EFFECT OF GLOBALIZATION ON PERFORMANCE IN THE NIGERIAN BANKING INDUSTRY

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ABSTRACT

The study assessed the effects of globalization on the performance of Nigerian banks. Primary and secondary data were used for the study. Random sampling technique was used in selecting 30% of marketers. A while purposive sampling was used to select two top management staff in the marketing departments at the headquarters of each bank and fifty customers each from the 25 banks. Primary data were obtained from two questionnaires administered to marketers and customers of the banks. Interviews were also conducted with top management staff in the marketing departments of the banks. Secondary data on variables such as profit before and after tax, deposits, assets, capital base, loans, interest rates, ownership structure, and number of branches of Foreign Banks in Nigeria, among others were collected from the banks. Descriptive and inferential statistics were used to analyze the data. The results showed that globalization had significant and positive effects on the performance of banks. Higher profitability was a result of wider market coverage of banks in the country, both locally and internationally. The study concluded that globalization had no significant effect on market structure but greatly improved the performance of banks in Nigeria.

JEL: C33, F36, G2, L1, N20

KEY WORDS: SCP, multicollinearity, profit before tax, structure, shareholders' funds, Nigeria

INTRODUCTION

Globalization is a concept that encapsulates the growth of connections between people on a planetary scale; it involves the reduction of barriers to trans-world contacts. It involves the widening and deepening of international flows of trade, finance and information in a single, integrated global market. Put differently, globalization is described as the transformation of the world into a global village, as borders disappear, distances shrink and time shortens (Solita, 2000). It finds expression in the increased movement across the boundaries of goods and services, viz. trade and investment, and often of people via migration. It is driven by the actions of individual economic actors – firms, banks, people – usually in the pursuit of profit and often spurred by the pressures of competition (Agnihotri 2003:1).

Globalization has been defined by various authors, depending on the background of the author and the variables of interest. According to Asogwa (2004), economists defined globalization as encompassing declining barriers to trade, migration, capital flows, technology transfers and foreign direct investment (FDI). In this sense, globalization affects three types of market: commodities – goods and services of all varieties; labour – workers who produce goods and services; assets and debts – securities, bank loans and deposits. Markets of the third type fall under the umbrella of financial globalization, which refers to the global integration in both the "capital market" and the "banking sector". Financial globalization is the process by which the financial markets of various countries of the globe are integrated. Before financial globalization became a popular term, financial liberalisation was the key policy believed to bring efficiency in the financial sector. Many African countries embarked on financial liberalisation reforms as part of their recommended structural adjustment programmes (Soyibo, 1994; Aryeetey, 2000; and Asogwa, 2004).

There are four broad groups of industry globalization drivers which are market, cost, Government and competition. Together, these drivers cover all the major critical industry conditions that affect the potential for globalization. Drivers are primarily uncontrolled by the worldwide business. Each industry has a level of globalization potential that is determined by these external drivers. However, globalization is affecting all sectors of the Nigerian economy especially the banking industry. The banking sector today is highly competitive and this competition is expected to intensify as new players of local and global scope enter the market. As the competitive terrain becomes more challenging, banks will need to maintain their competitive edge through the adoption of new technology. Clearly, technology is the key driver of change. For the change to be beneficial, the use of technology should be business driven to meet clearly defined business needs.

Resulting from the deregulation and liberalisation of the Nigerian banking industry, the industry environment has changed in many ways. Before 1987, there was little or no competition because the monetary authorities restricted entry, with the concentration of activities on the four largest banks (First Bank, United Bank for Africa, Union bank, and International Bank for West Africa) (REDASEL, 1989/1990: 335). In 1987, following the introduction of financial liberalisation, entry barriers were relaxed and interest rates were decontrolled. Many new private banks, some with foreign equity ownership initiated activities in the market. This lasted for a few years as the licensing of new banks was stopped in 1993, while interest rate regulation was reintroduced in 1994. In 1997, interest rate deregulation was re-implemented while entry restriction was again relaxed in 1999 (Asogwa, 2004).

At the same time, a lot of structural reforms have been observed in the Nigerian banking industry such as: bank closures, takeover of management and control by the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC). Also, an on-going process of consolidation has been observed in the Nigerian market. On the average, the number of banks in Nigeria shrank by approximately 23 per cent from 115 in 1997 to 89 in 1999 and by 72 per cent from 89 in 2000 to 25 in 2005. Other important developments include the conversion of some banks to public limited liability companies and the introduction of universal banking since 2001 (Asogwa, 2004). To understand and take advantage of the changes in the industry, which may be opportunities or threats, Nigerian banks need to understand the important factors shaping the industry, and the relevant strategic decisions to be taken. These strategic decisions must take into account the relevant competitive, economic, political, regulatory, legal, technological and socio-cultural factors, among others, in the Nigerian business environment.

The next section discusses the problem on ground that this study intends to solve, followed by the literature review and then the research methodology. The empirical results section assesses the effect of globalization on the performance of Nigerian banks.

