

## **CORRUPTION PERCEPTION AND RETURN ON ASSETS OF DEPOSIT MONEY BANKS IN NIGERIA**

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### **ABSTRACT**

*The objective of the study is to examine the relationship between corruption (CPI) and return on assets (ROA) of deposit money banks (DMBs) in Nigeria. The study employed error correction technique to examine how perceived corrupt practices (CPI) affect the profits accruable to the assets (ROA) of DMBs in Nigeria using data from 1996 to 2022. The results allude that corruption substantially impedes corporate progress and the yields accruing to the assets of DMBs in the country. Non-performing assets (NPLs) were also found to hinder the increase in the ROA of deposit-taking institutions in Nigeria. The study concludes that perceived bribery and dishonesty practices (CPI) have a substantial influence on the performance of DMBs in Nigeria. The empirical investigation highlights the undesirable long-term effects of corrupt practices on the efficient utilization of the assets of deposit-taking institutions in Nigeria. The study recommends the need for the Central Bank of Nigeria to enhance its supervisory efforts and deposit-taking institutions to strengthen and implement their corporate governance frameworks. By implementing robust supervision and strict measures, the study suggests that the incidence of dishonest behaviour in the sector can be curtailed. This would ultimately contribute to improved performance and stability of DMBs in Nigeria.*

**Keywords:** Banks, Corruption, Return on assets, Nigeria.

### **INTRODUCTION**

Deposit-taking institutions play an essential role in capital formation through the polling of surplus deposits and the extension of loans and advances to households and businesses to meet their cash flow and

operational needs Bayar et al, (2021). Banks are trust merchants who sell deposited funds at interest and in turn, pay the depositor's savings interest for the use of their funds. This encourages saving behaviour and increases aggregate savings, which is beneficial to both households and the entire

economy. This middleman's role of taking deposits from the haves and giving them to the have-nots for productive investments, business expansion and other exigencies is said to be transformational and further leads to economic progress Ojimadu et al, (2016); Muritala et al, (2020). By allocating credit to productive investments, risk minimization, and promoting financial inclusivity, DMBs contribute to the stability and productivity of economies worldwide (Mawutor et al, (2019).

Irrespective of the instrumental roles of banks, they have been grappling with cases of financial distress, failures, M & As and volumes of NPLs in their books (Jayeola, 2011). Thus, impairing them to be the dutiful cog in the wheel of Nigeria's economic growth process. Investigations to uncover the reason for the sub-par performance of DMBs in the country have barely considered perceived corrupt cases as a possible repellant to DMBs' performance in Nigeria (Adenike & Alao, 2020; Udeh & Ugwu, 2018).

Corruption in global governance has significant consequences for various aspects of the economy and society. Corruption hampers economic growth by diverting resources, distorting the free market, and discouraging FDI inflows due to lack of trust in the system (Xie et al, (2017). It undermines the efficient allocation of resources, leading to reduced productivity. In corrupt systems, people with connections or those willing to engage in bribery have an advantage, while honest individuals may face barriers and unfair treatment (Canare, 2017). This will be very detrimental to deposit-taking institutions whose mandate relies essentially on public trust and confidence. Perceived corruption and dishonest practices hurt the reputation of corporations and their ability to attract

investment and trade partners (Corrado & Rossetti, 2018). Countries with high levels of corruption are often seen as risky and unreliable for business activities. This can lead to reduced FDI, trade, and economic cooperation, impeding opportunities for economic exploits.

In Nigeria, there are widely recognized and documented corrupt and dishonest practices like "budget padding, money laundering, bribery, tax evasion, forgery and perjury, ghost workers, phantom contracts, nepotism, political malpractice, and embezzlement"(Oluwaniyi, 2011). Transparency International consistently ranks Nigeria as one of the most corrupt countries in the world, further reinforcing the negative perception of corruption in the country (Madichie, 2019; Kee, 2019). Corruption in Nigeria is widespread, with detrimental consequences. The consequences include dwindling values of financial securities, performance of the securities market, and poor trading records in the stock market (Sunny, 2016). These factors contribute to exposure risks and meagre yields for quoted companies like DMBs in the Nigerian corporate climate (Anyaeachie, 2011).

