigeria. However, within a short period of time almost all these indigenous banks collapsed. This led to the enactment of Banking ordinance of 1952 following the recommendation from Paton's commission which was set up to investigate the reasons for the collapse of the indigenous banks in Nigeria. The central bank of Nigeria was established by 1958 ordinance and commenced operation in 1959. Central Bank of Nigeria was saddled with the responsibilities of issuance of legal tender currency, maintenance of external reserves, promotion of monetary stability and sound financial system, banker and financial adviser to federal government and banker to other banks in Nigeria (BOFIA, 2020). These roles were tailored towards promotion of economic activities in Nigeria and to ensure banking stability for sustainable economic growth and development. Thus, Nigerian Financial system plays active and important roles in achieving socio-economic development, therefore, the banking industry is a catalyst of economic growth and must be adequately supervised, controlled and monitored by appropriate regulatory and monitoring authorities.

Ethical behaviour is fundamentally a part of the social responsibility of a banking business. The survival of banks depends much on reputation and ethical standards. Banks are licensed to receive deposits, to make payments and to act as collecting agents on behalf of their customers (BOFIA Act, 2004). Consequently, banking is built on trust and confidence which can be easily eroded by unethical practices (Ogunleye, 2010).

Efficient delivery of banking services and adherence to good ethical are of paramount importance for the growth and sustainability of a bank and the economy (Tella, 2017). Good banking ethics are the moral principles that must be applied by banks in carrying out their activities with all stakeholders most especially relationship their customers and shareholders to protect and maintain sustainability and confidence in the banking sector. According to Kour (2020), it implies that banking ethics emphasized faithfulness, trustworthiness and honesty to customers and other stakeholders and working with a high degree of transparency.

Globally, bank failure has been attributed to different unethical practices coupled with poor corporate governance. In Nigerian banking system, conflict of interest, greed, fraud, and insider abuse are some of the reasons for unethical practices. Oyewunmi et al (2017) observed that corporate values and professional ethics are being sacrificed and compromised in a bid for competition and to return impressive profit margins and eventually increasing market share. When banks fail to meet the ethical standards, the interest of all parties is put at stake and results in social and economic loss and create unnecessary friction in the economy. Poor ethical practices can lead to loss of confidence in the banking industry. The four pillars of ethical practice which enhance sustainability in any organization are accountability, independence, fairness, and transparency.

Financial services sector is under increasing pressure to demonstrate strong financial performance and positive socio-environmental impacts, this is because the sector is often at the heart of national economies. In the banking sector, sustainability is a practice that ensures that banks have the interest of their stakeholders at the core of their strategies. Sustainable banking is the bedrock for long-term relationships with clients, a direct understanding of their economic activities and the risks and opportunities involved, as well as the need to serve the real economy and enable new business models to meet human needs. Sustainability has therefore become a contemporary business concern (ESG Advisory associates). Sustainability begins with an ethical, professional, accountable, and profitable business. Sustainable business practices are those that allow companies to reduce their negative impacts on the environment while still allowing the businesses to make a profit. Banks must develop a compendium of policies and frameworks to institutionalize the adoption of best-practice sustainability principles. Banks should therefore be responsible and committed to the management of the environmental and social risks arising from its business decisions as a key component of the Bank's sustainability focus. As an environmentally responsible institutions, banks should continuously develop various footprint initiatives to reduce its environmental impact. (ESG Advisory associates). Sustainable banking promotes transparency without harmful financial intermediation. Therefore, sustainable banking requires a responsible and ethical organizational culture.

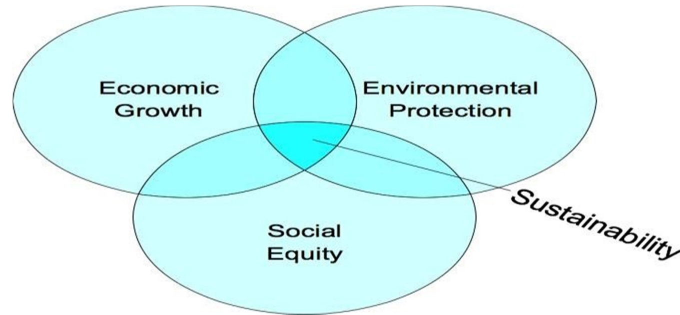
This study is motivated by the financial scandals as a result unethical practices and poor corporate governance in the banking sector in Nigeria that led to the removal and trial of some banks chief executives and the subsequent liquidity problem it created. This study therefore examine the nature unethical practices in the banking industry and its implication for bank failure.

