A REVIEW ON ISLAMIC CORPORATE GOVERNANCE AND PERFORMANCE OF ISLAMIC FINANCIAL INSTITUTIONS IN NIGERIA.

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Abstract

Islamic financial institutions are essential catalyst to economic growth in Nigeria and their performance assumed to be influenced by corporate governance practices. The purpose of this study is to review the role of Islamic corporate governance on the IFIs performance in Nigeria. Even though the relationships have produced significant scholarly impact, few studies have been conducted on IFIs performance in Nigeria. The content analysis was utilized. The findings of the study revealed that corporate governance is significant to IFIs’ performance in Nigeria. This study contributes to the existing literature on corporate governance practices and IFIs’ performance in Nigeria. Finally, the study’s implications for theory and practice, limitations, conclusion as well as the direction for future research are provided and discussed.

Keywords: Corporate Governance, Islamic Financial Institutions, Performance.

INTRODUCTION

Performance of organizations constitute economic and business activities that are responsible for achieving competitive advantage and contribute to economic growth. Corporate governance can be understood to deal with those legal and organizational structures that oversee the internal integrity of a corporation (Choudhury & Hoque, 2013). Furthermore, performance is critical to both financial and non-financial institutions because it indicate the level of achievement. Notably, performance of Islamic financial institutions (IFIs) is viewed on work accomplished and ethical conduct according to Islamic principles providing the best pathway to achieve objectives (Rana & Malik, 2017).

LITERATURE REVIEW

In recent years, there has been increasing interest in performance of IFIs among researchers, practitioners, government and international financial institutions. Islamic financial institutions operate under the umbrella of Shariah principles satisfying the religious requirement (Elias, 2014).

Corporate governance practice is recently recognized as critical for performance of institutions (Al-Tamimi, 2012; Bukhari, Awan & Ahmad, 2012; Emily, 2016; Strøm, Espallier, & Mersland, 2014). Performance of organizations is therefore a fundamental issue that needs appropriate measures such as corporate governance practices being fundamental...
mechanisms to corporate assessment (Bukhari et al., 2012). The trends in global finance industry have led to a proliferation of studies on corporate governance through the instrumentality of financial institutions to assess performance (Arif & Syed, 2015; Elasrag, 2014; Palamiappan, 2017). The distinct feature in the governance and operations of Islamic financial institutions is witnessed in the transformation from a single-layer mode of the governance of conventional institutions to a multi-layer governance that extends its operations to comply with Shariah principles and the presence of a Shariah supervisory board (Nomran, Haron & Hassan, 2017). Islamic corporate governance entails the existence of structured guidelines to ensure ethical standards that could guide ethical behavior to organizations and the society (Ahmed, Ullah, Ahmed & Rahman, 2016).

Recent evidence suggests that corporate governance from the Islamic perspective is among areas of global attention due to inadequate research and scanty literature (Emily, 2016). One of the most important events that ignited concern on corporate governance from Islamic perspective began from the advent of corporate recessions of the Islamic Financial Institutions (IFIs) such as Ihlas House in Turkey, Islamic Bank of South Africa and the global financial crisis around 1997-1998. Islamic corporate governance has the same objectives as conventional corporate governance, but the idea and approach differed because after protecting the needs of the stakeholders of the institution, it considered Shariah principles (Grassa, 2013; Lahsasna & Saba, 2014; Muneeza & Hassan, 2011). Therefore, Islamic corporate governance practices approach of IFIs differs from the conventional.

Against the backdrop of corporate governance contribution to performance of organization in other countries, the global development around the business sphere is instrumental to the corporate governance practice in Nigeria (Abiola, 2012). This paper tries to have a critical review of corporate governance and performance of IFIs in Nigeria. In Nigeria, the non-interest banking sector too is the dominating and long existing Islamic financial institutions. Assessing its performance could provide a yardstick for other non-interest financial institutions that have started making input to the economic development of the country. Nigeria relies on a secular system of governance, which makes all the financial institutions and organizations secular in nature (Aliero & Sokoto, 2016). The emergence of IFIs in Nigeria will wipe away the chain of monopoly that conventional institutions are enjoying as well as curtail the charging of prohibitive interest rates and other hidden charges. The Nigerian financial system is comprised of many institutions from banks to building societies known as financial intermediaries. They have a common objective of supplying funding to the various sectors of the economy. They render services, ranging from expert advice, expertise in channeling funds, maturity transformation and risk transformation. The Central Bank regulates and oversees these activities of different financial institutions. The Table below shows the list of registered IFIs in Nigeria:
Table 1.1: Registered Islamic Financial Institutions in Nigeria

<table>
<thead>
<tr>
<th>Non-interest Banks</th>
<th>Non-interest Microfinance</th>
<th>Takaful (Insurance)</th>
<th>Islamic cooperative societies</th>
<th>Fund Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Jaiz Bank (Full-fledged)</td>
<td>• I-Care Microfinance</td>
<td>• Jaiz Takaful Insurance (full)</td>
<td>• Amanat Islamic cooperative &amp; investment Ltd.</td>
<td>• Lotus capital</td>
</tr>
<tr>
<td>• Taj Bank (Full-fledge)</td>
<td>• Tijarah Microfinance</td>
<td>• Noor Takaful (Full)</td>
<td>• Zero-interest multi-purpose cooperative society Ltd.</td>
<td>• Buraq capital</td>
</tr>
<tr>
<td>• Sterling Bank (Islamic Window)</td>
<td></td>
<td>• Cornerstone Halal Takaful (window).</td>
<td>• El-Ansar multi-purpose society.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• African Alliance insurance (window).</td>
<td>• MIA Islamic cooperative and credit union.</td>
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</tr>
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<td></td>
<td></td>
<td>• Niger insurance (window)</td>
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</table>

