

Effect of Corruption on Corporate Financial Performance; A Study of the Banking Industry in Nigeria (1996-2014)

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Abstract: The study set out to investigate the impact of corruption on bank performance in Nigeria. Three objectives were formulated along with three corresponding hypotheses. Data were collected from secondary sources mainly the Central Bank of Nigeria (CBN) statistical bulletin and Transparency International publications on corruption. Aggregate data covering the period 1996 through 2014 of all the banks operating in Nigeria were collected and analysed using Ordinary Least Square (OLS), unit root, co-integration, and Error Correlation Mechanism (ECM). The study used Return on Equity (ROE), Return on Asset (ROA) and Net Interest Margin (NIM) as proxies of performance and Corruption Perception Index (CPI) as proxy of Corruption published by Transparency international with size proxy by deposit mobilisation as control variable. The study revealed that the combined impact of corruption and deposit mobilisation on bank performance over the years is statistically significant. However, the direction of impact varies with time and the variable of measurement. Based on the findings, the study concludes that corruption has a significant impact on the performance of banks in Nigeria. The study therefore, recommends that there is need to review the legal and regulatory framework of banks in order to further enhance and strengthen the fight against corrupt practices in the banking sector. Also, the banking industry needs to strengthen their internal control system to be able to identify and prevent corrupt activities.

Keywords: Return on equity, return on asset, net interest margin and corruption perception index.

1.1 Background to the Study

The pervasiveness of corruption in most parts of the world has remained a global concern to various governmental and non-governmental organizations due to its impacts on economic stability and the degree of national development. In particular, it is rampant among the developing countries since the limited available states' resources as revealed are always diverted into private use by public officials (Nwankwo & Nweke, 2016). The effect of corruption touches every facet and sector of society, most especially, the economy. For instance, Nigeria presents a typical case of a country in Africa whose development has been undermined and retarded by the menace of corrupt practices (Agbakor, 2010).

Today, many firms including banks are winding up despite recapitalization due to embezzlement, theft of funds, inflation of contract values, poor credit facilities management, concealment of material facts, forgery, counterfeiting, stolen cheques, money laundering, etc to the extent that it damages critical management of the firm and scare away both foreign and domestic investors, and expose firms to risk and reduces profit (Ibrahim, Adeyemi & Odunayo, 2015). Poor profitability can weaken the capacity of the system and safety to absorb adverse disturbances because capital formation would be limited (Mongid, 2007).

Corruption in Nigeria has continued to affect the entire fabric of the economy by way of low productivity and high incidence of poverty. In fact, it has continued to impoverish the masses more than expected through diversion of social benefits from the poor, diversion of funds meant for execution of projects, provision of infrastructural facilities that should enhance the social and economic well-being of the citizens and also attract investment and employment. Okike (2007) argues that the various measures taken by government to improve the investment climate and corporate governance, meant to help attract foreign investment, are commendable with the investment potential in Nigeria. However, the government's effort cannot yield good results because of corruption in entire sectors in the county. Transparency International (2015) Corruption Perceptions Index ranked Nigeria as 136 out of 168 countries based on the prevalence of corrupt practices.

Literature is replete with discourse from different perspectives on the issue of corruption. Most of them have concentrated on the nature and different ramifications of corrupt practices and in the different sectors and facets of society including measures on how to curb corrupt practices; but views are divergent on the exact impact of corruption on the economy as well as organisations (Kaufmann & Wei, 1999; Acemoglu & Verdier, 2000; Svensson, 2003; Albertazzi & Gambacorta, 2009; Wang & You, 2012;). This is not surprising, having regard to the fact that different authors have approached the subject matter from different conceptual and theoretical perspectives. These perspectives are from the angle of cost-benefit perspectives (Nye, 1967; Baumol, 1990; Acemoglu, 1990; Gould, 1991; et al, 1993; Murphy Sachs and Warner, 1995, Wei

macroeconomic (1997). ; Bardhan, 1997; socio-cultural (Gray et al, 1998, legalistic (Tanzi, 1998; micro-economic-firm growth (Rahman et al, 1999) parametric (Rose-Ackerman, 1999), political economy (North, et al., 2000; morality (Jain, 2001) Mauro, 2002; Harford and Klein, 2005. Governance Matters, 2009 ;), Ugur, et al (2011), interdisciplinary (Eugene, 2013) Mustapha et al, 2013; and so on. In fact, approximately 170,000 papers (JSTOR, 2013) within fourteen broad categories of economic analyses on corruption have been published. To this extent, several universities such as the University of Paderborn (Germany), University of Passau (Germany), University of Regina (Canada) and the New Economic School (Russia) have commenced offering courses on the economics of corruption.

This feat notwithstanding, the concentration of studies has been in other climes (economies) and not much has been done in Nigeria especially at the micro-economic firm level. More so, there has not been any convergence, in terms of the results (impacts and approaches). This arouses high curiosity, particularly in the case of Nigeria, where the menace continues to grow at an alarming proportion. Even though, in the existing literature, empirical studies on corruption and economic growth are abounding, there is still a wide gap or vacuum that is left to be filled, which this study seeks to contribute to. For instance, there has not been any known study on the impact of corruption on the Nigerian banking sector, especially between 1996 and 2014. Secondly, existing literature rarely used net interest margin as a bank performance indicator, which this study has used. Thirdly, findings of existing studies have not reached any consensus as regards the nature and direction of effect.

1.2 Statement of the Problem

In Nigeria, banking in its modern form started in 1892, when the African Banking Corporation (ABC) commenced formal banking business in the country. ABC was later taken over by Bank of British West Africa, known today as First Bank of Nigeria Plc. The period 1927 to 1951, recorded a boom in the establishment of indigenous banks, which was followed by a burst as twenty-two of the twenty-five indigenous banks failed within the period. Between 1952 and 1978, the banking sector recorded forty-five (45) banks, and between 1979 and 1987, the number of banks increased to fifty-four (54). The number of banks rose to one hundred and twelve (112); between 1988 and 1996; but dropped to one hundred and ten (110) between 1996 and 2000; eighty nine (89) between 2001 and 2005 and finally dropped to twenty-five in 2006 following the bank consolidation exercise.

In January 2001, Nigeria adopted the Universal Banking System, which removed the dichotomy between the erstwhile commercial and merchant banks in Nigeria, thus paving the way for banks to effectively play their intermediation role and provide a level playing ground for operators in the banking industry. Consequently, the banks were able to pursue the business of receiving deposits, providing finance, consultancy and advisory services unhindered. During the period, (2001 – 2005) the number of banks grew astronomically up to eighty-nine (89). However, the persistence of structural rigidities including low capital base, declining ethics, huge non-performing loans, weak corporate governance and overdependence on public sector deposits precipitated the reform that led to the banking system consolidation in the first quarter of 2006. Under the reform, the minimum capitalization for each bank was raised to N25.0 billion to be met by end-December 2005 and the banks were encouraged to consolidate through mergers and acquisitions. At the conclusion of the exercise, 25 banks emerged out of the previous 89 that existed prior to the consolidation by way of 49 mergers. Furthermore, 2 of the 25 consolidated banks merged to bring to 24 deposit money banks on the financial landscape currently.

Bank failure in Nigeria can be traced to the 1930's bank failure and crisis. Nwankwo (1994) pointed out that the crisis of confidence in the Nigerian banking industry occurred in the 1930s when all indigenous banks, except the National Bank, collapsed. It occurred again during the banking "boom and crash" of the late 1940s when all, but four indigenous banks, experienced the liquidators' hammer. Also between 1952 and 1954, 16 out of 21 indigenous banks failed. In the late 1990s, 26 failed banks were liquidated, while others went through various surgical operations ranging from restructuring, renaming, mergers and outright sales to new investors.

Some of the reasons adduced for the failure of banks were weak regulations, inadequate capital poor credit administration, weak corporate governance, fraudulent practices etc. Bank performance has not significantly improved despite all the measures introduced via the reforms. It is against this background that the study seeks to determine empirically the role corruption plays on bank performance.

1.3 Objectives of the Study

The main purpose of this study is to examine the effect of corruption on corporate financial performance, with particular emphasis on the banking sector in Nigeria. The specific objectives are;

- 1) To determine the effect of Corruption Perception Index (CPI) on return on equity of Commercial banks in Nigeria.
- 2) To assess the effect of Corruption Perception Index (CPI) on return on assets of Commercial banks in Nigeria.
- 3) To ascertain the impact of Corruption Perception Index (CPI) on net interest margin of Commercial banks in Nigeria.

Review of Related Literature

2.1 Conceptual Framework

In the preceding section we shall be making conceptual classifications and linkage of the major components of the study.

2.1.1 The Concept of Corruption

Corruption, just as any other concept has no universally accepted definition. Conceiving the virtues of corruption requires a definition to hold across cultures and countries. Corruption may be seen from different perspectives depending on the orientation of the individual based on the country of origin or the norms of the society where the person has been raised; even though, different societies might share a similar understanding of good and bad.

Three distinctive approaches have been offered in political science literature on how to spot corrupt behaviour: public interest, public opinion, and legal norms (Scott, 1972).