LITERATURE REVIEW

Theoretical Framework

Sustainability has become a critical perspective in managing firms because it is concerned with holistic approach which considers economic, environmental, and social dimensions of firms. The rising significance of

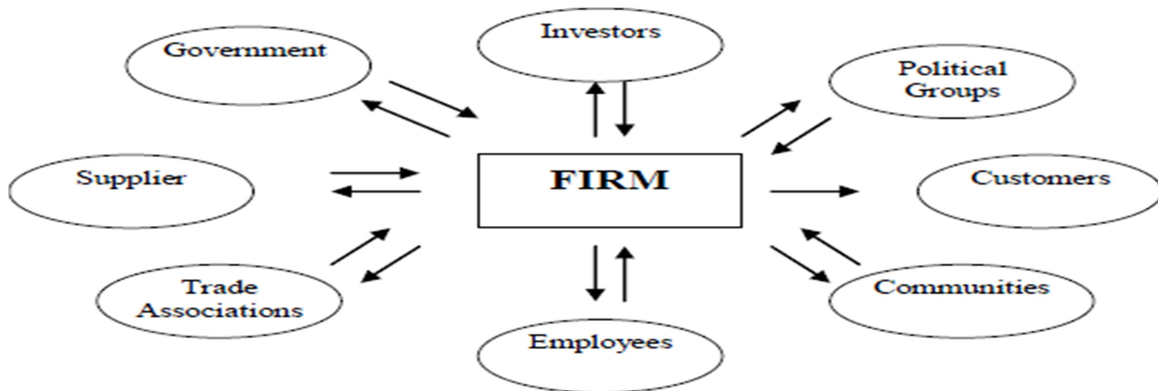
sustainability development has necessitated the evolving of theories of sustainability. Among the prominent sustainability theories are stakeholder theory, corporate social responsibility theory, social exchange theory, transaction cost and economic theory and structuration theory.