Source: Jaiz Bank Data base (2020)

They have a common role of financial intermediation between the lenders of funds and the borrowers of these funds. Majority of the Islamic financial institutions located in the Northern part of Nigeria, with a few in the south. Their head offices are mainly located in Abuja, the capital of Nigeria, (CBN, 2020). According to Ayodele, Aderemi, Obigbemi & Ojeka, (2016), these IFIs need an effective legal framework to be installed, specifying the rights and obligations of institutions’ directors, boards, shareholders and specific disclosure requirements and provisions for compliance with the codes of corporate governance.

Studies in Nigeria indicate few empirical evidences on the association of corporate governance and organizational performance (Adeusi, et al., 2013; Abdulazeez, Ndibe & Mercy, 2016; Endrin, et al., 2015; Tanko and Oladele, 2008). It is now well established from a variety of studies such as Abdulazeez et al. (2016); Ajola, et al., (2012); as well as Oduu, et al., (2016) the need to examine the corporate governance in relation to performance of Islamic financial institutions in Nigeria. Understanding the complexity of Islamic financial institutions’ corporate recessions is vitally important if appropriate mechanisms to address the issues are to be put in place. This suggests the need to undertake more studies on corporate governance by individuals, organizations and institutions (Hasan, 2009; Muneeza & Hassan, 2011; CBN, 2015).

Despite this, existing literature reveals that theoretical and empirical contributions on Islamic corporate governance in the Nigerian context are few (Adebayo, 2010; Daud, Ibrahim & Abideen, 2011; Rwegasira, 2000). The limited number of theoretical and empirical studies on Islamic corporate governance have restricted awareness of Islamic financial institutions causing deficiency of information concerning their true nature and governance (Adel & Mustafa, 2013; Daud et al., 2011; Umar, 2011). Therefore, in view of this deficiency, there is a need for more studies on the Islamic corporate governance and performance of IFIs.
especially in Nigeria. The need for studies becomes paramount due to past experiences of corporate failures such as cases of Cadbury Nigeria plc, Oceanic Bank Plc, Intercontinental Bank Plc, Union Bank of Nigeria, Afribank to mention a few (Ayodele at al., 2016). Although the few studies that have recognized the relevance of corporate governance practices to performance, research has yet to critically review corporate governance and performance of IFIs in Nigeria. This is a great challenge confronting the Islamic financial institutions and an untap area in Nigeria.

METHODOLOGY

Despite the increase in knowledge in area of Islamic finance, concept of corporate governance and performance of IFIs has not been the subject of much research. The literature indicates that previous researches on corporate governance and performance of IFIs do not offer much in the way of critical review which appeared to have significant impact on the IFIs and their performance, particularly in the Nigerian context. In this regard, content analysis is employed to review corporate governance and performance of IFIs in Nigeria.

FINDINGS AND DISCUSSION

Previous findings have provided the evidence that indicate the linkage between corporate governance and organizational performance (Abu Tapanjeh, 2009; Rammal, 2010; Ghayad, 2008). In addition, the findings of (Safiedine, 2009; Rammal, 2010; and more recent studies Abdel Baki & Leon Sciabolazza, 2014; Emily, 2016; Liem, 2016) have also demonstrated the existence of the relationship between corporate governance and performance of IFIs. A number of cross-sectional studies such as Bukhari et al., (2013), suggests evaluation of corporate governance practices. Also, it has been shown that, components of corporate governance were viewed from different angles by several researchers. Safieddine (2009), Chapra and Ahmed (2002) and. In attempt to narrow the research gap on Islamic corporate governance and performance of IFIs, the paper seeks to advance a review of past studies by examining those that are relevant to the area of focus. More specifically, this research focuses on studies on corporate governance and performance of IFIs in Nigeria. Based on the reviewed literature and past studies, it was revealed that corporate governance and the performance of IFIs are relevant areas to Islamic finance industry. The evidence from the literature suggests that these corporate governance practices can help organizations to achieve superior performance. For instance, findings of past studies have indicated that the adoption of corporate governance practices can result in better organizational performance (Abu Tapanjeh, 2009; Emily, 2016; Ghayad, 2008; Liem, 2016; Rammal, 2010). Corporate governance practices are considered organizational resources that have implications not only on organizations but can affect individual and organizational performance (Tom & Biobele, 2015). Several countries globally continue to find research on corporate governance and performance of organizations relevant using various methods of analysis and methodology.
CONCLUSION AND RECOMMENDATION

From the foregoing, this paper is being motivated by the observed gaps in the literature that warrant continuous examination of corporate governance and IFIs performance from different angles considering their significance to the existence and survival of Islamic Financial Institutions. It is clear from the literature that despite an outstanding rise in globalization, increased competition, as well as new regulations on Islamic financial institutions, studies on Islamic corporate governance and IFIs performance revealed scanty literature especially in Nigeria. Thus, it is appropriate to state that no study of this kind has been conducted in West Africa, and specifically, Nigeria. It is recommended that since these Islamic financial institutions has a prime role in economic development, joint enterprises shareholding nationally and internationally according to Shari’ah rules, should be encouraged.

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