From the public interest point of view, emphasis is put on deviant behaviour impeding the public interest, caused by administrative or political bodies. (Sandholtz & Koetzle, 2000). Specifically, this definition highlights the intrinsic motivation of public officials to provide favours to particular groups in exchange for private rewards. With this being a shared characteristic of corrupt behaviour and as such providing a commonly agreed definition, it certainly lacks lucidity, as it is impossible to identify public interest based on a country's heterogenic population objectively.

Corruption is what the public thinks it is, in the view of the public opinion approach. So, there are variations in corruption standards, which results from cultural differences. Consequently, this not only eliminates the possibility of a clear cross-cultural definition but also creates new uncertainties as, for example, who exactly represents the relevant public (Scott, 1972). From this standpoint, the public opinion does not provide any clear guidance on how to resolve the problem of unambiguously defining corruption. When corruption is seen as a behaviour that violates "specific rules governing the way public duties should be performed", including illegal exchanges of political favours for private rewards, it points to the legal norms approach (Williams, 1987). The question of who exactly defines the normative character of 'specific rules' that improve the welfare provision for the population remains a debatable question.

From the above, we understand that there is no single accepted definition for the term "corruption" because what may seem corrupt in one society may not necessarily be perceived as such in another. Though there have been different attempts to define it, there is no precise, clear definition that can be applied to all forms, types and degrees. Friedrich (1989) says "Corruption is a kind of behaviour which deviates from the norm actually prevalent or believed to prevail in a given context, such as the political. It is deviant behaviour associated with a particular motivation, namely that of private gain at public expense." The Oxford English dictionary defines corruption as "Pervasion or favour, the use or existence of corrupt practices especially in a state, public corruption, etc." The definition most frequently used by social scientists is by Nye (1967), that corruption is: "...behaviour which deviates from the normal duties of a public role because of private-regarding (family, close private clique), pecuniary or status gains; or violates rules against the exercise of certain types of private-regarding influence. This includes such behaviour as bribery (use of rewards to pervert the judgment of a person in a position of trust); nepotism (bestowal of patronage by reason of ascriptive relationship rather than merit); and misappropriation (illegal appropriation of public resources for private-regarding uses)".

Another popular definition is the one given by Palmier (1983) who says "corruption is seen as the use of public office for private advantage." This definition is directly in line with the Economic and Financial Crimes Commission (EFCC) Act 2004 which deals with the use of public office for private or personal aggrandisement.

The African Development Bank Group Policy on Good Governance defines corruption as: "The misappropriation of public assets or public office and trust for private gains." Thus, the misuse of public office in order to gain private benefit may serve the purpose of a concise and roughly precise definition of corruption.

We can then, summarise corruption to mean:

- conduct that adversely affects the honest performance by a public officer or public body of their functions;

- conduct of a public officer or body that constitutes or involves the dishonest performance of their functions;
- conduct of a public body or officer that knowingly or recklessly breaches public trust;
- conduct of a public officer or body that involves the misuse of information or material acquired in the course of the performance of their role or function, whether or not for the benefit of the public body or person;
- Conduct that could constitute a conspiracy or an attempt to engage in the above forms of conduct.

Corrupt conduct can take many forms including (Jain, 2001):

- taking or offering bribes;
- dishonestly using influence;
- fraud;
- theft;
- embezzlement;
- Misuse of information.

Jain (2001) further claims that fraud, money laundering, drug trades, and black market operations do not belong to the term corruption in the first place, because they do not involve public power's use and abuse. Still, officials often have to be involved (e.g. via bribery) in order to carry out these activities and thus business can rarely be performed without the corruption of public officials. For that reason, these acts are considered as part of a wider definition of corruption (Tanzi, 1998).

2.1.2 Causes of Corruption

The causes of corruption are numerous and the situation is often similar in many ways among developing countries. The root cause of corruption, inefficiency, and waste in developing countries, is the dysfunctionality of public sector governance as considered in many quarters. Barrages of corrupt practices have buffeted developing economies predominantly. These have deep haven in the socio-political and cultural psyche and existence in such nations. Sub-Saharan Africa has particularly been on the receiving end of these corruption effects, where majority of the populations especially in the rural areas suffer untold hardship as a result of what can be termed as organised or systematised corruption.

Patronage ties between political elites and those they represent often place heavy informal obligations and demands on the former. Typically, such elected representatives are not only overwhelmed with financial pressure from their family, but also from kin, clan, hometown and tribal or ethnic constituents. Such obligations are almost always fulfilled through corrupt means. Thus, the participants in corruption are many besides the politician or elite who actually engages in the act. Because of the absence of state welfare institutions in most Africa countries, political constituents expect politicians representing them to cater for their quotidian and small scale infrastructural needs. In other words, neo-patrimonial regimes become the rule, and the state emerges as an extension of the ruler's household, patronage, ethnic and kinship ties and bribes become major modes for governance. Another cause of corruption is psychological. There are numerous psychological factors that can help to explain some types of corruption. Internally, some people are "naturally evil" and will commit criminal acts, including corrupt ones in any type of system.

Pressure and peer comparison can contribute greatly to acts of corruption especially so where the socially revered are the corrupt ones. This presupposes that in an environment where an individual see others around him/her benefiting from corruption, they may well choose to indulge too. Nepotism, that is, helping others because they are closely related to you can also be related in psychological term. The cliché "blood is thicker than water" is common parlance in Africa. This can also be explained in terms of people wanting to entrench themselves or maximise their hold on power.

Moreover, monopoly of power can also be a cause of corruption in Africa. This could often apply or exist for the simple reason that people in power are the ones mainly charged with the responsibility of governing. Thus, out of discretion they can expend such powers to perform acts of corruption as may be dictated by their circumstances.

Furthermore, weak judicial system is also a serious cause of corruption. Most often, judicial systems are weak as a result of poor conditions of service, to the extent that even the judges are corrupt (take bribes to dispense justice). In such situations, it is the poor people that suffer the brunt of injustices as the rich always stand a better chance of getting justice over the poor. Furthermore, the absence of clear-cut separation of powers between the judiciary and executive arms often results in the latter exercising undue influence over the former. Such undue influence is most pervasive in situations where there is no guarantee of security of tenure for the judicial officers.

Huntington (1968) suggests that corruption is a by-product of modernisation, claiming that in the modernisation process, corruption serves to bypass unproductive and inefficient policies. Mbaku (1996) contends that a complex regulatory system creates a strong tendency for bureaucrats to take advantage of their positions by seeking gratuities for performing routine services; this leads to endemic and institutionalized corruption. Corruption is more likely to occur when the government creates barriers to economic activity that can produce excessive profits such as market entry barriers. Individuals collecting the high profits are willing to protect their position by bribing government officials. Furthermore, poor remuneration of bureaucrats will breed Corruption to enable them maintain an adequate standard of living. (Coalition Report, 2000).

2.1.3 Effects of Corruption

Scholars point to a diverse set of possible consequences of corruption, such as inequality of income, lower GDP per capita, lower investment, budget allocation distortions, a worsened public sector quality, the distortion of markets or the emergence of underground economies and tax cheating (Lambsdorff, 2006). Even though, research provides inconclusive results in certain aspects, many scholars are in agreement about the overall negative effects caused by corruption. The costs imposed on many far exceed the profits generated by few because corruption distorts the functionality of the whole economy. Corruption contributes to more extensive fiscal deficits as public revenues are reduced while public spending is simultaneously increased.

The effects of corruption can also be examined from political, economic, social and environmental perspectives. Politically, corruption impedes democracy and the rule of law. In a democratic system, public institutions and offices may lose their legitimacy when they misuse their power for private interest. Corruption may also result in negative consequences such as encoring cynicism and reducing interest of political participation, political instability, reducing political competition, reducing the transparency of political decision making, distorting political development and sustaining political activity based on patronage, clientele and money, etc. In our society, the impact of corruption is often manifested through political intolerance, problems of accountability and transparency to the public, low level of democratic culture, principles of consultation and participation dialogue among others.

The economic effects of corruption can be categorized into micro, meso, and macro. However, both in one way or the other have serious impact on the individual community and country. First and foremost, corruption leads to the depletion of national wealth. It is often responsible for increased costs of goods and services, the funneling of scarce public resources to uneconomic high profile projects at the expense of the much needed projects such as schools, hospitals and roads, or the supply of potable water, electricity, diversion and misallocation of resources, conversion of public wealth to private and personal property, inflation, imbalanced economic development, weak work ethics and professionalism, hindrance of the development of fair in market structures and unhealthy competition thereby deterring competition. Large scale corruption hurts the economy and impoverishes the entire population.

In social sphere, corruption depress people to work together for the common good, aggravate apathy among the public result in a weak civil society. Demanding and paying bribes becomes the tradition. It also results in social inequality and widened gap between the rich and poor, civil strife, increased poverty and lack of basic needs like food, water and drugs, jealousy, hatred and insecurity. Closer home, corruption is said to have been one of the factors that motivates political office holders to want to hold on to power, by attempting to amend the constitution to their favour or even misinterpret the constitution. Corruption accounts for the weakness in the institutions, particularly those that should stand for and defend the citizenry and the constitution, which thereby undermines the legitimacy of the governments and weakening their structures, reducing productivity, hindering development, worsening poverty, marginalizing the poor, creating social unrest and then, finally, unpopularise the government.

