Chapter 50
Performance Measurement Systems and Firms' Characteristics:
Empirical Evidences from Nigerian Banks

Oyewo Babajide Michael
Covenant University, Nigeria

ABSTRACT

The Nigerian banking industry, being the second largest in sub-Saharan Africa after the South-African banking industry, has evolved and undergone remarkable transformation over the years. As such, the evaluation of the Performance Measurement Systems (PMS) of banks in Nigeria becomes highly desirable. In response, this research was undertaken to: identify the elements of PMS; investigate the appropriateness and effectiveness of PMS; and assess the interrelationship between the PMS and strategy in the Nigerian banking industry. Statistics such as charts, percentage analysis, Wilcoxon, Chi – square, Kruskal Wallis, and Mann- Whitney U tests were employed for data analyses. Following research findings that traditional financial measures were commonly used in the Nigerian banking industry, the study recommends the adoption of more innovative PMS to improve performance. Also, the inclusion of performance measures like innovation, continuous improvement, and risk management should be enshrined in the PMS of the Nigerian banking industry to strengthen monitoring.

1. INTRODUCTION

The Nigerian banking industry is the second largest in Sub Saharan Africa after South African banking industry. In 2010, it had a total asset of 17.97 trillion naira ($113 billion) and earnings of 1.7 trillion naira ($11.3 billion) contributing 7% of the gross domestic product of the nation (Business day, 2011). The Nigerian banking industry has evolved over the years from an embryonic phase to expansion phase, then to the consolidation/ reforms stage (Alao, 2010). The embryonic phase (1933-1976) consisted of many non-indigenous banks and few nationalized banks. The expansionary phase (1976-2003) emerged as the

DOI: 10.4018/978-1-5225-1837-2.ch050

banking industry expanded to include community banks, rural banking schemes and developmental banks. In 2004, the banking industry was characterised with weak corporate governance, the dominance of few banks, poor assets quality and over dependence on public sector deposits. This led to the third stage; consolidation and recapitalisation of the industry and 25 banks emerged from 89 banks (Bello, 2006).

The industry consists of both privately owned stock banks and government owned specialized banks. Presently, it comprises of old generation banks which have existed since the early 1900s and new generation banks which are less than 30 years old. The old generation banks' customer base is characterised with mainly older adults and officers in the public sector while new generation banks' customer base is characterised with younger adults and private sector employees. Recently, the regulatory body, the Central Bank of Nigeria has enacted strict International Financial Reporting Standards, which was provoked by the failure of 5 commercial bank managers to comply with the federal regulatory policies on loan disbursement (Pratt, Ademosu, Adamolekun, Alabi, & Carr, 2011). This situation has led to the focus of corporate governance within the banking industry and a reduction in consumer confidence.

Considering the frequency of financial crisis, the banking industry has globally become one of the most regulated industries (Santomero, 2002). Regulations in the banking industry can be in various forms: restrictions on domestic and foreign bank entry, promotion of information disclosure, private sector supervision of banks, regulations on capital requirement, restrictions on banking activities with commerce, loan diversification rules, government ownership and deposit insurance system attributes (Barth,Caprio& Levine, 2004). In the light of the foregoing as it concerns the financial system in Nigeria, the evaluation of the Performance Measurement Systems (PMS) of banks, to ensure they are going concerns, becomes highly desirable, hence the place of this research.

Bikker (2010), while acknowledging the crucial importance of performance measurement of banks to customers to gauge efficiency of service delivery and competitiveness used 20 performance indicators to measure banking competition and efficiency for 46 countries considered most important, comprising the old and new EU countries, the other OECD countries, and emerging markets. These countries were adjudged important because they account for 90% of the global GDP. The study obviously left out countries in the African Continent, including Nigeria.

To the best of the researcher's knowledge, the evaluation of PMS in the Nigerian economy is rare and under researched.This work was undertaken to fill this gap and ignite more studies on PMS in emerging economies of the world.The objectives of the research are to:identify the elements of PMS; investigate the appropriateness and effectiveness of PMS; and assess the interrelationship between the PMS and strategy of the Nigerian banking industry.

2. REVIEW OF LITERATURE

Performance measurement comprises a systematic method for setting financial and non-financial targets which are accompanied by regular feedback meetings for monitoring progress against the targets (Simons, 2000). Performance measures are facilitators for the understanding, administration and enhancement of business activities. They should aid the monitoring of business strategy success through a comparison between set objectives and actual results.

Historically, in terms of purposes, PMS evaluates inputs, outputs and accomplishments (Lebas, 1995), it quantifies efficiency and effectiveness of actions (Neely, Gregory and Platts 1995) and monitors relationship between internal and external stakeholders (Atkinson, Waterhouse and Wells, 1997). Some