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BUSINESS ETHICS AND CORPORATE PERFORMANCE IN THE BANKING INDUSTRY: A STUDY OF SELECTED BANKS IN THE SOUTH EAST, NIGERIA

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ABSTRACT

Business ethics is not only important but also required in every business relationship involving different interest and goals. Most organizations strive to co-opt ethical management principles as established code of conducts to mould employees' perceptions, attitudes and value systems not only to be morally sound but to gain competitive advantage against its competitors. Ethics is a core management tool employed to enhance the required value system within its operational system through logical positivism and conditional normativism. This study was designed to examine the direction and magnitude of the relationship between Business Ethics and Corporate Performance in the Banking Industry with focus on selected banks in the South East, Nigeria. The study employed a survey type of research of which correlational design was used to determine the degree of the relationship between the studied variables. Structured questionnaire designed in an open-ended questions were administered to the sample drawn from the population of the study. The study concludes that the employment of ethical management practices within their operational system would enhance their performance and therefore, recommends that financial institutions should view codes of conduct as an indispensable tool that must continually be evaluated in order to shape employees' behaviours in an attempt to meet the demands of the changing environment.

KEYWORDS: Business Ethics, Banking Industry

INTRODUCTION

Business ethics is a world operational philosophy that seeks to establish those organizational conducts, attitudes, perceptions and value systems that conform to established standards. It began to develop as a field of study in the 1970s. Theologians and philosophers laid the groundwork by suggesting certain principles that could be applied to business organizations as a "code of conduct" that guide their operations (Ferrel, et al 2008). The need for established standards of behaviour had predisposed most organizations especially financial institutions to evolve and entrench ethical practices as part of their culture to mold and direct their employees' actions and value systems toward the expected "code of conduct" in an attempt to enhance corporate performance. Ferrel, et al (2008) observed a number of well-published scandals that eventually result to public outrage on deception and fraud in business organizations. Stemberg (2000) notes that unethical management practices affect corporate performance therefore, stressed the need for business firms to integrate ethics in an attempt to establish those organizational conducts that conform to established standards.

Abara (2014) opines that ethics is a core management tool employed to foster the required value system within its operational system through logical positivism and conditional normatism. It is concerned with the normative aspect of behaviour an organization considers as standard and desirable, that revolve around the pervasive value system of "right" and "wrong" or "good" and "bad". Therefore, business ethics in management perspective is morally driven, it seeks to

strike a balance between “right” and “wrong”.

Generally, ethical perspectives on management as observed by Abara (2014) involve all managerial activities, responsibilities, authorities and expectations that have to do with value judgment on what is right and wrong. This, however, reflects on the moral consciousness and morality inherent in most organizations that evolve around social responsibility, social responsiveness, social contract and corporate performance. Agha (2010) confirmed that ethical quality of organization is determined by the separate actions of central management and their staff, employers, their employees and their clients. Each of these is almost always at one time or the other facilitating decision making which produce a sustainable result that directly help to set the moral tone of the organizations.

Conversely, organizational standards are defined by their mission statement, objectives, rules and regulations which are collectively referred to as culture. Thus, culture implies assumptions and beliefs about organization’s values, beliefs, symbols, myth, etc that give meaning to organizational members, and collectively accepted as a guide to expected behaviour. Therefore, culture is a problem of internal integration and external adaptation. As a way of doing things in a given place, culture becomes a set of shared values, norms and beliefs that guide organizational members to behave as expected (Abara, 2014). More so, Hofstede (1984) argues that divergent cultures connote different values in conducting business activities. These values shape the roles with which organizations assume within societies and what is expected of them.

Ethical management practices of commercial banks according to Gbandi and Oseyomon (2014) is relatively directed to the compliance of the established “code of banking ethics”. However, the basic code of banking ethics consist of transparency of transactions, honest, confidentiality and keeping information on customers, proper use and care of information, accurate record keeping, promotion of banking service, service to customers, handling customers complaints, impartiality, reliability, avoiding conflict of interest, refraining from bribery and corruption, positive and fair dealings with officials, government representatives and competitors (CBN, 2006). In the same vein, Hortaesu and Guay (2004) identified the following unethical behaviors as: fraud and forgery, bribery, customer discrimination, power pressure, lying and cheating, masterminding banks robbery, spreading negative information, breaching personal secrecy and money laundering.