The impact of corruption on developing countries cannot be overemphasized. The results are often disastrous. The sixteen years civil conflict in Nigeria, for instance has largely been associated to pervasive corruption in all spheres of governance. The occurrence of corruption in large scale reflects in many areas of development and is intrinsically linked with under development. Poor conditions of service as is the case in many developing countries open the door to bribery. Corrupt officials often accept substandard quality of service because of kickbacks thus depriving the country of value added service from contractors and consequently resulting to the implementation of water washed roads or schools. Health care facilities remain inadequate and inaccessible because most times, drugs meant for especially children and women particularly in government health centres and hospitals could be easily seen on the shelves of private pharmacies.

One of the greatest impacts of corruption normally arises out of the choices and priorities of governments. This occurs when the real development priorities of a country are often neglected in favour of those that generate the greatest personal gains for the decision makers. Here, it is clearly evident that many

projects have become white elephants and easy route for personal enrichment. When loans taken by governments on the pretext of undertaking some projects are diverted to private accounts and coffers, the attendant effect is that such loans would have to be paid with interest and at the same time increasing the debt burden of the country. Moneys recovered from politicians in the process of investigating or prosecuting corrupt cases are diverted into the private accounts of those in charge of the investigations and prosecution.

Corruption facilitates environmental destruction. Corrupt countries may formally have legislation to protect the environment; but these cannot be enforced if officials can easily be bribed. The same applies to social rights, worker protection, unionization prevention, and child labour. Violation of these laws and rights enables corrupt countries to gain illegitimate economic advantage in the international market.

2.1.4 Corruption and the Economy

Corruption generates considerable distortions and inefficiency thereby undermining economic development. In the private sector, corruption increases the cost of business through the price of illicit payments themselves, the management cost of negotiating with officials, and the risk of breached agreements or detection. Although some claim corruption reduces costs by cutting bureaucracy, the availability of bribes can also induce officials to contrive new rules and delays. Where corruption inflates the cost of business, it also distorts the playing field, shielding firms with connections from competition and thereby sustaining inefficient firms. Corruption also generates economic distortions in the public sector by diverting public investment into capital projects where bribes and kickbacks are more plentiful. Officials may increase the technical complexity of public sector projects to conceal or pave the way for such dealings, thus further distorting investment. Corruption also lowers compliance with construction, environmental, or other regulations, reduces the quality of government services and infrastructure, and increases budgetary pressures on government.

Economists argue that one of the factors behind the differing economic development in Africa and Asia is that in the former, corruption has primarily taken the form of rent extraction with the resulting financial capital moved overseas rather than invested at home (hence the stereotypical, but often accurate, image of African dictators having Swiss bank accounts). In Nigeria, for example, more than \$400 billion was stolen from the treasury by Nigeria's leaders between 1960 and 1999. University of Massachusetts researchers estimated that from 1970 to 1996, capital flight from 30 sub-Saharan countries totalled \$187bn, exceeding those nations' external debts. (The results, expressed in retarded or suppressed development, have been modelled in theory by economist Mancur Olson.)

2.1.5 Corruption and the Banking Sector in Nigeria

Fraud and fraudulent practices are in categories. Mitchell *et al* (1992) identified seventeen categories of unethical behaviour in banking business which include defrauding government, bribery of public officials, insider trading, bribery of private citizens, discrimination, socially questionable activities, bad judgment in management decisions, corporate politics, unfair trade practices, industrial espionage, environmental harm, safety, conflict of interest and invasion of privacy. Most of these unethical behaviours were prevalent in banking business in Nigeria. A worrisome development in fraud and fraudulent activities is increased rate of bank staff involvement especially in forgery cases.

Forgery is the fraudulent copying and use of a customer's signature to obtain money from the customer's account without his/her prior consent. Such forgery may be targeted at savings accounts, deposit accounts, current accounts or transfer instruments such as drafts. Okpara (2009) reported high involvement of bank staff in these fraudulent practices. Nwaze (2009) affirms that most forgeries are perpetuated by internal staff or by outsiders who act in collusion with employees of the bank. Impersonation by third parties to fraudulently obtain new cheque books which are subsequently utilized to commit fraud is another peculiar dimension of bank fraud.

Impersonation involves assuming the role of another with the intent of deceitfully committing fraud. Cases of impersonation have been known to be particularly successful when done with conniving bank employees who can readily make available the specimen signature and passport photograph of the unsuspecting customer. NDIC (2011) report reveals that 78.26 per cent of fraud which was perpetuated with staff connivance amounted to N900 million losses to the affected banks.

CBN (1995) special report on distressed banks showed that top management staffs were involved in fraudulent activities. It showed that there was a lot of insider abuse in several banks. In some cases, the CEOs set up Special Purpose Vehicles (SPV) to lend money to themselves for stock price manipulation or the purchase of estates. The report cited a case in which the CEO of a bank borrowed money and purchased private jets which were registered in the name of the son. In another bank, the management set up 100 fake companies for the purpose of perpetrating fraud. CBN also disclosed that 30% of the share capital of one bank was purchased with customers' deposits, while another bank used depositors' funds to purchase 80% of its Initial Primary Offer. It

paid N25 per share while the shares were trading at N11 on the Nigerian Stock Exchange which later collapsed to less than N3 per share. In another instance, the CEO of a bank controlled over 35% of the bank through SPVs borrowing customers' deposits. The collapse of the capital market wiped out these customers' deposits amounting to hundreds of billions of naira. The implication is that a lot of the capital supposedly raised by these so called "mega banks" was fake capital financed from depositors' funds. The extent of these unethical practices in the Nigerian banking system arguably reflects the general degree of corruption in the country.

Transparency International Corruption Perceptions Index (2015) ranked Nigeria as 136 out of 168 countries based on the prevalence of corrupt practices. The increase in bank staff involvement may be connected with the reluctance to report and prosecute cases by the affected banks. Gold (2009) and Olasanmi (2010) opine that because many fraud cases escape detection, it encourages many others to join in perpetuating it.

Fraud has been classified in various ways using different parameters. Owolabi (2010) classified perpetrators of fraud as management of the banks (otherwise referred to as management fraud), insiders (these perpetrators are purely the employees of the banks), outsiders (include customers and/or non-customers of the banks) and outsiders/insiders (this is a collaboration of the bank staff and outsiders). In almost the same manner, E-banking also attracts varieties of fraud such as skimming, (counter fact card fraud) stolen card, fraudulent applications, E-theft, never received issue, card data manipulation, Automated Teller Machine (ATM) video, spam mails or denial service, access swift fraud, inter-bank clearing frauds, money laundering frauds and identity theft/phishing (utilizing other people's identity such as credit card info and identity numbers to make unauthorized purchases).

2.1.6 The Concept of Firm Performance

Bourke (2013) defines performance as the net after-tax income of banks commonly measured by return on assets and return on equity ratios. Firm performance is influenced by both internal and external factors. Among the internal factors (specifically bank specific internal factors) are capital adequacy, cost efficiency, liquidity, credit risk, asset quality, and size. The external factors influence bank performance are mostly macro-economic, legal and political in nature, some of which include inflation rate, real interest rate, investment and ownership real gross domestic product, imports and exports of country, corruption etc. Researchers have widely used return on total assets (ROA) and return on equity (ROE) as performance measures (Delis & Staikouras, 2006; Hassan & Bashir, 2003), while researchers on bank performance have also included Net Interest Margin (NIM) as performance measure (Khravish, 2011). The return on total asset, which is the ratio of net income to total assets, also measure how profitably and efficiently management, was able to utilize the assets of the firm. The return on equity, which is the ratio of net income to equity, also measures the expectation of shareholders on the book value of their investments. Net interest margin is the difference between interest earned and interest paid out, having regard to the fact that interest earnings constitute the main earnings of a bank. (Molyneux & Thornton, 1992; Balachandher & Shannugam, 1997).

2.2 Theories that Relate Corruption to Bank Profitability

The adoption of theoretical framework in the management and Social Sciences greatly helps in the analysis and even understanding of concepts from some theoretical framework point of view and/or orientation (Kayode *et al.*, 2013). For the purpose of this thesis, the Principal-Agent theory otherwise known as agency theory is adopted for the theoretical framework of analysis. Agency theory has been used by scholars in Accounting, Economics), Finance etc.

2.2.1 The Agency Theory

The Principal-Agent theory adopted from Batley (2004) examines organizational relationship as a tension between the "Principal" who demands a service and the "Agent" who provides it. The model assumes that actors are motivated by rational self-interest. The issue in the context of this thesis is how the principal (in this case, the banks) can manage the self-interest of those empowered to act on their behalf (i.e. the board of directors, shareholders.) so that it is aligned with the purposes that they (the principal) wish to achieve.

According to Jensen & Meckling (1976) managers of entities would want to act by taking anti-ethical strategies to achieve targets to satisfy their employers (principals). This agrees with the American dream theory of fraud which states that given corporate environment, to pull an impressive level of accomplishment, a strong pressure to succeed is mounted on executives to pass through a narrowly defined way. To overcome the inevitable challenges, desperate managers pass through the fraudulent path to achieve a measure of success when others could not (Eze, 2015).

