An Examination of Ethical Dilemmas in the Nigerian Banking Sector

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Abstract

Banks in the modern day society, almost everywhere, play a multifarious role, which includes unifying and intermediary roles between the fund-supplying and fund-demanding sides of the society, executing savings and investment functions. Considering the requirements for protection of the rights and interests of innumerable depositors, establishment of stability and confidence in financial markets along with requirements for economic development, banks are expected to ethically pursue their operations in compliance with the principles of integrity, impartiality, reliability, transparency, social responsibility and controlling money laundering. The objective of this paper is to examine ethical dilemmas in the Nigerian banking sector. The aim is to assess the level of unethicality of some Nigerian banking practices and the extent to which they affect the banking ethical climate. Data was collected from primary source through questionnaire and analysed using Kendall coefficient of concordance. The study found that unethical behaviours are prevalent in the Nigerian banking sector, however, the level at which and the extent to which they affect Nigerian banking climate vary. The study recommended that all stakeholders in the banking industry, namely the licensing authorities, shareholders, sponsors/directors, top management, the regulators, and the government, should be up and doing for ethical dilemmas in the Nigerian banking sector to be managed.

Introduction[1]

Ethics is the integrity measure, which evaluates the values, norms and rules that constitute the base for individual and social relationships, from a moral perspective (Smith and Smith, 2002). It consists of choosing the good over the bad, the right over the wrong and the fair over the unfair. It makes claims about what ought to be done or what ought not to be done (Carse, 1999). Integrity implies not merely honesty but fair dealing and truthfulness (CAJEC, 1992).

Ethical value provides the foundation on which a civilized society exists without which civilization collapses (Smith and Smith, 2002). When ethical values are falling, people often turn to government for help. However, there is little government, especially in a free society, can do when its citizens are unethical (Solzhenitsyn, 1978).

Ethics is a universally sensitive topic. One area of ethics that has received much attention in recent time is business ethics perhaps, due to the effect business has on the lives of the people. Business ethics is a form of applied ethics that examines rules and principles within a commercial context; the various moral or ethical problems that can arise in a business setting; and any special duties or obligations that apply to persons who are engaged in commerce (Ahmed, 2003). The purpose of ethics in business is to

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direct men and women to abide by a code of conduct that facilitates, if not encourages, public confidence in their products and services (Zuckerman, 1993).

Banks in the modern day society, almost everywhere, play a multifarious role, which includes unifying and intermediary roles between the fund-supplying and fund-demanding sides of the society, executing savings and investment functions. Considering the requirements for protection of the rights and interests of innumerable depositors, establishment of stability and confidence in financial markets along with requirements for economic development, banks are expected to ethically pursue their operations in compliance with the principles of integrity, impartiality, reliability, transparency, social responsibility and controlling money laundering (Carse, 1999).

The importance of ethical behaviour in the financial sectors is especially important since business depends as much on reputation as on performance (Brickley et al., 2002). The size and impact of ethical force for good can never be measured (Currie, 1996).

A 2002 World Development Report on the basis of empirical studies points out that a sound financial system helps to mitigate risks, create confidence, attract savings and create opportunities for investment. It also says that corruption on the whole and the consequences engendered by unethical banking system can cost the poor three times more than the rich.

The objective of this paper is to examine ethical dilemmas in the Nigerian banking sector. The aim is to assess the level of unethicality of some Nigerian banking practices and the extent to which they affect the banking ethical climate.

The study is motivated partly by the findings arising from a number of U.S, U.K and Turkish studies. The studies tend to suggest that bankers are relatively poorly developed in the area of moral development and ethical behaviour. Such studies have implications for the nature of banking regulation and it is therefore worth discovering whether their findings are also applicable to a Nigerian setting.

The Problem

Banking business depends on trust necessitated by the complexity of the transactions and vulnerability of customers because of imperfect information (Khan, 2002). While working under the principles of profitability and productivity, banks are obliged to obey certain ethical principles of banking profession and organizational ethics, which include honesty, integrity, social responsibility, accountability and fairness (Souter et al, 1995).

The problem is that banking business is becoming more complex and the borderline between what is legitimate and illegitimate become more blurred (Carse, 1999). This increases the need for banks to adhere to a strong set of values to steer them through the minefield of ethical choices with which they are faced as they make business decisions.

Incidentally, ethical values, argued Hortacsu and Ozkan-Gunay (2004), are still not firmly entrenched and followed in the banking system. Many banks are associated with accepting bribes in return for loans, lending to connected parties and cheating customers. More so, an ordinary bank customer does not have the opportunity and adequate knowledge to understand banking transactions, which is a requirement of the ethics of disclosure in banking business (Frenkel and Lurie, 2003).

In Nigeria, there is out cry by customers of discrimination and falsification of information, particularly in the areas of advertisement and foreign exchange transactions. More so, the mad rush by banks to meet the new capital base requirement of N25 billion recently, created a series of unethical and sharp practices in the industry according to the interim report issued by the NDIC. More recently, precisely on Friday, April 14, 2006, Daily Trust Newspaper published a strong warning given by CBN to Nigerian Banks that are engaged in the unethical and unprofessional behaviour of demarketing other banks through false information and unfounded rumour. The publication is a further confirmation of the unscrupulous, unprofessional and unethical behaviours and attitude that bedevil the Nigerian banking sector.