Source: ResearchGate.net

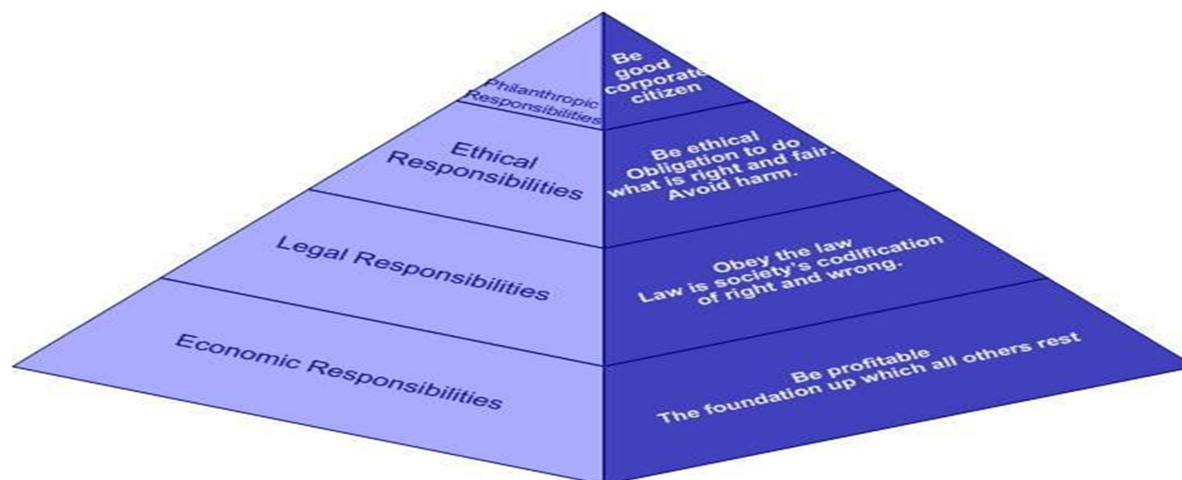
Stakeholder Theory

Stakeholder theory is organizational management and business ethics theory that focuses on morals and values in managing an organization. It was originally propounded by R. Edward Freeman in 1984 in the book Strategic Management. It incorporates the accountability of management to a broad range of stakeholders and focuses on the interest of all stakeholders and no sets of interests is assumed to dominate the others. These stakeholders include customers, employees, suppliers, communities, government officials and regulators, union, media, and competitors. Stakeholder theory emphasized moral principles and approach that include respect for human and their basic rights, integrity, fairness, and honesty which must be manifested in management action in dealing with all stakeholders.



Corporate Social Responsibility Theory

Corporate social responsibility (CSR) is a business model developed to assist management of a company to be socially accountable to all stakeholders. It enables companies to be conscious of their impact on all aspects of society, including economic, social, and environmental. *Social responsibility theory* in essence asserts that businesses have an obligation to act in a manner that benefits society.



Carroll's CSR Pyramid

Source: Reseachgate.net

Empirical Review

Globally, some of the studies recognize unethical practices and failure to follow the code of ethics as the main reasons for bank failure. Safakali (2005) in a study to explore the rationale for bank failures in Cyprus affirmed that credits without adequate collaterals, lack of accountability, favouritism by the management, illegal use of funds, and lack of transparency are the factors responsible for serious ethical problems leading to financial crisis in the banking industry. In another study in Nigeria, Yidawi (2005) attributed bank failure to non-adherence to code of ethics despite full awareness of the codes, breaking of Central Bank of Nigeria (CBN) and Nigeria Deposit Insurance Corporation (NDIC) guidelines, lack of qualified skilled bankers, frauds and other malpractices. Senthikumar et al. (2011) in a study carried out in Chennai, India observed that growing pressure of competition, the need to meet high expectations and demands of customers and complexities of bank operations are the reasons for banks failure. Mzoughi et al. (2011) in North Africa emphasized the effect of the ethical dimension of selling behaviour on four marketing relational variables in the banking sector (trust, satisfaction, loyalty, and commitment).

Belás (2012) studied the Nigerian banking sector and identified that banks have the common knowledge of the code of ethics in the banking industry, but these codes are not fully adopted by Nigerian banks. Hence, there is a need to fully sanitize the banking industry to curtail it of unprofessional and unethical practices. Jaseviciene (2012) in Lithuania found that banks did not emphasize compliance with ethical norms, which resulted in an increasing number of complaints and displeasure from customers who were mainly unhappy with the conditions of lending and the rates of the services. Adams (2012) in a study carried out in Nigeria maintained that banks did not uphold the codes of ethics and professionalism due to weak banking knowledge, both in theory and practice. The author noticed disrespect of the codes of corporate governance, irresponsible diverse insider abuses by both board members and staff of banks, and ignorance of the banks of the directives of the regulators as reasons for banks failure in Nigeria. Fetinuic (2014) in Republic of Moldova attributed bank failure to self-interest, unethical corporate administration abusive behaviour of banks. Adeyanju and David (2014) in Nigeria, emphasized that bank failure and eventual collapse of some banks are because of

insider abuse on lending, micro-economic instability, lending to high-risk borrowers, and deficiency in bank regulation and supervision. Kour and Khurana (2017) in India identified five main factors to study ethical practices in banks. The five factors identified were bank code, ethical lending, ethical orientation, professional banking, and ethical banking.

Banking industry has been described as the bedrock and hub of any nation and no country will allow its economic system to collapse because of financial system failure. From the empirical literature various causes of bank failure were identified and discussed. The failure was attributed to unethical practices and behaviour in the banking industry. The consequences on the stakeholders and the whole economy were devastating. This study is therefore considered essential in view of the recent financial scandals in the banking sector because of unethical practices and poor corporate governance in the banking industry which led to the removal and trial of some bank chief executives and subsequent liquidity problems it created.