Managers act in manners that are not really in the best interest of their principals (for selfish reasons), especially where there is discontentment for one reason or the other in line with the agency conflict theory. In this case, the relationship between owners and managers, a principal-agent relationship, both differs in needs

and preferences. In this context, an obvious theoretical argument for the relationship between the corruption and profitability arise, the main incentive for management to be efficient and profitable becomes an important consideration.

Following Jense & Meckling (1976) their results has implications for banks' profitability as results suggest that the corporate governance structure influence performance. The issue is will banks with more stringent and value based corporate governance structures and environment likely to perform better, and therefore, more profitability?

2.2.2 Theories of Distributive Corruption

The theory of distributive corruption highlights the weakness of the state in its relationship with the society. This theory is based on empirical evidence in some countries like Russia or Bangladesh where state failure has gradually been caused by the power of patronage networks. This theory is characterized by the dominance of on social group (ethnic or regional) or economically powerful enough to challenge the state in all its authority. Through bribery, this class derive enormous benefit of their activities for example requiring officials to work towards their favour. Thus these groups may receive particular policy makers, public goods and services; advantages in terms of regulation. In return, the policymaker is guaranteed the political support of the power lobbies. At this level the main beneficiaries of public resources are not diverted politicians or bureaucrats, but these resources are distributed to power clans social or economic (hence the term distributive corruption) in form of tax exemptions, grants leases, pensions, health coverage and housing etc. However, these groups earn more than they bring in terms of investment or public projects, aid for internal development. Moreover, the loser is undoubtedly the state and its regulatory power. All its capacity to mobilize revenue, to implement consistent policies and priorities becomes eroded [Amundsen (1997)]. Indeed, distributive corruption affects the poor, because the basic public services including education, health, social security are allocated based on the ability of individuals to influence policy and pay bribes. In the literature, the feudalization term is used to describe this state of powerlessness. This refers to the feudal system that was characterized by exploitation and manipulation of a majority by a minority group. If short term, those in power may benefit from political support of the clans in term of loyalty; in the long run, the unity of state is jeopardized.

One of the objectives of regulation and supervision is to overcome the moral hazard problem in the banking sector. In the absence of regulations, politicians assume that value-maximizing banks take on more risks than is optimal and acceptable for depositors. While risk taking is beneficial for average individual banks, one bank failure is highly undesirable for depositors and may spill over to the entire banking sector. Regulation that requires minimum capital ratios would likely negatively influence profitability as regulation constrains value-maximizing banks in risk taking and in reaching an optimal capital structure.

Furthermore, Saunders & Cornett (2008) opine that the net regulatory burden could also negatively influence bank performance. The net regulatory burden equals the cost minus the benefits of regulation. Costs of regulation are e.g. compliance costs, referring to the costs of preparing reports and statements to regulators, or costs of being restricted from an optimal portfolio or capital structure.

2.2.3 Theory of Extractive Corruption

Unlike the previous case, this theory postulates that the state is the strongest in its relationship with society. It is even considered too strong. This theory is based on the authoritarianism of the ruling class in some countries. At this level, the ruling elite use the state apparatus as a tool for extracting the wealth from society. This analysis refers to the famous quote that support that all power tends to corrupt but absolute power corrupts absolutely. This is particularly the case in many African countries. Indeed, the powers that are trying to develop arrangement and sophisticated modifications to the image of the party system, the appointment of rivals to reduce the power-sharing, the lawlessness, violation of human right and electoral fraud also become of instrument on which dictatorship. Thus violence is taking over the charisma and persuasion.

Political corruption is also becoming the preferred instrument of private appropriation of collective resources. Investments are not made in productive areas. Appointment and promotions in public sector are not based on merit, but they depend on political and economic interest. Corruption stems from the neo-patrimonial system present in the African countries, Latin America and Asia. This concept is widely used in political science to describe undemocratic regimes characterized by assimilation of public ownership to private ownership, as well as a strong presence of the patron-client relation. In neo-patrimonial system, public resources are distributed in form of employment, contracts, grants and other public resources to allies and friends. In some countries in sub-Sahara Africa, the neo-patrimonial and clienteles' practices are the foundation of the hegemony of the ruling class. Amundsen's survey (1997) shows that countries like Cote d'Ivoire and Cameroon, are led by group of about 50 families who have control over public resources of the state. Many civil wars in Sierra Leone in particular, Liberia and Congo/Brazzaville originate from grip of the ruling class on the collective resources.

Banks which are not favoured by the state tend to make lower profit, so each bank executive and managers tries to engage in activities which will put them in the good books of the state ruling elite and stakeholders, thereby fuelling corrupt practice. Banks are made to give out loans to high shot politicians without the laid down rules and regulations, leaving the bank at a more risky path; this could mean well or doom for the bank depending on the prevalence economic realities

2.3 Empirical Review of Literature

Several researchers have analysed the effects of corruption from various perspectives, some of which include Murphy *et al*, 1993; Mandapaka, 1995; Bardhan, 1997; Pellegrini and Gerlagh, 2004; Rock and Bonnett, 2004; Abed and Davoodi, 2002; Wang and You, 2012; Okpara, 2009; Nwaze, 2009; etc. In a similar vein, there are also bulging empirical studies on the subject of firm performance, and more particular bank performance and its determinants (Bourke, 1989; Berger, 1995; Angbazo, 1997; Molyneux and Thornton, 1992; Demircuc-Kunt and Huizinga, 1999; Berger and Bonaccorsi, 2006; McAllister and McManus, 1993; Mauro, 1995; Sufian and Habibullah, 2009, etc). The remaining part of this section shall discuss the review empirical literature on the impact of corruption on firm performance, with particular reference to the banking sector.

2.3.1 Corruption and Firm Performance

The relation between corruption and firm performance has received significant attention, particularly in recent times. Mongid & Tahir (2011) studied the impact of corruption on banking profitability of ASIAN countries including Indonesia, Malasia, Singapore, Thailand, the Philippines and Vietnam. Using return on asset (ROA) as proxy for profitability and corruption index (CI) as proxy for corruption, the results showed that the corruption index was positive and is significant to profitability, which underlies the ability of banking firms in that region to enjoy benefits in a bad governance environment.

In a similar pattern, Rock & Bonnett (2004) also investigated and showed that corruption in large East Asian economies such as China, Indonesia, Japan, Thailand, and Korea significantly promotes firm performance. Kaufmann and Wei (1999) find a positive correlation in the tendency of firms to pay bribes and the time that is wasted on bureaucratic procedures. In some cases, firms engage in corrupt practices in an attempt to promote their short-term growth by facilitating transactions in the bureaucratic process. In the opinion of Wang and You (2012) “good corruption” components are used as “speed money”, which could promote firm growth by overcoming the less efficient regulations. This is also consistent with the well-known “speed money” hypothesis. They concluded that if financial markets are underdeveloped, corruption appears not to be a vital constraint on firm growth. On the contrary, Pellegrini & Gerlagh (2004) shows that corruption has a significantly negative effect on firm performance, but this negative effect becomes insignificant in a 2SLS regression. Sohail, Arslan & Zaman (2014) studied the impact of corruption (bribery) on firm performance in Pakistan and found a negative, but weak correlation between bribery and firm performance.

Empirical studies on the effect of corruption on firm performance and firm growth have continued to demonstrate varying results across regions. Asiedu & Freeman (2009) showed that corruption has a negative and significant effect on investment growth for firms in transition countries but has no significant impact for firms in Latin America and Sub-Saharan Africa. Again, results also vary with firm and industry characteristics as demonstrated in Rand and Tarp (2010) who, showed that the incidence of bribe payments by Vietnamese firms is associated with several firm characteristics, and that bribe payments have a negative effect on firm growth. The empirical literature on the effect of corruption on firm performance and growth demonstrates differing results. In particular, in many countries, the effects of corruption on individual firms are likely to differ due to the unequal treatment of public officials of firms in the private and public sectors of the economy (Nguyen and Dijk, 2012).

Yu (2011) posited that many of the benefits from corruption, such as expediting and streamlining government transactions or enhancing civil service pay, only appear as such against the background of public sector failure. The experiences of Hong Kong and Singapore indicate that improving public sector management, streamlining customs procedures and paying competitive wages with the private sector, are likely to yield greater benefits over time than tolerating relatively high levels of corruption to compensate for these deficiencies. Scholars favouring the idea of corruption as a means to grease the wheels argue that such deviant behaviour might raise economic growth through bypassing ineffective regulations and institutional rigidities via speed-money and as an incentive for public officials to work harder in order to receive even more money through bribery (variable income). Based on this reasoning, corruption even might introduce aspects of efficiency and competition. “Since the licenses and favours available to the bureaucrats are in limited supply, they are allocated by competitive bidding among entrepreneurs. Because payment of the highest bribes is one of the principal criteria for allocation, the ability to muster revenue, either from reserves or from current

operations, is put at a premium. In the long run both of these sources are heavily dependent on efficiency in production.” (Alatas, 1980).

As experiences from underdeveloped countries show, the companies paying the highest bribes were not the most efficient ones, emphasizing that corruption does not introduce sustainable positive forces of efficiency or competitiveness. Rather, these companies are most successful at bribe-seeking. Treating bribes as an investment, those who decide to pay them expect a high ROI (Tanzi, 1998). Companies, which need the business the most, are more often inclined to pay bribes.

