



WHICH SPIRITUALITY AT THE WORK PLACE? IS CORPORATE SPIRITUALITY THE ANSWER?

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Abstract

This study examined ethical finance with emphasize on the empirical assessment of Islam bank and conventional banks' financial performance in Nigeria. Data were extracted from the financial statements of the banks for the period 2015 to 2016. Financial ratio analysis approach was undertaken to empirically assess the performance of the banks. The findings indicates that conventional banks performed better than Islamic bank in terms of return on asset, earnings per share and cash flow per share while Islamic bank performed better than conventional banks in terms of net income margin, debt ratio, asset quality, capital adequacy and liquidity. It is therefore recommended that the Central Bank of Nigeria should come up with workable, effective and attractive policies to encourage more development of Islamic banks in Nigeria. They should be repositioned to strength the banking sector.

Keywords: Financial Performance, Credit Risk, Solvency, Management Quality and Liquidity

Introduction

Studies on Islamic and conventional banks are strictly related to ethical finance. Ethical finance is primarily and explicitly concerned with ethical values, spiritual values and social justice. Ethical finance can otherwise be referred to as religion banking such as religion banking. The thrust of Islamic banking is founded on the desire to submit to the divine instructions on all transactions, particularly those involving exchange of money for money (Moin, 2013). Islamic banking involves equity rather than debt financing in strict relation to assets rather than leverage, transparency and information surveying between investors and the managers, diversification of risk and risk sharing (Tlemsani & Suswaidi, 2016). All these practices are principally based on Islamic purity, faith and ethics. In sharp contrast, the conventional banking in terms of religions perspectivemay be regarded to be at variance with the Islamic banking practices in that it involves too much debt, over leveraging of assets and of course excess securitization as well as creation of new financial assets that are neither transparent nor understood in real sense of the matter.

The Islamic banking forbids Riba (usury). Riba is any return/addition /increase for the use / rent of money (Tlemsani & Suswaidi, 2016). Islamic financial institutions do trade in real assets or services but in doing this prohibits riba and see it as unjust. From the Islamic finance perspective, a contract based on interest involves injustice to one of the parties, the lender

or the borrower. Similarly, penalizing someone for default is unjust and a judge is expected to decide the amount of any compensation for a default, not the party to whom the debt is owed. Qur'an (2: 279) clearly points out that "taking an amount in excess of the principal would be unjust". It is from this aspect of the Islamic book, the concept of Islamic banking evolved. This aspect of the Qur'an interpreted to mean unlawful appropriation of other peoples' property; and interest on money is regarded as representing an unjustified creation of instantaneous property right. It is so because interest on money is seen as a property right claimed outside the legitimate framework of recognized property (Tlemsani&Suswaidi, 2016).

Studies comparing the Islamic banking with the conventional banking in the Nigerian banking sector have not gained ascendancy and still evolving. Some of the prior studies which have compared and contrasted Islamic banking with conventional banking include Moin(2013); Muhammad and Manarvi(2011); Alkassium(2005); Hamedian (2013) and Faizulayev(2011). The results obtained so far on the empirical fronts have been mixed, argumentative and inconclusive. Hence this study is undertaken to examine the efficiency and financial performance of Islamic bank and conventional banks in Nigeria. Some studies like Moin (2008); Moin (2013); Beck, Demirguc-Kunt and Merrouche(2010); Sehrish (2012) and Hamedian (2013) have empirically examined ethical finance within the context of Islamic financing/banking comparatively with conventional banks in developed countries and of course in developing countries; and the results obtained have remained mixed and inconclusive.

Researches that have empirically examined ethical finance, particularly Islamic bank in comparison with commercial banks in Nigeria are relatively scanty to the best of the researcher's knowledge. Yahaya and Lamid (2015) investigated the financial performance of Jaiz Bank Plc, the only Islamic bank licensed to operate in Nigeria, over a period of two years 2013 and 2014. It examined the financial performance of the bank in terms of profitability, liquidity, leverage and growth. Time series data were collected and analyzed by way of Gray Comparative Index. The study found positive relationship between profitability, leverage, growth ratios and financial performance and there was sufficient evidence to show a relationship exists between liquidity and financial performance was negative. The study failed to compare and contrasts Islamic bank performance with conventional banks financial performance and efficiency empirically. Despite the quantum of studies that examined Islamic bank and conventional banks financial performance in developed and other developing countries of the world, the volumes of such studies are limited especially locally in Nigeria, hence the motivation to carry out this study.