The Problem

Business organizations strive to enshrine business ethics as part of organizational policies to guide organizational conducts, perceptions and value system within an established “code of conduct” in an attempt to enhance corporate performance in their operations. Most financial institutions hitherto have recorded series of unethical behavioral actions like uncourteous behaviour, illegal charges, poor dressing code, unauthorized debit and armed robbery operations that were masterminded either by a staff or the branch manager of the bank as an accomplice of the crime. Agha (2010) observed the proliferation of well publicized examples of dishonesty, hypocrisy, cheating and greed in many organizations which have created some alarm on the state of ethical management practices. This is outrageous behaviour hence unethical. The unethical behaviour prevalence in most financial institutions affects corporate performance of the commercial banks. Therefore, the study was designed to determine the effect of business ethics on corporate performance in the Banking Industry. Specifically, the objectives are:

- To determine the extent to which there is a significant relationship between morality and corporate performance in the Banking Industry,
- To ascertain the extent to which there is a significant relationship between dishonest behaviour of individual bank staff and corporate performance in the Banking Industry,

Research Hypotheses

The following hypotheses stated in null format were formulated and tested:

- There is no significant relationship between Morality and Corporate performance in the Banking Industry.
- There is no significant relationship between dishonest behaviour of individual staff and corporate performance in the Banking Industry.

Concept of Business Ethics

Business ethics is concerned with the study of business situations, activities, and making pertinent decisions where issues of right and wrong are addressed. It is often based on moral and social values which constitute social principles for doing business. Bower (2007) sees business ethics as an act of addressing the morality of economic system (the free market, communism, socialism) and the conduct of the organizations found within these systems. Bower (2007) further maintained that business ethics examined ethical principles and moral problems that can arise in a business environment. Uduma (2000) contends that ethics revolve around normative behaviour of individuals, its concern includes the nature of ultimate value and the standards by which human actions can be judged "right and wrong".

Gbandi and Oseyomon (2014) see business ethics as a code of moral principles and values that direct behaviour of an individual or a group in terms of what is right or wrong. These are established standards used to judge the rightness or wrongness of a business relative to others. Hellriegel, et al(2008) observe that business ethics involves how business organizations incorporate core values such as: being honest, trust, respect and fairness into its policies, practices and decision making. It is in the light of the aforementioned that Ferrel, et al (2008) noted that some factors must be considered when integrating ethics to business. They are: to survive business organization must earn a profit, if profits are realized through dishonest behaviour, could result to a bad corporate image to the organization; organizations especially financial institutions must balance their desire for profits against the need and desire of the society. Rossouw (2004) contends that business ethics revolve around identifying and implementing standards of conduct that will mould employee demeanors and perceptions that conform to established standards in the organization. Therefore, firms should develop rules, as established code of conduct to guide organizational operations in their attempt to earn profits such that, it does not harm individuals or society as a whole.

Theoretical Framework

Utilitarianism as the moral standard among other theories favours this study. It sought an objective basis for making value judgments that would provide a common acceptable norm for determining social policy. The most promising way to reach such an objective ground of agreement, the theory suggests is by looking at the various policies and comparing the beneficial and harmful consequences of each. The right course of action from an ethical point of view would

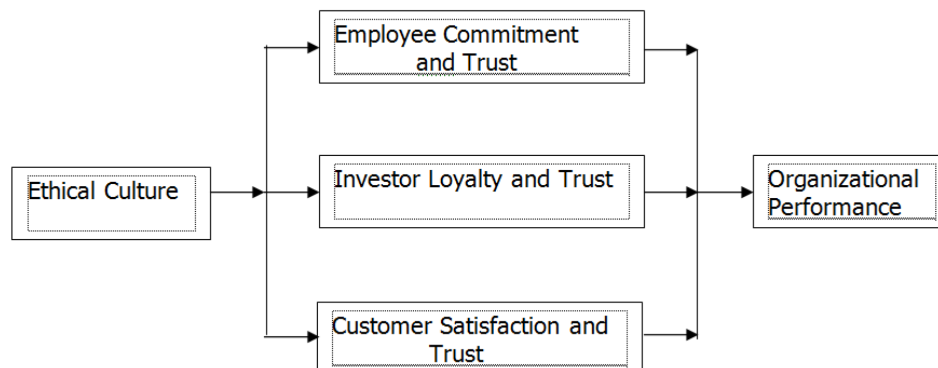
be to choose the policy that would produce the greatest amount of utility. Utilitarian principle holds that an action is right from an ethical point of view, if and only if the sum total of utilities produced by that act is greater than the sum total of utilities produced by any other act the agent could have performed in its place.

Utilitarian theory advocates that the right action for a particular occasion is the one that produces more utility than any other possible action; it does not mean that the right action is the one that produces the most utility for the person performing the action. Rather, an action is morally right if it produces the most utility for all persons affected by the action.