The problem of this study is therefore to examine the extent to which these unethical behaviours affect the banking climate in particular, and the overall financial system in general.

Hypothesis

H_o: Unethical behaviours and attitude do not affect the banking climate in the same direction
$H_{a:}$ Unethical behaviours and attitude affect the banking climate in the same direction

Methodology

The study is a descriptive survey generated in a two-stage process. At the first stage, interview was conducted with twelve bank managers to identify situations that might be perceived unethical in the banking community with a view to forming a firm background about ethical perceptions and beliefs in the industry. This constitutes a pilot study. At the second stage, a questionnaire, which covers ethical dilemmas in the Nigerian banking sector and consists of eight (8) unethical, banking behaviours, developed from the pilot study, was administered to thirteen (13) carefully selected well-experienced banking experts. We use Kendall Coefficient of Concordance (W) to test our hypothesis based on the experts' ranking.

The steps involved in the use of W, the Kendall Coefficient of Concordance are:

1. Let N = the number of entities to be ranked, and let *k* = number of judges/experts assigning ranks. Observed ranks are then casted in a Kx N table
2. For each entity, determine the sum of the ranks assigned to that entity by the judges, R_j
3. Determine the mean of the R_j. Express each R_j as a deviation from that mean. Square the deviation, and sum the squares to obtain *s*
4. Compute the value of W using

$$W = \frac{s}{{}^{1}/_{12}\, k^2 (N^3 - N)}$$

Where *s* = sum of squares of the observed deviations from the mean of R_j
k = number of sets of ranking, e.g. the number of judges/experts
N = number of entities (objects or individuals) ranked
${}^{1}/_{12}\, k^2 (N^3 - N)$ = maximum possible sum of the squared deviation

5. From the Concordance table look for the value of W at a given significance level. Based on the result, accept or reject hypothesis

6. When N is larger than 7, the expression is approximately distributed as chi square with

$$x^2 = k(N-1)W$$

Literature Review

Being perceived as ethical is crucial for the survival of a bank (Chiami and FullenKamp, 2002). On the other hand, unethical practices kill a system. Dunn et al (2003) explain that when the banking system of the U.S in the 1990s was bedeviled by unscrupulous and unethical practices, Charles Dickens describes the situation as the best of time and the worst of times, the age of wisdom and the age of foolishness, the season of light and the season of darkness, the spring of hope and the season of despair.

A great deal of the credibility of bankers appears to hang on the personal integrity of practitioners. The importance of this attribute is underlined by the breadth of the literature on the ethical issues associated with banking (see Mitchell et al, 1992; Carse, 1999; Syeduzzaman, 2001; Frenkel and Lurie, 2003; and Hortacsu and Ozkan-Gunay, 2004). According to Ahmed (2003), literature on ethical issues in banking can be classified as follows:

- Normative papers, which call for members of all profession to act in good faith and in the public interest (e.g. Flint, 1971)
- Analytical papers, which use philosophical arguments to develop models for resolving moral dilemmas (e.g Ruland and Lindblom, 1992)
- Empirical studies of the moral and ethical development of bankers. These papers are usually based on the methodology used in this study.

Accordingly, Josephson (1992) identified ten universal values that professional accountants and bankers are to uphold. These are: honesty, integrity, promise-keeping, fidelity, fairness, caring, respect for others, responsible citizenship, pursuit of excellence and accountability.

In their study, Mitchell et al (1992) identified seventeen categories of unethical behaviour in banking business: defrauding government, bribery of public officials, interest fraud and public abuse, lies and deception, employee theft, insider trading, bribery of private citizens, discrimination, socially questionable activities, bad judgement in management decisions, corporate politics, unfair trade practices, industrial espionage, environmental harm, safety, conflict of interest and invasion of privacy. While most of these dimensions overlap with others, Carse (1999) points out that bribery and corruption have been one of the root causes of banking problems. Syeduzzaman (2001) posits that unethical banking practices are engendered by government policies due to the influence of the government in shaping credit policy, sanction of loans and interest waiver. Frenkel and Lurie (2003) argued that the standard of ethics in a bank and the banking system depends on some key actors. These include the licensing authorities, shareholders, sponsors/directors, top management, the regulators and the government.

This assertion suggests that if the malaise of the banking system is examined, then the responsibilities can be laid at the door of all these actors. The actors are therefore, expected to be up and doing.

In this connection, Ahmed (2003) points out that in the past, adherence to rules by bankers was enough to ensure ethical conduct, but that the situation had changed due to ambitious and greedy actors making the banking system vulnerable to misconduct by the controllers at the policy level, directors at the decision making level and managers at the operational level, threatening not only the appropriate functioning of the banking system and financial system institutions but also the entire economy.