2.4 Summary of Empirical Review

The relationship between corruption and firm performance has been conceptually, theoretically and empirically reviewed above. It is clear from the above that the few studies that have examined the impact of corruption at the microeconomic level - firm performance with specific performance indicators have varying results. In other words, there is no consensus on the impact of corruption on corporate financial performance, based on empirical studies. The research studies also looked at different regions of the world such as Africa and Asia; however, we found very few studies on the banking sector in Nigeria.

In Nigeria, the relatively high level of corruption (based on CPI) can have affects on corporate financial performance, and of course, the growth rate of individual firms. This makes this study not only very important but also, timely. This study is therefore set out to study the incidence of corruption in Nigeria and its effects on individual firm performance and the banking sector as a whole. With this, we set forth for the research and try to fill the identified gaps.

Methodology

3.1 Research Design

The nature of this study is an impact study. This is because the study seeks to determine the effect of Corruption on Corporate financial performance with specific reference to Commercial banks in Nigeria. Subsequently, this study deployed *ex-post facto* and investigative econometric research design, as it was meant to assess and analyze the impact of one variable to another variables namely; corruption and corporate financial performance, using historical data.

Ex post facto research design is a quasi-experimental design used in examining how an independent variable affects a dependent variable. This design is adopted because the researcher has no control over the variable of the study as a result of the fact that the conditions for this study has already been in existence before the study is been conducted.

3.2 Nature and Sources of Data

This study used data from secondary sources. The secondary data were collected from the various publications of Transparency International, Central Bank of Nigeria statistical bulletin, Nigerian Stock Exchange Fact Book, as well as, journal publications.

3.3 Population of the Study

The researcher studied the impact of corruption on the performance of the Nigerian banking sector. The population for this study comprises all the twenty-four (24) licensed banks operating in Nigeria. Each of the banks has branches in the major cities of all the thirty-six (36) states of the federation, including the federal capital territory (Abuja).

This study did a census by relying on aggregate data for all the banks covering a period of nineteen (19) years out of the fifty-six (56) years of banking operations in Nigeria, since independence. This is because; the character of the banks has continued to change from time to time. Secondly, the sample was chosen for convenience and represents about thirty-four (34) percent of the total period.

The aggregate data of all Nigerian banks was obtained from the published annual reports of the Nigerian Deposit Insurance Corporation (NDIC), as well as, the Central Bank of Nigeria (CBN) statistical bulletin.

The period of study was chosen due to the availability of the independent variable; Corruption Perception Index, which only has time series from 1996. Also, this period cover the times where the issue of corruption is very loud in the day to day discourse and successive government had come up with mechanism to reduce or eliminate it.

3.4 Variable Definition and Model Specification

The variables for this study are performance represented by Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM) as dependent variables; and corruption represented by Corruption

Perception Index (CPI) as independent or explanatory variable. Furthermore, size (represented by total deposits) is used as a control variable.

Independent Variable

Corruption level for the period under review represented by the corruption perception index as published annually by the Transparency International. Transparency International is one of the organizations that provide corruption indices across a wide range of countries which assesses the level of corruption. Other measures or indicators of corruption that have gained public and scholarly attention include: the Control of Corruption Index (CCI), which is annually reported by the World Bank, the Corruption Index (CI) developed by the Political Risk Services Group as well as the Heritage Foundation's Index of Economic Freedom (EFI). All indices apply consistent measuring methods in order to allow for time consistent comparison. The CPI scores countries on a scale from 0 (highly corrupt) to 100 (very clean) (TI, 2015). That means the higher score of a country shows corruption is low in this country.

Dependent Variable

Financial performance here is operationalized as company profitability in the study period. Different scholars have identified and used different measures and ratios as indicators of profitability and financial performance in the banking sector. Some of these indicators include Return on Equity (ROE), Return on Assets (ROA), Gross Profit Margin (GPM), Net Profit Margin (NPM), Earnings Per Share (EPS), Profit Before Tax, Profit After Tax, Net Operating Profit, Return on Capital Employed, Return on Investment, Deposit Mobilization, and so on. Some authors have used them singly, while others have combined two or more of them.

Ahmed (2003) identified three indicators, namely, Net Interest Margin (NIM), Return on Assets (ROA) and Return on Equity (ROE) to be widely used in literature as indicators of bank profitability. On the superiority of one indicator over the others, scholars however, have divergent views. Nonetheless, Goudreau and Whitehead (1989) and Uchendu (1995) are in accord that the three are all good. This study shall employ the three widely used measures as identified by Ahmed (2003), Goudreau and Whitehead (1989), and Uchendu (1995), namely, Net Interest Margin (NIM), Return on Assets (ROA) and Return on Equity (ROE).

Control Variable

Bank size proxied by total deposits or assets is usually employed as a control variable to analyse bank performance. (Civelic and Al-alami, 1991; Smirlock, 1985). The purpose is to control for the possibility that larger banks to perform better than small ones because of the tendency for larger banks to leverage on economies of scale. On a general note, larger firms have the ability to bargain more effectively, administer prices, engage in greater and more effective diversification with implies lower risk and better returns. (Agu, 1992).

Model Specification

Model specification is the expression of a relationship into precise mathematical form. Koutsoyiannis (1997) stated that economic theory does not indicate the functional form of any relationship. This means that economic theory does not state whether a relationship will be expressed in linear form, quadratic form or in a cubic form. The specification of any relationship will be guided by existing theory or empirical evidence from previous studies. On the strength of the above, the study has specified the impact between the dependent variables, Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM), and the independent variable, Corruption Perception Index (CPI), while using Bank Size proxied by total deposit (TD) as control variable, as follows:

$$ROA = F(CPI, TD) \dots\dots\dots (I)$$

$$ROE = F(CPI, TD) \dots\dots\dots (II)$$

$$NIM = F(CPI, TD) \dots\dots\dots (III)$$

These above function are transformed into the following explicit econometric models:

$$ROA = \alpha_0 + \alpha_1CPI + \alpha_2TD + \mu \dots\dots\dots (IV)$$

$$ROE = \beta_0 + \beta_1CPI + \beta_2TD + \mu \dots\dots\dots (V)$$

$$NIM = \gamma_0 + \gamma_1CPI + \gamma_2TD + \mu \dots\dots\dots (VI)$$

The Apriori expectations are: $\alpha_1 > 0$, $\alpha_2 > 0$; $\beta_1 > 0$, $\beta_2 > 0$ and $\gamma_1 > 0$, $\gamma_2 > 0$, that is, in this study, each of the explanatory variables adopted is expected to produce the following outcomes: It is expected that corruption perception index will be positively related to corporate financial performance (ROA, ROE and NIM). This implies that an increase in corruption perception index is expected to result in significant increase in corporate

financial performance (return on equity, return on assets, and net interest margin, respectively) and vice versa. This is because the higher the corruption perception index, the less corruption perceived.

Where;

α_0, β_0 and γ_0 = intercept (constant)

$\alpha_1, \alpha_2, \beta_1, \beta_2$ and γ_1, γ_2 = coefficients of the estimates (slope)

ROA = Return on Assets derived as profit after tax divided by total assets (proxy of corporate financial performance).

ROE = Return on Equity derived as profit after tax divided by ordinary share capital (proxy of corporate financial performance).

NIM = Net Interest Margin, derived as difference between the interest earned and the interest paid in relation to gross earnings of the bank (proxy of corporate financial performance).

CPI = Corruption Perception Index as published by the Transparency International (proxy for corruption)

TD = total deposit is the yearly total deposit liabilities of the bank during the period under review (proxy of bank size).

μ - Stochastic variable

f - Functional notation

3.5 Data analysis Method

The simple regression statistical tool was used to analyze the impact of corruption on corporate financial performance. The study used the Ordinary Least Squares (OLS) approach to estimate the parameters. The choice of OLS technique of regression is not only as a result of its simplicity, but as a result of its optimal properties of linearity, unbiasedness, minimum variance, and zero mean. (Koutsoyiannis, 1997). To describe the overall distribution and character of the data, the study also employed descriptive statistics for the calculation of means, frequencies, variances, and standard deviations.

Also, the F-test and the T-test were used to determine the overall adequacy of the regression line. The study also conducted unit root and co-integration tests to determine the stationarity or otherwise of the data in order to correct spurious regression results.

4.1 Presentation of Data

The method of data collected in this study is via the survey of existing documents. This is otherwise known as secondary source of data collection.

This method enables the researcher to collect data for all the variables of the study from the Central Bank of Nigeria Statistical bulletin. The type of data collected from the bulletin is called time series data. The time series data gave us the needed information about the numerical values of the individual variables of the study from period to period for the estimation of the models

The data collected are arranged in columns and rows in E-view version 7.0 format on table 4.1 below:

Table 4.1 Time Series on Corruption Perception Index and Bank Performance Indicators from 1996 to 2014

obs	ROE	ROA	NIM	CPI	DM
1996	56.78	1.99	7.71	6.9	75.05
1997	96.56	3.35	7.91	17.6	110.45
1998	86.08	4.52	9.93	19.0	142.54
1999	80.59	4.13	11.16	16.0	178.96
2000	99.45	3.96	14.88	12.0	214.36
2001	114.29	4.82	15.12	10.0	280.03
2002	41.63	2.63	11.55	16.0	314.30
2003	29.11	2.00	10.47	14.0	476.35
2004	27.23	2.58	7.71	16.0	702.11
2005	4.81	0.49	10.21	19.0	947.18
2006	17.36	2.65	4.07	22.0	1157.11
2007	36.83	5.92	3.47	22.0	1337.30
2008	24.11	4.29	20.58	27.0	1661.48
2009	-64.72	-9.28	18.27	25.0	2036.09
2010	16.00	3.91	22.87	24.0	3142.46
2011	-0.28	-0.04	23.52	24.0	4705.70
2012	22.20	2.62	22.88	27.0	7610.29
2013	24.07	2.81	22.53	25.0	9150.04

2014	21.73	2.23	21.71	27.0	9784.54
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Source: CBN Statistical Bulletin & Transparency International (CPI), 2014.