Extant studies have over time concluded that well-functioning institutions play a crucial role in ensuring efficient allocation of loanable funds, which is vital for economic growth (Beck & Levine, 2002; Wurgler, 2000). However, Toader et al, (2018) argue that corruption is a significant obstacle to these factors. Corruption hampers the effective function of banks and reduces their ability to allocate capital resources efficiently. This undermines the stability of the banking industry and limits access to financial services, particularly in developing countries.

Corruption has been a topic of interest in the field of research, particularly its impact on the performance of banks. One form of corruption that has been extensively studied is bribery. The Association of Chartered Certified Accountants conducted a study in 2006 that revealed the detrimental effects of bribery on corporate growth. When bribes are involved, economic units that engage in honest and fair practices are put at a disadvantage. This creates an uneven playing field where companies that engage in corrupt activities gain an unfair advantage over their competitors (Chen et al, (2014). Due to unfair advantage, bribery can undermine the transparency and efficiency of the banking sector. It can lead to a misallocation of resources and hinder the corporate performance of deposit-taking institutions. When this becomes prevalent, it erodes the trust and confidence households, businesses and foreign investors have in financial institutions. In light of these, this study further interrogates how corruption (CPI) affects the returns of assets of DMBs in Nigeria.

## **LITERATURE REVIEW**

A bank is a financial institution established to provide banking financial services to its customers. (Crowther, 1958) argued that a bank is an institution that sources funds from those who have saved from their earnings and lends it out to those who need it. In Nigeria, banks include the Central Bank of Nigeria, Access Bank plc, Sterling Bank plc, United Bank of Africa plc, etc. Central bank by the state provides banking services to the government and regulates the monetary activities of other financial institutions in an economy.

### **Deposit Money Banks**

Deposit money banks have traditionally played an important role in financing various sectors of the economy especially in developing nation like Nigeria. This is because deposit money banks involved in financial intermediation process which entails channelling funds from the surplus units to the deficit units of the economy, thus transforming bank deposits into loans or credit (Ujah & Amaechi, 2005).

Following the adoption of universal banking in 2001, the Banks and Other Financial Institution Act 1991 was Amended and banking business was defined as the “business of receiving deposit on current, savings or other accounts, paying or collecting cheques drawn or paid in by customers; provision of finance, consultancy and advisory services relating to corporate and investment matters; making or managing investments on behalf of any person; and provision of insurance marketing services and capital market business of such other services as the governor of the Central Bank of Nigeria (CBN) may be gazette designate as banking business”

### **Bank's Return on Assets**

The assets of a bank are those properties owned by the bank that enable it to add value. These assets are investments in properties and credit the bank creates for its clients that are expected to yield returns to the bank at different lengths of time. The bank's Returns on assets are the expected level of earnings to the investments on assets. In alignment with the profit maximization objective, stakeholders who are potential investors and as such expect maximum returns (pure profits) to be above the average cost of its operation. This is a necessary income to enable the investors to maintain their investments in the bank.

## **The Concept of Corruption**

(Umo, 1986) conceptualized corruption as the unauthorized use of public resources or properties for private benefits. Anthony et al, (2009) asserted that corruption in a narrow sense is taken to mean bribery acts. They further stressed that corruption exists when the corrupt person covertly lends out gestures to another corrupted person who brings the corruptness to induce an act that favors either the corrupt or the nominee or the corrupted that holds authority. Corruption is a rent-seeking venture that has a high level of reward in benefits and at the same time, rewards could as also be negative. This exists in both public and private businesses.

The rising incidence of corruption in emerging countries than in developed economies is also attributed to greater formal institutional failure, leading to incongruities between formal and informal institutions Escandon-Barbosa et al, (2019).