Many researchers share the above view. For example, Khan (2002) asserts that many unethical banking transactions take place under the very nose of the concerned authorities in which loans are frequently sanctioned under pressure from different quarters, which may vary from political to social or even due to monetary considerations to undeserving parties and for undeserving projects. Business viability is seldom crosschecked and the actual financial conditions of the loan applicants are seldom considered.

In a survey responses carried out in some U.S companies, it appears that the most important factor in controlling unethical conduct within organizations is how members of staff perceive the importance that senior management attaches to ethical behaviour (Ahmed, 2003).

It is noteworthy from the above that all stakeholders in the banking sector have to play their role in order for ethics to be ensued in the system. This requires a great deal of commitment, particularly by the regulators and top management.
In summary, review of available literature on ethical dilemmas in the banking industry reveals that many unethical and unprofessional behaviours and attitude are prevalent in the industry despite effort by regulatory and licensing authorities to address them. However, these behaviours and attitude are not synonymous with the banking sector of all countries. While some practices are found in Nigeria, others mentioned in the literature are not known in the Nigerian banking industry.

It is noteworthy to reiterate that all stakeholders in the banking sector have to be up and doing in addressing the menace of unprofessional and unethical behaviours that become inherent in the system.

Data and Findings

In examining the ethical dilemmas experienced in the Nigerian banking sector and the extent to which they affect the banking ethical climate, we used eight very common unethical banking practices discovered through our pilot study. These are: Power pressure, Money laundering, Information misused and theft, Lending to connected parties, Fraud and forgery, Bribery and corruption, Customer discrimination, and Cut-throat competition.

The eight unethical practices were presented to thirteen well-experienced banking experts to rank them in order of adverse effect and prevalence. The individual characteristics of the respondents were identified by variables such as gender, educational background, experience in the banking sector and number of banks worked. Respondents (13) included 31% women and 69% men. The majority of the respondents were university educated (62%) and 38% had postgraduate degree. 77% of them were working in the banking sector for more than 15 years. 62% had worked in at least two banks.

Responses were received from all the thirteen respondents. The various rankings submitted where computed and presented using Kendall coefficient of concordance as follows:

Ranking Unethical Practices in the Nigerian Banking Industry

Judges	Power pressure	Money laundering	Information misused and theft	Lending to connected parties	Fraud and forgery	Bribery and corruption	Customer discrimination	Cut-throat competition
A	6	8	7	5	4	1	2	3
B	4	6	3	7	2	1	5	8
C	8	7	6	5	2	4	3	1
D	4	8	5	3	1	6	7	2
E	6	8	7	4	2	1	3	5
F	2	8	6	7	3	1	5	4
G	5	8	7	4	1	2	3	6
H	4	6	7	8	3	2	1	5
I	2	6	1	8	4	7	2	5
J	7	4	5	6	3	2	1	8
K	6	8	5	4	3	1	2	7
L	2	8	5	7	6	4	1	3
M	5	8	7	4	3	1	2	6
Rj	61	93	71	72	37	33	37	63
Rj-(ΣRj/N)	2.6	34.6	12.6	13.6	(21.4)	(25.4)	(21.4)	4.6
$[Rj-(\Sigma Rj/N)]^2$	6.76	1197.16	158.76	184.96	457.96	645.16	457.96	21.16

Source: Questionnaire returned (2006)

With the above information, we may compute W:

$$W = \frac{s}{{}^{1}/_{12}\, k^2 (N^3 - N)}$$

$$W = \frac{3129.88}{{}^{1}/_{12}\, (13)^2 [(8)^3 - 8]}$$

$$= 0.44$$

Since N is greater than 7, we then substitute into $x^2 = k(N\text{-}1)W$

$$13(8\text{-}1)0.44 = 40.04$$

The value of W from chi square table is 22.36

From the table above and the computation there under, the computed value is 40.04 while the value of W from the chi square table at 0.05 significance level is 22.36. Since the computed value is greater than the W from the chi square table, we therefore accept the null hypothesis.

From the foregoing, we conclude that unethical behaviours are prevalent in the Nigerian banking sector. However, the level at which and the extent to which they affect Nigerian banking climate vary.

Conclusion and Recommendation

Unethical behaviours kill a system. However, the extent to which certain ethical attitude affect banking than others is hardly ascertained. Since the standard in a bank and the banking system depends on the licensing authorities, shareholders, sponsors/directors, top management, the regulators, and the government, it follows that for ethical dilemmas in the Nigerian banking sector to be managed, all stakeholders must be up and doing.

It is essential for a bank to be clear about the key ethical values to which it subscribes. It then needs to ensure that the organisation and the employee act in accordance with these values. It is also necessary to have policies and procedures designed to ensure compliance with the standards specified in the code of conduct. Codes of conduct and the means to enforce them are important tools for management of ethical issues and attitude in the banking sector. However, narrow compliance-based approach towards ethics management should be avoided.

Another important factor in controlling unethical conduct is how staff perceive the value that senior management attaches to ethical behaviour. What matters in other words, is the general culture of the organisation and the example that is set by those at the top.

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