Literature Review

Conceptual Review

Financial Performance

Financial performance analysis indicates the strengths and weakness of the firm by properly establishing relationships between the items of the statement of financial position and it seeks to select the information relevant to the decision under consideration from the total information contained in the financial statement. Financial performance is measured with profitability indicators like return on assets, return on equity, earnings per share, net income margin, gross profit and others. Return on asset expresses the relationship between net profit to total assets; it proves how competent is at allocating the resources of assets and gain/profit and of course the higher ROA indicates a better performance (Alkassium, 2005). Return on asset is a profitability indicator and profitability is used to measure the financial performance of firms, financial and non – financial firms. Earnings per share (EPS) indicate the net return attributable to each ordinary share.

It expresses the relationship between of profit after tax to the number of ordinary shares in issue and the higher the better. Another measure of overall financial performance of bank is earnings quality. Earnings quality from the perspective of Jamal (2013) aids the bank in concentrating on the loss gripping capacity, determining the level of its earnings and revenue as well as the funds available for rewarding its shareholders. It is measured as the ratio of net income to total asset. The rule of its interpretation is that the higher the ratio, the better the financial performance of the bank.

Credit Risk management and Solvency

Capital adequacy ratio and assets quality are the two most commonly used measure of credit risk management in accounting and finance literature. Capital adequacy for banks, whether the Islamic bank or conventional bank is to maintain confidence of depositors and to prevent the bank going bankrupt. Capital adequacy reflects the overall financial condition of banks and also the ability of banks and also the ability of management to meet the need of additional capital (Jamal, 2013). Capital adequacy ensure bank can absorb a reasonable level of losses occurred due to operational losses and determine the capacity of the bank in meeting the losses and the higher the ratio, the more is the protection of investors and hence the performance of the bank (Jamal, 2013). It is the ratio of total capital to total risk weighted assets. It is also expressed as the relationship between equity to assets. Capital adequacy ratio (CAR) identifies the contribution of the shareholders in financing the total assets and the higher the better (Samad, 2004). It is usually measured and expressed as the relationship between equity to total assets.

The standard as set by banking and other financial institutions ACT is 5% while the international standard is 8% according to BASEL. Asset quality (ASQ) evaluates the strength of the bank's capital assets like investment and loans and if the bank is able to secure its depositors and lenders from bank failure. The rule governing its application is that the lower value, the better for the bank. The Banking and Other Financial Institutions Act 1991 stated that it should not be less than 20%. Solvency indicates the stability of firms. Stability is measured with total debt ratio and other related ratios. Debt ratio expresses the relationship between total liabilities with total assets. It indicates the proportion of total assets financed by total debt thereby measuring the extent to which debt funds are exposed to risk. Net income margin shows on average how much income is generated after expenses or relative to inputs (costs). The cash flow per share is expressed as the relationship between net operating cash flow to net profit before unusual items. It indicates the ability of firms to translate net profit to cash flows and the higher the ratio, the more efficient the firm is in translating its net profit to spendable cash flow.

Management Quality

Management quality (MQR) is used to measure the efficiency and productivity of the banks' management to utilize the banks' loans in deposits for credit working customers and usually the higher ratio indicates more management efficiency (Faizulayev, 2011). Management quality expresses the relationship between loans to deposits. Management quality sheds lights on the superiority of the management (Jamal, 2013). It is generally known that the duty of the management is to safeguard that the banks' operation runs in a smooth and decent manner. Most of the time, the superiority of the bank by way of management quality is predicated on the skill and ability of the management to effectively and efficiently control cost, increase productivity which have consequential impacts on profitability. In terms of measurement, management quality is indicated or expressed as the ratio of operating expense to operating income. It astutely points out the efficiency level of the bank in the day – to – day conduct of its operation. Liquidity assist the banks and establishes to evaluate the risk faced by banks in case of an unprecedented and unforeseen circumstances that can be the main reason for an insolvency; and of course, the higher the ratio, the more it indicates better financial performance. Liquidity ratio expresses the relationship between net loans to assets. It indicates the banks' capacity to deal and fund any contractual or financial obligations and deposit outflows; the higher the ratio means less bank liquidity and more bank risk (Hamedian, 2013).