METHODOLOGY

This study adopted qualitative research design to establish the causes and effect of bank failure because of unethical practices.
The population of this study comprises of the financial institutions that made up of Nigerian financial system. These include The Central Bank of Nigeria, Deposit Money Banks, Merchant Banks and Development and Specialized banks. However, the study used Deposit money banks as a sample for other financial institutions. Purposeful sampling techniques was adopted. This is because of their numbers, size, and branch network. They have access to many stakeholders, most especially customers and as a result they play a large role in intermediation process.
In this study the researcher read some empirical studies by different authors to establish the unethical practices in the banking sector. The researcher also leveraged on his over 23 years banking experience. Therefore, discourse analysis was employed. This is a method of analysis of occurring events in talks and all types of written text.

RESULTS

Unethical Practices in Nigerian Banking Industry

Greed

Greed is the motive for bank crimes (Gup, 1990). Selfish desire to acquire wealth by some bank executives plays active role in approving questionable loans and advances for the customers. Laid down policies will be disregarded for self-interest. This action led to the erosion of customers deposit and liquidity problems with consequent collapse of the banking business.

Insider Abuse

According to Gup (1990), insider abuse refers to a different kind of misconduct by Directors, Management and other officers of financial institutions deliberately committed with the intent to enrich themselves without regard for the safety and soundness of the institutions they control. Insider abuse is manifested in the improper granting of loan to Directors, insiders, and political interests, granting of unsecured credit facilities to internal / external customers in contravention of the provisions of banks & other Financial Institutions Act (BOFIA).

Non-Compliance with Standards and Guidelines:

This is a deliberate action of non-compliance with the International Accounting Standards. CBN Prudential Guidelines, BOFIA Act, NDIC regulations thereby resulting in incomplete or false information, and refusal to recognize inherent risks in the portfolio of contingent liabilities.

Frauds

Bank fraud is an unethical and criminal act by an individual or corporate entity to illegally attempt to possess or receive money from a bank or financial institution. Bank frauds can be committed by management staff, middle level staff and even junior staff of the organization. It can even be committed by customers with the aid of bank staff. There are different types of bank frauds ranging from electronic fraud, credit card fraud cheques related frauds and others. Bank has the responsibility to protect the integrity of the institution's assets by ensuring that adequate internal controls are put in place to prevent or reduce to barest minimum any fraudulent activities in the banking industry.

Conflict of Interest

This is another ethical issue in the banking industry. This is an act of disloyalty to the organization. The interest of the bank staff will be incompatible with the interest of the organization. It is a situation whereby the person in a position authority derived personal benefit from actions or decisions made in their official capacity. Conflict of interest can be direct or indirect, actual, or potential, financial, or non-financial. It is therefore a selfish interest against the interest of the organization.

Unethical Practices and Bank Failure in Nigeria

According to CBN (2002, 2006), the following number of banks experienced outright liquidation in Nigeria economy: Pre-independence twenty-two (22) banks, 1992 three (3) banks, 1994 four (4) banks, 1998, twenty-six (26) banks and 2005 fourteen (14) banks. Post 2005 bank consolidation also witnessed a number of events like the sacking of the board of Spring Bank Plc by CBN in 2007, Managing Directors of eight banks were sacked on August 14, 2009. To avoid waning of public confidence and runs in these affected banks, the CBN injected N620 billion in all the eight affected banks to keep them running. According to CBN and NDIC (1995) overhang of non-performing loans and advances, capital inadequacy, non-compliance with monetary policies, poor corporate governance, poor planning and control, lack of financial transparency, poor asset and liability management are the contributing factors to problems in the Nigerian banking industry. All these can be attributed to poor corporate governance, neglect of ethical considerations which led to lack of transparency and poor accountability, fraud, and insider abuse which in the overall affected financial report system.

Figure 1: Ethical Model for Banks

DISCUSSION OF FINDINGS

The essence of this study is to critically examine the nature of unethical practices in the banking industry in Nigeria, having considered its consequences in the industry and on the economy. Banking sector as an active hub in the economy, has a very strong relationship with all the stakeholders. The failure of banking system is therefore a terrible event that can put the whole nation in jeopardy.