While a country with a highly corrupt public sector is more likely to generally have a highly corrupt financial sector, corruption does not always lead to bad loan in the banking sector. For example, by bypassing the normal loan review procedure, a borrower who has a successful project can bribe a loan officer to save time. "In this situation, as a result of the timely execution of the project, the possibility of completion can increase (Mauro, 1995) for a similar reason for "speed money". Even where a poor project borrower collects funds by corruption, no one knows whether the financed project will ultimately collapse or succeed, but the chance of success will be comparatively slim.

In addition, corruption assessed by CPI has little to do with banking sector corruption, as is further clarified in the literature. Even if

CPI is connected to banking sector misconduct, before CPI is established, bad loans may not be a relevant issue. Their interest in the investigation is not about bad loans, but it is about the behavioural dimensions of corruption. They may, for instance, pose questions such as "Did you experience any bribery during bank transactions?" But questions like; "Have you seen any bad loans during bank transactions?" may not be answered. Although bad loans can be seen during the survey, bad loans cannot clearly be attributed to corruption since there are so many determinants of bad loans. Corruption itself, however, is not the same concept as bad loans, and a heavily corrupt country does not inherently have a higher percentage of bad loans than a less corrupt country. The relationship between corruption and bad loans must also be empirically verified.

## **Empirical Review**

Mongid and Tahir (2011) examined the influence of CPI on the ROA of deposit-taking institutions in Asia. The results from the empirical investigations suggests that banks that cut corners and accept bribes and further engage in dishonest acts are more likely to have increase in ROA in the continent. This portends that DMBs have poor internal control mechanisms or decide to relax them to get short-term benefits. It further indicates that the quality of the institutions is inadequate to combat the urge to break internal and regulatory guidelines to make quick gains. The findings amplify the long held theoretical position of corruption "greasing the wheel of progress" in places where institutions are not functioning to their full capacity (Rock & Bonnett, 2004; Kaufmann & Wei, 1999).

Bolarinwa and Soetan (2019) found CPI as a significant determinant of the earnings accruable to the assets and equity of deposit-

taking institutions in the 15 countries comprising of both developed and LDC that were understudied. Unlike Mongid and Tahir (2011), this study portends that when the levels of unethical and dishonest behaviours and practices like bypassing lending policies and taking bribes in the lending process increases, so is the chance of increase in NPLs and the likely decline in the bank's ROA and ROE. The study made its contributions to existing literature using the GMM technique. The technique is appropriate for estimating dynamic panel data models.

Kolapo and Olaniyan (2018) concluded in their study that corruption resulting from scamming people's deposits is detrimental to the performance of DMBs in Nigeria. The study showed that as the number of cases, people, and value of the sum involved in scams (or 419 as it is commonly called in Nigeria) increases so does the likelihood of a decline in the deposits of deposit-taking institutions in the country. The study made its inferences using the estimates from the GMM technique.

Bougatef (2015) aimed to investigate the impact of corruption on the financial health of Islamic banks in various regions. The analysis covered nine Middle Eastern countries, four Asian and Pacific countries, and three African countries over the period from 2008 to 2010. To measure the financial health of the banks, the study used ROA and NPLs. These indicators provide insights into the profitability and asset quality of the banks, respectively. On the other hand, unethical and fraudulent behaviours were measured using CPI, which reflects the perceived level of corruption in a country. The study found a positive and significant association between the CPI on both ROA and NPLs of the Islamic banks. This suggests that as the perceived level of

corruption increases, the financial health of Islamic banks deteriorates in terms of returns and asset quality.

Aburime (2009) draw the conclusion of the existence of a positive relationship between CPI and deposit-taking institutions returns, by indicating that corruption lubricate banking operations and their returns. According to the study, as CPI levels or unethical practices like cutting corners and not following the rules increase, so does DMBs returns. The study made these far-reaching conclusions use backward stepwise regression analyses of data from 48 deposit-taking institutions from 1996 to 2006. However, it is important to note that this conclusion is based on the findings of a single study and may not necessarily apply universally. Different studies may yield different findings depending on their methodology, context, and data sources.