Empirical Review

Al-maghaireh (2005) examined the performance of 3 Islamic banks and 5 non – Islamic banks in the United Arab Emirates in terms of profitability, liquidity, risk and solvency and efficiency between 2000 and 2004. The study showed that the sample Islamic banks are relatively more profitable, less liquid, less risky and more efficient compared to the commercial banks. Muhammad and Manarri (2011) empirically compared the performance of Islamic and convention banks in Pakistan for the period 2005 to 2009 using CAMEL test standard factors such as capital adequacy, asset quality, management quality, earning ability and liquidity position (ratio). The financial data for the study was collected from the banks' financial statements on state bank of Pakistan website. A sample of 5 Islamic banks and 5 conventional banks were selected to measure and compare their performance. The study finding revealed that Islamic banks performed better in possessing adequate capital and better liquidity position while conventional banks performed better in management quality and earning ability. Asset quality for both modes of banking was almost the same; conventional banks were observed to record slightly smaller loan loss ratio showing improved loan recover policies.

Hamedian (2013) conducted a study to compare the Islamic versus conventional banks operating in Malaysia for the period from 2005 to 2011, the sample include seven Islamic banks and seven conventional banks. The study compared the bank's profitability ratio measured by the Return on Assets (ROA) and the Return on Equity (ROE). In addition, the study investigated the relationship between profitability as a dependent variable with the independent variables that consisted of capital adequacy (CAR), liquidity (LQR), asset quality (ASQ), and management efficiency (EFF). The study also analyzed the impact of the global financial crisis in 2008 on the selected banks. The study illustrates that conventional banks were doing better profitability than Islamic banks. In addition to that, the study proves that Islamic banks performance was better than conventional banks during the financial crisis 2008.

Fayed (2013) conducted a comparative performance study between the conventional and Islamic banking in Egypt. The empirical study analyzes and compares the performance of three Islamic banks and six conventional banks operating in Egypt. In order to perform the empirical study uses under-bank analyses for the data between years 2008 - 2010. The study collected the data from the financial statements and annual reports to measure the profitability, liquidity, credit risk and solvency. In addition to the financial comparison, the study elucidates that the Islamic banks still have many challenges in order to perform better. Yudistira (2004) empirically analyzed efficiency and financial performance of 18 Islamic banks over the period 1997-2000. Technical, pure technical, and scale efficiency measures were calculated by utilizing non-parametric technique, Data Envelopment Analysis. The overall efficiency results indicated that the inefficiency level across 18 Islamic banks was just above 10% and this ratio was considerably low as compared to the conventional banking sector. The findings also indicated that there are diseconomies of scale for small-to-medium Islamic banks.

Johnes, Charfeddined and Slah (2008) examined efficiency in Islamic and conventional banks in the GCC region (2004-2007) using financial ratio analysis (FRA) and data envelopment analysis (DEA). Using financial ratios, the results suggested that Islamic banks are less cost effective while more profit and revenue effective as compared to conventional banks. On the other hand, using Data Envelopment Analysis (DEA), they found that total efficiency in conventional banks is significantly higher than Islamic banks. Moin (2008) compared the financial performance of first Islamic bank in Pakistan with a group of 5 conventional banks for a period of 2003-2007. He found that Islamic bank is less profitable, less risky and also less efficient compared to Conventional banks. However, there is no significant difference in liquidity between the two sets of banks. Johnes et al (2008) using financial ratios, found that Islamic banks are less cost effective while more profit and revenue effective as compared to conventional banks. Beck, Demirguc-Kunt and Merrouche (2010) observe that Islamic banking have lower overhead costs and cost-income ratio and higher returns over asset but capital asset ratios is smaller. Islamic banks have higher fixed asset ratio and lower non-interest earning asset ratio. Maintaining a high fixed asset ratio implies that the Islamic banks are managing their assets more efficiently and profitably than conventional banks.