(ROE = return on equity, ROA = return on assets, NIM = net interest margin, CPI= corruption perception index, DM = deposit mobilization)

4.2 Descriptive Statistics

Table 4.2 shows the descriptive statistics of the data presented on table 4.1 above.

	ROE	ROA	NIM	CPI	DM
Mean	38.62263	2.398947	14.02895	19.44737	2317.176
Median	27.23000	2.650000	11.55000	19.00000	947.1800
Maximum	114.2900	5.920000	23.52000	27.00000	9784.540
Minimum	-64.72000	-9.280000	3.470000	6.900000	75.05000
Std. Dev.	42.58045	3.176894	6.778516	6.048725	3156.322
Skewness	-0.148262	-2.718343	0.102460	-0.429654	1.477932
Kurtosis	3.289685	10.87798	1.634639	2.179498	3.708781
Jarque-Bera	0.136043	72.53263	1.509076	1.117542	7.314604
Probability	0.934240	0.000000	0.470228	0.571912	0.025802
Sum	733.8300	45.58000	266.5500	369.5000	44026.34
Sum Sq. Dev.	32635.70	181.6678	827.0690	658.5674	1.79E+08
Observations	19	19	19	19	19

Source: E-views 7.0 report

Table 4.2 shows the statistical properties of the variables. That is, the univariate statistics of the variables, which include the mean, median, maximum, minimum, standard deviation, skewness, kurtosis, jarque-bera and its probability, sum, sum of squared deviation and observations. The mean values show return on equity (ROE=38.6), return on asset (ROA=2.3), net interest margin (NIM=14.0), corruption perception index (CPI=19.4) and deposit mobilization (DM=2,317.2). Their maximum and minimum values are respectively, return on equity (ROE=114.3 and -64.7), return on asset (ROA=5.9 and -9.3), net interest margin (NIM=23.5 and 3.5), corruption perception index (CPI= 27.0 and 6.9) and deposit mobilization (DM=9,784.5 and 75.1).

The Jarque-bera statistic shows that both return on asset (ROA) and deposit mobilization (DM) are not normally distributed with probability values of 0.00 and 0.03 respectively; while the remaining variables namely return on equity (ROE), net interest margin (NIM) and corruption perception index (CPI) are normally distributed with probability values of 0.93, 0.47 and 0.57 respectively. This justifies the application of parametric and non-parametric statistical for analysis.

4.3 Correlation Matrix

Table 4.3 shows the correlation coefficient between the bivariate variables of the data presented on table 4.1 above.

	ROE	ROA	NIM	CPI	DM
ROE	1.000000	0.734267	-0.325879	-0.631485	-0.382966
ROA	0.734267	1.000000	-0.228030	-0.228165	-0.103472
NIM	-0.325879	-0.228030	1.000000	0.559966	0.712341
CPI	-0.631485	-0.228165	0.559966	1.000000	0.685416
DM	-0.382966	-0.103472	0.712341	0.685416	1.000000

Source: E-views 7.0 report

Table 4.3 indicates a strong positive relationship (0.73) between return on equity-ROE and return on assets – ROA (0.73); but it has negative relationship with net interest margin –NIM (-0.33), deposit mobilization- DM(-0.38) and corruption perception index – CPI(-0.63). Return on assets – ROA shows a negative relation with net interest margin –NIM (-0.23), deposit mobilization- DM (-0.23) and corruption perception index – CPI (-0.10). Net interest margin –NIM shows a positive relationship with deposit mobilization- DM (-0.56) and corruption perception index – CPI (-0.71). Finally, deposit mobilization – DM shows a positive relationship with corruption perception index – CPI (0.69).

4.4 Level Series Regression Analysis Results

Table 4.4 presents the summary results of the estimated level series models.

Table 4.4 Level Series Multiple Regression Results Summary

Model	Variables		F-statistic		Durbin-Watson Statistic	Serial correlation
	Dependent variable	Independent variables	F-statistic	Probability		
1	ROE	CPI, DM	5.41	0.02	1.52	Present
2	ROA	CPI, DM	0.48	0.62	1.47	Present
3	NIM	CPI, DM	8.51	0.00	1.04	Present

Source: Author’s computation.

Level series regression was used to test the impact of the independent variables on the dependent variables. In all cases, we regressed the independent variables as indicators of corruption perception index and deposit mobilization as a control variable on each of the dependent variables as indicators of performance.

However, the results of the Durbin-Watson statistics indicate strong positive autocorrelation in all the models. This indicates that there could be some degree of time dependence in the level series which could lead to spurious regression results, suggesting the need for more rigorous analysis of the stationarity properties of the level series data.

4.5 Results of Stationarity Analysis of Data

The study employs Augmented Dickey-Fuller (ADF) unit root test to query the order of integration of each of the variables in the models. It shows the number of times a variable has to be differentiated before it becomes stationary. The summary results are presented on table 4.5.

Table 4.5.1 Augmented Dickey-Fuller (ADF) Unit Root Test Results Summary

Variable	ADF - Test statistic at first difference	Critical Values	Order of integration
ROE	-5.836099	1% -3.886751 5% -3.052169 10% -2.666593	1(1)
ROA	-7.102745	1% -3.886751 5% -3.052169 10% -2.666593	1(1)
NIM	-4.667372	1% -3.886751 5% -3.052169 10% -2.666593	1(1)
DM	-9.187653	1% -3.886751 5% -3.052169 10% -2.666593	1(2)
CPI	-5.306005	1% -3.886751 5% -3.052169 10% -2.666593	1(1)

Source: Author’s computation from E-Views 7.0

Table 4.5.1 shows the summary results of the Augmented Dickey-Fuller (ADF) unit root tests for the various variables. The results show that the null hypotheses of a unit root test for first difference series for all the variables (except for deposit mobilisation – DM, which is at second difference) can be rejected at all the critical values indicating that the level series which is largely time-dependent and non-stationary can be made stationary at the first difference and maximum lag of one. Thus, the reduced form model follows an integrating order of 1(1) and 1(2) processes; and is therefore, a stationary process. It also reveals that the test of stationarity in the residuals from the level series regression is significant at all lags.

Furthermore, this indicates that the regression is no more spurious but real. That is to say, all the variables are individually stationary and stable at first and second differences.

4.6 Co-integration test Results

Having established the stationarity of the individual variables, it is also important to establish the stationarity of the linear combinations of the variables as to whether there could be a long-run or equilibrium

relationship between the dependent variables and the independent variables (that is, whether they are co-integrated). The study, therefore, tested for co-integration to establish long-run stationary or stable relationship using the Johansen Co-integration test. The results are presented below.

4.6.1 Corruption and Return on Equity

Table 4.6.1 Unrestricted Cointegration Rank Test (Trace)

Hypothesized No of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob **
None	0.937328	63.40985	29.79707	0.0000
At most 1	0.579811	19.09240	15.49471	0.0137
At most 2	0.278357	5.219603	3.841466	0.0223

Trace test indicates 3 co-integration equation(s) at the 0.05 level.
 * denotes rejection of the hypothesis at the 0.05 level.
 ** MacKinnon-Haug-Michelis (1999) p-values

Source: Author’s extract from E-Views 7.0

Table 4.6.2 Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob **
None	0.937328	44.31745	21.13162	0.0000
At most 1	0.579811	13.87279	14.26460	0.0576
At most 2	0.278367	5.219603	3.841466	0.0223

Maximum Eigenvalue test indicates 1 co-integration equation(s) at the 0.05 level.
 * denotes rejection of the hypothesis at the 0.05 level.
 ** MacKinnon-Haug-Michelis (1999) p-values

Source: Author’s extract from E-Views 7.0

On the impact of corruption and return on equity model, table 4.6.1 (trace test) shows that the trace test shows three (3) co-integrating equations existing between the dependent and the independent variables; while table 4.6.2 (Maximum Eigenvalue test) indicates one (1) co-integrating equation existing between the dependent and independent variables.