Yekini et al, (2020) focused on using a dynamic modeling technique to determine how 123 deposit-taking institutions' returns could be impacted by corruption in 15 Economic Community of West African States from 2002 to 2016. The study found that unethical, dishonest, and fraudulent behavioral tendencies could likely enhance banking activity and increase their profit margins. This suggests that in countries where corruption is widely perceived, banks tend to experience higher levels of profitability. This may not be farfetched as the West African sub region is widely known for weak institutions, poor corporate governance framework and regulatory laxities. These according to scholars are the perfect breeding ground for corruption to thrive.

Yiadom et al, (2019) empirically studied the effect of CPI on returns accruing to equity and the assets Ghanaian banks using Ordinary Least Square (OLS). The study



reported that CPI is beneficial to the performance measures in Ghana. This suggests that corrupt practices may lead to increased profitability for banks in Ghana. However, the findings also revealed that unethical practices could like not properly vetting the creditworthiness of a borrower could increase the NPLs of DMBs and further expose them to excessive credit risk that could lead distress. This implies that while corruption may initially boost profitability, it also increases the risk of failure in the long run. These findings highlight the potential negative consequences of corruption on the stability and sustainability of banks in Ghana.

The “grease the wheels” and the “sand the wheels” hypotheses both form the theoretical basis for this work. The former posits that corruptions boosts economic activity vis-a-vis banks ROA, where governance is low; whereas, the latter is the direct opposite. The purpose of this work is to test the potency of either of these theories in the Nigerian situation, and in particular, in the Nigerian banking sector.

## METHODOLOGY

The use of an ex-post facto research design is appropriate for this study, as it seeks to ascertain to effect of the magnitude of the explanatory variables (CPI, NPLs, and total deposits of DMBs) on the return on assets (ROA) of deposit-taking institutions in the country. This design allows the researchers

in this regard without manipulating any variables. Consequently, secondary data was collated from the CBN, NDIC, and Transparency International database from 1999 to 2022 to provide a reliable basis for the analysis and estimation.

To analyze the data, the researchers employed both Ordinary Least Square (OLS) and Vector Error Correction Mechanism (VECM). OLS is a widely used method for estimating the relationships in multiple regression models. Before applying these methods, the researchers conducted tests for unit roots and co-integration. Unit root tests help determine if the variables are stationary or exhibit a trend, while co-integration tests assess the long-term relationship between variables.

The empirical model is expressed in econometric form as follows:

$$ROA_{it} = b_0 + b_1CPI_{it} + b_2TDO_{it} + b_3NPL_{it} + \varepsilon_{it}$$

Where; ROA is Return on assets, CPI is Corruption perception index, NPL is Non-performing Loans, TDO is Total deposits, tis time and  $\varepsilon_{it}$  is the disturbance term.

## RESULTS AND DISCUSSIONS

The statistical test results are presented in Table 1. It shows the measures of central tendency, maximum and minimum values and the standard deviation of the series of the data.

**Table 1: Descriptive Statistics**

	ROA	CPI	NPL	TDO
Mean	3.86	21.14	14.40	4143.61
Median	3.91	24.00	14.70	1661.48
Max	11.87	28.00	37.30	10094.57
Min	-9.28	6.90	3.00	75.05

Std. Dev.	3.98	6.09	8.74	4298.10
Skewness	-0.95	-0.77	0.52	0.47
Kurtosis	6.38	2.47	2.85	1.38
JB Stat	15.65	2.76	1.13	3.65
Prob	0.00	0.25	0.57	0.16
Sum	96.53	528.50	360.00	103590.2
Sum Sq. Dev.	379.55	890.88	1832.26	4.43E+08
Obs	25	25	25	25

The results show the average values of ROA (3.86), CPI (21.14), NPLs (14.40), and TDO (4143.61). The levels of dispersion (standard deviation) results indicate that aside corruption perception index (CPI) (6.09) that dispersed far below the mean and the median values, all the variables ROA (3.98), NPLs (8.74), and TDO (4298.10) around the mean and median values of the series. The return on assets (ROA) of deposit-taking institutions had 11.87 and -9.28 as the max and min values respectively. The max and min values of the series for CPI are (28.00)

and (6.90), NPLs are (37.00) and (3.00) and TDO are (10094.57) and (75.05) respectively. The JB statistic is a test used to assess whether a given variable follows a normal distribution. According to the JB test results, ROA (0.00) is not normally distributed being that it is less than threshold of 5%. The other variables were found to be normally distributed, being that the JB stat prob values of CPI (0.25), NPLs (0.57), and TDO (0.16) respectively were all more the 5% threshold.