Viverita (2010) analyzed the performance of Islamic compared to conventional banks in Indonesia. Different ratios were used and they found that the cost efficiency ratios were lower in Islamic than the conventional banks in addition the revenue and profit efficiency ratios were higher in Islamic banking. Also the Islamic banks' net interest margin (NIM) have maximum of 0.182, while conventional banks have 0.097. Furthermore, the operating income to average asset in conventional bank was 0.006 while in the Islamic bank the mean was 0.013. Islamic banking is generating higher income from its asset, which is a positive indicator of revenue efficiency performance in Islamic banks.

Mobeen, Hafsa, Monazza and Muhammad (2011) studied the top 10 Islamic and conventional banks performance between 2006 and 2008. The study found that the aggregate net profit for the conventional banks observed a drop while Islamic banks experienced an increase in their net profit. Moreover, the leverage ratio (asset/equity) for conventional banks increased from 16.6% in 2006 up to 18.2 in 2008, however, Islamic banks leverage ratio was 5.8 in 2006 boosted to 6.6 in 2008. The leverage ratio measures the firm's long term solvency, the ability to meets its obligation, as the leverage ratio is smaller it means that the firm is using less debt. Rashwan (2010) assessed the performance of Islamic and conventional banks from 2007 to 2009 in terms of return on asset and on equity, net loan to total asset and loan loss reserve to gross loan. They used data from 46 Islamic banks and found that Islamic outperformed conventional bank in 2007, but in 2008 there was no significant difference between the two banking systems. However, conventional outperformed Islamic banks in 2009. The research summarized that although there was no significant difference in terms of performance in 2008, the financial crisis impacted both banking systems, yet the impact on Islamic banks was limited to a decline in returns.

Toumi, Viviani and Belkacem (2008) studied the performance of Islamic and conventional banks in the period 2004 - 2009 in terms of profitability, leverage ratios, return on asset/equity, net margin, dividend payout, total debt to common

equity, long term debt to common equity, total debt to total asset and the size of the bank asset they used a sample of 50 Islamic and 59 conventional banks from 18 countries. Their findings are that Islamic have lower debt to equity ratio than conventional banks, 7.8 times and 11.48 times for Islamic and conventional banks respectively. Islamic banks rely more on shareholder capital, unlike conventional banks which relies more on debt to structure the bank. Moreover, in terms of profitability, they found that Islamic have higher ROA than conventional banks and lower debt to asset ratio than conventional banks, in terms of long-term debt to common equity. The study found significant difference between Islamic and conventional banks; Islamic banks have lower debt to asset ratio than conventional banks. The findings can be interpreted that Islamic banks have lower leverage than conventional banks.

Methodology

The study employed the descriptive research design because it seeks to analyze the bank financial performance descriptively. The population of the study is the banking sector, comprising of interest banking and non-interest banking. A sample of one (1) non-interest bank, specifically Jaiz bank Plc and ten (10) conventional banks in the Nigerian banking sector were selected for the period 2015 and 2016 using the purposive sampling technique. The estimation method employed in this study is purely the descriptive statistics.

Table 3.1 Measurement of variables

	Variables	Measurement/indicators
1	Financial performance:	
A	Return on asset (ROA)	Profit before tax over total assets
B	Earnings per share (EPS)	Profit after tax over equity share
C	Net income margin (NIM)	Net income over total assets
D	Cash flow per share (CFPS)	Cash flow from operations over equity shares
2	Leverage	Total liabilities/Total assets
2	Credit risk management:	
A	Asset Quality	Non- performing loan divided by gross loans and advances
B	Capital Adequacy	Equity/ Total assets
C	Financial soundness	Total equity divided by Total assets
3	Management Quality:	
A	Efficiency	Total income divided by total operating expenses
B	Liquidity	Loans divided by assets

Source: Youssef and Samir, 2015

Empirical Results

This part of the study involves the data presentation and analysis. The aim is to report how the two modes of ethically disparity banking are, in terms of financial performance, credit risk and insolvency as well as management quality in the Nigerian banking sector. The analyses are reported in the table below followed by the discussion of findings.