4.7.1 Corruption and Return on Assets

Table 4.7.1 Unrestricted Cointegration Rank Test (Trace)

Hypothesized No of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob **
None	0.994008	99.52209	29.79707	0.0000
At most 1	0.533807	17.64401	15.49471	0.0234
At most 2	0.287942	5.433535	3.841466	0.0197

Trace test indicates 3 co-integration equation(s) at the 0.05 level.
 * denotes rejection of the hypothesis at the 0.05 level.
 ** MacKinnon-Haug-Michelis (1999) p-values

Source: Author’s extract from E-Views 7.0

Table 4.7.2 Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob **
None	0.994008	81.87807	21.13162	0.0000
At most 1	0.533807	12.21048	14.26460	0.1030
At most 2	0.287942	5.433535	3.841466	0.0197

Max-eigenvalue test indicates 1 co-integrating equation at the 0.05 level.
 * denotes rejection of the hypothesis at the 0.05 level.
 ** MacKinnon-Haug-Michelis (1999) p-values

Source: Author’s extract from E-Views 7.0

On the impact of corruption and return on assets model, table 4.7.1 (trace test) shows that the trace test shows three (3) co-integrating equations existing between the dependent and the independent variables; while

table 4.7.2 (Maximum Eigenvalue test) indicates one (1) co-integrating equation existing between the dependent and independent variables. This implies that there is a long run relationship between corruption perception index and bank performance in Nigeria; corruption perception index affect the level of profitability of banks in Nigeria, the sign and magnitude of the relationship would be derived from the error correction model results.

4.7.3 Corruption and Net Interest Margin

Table 4.7.3 Unrestricted Cointegration Rank Test (Trace)

Hypothesized No of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob **
None	0.910431	51.15987	29.79707	0.0001
At most 1	0.534464	12.55601	15.49471	0.1321
At most 2	0.019983	0.322968	3.841466	0.5698

Trace test indicates 1co-integrating equation at the 0.05 level.
 * denotes rejection of the hypothesis at the 0.05 level.
 ** MacKinnon-Haug-Michelis (1999) p-values

Source: Author’s extract from E-Views 7.0

Table 4.7.4 Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob **
None	0.910431	38.60386	21.13162	0.0001
At most 1	0.534464	12.23304	14.26460	0.1022
At most 2	0.019983	0.322968	3.841466	0.5698

Max-eigenvalue test indicates 1co-integrating equation at the 0.05 level.
 * denotes rejection of the hypothesis at the 0.05 level.
 ** MacKinnon-Haug-Michelis (1999) p-values

Source: Author’s extract from E-Views 7.0

Both tables 4.7.3 (trace test) and 4.7.4 (Maximum Eigenvalue test) indicate that there is one (1) co-integrating equation each, existing between the dependent and independent variables for the relationship between corruption and net interest margin model.

The results above indicate that there exists a long-run equilibrium relationship between the dependent and independent variables in each of the three relationships under consideration. This interpret that there is a long run relationship between corruption perception and bank performance in Nigeria

4.8 Test of Hypotheses

Having established the co-integrating equations, we now establish a link between short-run relationships of the dependent and independent variables to the long-run by estimating an error correction model (ECM). The ECM is expressed in such a way that the first difference of each dependent variable is related to both the current and the lagged values of the independent variables, as well as incorporating the error correction coefficient. This, we did by relating the current and the lagged values of both the dependent and independent variables to the dependent variables in order to determine both the current and the lagged effects of the independent variables on the dependent variables. Each of the variables (both dependent and independent) was lagged three periods. We thereafter successively deleted the most insignificant parameters (redundant variables) one after the other using the Akaike Information Criteria (AIC) and Schwarz Criteria (SC), until we obtained a parsimonious representation of the models containing only parameters that are relatively statistically significant.

The Ordinary Least Squares (OLS) estimation method was used as it is an essential component of most other estimation techniques. Furthermore, the OLS remains one of the most commonly used methods in econometric investigations involving large models. Estimates of the preferred specifications were obtained from the over parameterized results using general-to-specific method, and were used to test the hypotheses formulated in this study.

Hypothesis 1

H₀₁: Corruption Perception Index (CPI) does not have any significant effect on return on equity of commercial banks in Nigeria.

Tables 4.8.1 shows the results of the parsimonious error correction for the impact on return on equity (ROE) of the independent variables corruption perception index and the control variable, deposit mobilization, each lagged for two periods.

Table 4.8.1 Results of Parsimonious Error Correction Mechanism

Dependent Variable: ROE				
Method: Least Squares				
Date: 09/26/16 Time: 14:21				
Sample (adjusted): 1996 2014				
Included observations: 15 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(ROE(-1))	0.479856	0.200277	2.395968	0.0434
C	180.1186	25.19367	7.149360	0.0001
CPI	-8.373712	1.396150	-5.997718	0.0003
D(CPI(-2))	3.755106	1.627175	2.307746	0.0499
D(DM(-1))	-0.091926	0.042711	-2.152266	0.0636
D(DM(-2))	0.202032	0.077625	2.602660	0.0315
ECM(-1)	-0.620081	0.339563	1.870603	0.2990
R-squared	0.845400	Mean dependent var	31.51200	
Adjusted R-squared	0.729451	S.D. dependent var	42.80629	
S.E. of regression	22.26541	Akaike info criterion	9.348670	
Sum squared resid	3965.987	Schwarz criterion	9.679094	
Log likelihood	-63.11503	Hannan-Quinn criter.	9.345150	
F-statistic	7.291100	Durbin-Watson stat	2.107413	
Prob(F-statistic)	0.006586			

Source: Output from E-Views 7.0

The Parsimonious Error Correction results on Table 4.8.1 on the impact of corruption on bank performance represented by return on equity show that R-squared is 0.845 while adjusted R-squared is 0.729 indicating that 72.9 percent of changes in return on equity are attributable to the combined effect of the corruption (CPI) and deposit mobilization (DM). Also, from the table, we see that corruption has a t-statistic of -5.9977 with a probability value of 0.0003 which is statistically significant indicating that there is a significant relationship between corruption and bank performance as represented by return on equity.

The results reveal that the impact of the control variable (bank size represented by deposit mobilization) and corruption is only significant on the long-run (after two periods) with a t-value of 2.99 and a probability of 0.03; but could be significant after one period (t-value of 2.99 and a probability of 0.03) at 10 percent significant level.

Overall, the results show that the F-statistic is 7.29 with a probability value of 0.006 indicating that the combined impact of corruption and deposit mobilization on bank performance represented by return on equity is statistically significant. The study, therefore, rejects the null hypothesis; and concludes that corruption has a significant effect on bank performance (represented by return on equity) in Nigeria. The Durbin-Watson statistic shows 2.10 which indicate the absence of serial or autocorrelation among the variables.

The Error Correction Term tells us the speed with which our model returns to equilibrium following an exogenous shock. It should be negatively signed, indicating a move back towards equilibrium. A positive sign indicates movement away from equilibrium. The coefficient should lie between 0 and 1, 0 suggesting no adjustment one time period later, 1 indicates full adjustment. The error correction term shows the speed of adjustment to restore equilibrium in the dynamic model. In particular, the ECM coefficients show how quickly or slowly the variables converge to equilibrium. The result of the error correction model indicates that the error correction term ECM (-1) is well specified and the diagnostic statistics are good. The speed of adjustment of -0.62 shows a high level of convergence. In particular, about 62 percent of disequilibrium or deviation from the variables in the previous period is corrected in the current year.

Hypothesis 2

H₀₂: Corruption Perception Index (CPI) does not significantly affect return on assets of commercial banks in Nigeria.

Tables 4.9 shows the results of the parsimonious error correction for the impact on return on assets (ROA) of the independent variables corruption perception index and the control variable, deposit mobilization, each lagged for two periods.

Table 4.8.2 Results of Parsimonious Error Correction Mechanism

Dependent Variable: ROA				
Method: Least Squares				
Date: 09/26/16 Time: 14:29				
Sample (adjusted): 1996 2014				
Included observations: 15 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(ROA(-2))	-0.553536	0.197667	-2.800344	0.0265
C	8.513647	2.640503	3.224252	0.0146
CPI	-0.437483	0.169742	-2.577334	0.0366
D(CPI(-2))	0.294269	0.147836	1.990502	0.0868
DM	-0.000236	0.001101	-0.213847	0.8368
D(DM(-1))	-0.016267	0.006634	-2.452213	0.0440
D(DM(-2))	0.034644	0.010649	3.253197	0.0140
ECM(-1)	-0.807407	0.314559	-2.566793	0.0372
R-squared	0.834324	Mean dependent var		2.232667
Adjusted R-squared	0.668648	S.D. dependent var		3.542133
S.E. of regression	2.038964	Akaike info criterion		4.567287
Sum squared resid	29.10162	Schwarz criterion		4.944914
Log likelihood	-26.25465	Hannan-Quinn criter.		4.563265
F-statistic	5.035881	Durbin-Watson stat		2.087954
Prob(F-statistic)	0.024472			

Source: Output from E-Views 7.0

The Parsimonious Error Correction results on Table 4.9 on the impact of corruption on bank performance represented by return on assets show that R-squared is 0.83 while adjusted R-squared is 0.67 indicating that 67 percent of changes in return on assets are attributable to the combined effect of the corruption (CPI) and deposit mobilization (DM).

Also, from the table, we see that the corruption has a t-statistic of -2.577 with a probability value of 0.04 which is statistically significant at 5 percent indicating that there is a significant relationship between corruption and bank performance as represented by return on asset. The results reveal that the relationship between the control variable (bank size represented by deposit mobilization) and corruption is only significant on the long-run.