**Table 2: Stationarity Test Results**

Variables	Augmented Dickey-Fuller Stats	Critical value	Prob values
ROA	-6.81	-3.75	0.00
CPI	-6.22	-3.75	0.00
TDO	-3.78	-3.77	0.01
NPL	-5.06	-3.75	0.00

Augmented Dickey-Fuller (ADF) test results indicate that all the variables (ROA, CPI, TDO, and NPL) are all stationary at their first difference I(1). This is because the rule of thumb requires the absolute values of the ADF stats to be greater and above the critical values of the variables of the series.

**Table3: Johansen Cointegration Test**

Unrestricted Cointegration Rank Test (Trace)

Hypothesized	Trace	0.05
No. of CE(s)	Eigenvalue	Statistic
		Critical Value Prob.**

None *	0.97	159.37	95.75	0.00
At most 1 *	0.75	75.89	69.82	0.02
At most 2	0.56	44.15	47.86	0.12
At most 3	0.49	25.52	29.79	0.14
At most 4	0.35	10.13	15.49	0.27
At most 5	0.01	0.24	3.84	0.63

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Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

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Hypothesized	Max-Eigen		Critical Value	
No. of CE(s)	Eigenvalue	Statistic	Prob.**	
None *	0.97	83.48	40.08	0.00
At most 1	0.75	31.75	33.88	0.09
At most 2	0.56	18.64	27.58	0.44
At most 3	0.49	15.39	21.13	0.26
At most 4	0.35	9.89	14.26	0.22
At most 5	0.01	0.24	3.84	0.63

Johansen Cointegration test using the trace statistics in Table 3 showed that there were two correlating relationships in the long run in the model. The Maximum Eigenvalue statistics further found one more long-run correlating relationship in the models. The results therefore give empirical to apply the error correction technique to correct the long-run divergence in the model.

**Table 4:** ECM Test Results of the effect CPI on ROA of DMBs in Nigeria.

Variable	Coefficient	Std. Error	t-Stats	Prob
C	12.14461	2.820076	4.306482	0.0051
D(ROA(-1))	0.144246	0.166089	0.868485	0.4185
D(ROA(-3))	0.228505	0.102766	2.223556	0.0679
CPI	-0.155820	0.159628	-0.976141	0.3667
D(CPI(-1))	-0.094205	0.161189	-0.584441	0.5802
D(CPI(-2))	0.331022	0.200054	1.654668	0.1491
D(CPI(-3))	-0.247820	0.161968	-1.530053	0.1769
NPL	-0.479868	0.059771	-8.028376	0.0002
D(NPL(1))	0.490702	0.079902	6.141313	0.0009
D(NPL(-2))	0.044536	0.045451	0.979855	0.3650
D(NPL(-3))	0.319058	0.064156	4.973165	0.0025
TDO	-0.000388	0.000201	-1.935483	0.1011
D(TDO(-3))	0.000970	0.000581	1.668407	0.1463
ECM(-1)	-1.401738	0.427084	-3.282116	0.0168
R <sup>2</sup>	0.97	Durbin-Watson stat		2.18
Adjusted R <sup>2</sup>	0.92			



Fisher's stat	17.92
Fisher's stat (Prob.)	0.00

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Table 4 indicates that the adjusted  $R^2$  (92%) significantly explained changes in the return on assets (ROA) of deposit-taking institutions in Nigeria. This means that the substantial 92% changes in the ROA are explained by CPI, NPLs and TDO collectively. The adjusted  $R^2$  further indicate that the model is well fitted. With a probability value that is statistically zero, Fisher's statistics (17.92) indicates that the model is statistically significant. The elementary test of serial correlation (DW stats) value of 2.18 showed that the phenomenon was absent. The ECM had the expected negative coefficient (-1.40). The ECM showed that equilibrium was achieved at the speed of 60%.