The review of relevant literature revealed that there are numerous ethical issues prevalent in the banking industry among which are greed, insider abuse, non-adherence to codes of conduct, fraud, and conflict of interest. These unethical business practices are motivated by lack of qualified skilled labour, lack of proper ethics training, trust and transparency issues, growing pressure of competition, complexity of banking operations, issue of money laundering, and so on. (Yidawi, 2005; Goyal & Joshi 2011; Senthikumah, 2011; Fetinuic, 2014; Bozonic, 2007; Adam, 2012; Belas, 2012).

Greed is selfish desire of some bank executives to acquire wealth at the detriment of the bank. This is mostly in form of approving questionable loans and advances for the customers and in some cases laid down policies will be disregarded for self-interest. Greediness has undesirable effect on the bank by increasing non-performing loans and advances which will consequently have negative effect on the financial performance of the bank and thus reducing the returns available to the equity holders. Greediness can also manifest in other aspect of the organization in the areas of contracts awarded by the top executive at the expense of the bank. Insider abuse just like greed is another form of unethical practice deliberately committed by Directors, Management, and other officers of financial institutions with the intent to enrich themselves without regard for the safety and soundness of the institutions which are manifested in the improper granting of loan to Directors, insiders and political interests. Granting of unsecured credit facilities to internal / external customers in contravention of the provisions of banks & other Financial Institutions Act (BOFIA), non-disclosure of the interest, diversion of assets for personal use and abuse of position to facilitate transactions to the detriment of the corporate interest. This unethical practice contributes to impairing public confidence in the banking industry.

International Accounting Standards, Prudential guidelines, BOFIA is in place as legislative guidelines for sound banking practices. It is quite unfortunate that some banks will contravene the provisions of the legislations and guidelines. This deliberate action of non-compliance with the regulations thereby resulting in incomplete or false information, and refusal to recognize inherent risks in the portfolio of contingent liabilities. As regards conflict of interest, this is pure disloyalty to the organization. The interest of the management or executive directors are in opposite direction to that of the entity. The management will be working for their own selfish interest which is against the interest of the organization. This is in contrary to the concept of sustainable banking practice.

Bank fraud is an unethical and criminal act by an individual or corporate entity. Frauds reduces the organizational assets and increases its liabilities. It erodes public confidence in the banking sector and impede the going concern status of the bank which ultimately lead to bank failure because of high magnitude of fraud. Weak or lax internal control can facilitate fraudulent activities in the banking industry. In the present day of information communication technology (ICT), electronic fraud can have significant negative effect on the performance of the banks.

Ethical banking practices embrace socially and environmentally conscious practices while unethical banking activities results in social and economic loss and create unnecessary friction in the economy. When Banks fail to meet the ethical standards, the interest of all parties is put at stake. Banks are expected to be competent, transparent, and ethical so that the people can have confidence in the system. Banking ethics is all about working with a high degree of transparency, valuing principles, faithfulness and honesty to customers and other stakeholders, impartiality, and trustworthiness.

This study has contributed to the existing literature in establishing the relationship between unethical practices and bank failure. The study will be on interest to the bank management, the government, communities, and other stakeholders. Banks system should not be allowed to fail because of its strong relationship with social, economic, political and environmental development.

CONCLUSION

Good ethical banking encourages sustainable practices, moral practices and wage war against unethical investments and corrupt practices. Ethical practices are enhanced by professionalism. Banking profession is not racing field for cowboys or the dancing floor for beauty pageants because of its sensitive nature in dealing with peoples' lives and capital. Professionalism provides a platform for ensuring a robust, effective, and sustainable banking system. Canon (2004) affirmed that Banking is about confidence, character, trust, and ethics. Unethical practices cannot stand the test of time and banks which survive on public confidence must be ethical in all ramifications to provide safe and sound banking environment. The Central Bank of Nigeria should continue to issue guidelines and regulations on important issues affecting the banking industry stability.

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