Table 4.1: Data analysis

Years	Full Bank names	Financial Performance				Credit Risk and Solvency			Management quality	
		ROA	EPS	NIM	CPS	DBR	ASQ	CDR	EFR	LQR
2016	Jaiz Bank Plc	0.46	0.02	78.43	-0.06	39.99	0.016	21.75	1.20	0.33
2015	Jaiz Bank Plc	0.12	0.01	63.00	-0.08	38.00	0.014	22.00	1.21	0.29
2016	Access Bank	2.05	2.50	56.27	0.44	86.95	0.022	13.05	1.54	0.14
2015	Access Bank	2.54	2.65	50.71	-6.14	85.81	0.018	14.19	1.43	0.15
2016	Diamond Bank	0.17	0.15	71.69	-3.37	88.94	0.101	11.06	1.54	0.15
2015	Diamond Bank	0.32	0.24	69.31	-7.72	87.76	0.074	12.24	1.62	0.21
2016	Fidelity Bank	0.75	0.34	50.29	-1.96	85.72	0.046	14.28	1.83	0.17
2015	Fidelity Bank	1.13	0.48	50.24	3.70	85.10	0.035	14.90	1.89	0.21
2016	Guaranty Trust Bank	4.24	4.67	74.44	18.18	83.80	0.038	16.20	2.31	0.17
2015	Guaranty Trust Bank	3.94	3.51	69.77	1.01	83.62	0.030	16.38	2.38	0.17
2016	Sterling Bank	0.62	0.18	56.50	-4.34	89.73	0.017	10.27	1.96	0.21
2015	Sterling Bank	1.29	0.36	48.87	1.90	88.05	0.045	11.95	1.63	0.24
2016	Union Bank Of Nig	1.23	0.90	66.36	0.29	78.31	0.073	21.69	1.58	0.19
2015	Union Bank Of Nig	1.33	0.82	61.26	-1.31	76.70	0.071	23.30	1.56	0.25
2016	United Bank For Africa	2.06	2.04	62.58	0.88	87.21	0.014	12.79	1.73	0.18
2015	United Bank For Africa	2.17	1.79	58.96	3.38	87.92	0.007	12.08	1.71	0.23
2016	Unity Bank	0.44	0.19	71.31	-2.00	83.13	0.336	16.87	2.63	0.25
2015	Unity Bank	1.06	0.12	68.72	-0.97	81.37	0.243	18.63	2.11	0.25
2016	Wema Bank	0.60	0.07	41.85	0.41	88.57	0.023	11.43	1.80	0.20
2015	Wema Bank	0.59	0.06	47.73	0.38	88.39	0.014	11.61	1.59	0.20
2016	Zenith Bank	2.74	4.12	62.46	-0.05	85.14	0.031	14.86	2.20	0.17
2015	Zenith Bank	2.64	3.36	64.50	-14.35	85.17	0.023	14.83	2.07	0.18

Computed by Machame ratio Industry, 2017

Where EPS= Earnings per share, NIM= Net interest income, ROA= Return on assets, CPS= Cash flow per share, DBR= Debt ratio, ASQ= Assets quality, CDR= Capital adequacy ratio, EFR= Efficiency ratio and LQR= liquidity ratio.

It can be observed in the table above that the Islamic bank, Jaiz bank Plc has a lower financial performance indicated by return on assets (ROA) compared with other conventional banks like Access bank Plc, Fidelity bank Plc. Guaranty Trust bank Plc, Sterling bank Plc, Diamond bank Plc and Zenith bank Plc in 2016 and 2015 respectively. The analysis portrays that conventional banks in Nigeria are more competent at managing and allocating the asset resources to generate profit (i.e to enhance financial performance). Evaluation of the earnings per share shows that the conventional banks performed significantly higher and better than the Islamic bank (Jaiz bank Plc) in 2016 and 2015. The results imply that conventional banks have better market value than Islamic banks. Investors generate higher earnings on the shares of conventional banks compared with Islamic bank (Jaize bank) in Nigeria.