Corruption perception index (CPI) has a coefficient and a probability value of the test of significance of -0.155820 and 0.3667 respectively. This means that the coefficient of CPI is negative and the effect of CPI on ROA is not significant. This alludes that increasing levels of bribe taking and dishonest practices in banking operations could likely cause a decline in the ROA of DMBs in Nigeria.

As seen from the table, Non-performing Loans (NPLs) has a coefficient and a probability value of the test of significance of -0.479868 and 0.0002 respectively. This means that the coefficient of NPLs is negative and the effect of NPLs on ROA is significant. This alludes that increasing levels of cutting corners, not following the lending policy, and other dishonest practices during the lending process by loan officers and other officers could significantly cause a decline in the ROA of deposit-taking institutions in Nigeria.

Table 4 further shows that a total deposit (TDO) has a coefficient and a probability value of the test of significance of -0.000388 and 0.1011 respectively. This means that the coefficient of TDO is negative and the effect of TDO on ROA is not significant. This alludes that increasing levels of deposits mobilized through dishonest practices or from corrupt sources cause a decline in the ROA of deposit-taking institutions in Nigeria.

### **Discussion**

CPI has a coefficient and a probability value of the test of significance of -0.155820 and 0.3667 respectively. This means that the coefficient of CPI is negative and the effect of CPI on ROA is not significant. This alludes that increasing levels of bribe taking and dishonest practices in banking operations could likely cause a decline in the ROA of DMBs in Nigeria. This portend and affirms the widely held theoretical belief that corruption "sands the wheel of progress" in countries with weak institutions and regulatory framework. This is consistent with the conclusions drawn by Kolapo and Olaniyan (2018), when they held that corruption is detrimental to banking performance in Ghana.

Non-performing Loans (NPLs) has a coefficient and a probability value of the test of significance of -0.479868 and 0.0002 respectively. This means that the coefficient of NPLs is negative and the effect of NPLs on ROA is significant. This alludes that increasing levels of cutting corners, not following the lending policy, and other dishonest practices during the lending process by loan officers and other officers could significantly cause a decline in the ROA of deposit-taking institutions in

Nigeria. This is in line with the findings of Bolarinwa and Soetan (2019). They concluded that when the levels of unethical and dishonest behaviours and practices (like bypassing lending policies and taking bribes in the lending process) increases, so is the chance of increase in NPLs and the likely decline in the bank's ROA.

Total deposits (TDO) have a coefficient and a probability value of the test of significance of -0.000388 and 0.1011 respectively. This means that the coefficient of TDO is negative and the effect of TDO on ROA is not significant. This alludes that increasing levels of deposits mobilized through dishonest practices or from corrupt sources cause a decline in the ROA of deposit-taking institutions in Nigeria. In line with the findings of this study, Kolapo and Olaniyan (2018) also found that as the number of cases, people, and value of the sum involved in scams increases so does the likelihood of a decline in the deposits of deposit-taking institutions and its negative effect on ROA of DMBs in Nigeria.

### **CONCLUSIONS AND RECOMMENDATIONS**

The study employed error correction technique to examine how perceived corrupt practices (CPI) affect the profits accruable to the assets (ROA) of DMBs in Nigeria using data from 1996 to 2022. The results allude that corruption substantially impedes corporate progress and the yields accruing to the assets of DMBs in the country. Non-performing assets (NPLs) were also found to hinder the increase in the ROA of deposit-taking institutions in Nigeria. The study concludes that perceived bribery and dishonesty practices (CPI) have a substantial negative effect on the ROA of DMBs in Nigeria. The empirical investigation

highlights the undesirable long-term effects of corrupt practices on the efficient utilization of the assets of deposit-taking institutions in Nigeria. The study therefore recommends the followings;

- i. The need for the CBN to enhance its supervisory and regulatory efforts
- ii. Deposit-taking institutions to strengthen and implement their corporate governance frameworks.
- iii. The banking industry need to strengthen their internal control systems to be able to identify and prevent corrupt activities and to protect its assets

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