Overall, the results show that the F-statistic is 5.04 with a probability value of 0.024 indicating that the combined impact of corruption and deposit mobilization on bank performance represented by return on asset is statistically significant. The study therefore rejects the null hypothesis; and concludes that corruption has a significant impact on bank performance (represented by return on asset) in Nigeria. The Durbin-Watson statistic shows 2.09 indicating the absence of serial or autocorrelation among the variables.

Furthermore, the result of the error correction model indicates that the error correction term ECM (-1) is well specified and the diagnostic statistics are good. The speed of adjustment of -0.87 shows a high level of convergence. In particular, about 87 percent of disequilibrium or deviation from equilibrium among the variables in the previous period is corrected in the current year.

Hypothesis 3

H₀₃: The impact of Corruption Perception Index (CPI) on net interest margin of Commercial banks in Nigeria is not statistically significant.

Tables 4.10 shows the results of the parsimonious error correction for the impact on net interest margin (NIM) of the independent variables corruption perception index and the control variable, deposit mobilization, each lagged for two periods.

Table 4.8.3 Results of parsimonious error correction mechanism

Dependent Variable: NIM				
Method: Least Squares				
Date: 09/26/16 Time: 14:37				
Sample (adjusted): 1996 2014				
Included observations: 15 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(NIM(-2))	0.134891	0.336623	0.400717	0.7025
C	6.405631	8.076668	0.793103	0.4579
CPI	0.265781	0.526276	0.505022	0.6316
D(CPI(-1))	-1.267557	0.805809	-1.573025	0.1668
D(CPI(-2))	-0.274782	0.401675	-0.684090	0.5195
DM	0.003890	0.003450	1.127427	0.3026
D(DM(-1))	-0.004071	0.011193	-0.363738	0.7285
D(DM(-2))	-0.009324	0.018185	-0.512738	0.6265
ECM(-1)	-0.463907	0.296104	-1.585555	0.2301
	-0.463907	0.296104	-1.585555	0.2301
R-squared	0.755637	Mean dependent var		14.61933
Adjusted R-squared	0.429819	S.D. dependent var		6.911017
S.E. of regression	5.218531	Akaike info criterion		6.426018
Sum squared resid	163.3984	Schwarz criterion		6.850848
Log likelihood	-39.19514	Hannan-Quinn criter.		6.421493
F-statistic	2.319201	Durbin-Watson stat		2.137180
Prob(F-statistic)	0.160618			

Source: Output from E-Views 7.0

The Parsimonious Error Correction results on Table 4.10 on the impact of corruption on bank performance represented by net interest margin show that R-squared is 0.75 while adjusted R-squared is 0.43 indicating that 43 percent of changes in net interest margin are attributable to the combined effect of the corruption (CPI) and deposit mobilization (DM).

Also, from the table, we see that the corruption has a t-statistic of 0.505 with a probability value of 0.63 which is statistically insignificant at 5 percent indicating that there is no significant relationship between corruption and bank performance as represented by net interest margin. The results reveal that the relationship between the control variable (bank size represented by deposit mobilization) and corruption is not significant.

Overall, the results show that the F-statistic is 2.32 with a probability value of 0.16 indicating that the combined impact of corruption and deposit mobilization on bank performance represented by net interest margin is statistically insignificant. The study therefore cannot reject the null hypothesis; and concludes that corruption has no significant impact on bank performance (represented by net interest margin) in Nigeria. The Durbin-Watson statistic shows 2.14 indicating the absence of serial or autocorrelation among the variables.

Furthermore, the Error Correction Co-efficient has a negative value of -0.4639, which is appropriately signed; but is not significant at 5% level of significance. The co-efficient shows that the speed of adjustment of the model is approximately 46 percent annually due to any deviation from equilibrium.

4.9 Discussion of Findings

This study is on the impact of corruption on the performance of commercial banks in Nigeria. Corruption was proxied by corruption perception index (CPI) published by Transparency International, while performance was proxied by return on equity (ROE), return on assets (ROA), and net interest margin (NIM), culminating in the formulation and testing of three hypothesis (with size proxied by deposit mobilization – DM used as a control variable).

Hypothesis one examined the impact of corruption on return on equity. The results indicate that the combined impact of corruption and deposit mobilization on bank performance represented by return on equity is statistically significant. The study therefore rejects the null hypothesis; and concludes that corruption has a significant impact on bank performance (represented by return on equity) in Nigeria.

Hypothesis two examined that corruption does not affect return on assets, and the results of the Ordinary Least Square (OLS) test reveal that the combined impact of corruption and deposit mobilization on bank performance represented by return on asset is statistically significant. In this case also, the study rejects the null hypothesis; and concludes that corruption has a significant impact on bank performance (represented by

return on asset) in Nigeria. In both cases (return on equity and return on assets), the impact of corruption shows a significant, but negative impact on the short run; but positive on the long run. In other words, the present of corruption significantly reduces the ability of the banks to generate adequate returns for equity and assets.

The above findings contradict the findings of Mongid and Tahir (2011) who studied the impact of corruption on banking profitability of ASIAN countries including Indonesia, Malasia, Singapore, Thailand, the Philippines and Vietnam. Using ROA as proxy for profitability and corruption index as proxy for corruption, their results showed that the corruption index was positive and is significant to profitability, which underlies the ability of banking firms in that region to enjoy benefits in a bad governance environment.

The third hypothesis examined the impact of corruption on net interest margin. The results indicate that the combined impact of corruption and deposit mobilization on bank performance represented by net interest margin is statistically insignificant. The study therefore cannot reject the null hypothesis; but concludes that corruption has no significant impact on bank performance (represented by net interest margin) in Nigeria.

The study revealed that the impact of corruption on net interest margin is positive on the short-run and negative on the long-run, but insignificant in both instances. This tends to support the work of Rock and Bonnett (2004) who, investigated and showed that corruption in large East Asian economies like China, Indonesia, Japan, Thailand, and Korea significantly promotes firm performance.

Also, Kaufmann and Wei (1999) find a positive correlation in the tendency of firms to pay bribes and the time that is wasted on bureaucratic procedures. In some cases, firms engage in corrupt practices in an attempt to promote their short-term growth by facilitating transactions in the bureaucratic process.

In the opinion of Wang and You (2012) "good corruption" components are used as "speed money", which could promote firm growth by overcoming the less efficient regulations. This is also consistent with the well-known "speed money" hypothesis. They concluded that if financial markets are underdeveloped, corruption appears not to be a vital constraint on firm growth.

Finally, the study revealed that in all the cases, size proxied by deposit mobilization does not have a significant isolated impact on any of the performance indicators.

5.1 Summary of Findings

Below is the summary of findings of this study:

1. That both corruption (corruption perception index) and bank size (deposit mobilization) collectively had significant on bank performance represented by return on equity as well as return on assets for the period of this study. This effect was negative on the short run; but positive on the long run.
2. That bank performance represented by net interest margin shows a different result. That is, the impact of corruption on net interest margin was positive on the short run and negative on the long run; but, insignificant.
3. That bank size, taken in isolation as a control variable has no significant impact on any of the performance indicators. The implication of this is that, the results depict the real impact of corruption on bank performance.

5.2 Conclusion

This study was designed to investigate the impact of corruption on the performance of commercial banks in Nigeria. The study obtained relevant data which were analysed to arrive at definite observations on the basis of which the results of the study revealed that corruption has significant impact on all the indicators of bank performance. Based on the findings, the study concludes that corruption has a significant impact on the performance of commercial banks in Nigeria. However, the direction of impact varies with time and the variable of measurement.

5.3 Contributions to knowledge

The author made the following contributions to knowledge;

1. The author used current data to provide evidence to support the place of Corruption Perception Index (CPI) on Commercial bank performance in Nigeria
2. The study showed that despite the challenges corruption pose, Commercial Banks can still make positive and significant profit in Nigeria.

5.5 Recommendations

In view of the long run negative effects of corrupt practices on the performance of banks in Nigeria, the following recommendations are made:

1. The regulatory and supervisory bodies in the banking industry in Nigeria need to improve their supervision using all tools at their disposal to properly check and curtail the incidence of corrupt practices in the banking industry in Nigeria.
2. The Nigerian government plays a key role in financial and other crime prevention. In this view, the regulatory authorities and the relevant institutions established to fight corruption including the Central Bank of Nigeria (CBN), Nigeria Deposit and Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), National Insurance Commission (NAICOM), Economic and Financial Crimes Commission (EFCC), Independent Corrupt Practices Commission (ICPC) among others, should ensure the enforcement of various legal provisions in the fight against corruption in Nigeria.
3. There is also need to review the legal and regulatory framework of banks in order to further enhance and strengthen the fight against corrupt practice in the banking sector.
4. The banking industry need to strengthen their internal control systems to be able to identify and prevent corrupt activities and to protect its assets

5.6 Suggestions for Further Studies

This study is on the impact of corruption on corporate financial performance; A study of the banking Industry in Nigeria. The study used performance represented by return on equity (ROE), return on assets (ROA), and net interest margin (NIM) as dependent variable and corruption proxied by corruption perception index (CPI) as independent variable and Bank size proxied by deposit mobilisation (DM). Therefore, we recommend that further studies should:

- a) Employ other corruption indices as well as other indicators of bank performance in order to compare the results with the findings of this study.
- b) Furthermore, future studies should also look at the impact of corruption on other sectors of the economy so as to assess which sector of the economy does the impact of corruption have the most bearing.

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