In terms of net income margin, Islamic bank (Jaiz bank Plc) is better than the conventional banks. In other words, the net income margin of Islamic bank is higher and better than that of the conventional banks in Nigeria (**see the table above**). Islamic bank has poor and negative cash flow per share compared with the conventional banks as observed in the above table. The study finding indicates that conventional banks have better and higher financial performance compared to Islamic bank while specifically, Islamic perform better than conventional banks in terms of net income margin in the Nigerian banking sector. The credit risk and solvency (stability) analysis above indicates that Islamic bank (Jaiz bank Plc) has very low debt ratio and is much more relatively stable (solvent) than the conventional banks in Nigeria; but the credit risk analysis of the banks shows that in terms of capital adequacy, ratio (CAR), Islamic bank is more capitally adequate and has higher and has better asset quality compared with the conventional banks in Nigeria. It is an indication that Islamic bank (s) suffer

less from the problem of non-performing loans which is more even replete with the commercial banks in Nigeria particularly in recent times. The management quality indicated by efficiency and liquidity analysis revealed that Islamic bank is more liquid than the conventional banks while the conventional banks are much more efficient than the Islamic bank in Nigeria. The import is that Islamic bank readily meets customers' demand deposits and experience little or no bank runs while commercial banks could adjudged to be expenses minimizing with the intention to maximize the wealth of the shareholders.

Discussion of Findings

This study focused on the empirical assessment of Islamic bank and conventional banks' financial performance in Nigeria within the context of ethical finance. The study empirical findings indicate that conventional banks performed markedly than Islamic bank in terms of return on asset (ROA), earnings per share (EPS) and cash flow per share (CPS), (financial performance) in the period observed. Islamic bank however outperformed conventional banks in Nigeria in terms of net income margin. The findings is consistent with Moin (2008); Moin (2013); Rashwan (2010); Al-maghaireh (2005); Muhammad and Manarri (2011). The study finding is however not in tandem with Hamedian (2013), Fayed (2013) and Toumi et al (2008). Examination of the risk and solvency of the two modes of banking revealed that Islamic bank has lower total liability in relation to the total assets employed; an indication that Islamic bank has more stability and solvency than the conventional banks whose debt to total asset is very high. The import of this finding is that the tendency for Islamic banks to suffer bankruptcy is low. The credit risk management evaluation of the two modes of banking using asset quality showed that Islamic banking performed better and is able to save its depositors and lenders from the adverse consequence of bank failure compared to the conventional banks.

The capital adequacy status of the two set of banks expressed as equity to asset revealed that Islamic bank outperformed largely than the conventional banks in Nigeria. This finding is quite intriguing and policy inducing for the regulator(s) of the Nigerian banking sector. The conventional banks in Nigeria over the years have suffered from the grave implication of poor asset quality occasioned by high non-performing loan as well as low capital adequacy which has resulted to series of mergers and acquisition or bank consolidation with a view to strengthening the banking sector. The management quality by efficiency and liquidity revealed that the conventional banks outperformed Islamic bank as they have higher efficiency ratio. The liquidity of Islamic bank is however higher than the conventional banks in Nigeria. The finding suggests that Islamic banks have the capacity to deal on and fund any contractual or financial obligations and deposit outflows. The findings from the above analysis quite agree directly with the findings of Muhammad and Manarvi (2011).

Conclusion and Recommendations

Empirical assessments of the financial performance and efficiency of Islamic banks and conventional banks and indeed examination of ethical finance are nascent and in fact still evolving in the Nigerian banking sector. This actually precipitated the need to robustly investigate the subject matter. The study adopted financial ratios approach in the analysis to examine the performance and efficiency of Jaiz bank PLC and ten conventional banks in the Nigerian banking sector. One of the unique reasons for comparing the two distinct modes of banking irrespective of their ethical stance/ differentials is that they both in the business of financial intermediation in the Nigerian banking sector. The findings and conclusion made in this study is that Islamic bank (s) have more asset quality and are capially adequate than the conventional banks.

It is therefore recommended that future studies should empirically examine the efficiency of the corporate governance structure on the financial performance of Islamic banks comparatively with conventional banks in Nigeria at least for the purpose of policy prescription to the regulatory authorities. This study fails to examine the efficiency of the Islamic banks with the conventional banks using data envelopment analysis (DEA). It is therefore suggested that subsequent researches should employ the use of DEA approach and stochastic frontier method as non-parametric tools to determine the efficiency of the dichotomous banks by way of their ethical nuances. More researches should also be carried out to empirically examine the determinants of Islamic bank and conventional banks in the Nigerian banking sector by future researchers.

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