From the aforementioned therefore, utilitarian principle opine that the objectives of business organizations cannot be attained except the employees of the said organizations demonstrate ethical behaviour in the light of the assigned duties, thereby enhancing the corporate performance of the organizations. Agha (2010) observed that the forgoing is essential so as to develop strategies that will stimulate patronage for the services produced and provided by the business concern; the way business organization designs its banking operations. These according to Agha (2010) are the key determinants of whether a business is ethical and are as important as the way it deals with crisis. The proponents of this theory are: Jeremy Benthham, Francis Hitcheson, David Hume etc.

The Role of Organizational Ethics in Performance

Ferrel, et al (2008) designed the following concept in their attempt to explain the role of organizational ethics in performance.



Source: Ferrel, et al (2008).

Figure 1: The Role of Ethical Culture in Organizational Performance

The aforementioned provided a conceptional framework depicting the role of ethical management practice on organizational performance. Employee's perception that their firm has an ethical culture according to Ferrel, et al (2008) helps in moulding employee behaviours and perceptions that foster their commitment to work. It is absolutely necessary that employees at all levels in a given organization share a common vision of trust. Rossouw (2004) observed that the influence of higher levels of trust predominant amongst employees cannot be over-emphasized because it create enabling environment for employee's commitment in their operations.

More so, investors are increasingly concerned about the ethics, social responsibility and reputation of organizations in which they invest. Zineldin (2006) sees banking institutions not merely as profit-making entities but also as moral agents that are accountable for their conduct to their investors. Investor's loyalty and trust is enhanced following

the result of observed adherence to banking ethical practices which is manifested by keeping to promises and faithfully delivering of its services to customers. Ferrel, et al (2008) observed that organizational relationship with its investors must rest on dependability, trust and commitment that evolve around principles and values that investors find acceptable. Therefore, organizations must strive to attract investors trust and confidence for enhanced performance.

In addition, Green (2000) observed that customer satisfaction is one of the most important factors in business strategy. Organization must be proactive in their operations considering the dynamism of business environment in keeping pace with customers' changing desires and preferences; it must also seek to develop long-tern relationships with customers and its share holders. Focusing on customer satisfaction, the firm continually entrenches the customer's dependence on the company. Organizations provide an avenue for feedback, to account for reactions, which engages the customer in cooperative problem solving. Therefore, a happy customer will come back, but a disgruntled customer will tell others about his or her dissatisfaction with a company and discourage others from dealing with it (Mitchell, Agle, and Wood, 1997). Banking institutions with a strong ethical management policy focuses on the core value of placing customers' interest first. Zineldin (2006) argues that employees working in an ethical environment support and contribute to the process of understanding customers' demands and concerns, which subsequently, builds a strong competitive position that has been shown to affect business performance.

Hofstede (1984) contends that organization seldom develop an ethical culture except it has achieved adequate financial performance in terms of profits. Businesses with greater resources regardless of their staff size have the means to practice social responsibility while serving their customers, valuing their employees and establishing trust with the public (Hofstede, 1984). Therefore, ethics in management perspective is morally driven; it tends to strike a balance between "right" and "wrong". Ethics according to Abara (2014) torch on moral consciousness and morality of organization, and it involve all managerial activities, responsibilities, authorities and expectations that have to do with value judgment; good or bad. Organization will not undermine the place of ethics in their day-to-day planning, directing, controlling, organizing and communicating functions for enhanced performance in their operations.

METHODOLOGY

The study employed a survey type of research of which structured questionnaire designed in open-ended-questions were administered to the sample drawn from the population of the study and correlational design was used in the study in an attempt to identify the magnitude of the relationship between Business ethics as independent variable (X) and corporate performance as dependant variable (Y). Data were sourced from three commercial banks in the South East, Nigeria. These banks amongst others include United Bank for Africa (UBA), Diamond Bank of Nigeria and Keystone Bank Limited. A sample of 170 respondents representing 92.34% was used for the study. The reliability of the instrument was achieved using test-retest method in determining the consistency of the instruments.

Analysis of Result

Data for this study were presented and analyzed based on the specific objective. The SPSS 17.0 package was used to regress the variables on the specific objectives of the study.

For Objective One

Table 1: Result of Morality on Corporate Performance in the Banking Industry

Unstanddardized Coefficients			Standard Coefficients		
Model	**B**	**STD Error**	**Bets**	**t**	**Sig**
(Constant)	-635	068		-9.268	000
Morality	917	017	988	54.852	000

A Dependent Variable: Corporate Performance

Source: Analysis of Statistical data (SPSS 17.0)

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error Of Estimates
	0.988	0.976	0.976	0.17173

Source: Analysis of Statistical data (SPSS 17.0)

Table 3: Correlations Morality C. Performance

Morality	Pearson Correlation	1	0.988
	Sig. (2-tailed)		000
	N	170	170
CP	Pearson Correlation	0.988	1
	Sig. (2-tailed)	000	
	N	170	170

Source: Analysis of Statistical data (SPSS 17.0)

The Result on the Second Objective

Table 4: Result of Dishonest Behaviour of Individual Staff and Corporate Performance

Unstanddardized Coefficients			Standard Coefficients		
Model	**B**	**STD Error**	**Bets**	**t**	**Sig**
(Constant)	-290	084		-3.459	000
DBOIS	-834	024	972	35.329	000

A Dependent Variable: Corporate Performance

Source: Analysis of Statistical data (SPSS 17.0)

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimates
	0.972	0.945	0.944	0.29655

Source: Analysis of Statistical data (SPSS 17.0)

Table 6: Correlations DBOIS Cp

DBOIS	Pearson Correlation	1	0.972
	Sig. (2-tailed)		000
	N	170	170
CP	Pearson Correlation	0.972	1
	Sig. (2-tailed)		000
	N	170	170

Source: Analysis of Statistical data (SPSS 17.0)

DISCUSSIONS

Table 1 shows the result of Morality on Corporate performance in the Banking Industry. The coefficient of the constant term is -635 and its associated t-values statistically significant at 5% level. This implies that at zero level of

performance, in the Banking Industry, holding Morality constant, the level of corporate performance will decrease by 6%. The regression coefficient of Morality carries negative sign and its associated t-value is significant at 5% level of significance. The implication of the aforementioned is that Morality of individual staff in the Banking Industry has a significant effect on the corporate performance of banks in their operations; a unit increase in the level of morality will lead to an increase in corporate performance. Since the Prob. of t-statistics (0.000) is less than 5% level of significance, (0.000 < 0.05) the study reject the null hypothesis (H_{01}), as a result, the alternate hypothesis (H_{ai}) which says that there is a significant relationship between Morality and Corporate performance in the Banking Industry was accepted.

In addition, Table 2 shows the result on the coefficient determination (r^2) on Morality on Corporate performance in the Banking Industry as 0.976. This implies 98% of the total variation in corporate performance is accounted for, by the level of morality in the Banking Industry. The r is 0.988. This means there is a strong relationship between Morality and Corporate performance in the selected banks in South West, Nigeria.

Table 3 shows the correlation coefficient between Morality and Corporate performance. The r is 0.98. The aforementioned result shows that there is a strong relationship between Morality and Corporate performance in the selected banks in South West, Nigeria.

Table 4 shows the result of dishonest behaviour of Staff (DBOIS) on corporate performance in the Banking Sector. The coefficient of the constant term is -290 and its associated t-value is statistically significant at 5% level.. This however, implies that at zero level of performance, in banking operations, holding dishonest behaviour of Staff constant, the level of corporate performance in the Banking Sector, will decrease by 3%. In other words, the coefficient of the regression result on dishonest behaviour of Staff equally has a negative sign. This implies that dishonest behaviour of Staff has a significant effect on the corporate performance of selected Banks in the South East, Nigeria. Therefore, Since the Prob. of t-statistics (0.000) is less than 5% level of significance, (0.000 < 0.05) the study reject the null hypothesis (H_{01}), as a result, the alternate hypothesis (H_{ai}) was accepted, hence, There is a significant relationship between dishonest behaviour of individual staff and Corporate performance in the Banking Industry.

More so, Table 5 shows the regression result on the coefficient determination (r^2) on dishonest behaviour of Staff on corporate performance in banking operations. R^2 = 0.945. This implies that 95% of the total variation on corporate performance in the Banking Industry is accounted for, by the dishonest behaviour of Staff, in the selected banks in the South East, Nigeria. Durbin Watson is 2.454 at 5% level of significance with one explanatory variable with 170 observations, the tabulated DW for di and du are 1.758 and 1.778 respectively. The value of DW is less than the lower limit respectively. Hence, there is no evidence of positive first order serial correlation.

Table 6 shows the correlation coefficient between dishonest behaviour of Staff and Corporate performance in the Banking Industry. The R is 0.97. The aforementioned result shows that there is a strong relationship between dishonest behaviour of Staff and Corporate performance of Commercial banks in the South East, Nigeria.

CONCLUSIONS

Based on the findings, the study concludes that the employment of ethical management practices in the Banking Industry can enhance the overall corporate performance in their operations. Since ethics, is morally driven, the management should take responsibility of creating and sustaining a well established code of conduct that would strike a

balance between "right" and "wrong". The aforementioned, will create an ethical environment that would not only address the perceptions, aptitudes and value systems of the employees but enhances the overall corporate performance of the commercial banks, in the South East, Nigeria. Therefore, for any financial institutions to survive in the changing business environment should design a code of conduct that would mould the behaviour of its employees in day to day operations in an attempt to achieve the goal of the organization.

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