Statement of the Problem

Globalization has created some distinctive characteristics in the banking industry, one of which is the removal of barriers to entry resulting in a rush into the domestic banking industry and thereby leading to increased competition. Increased competition means that banks must be efficient in the delivery of services and at competitive prices; the era of arm chair banking is over and there is increased need for deposit mobilization through aggressive marketing strategies and techniques. Lack of adequate response to these challenges may mark the end of a banking firm because it may not be profitable; it may not be able to attract and retain prospective customer; it may not be able to get customers or depositors, etc.

There are studies in the developing countries on the structure of banks (both formal and informal) and its role on savings mobilization and intermediation as well as performance of banks (Civelek and Al-Alami, 1991; Agu, 1992; Soyibo and Adekanye, 1992a, 1992b; Seck and El Nil, 1993; Bhattacharaya, 1997). In Nigeria, there have been studies that focused on savings mobilization; monetary policy; financial

liberalization and market power in banking; as well as costs, benefits and challenges of Globalization in the banking sector (Asogwa, 2002; 2004; Umoh, 2002; Adam, 2004; and Adegbite, 2004).

Asogwa (2004) focused on the process of the banking sector globalization, especially the rising entry of foreign banks in Nigeria and other countries of Africa, and its implication for domestic financial systems. In his work, he established that foreign banks were present in Nigeria, and banks with up to 50% foreign ownership had been increasing since 1996. He also found that market concentration index measured by the share of the three largest banks in total assets decreased within his study period (1998-2002); and that Herfindahl–Hirschmann index (HHI), another measure of market structure, decreased showing lower concentration within this period. His study also showed that foreign controlled banks in Nigeria had a better performance trend than wholly domestically owned banks, regardless of the higher interest margins earned by domestic bank; and that the operating costs of the domestic banks were higher than that of the foreign banks. These higher costs are generally related to inefficient branch network and the underdeveloped information technology network.

An important development from globalization in the banking industry is the removal of entry barriers leading to inflow of international banks and enhanced competition in the industry. To survive therefore, banks would require effective product formulation and aggressive promotional strategies. While many studies have examined the effects of globalization on the performances of banks in Nigeria, there is paucity of studies on the effects of globalization on market structure and conduct in the Nigerian banking industry as it affects performance of individual banks. This study intends to bridge this gap. In pursuit of this goal, a pertinent question will be addressed: Does globalization have any effect on the performance of banks in Nigeria?

The general objective of this study is to investigate the effects of globalization on the market structure, conduct and performance of the Nigerian banking industry. The specific objective of the study is to: appraise the effects of globalization on performance of Nigerian banks. The hypothesis formulated for this paper is: Globalization has no significant effect on performance of banks in Nigeria. This hypothesis was tested at the five per cent level of significance.

LITERATURE REVIEW

The notion of dominant economic power and its consequences in terms of prices and profits have long been of interest to economists. Economic theory suggests that there exists a direct relationship between the structure of the market and the performance of the firms in it. The nature of this relationship has been examined in a considerable number of empirical studies. Today, there exists a vast amount of literature regarding the market structure, conduct and performance of banking sectors in different countries and across them. Most part of those studies refers to the microeconomic theory of banking as well as to the empirical research about the relationship between market structure and various aspects of bank conduct and performance.

As noted by Shepetco (2004), the conventional structure-conduct-performance (SCP) approach to the industrial organisation research was first introduced by Edward S. Mason and his associates in 1931. The main principle of the approach is that firm or industry performance is determined by the behaviour (conduct) of suppliers and buyers, which in turn is determined by structural attributes of the market in which it operates (Carlton and Perloff, 2000).

Typically, as stated by Neuberger (1998), banks are considered as multi-product firms, which produce services through taking deposits and granting loans, operating on the three main markets – the deposit market, the loan market and the securities market. The **structure** of the market for banking products is defined with respect to market segmentation, geographical extent, barriers to entry, ownership, costs

structure, etc. Most of the studies used concentration in local market areas as a relevant measure of the banking market structure (Gilbert, 1984). During the last years, most empirical researches suggest the extinction of geographic limitations due to development of telecommunication industry as well as financial globalization (ECB, 2003).

Through the *conduct*, the market structure influences the overall performance of an industry. The banks' conduct involves their strategies, products promotions, price policies, and sales, in particular the issues of competition (price, quality, etc.), price discrimination, marketing, collusion and innovations, in general, all that explains the behaviour of banks. Empirical studies suggest that the major influence on banks' behaviour is exerted by a high degree of asymmetric information between buyers and sellers which is the essential part of a bank activity.

According to Gilbert's (1984) survey of 56 studies conducted during the period of 1964-1983, among the main approaches to measure banks' performance are the elasticity of loan demands, the interest rates on business loan, on time deposits, on passbook savings, the value of net income per dollar of total assets or capital and others. Along with these conventional measures, Neuberger (1998) suggests the use of productive (cost and profit) efficiency and allocative efficiency as a bank performance measure. Since banks are special players in the market for information, the conditions of this market are of importance to their structure, conduct and performance. Therefore, the usual SCP-framework has to be completed by aspects of incomplete information to be useful for the analysis of banking markets.

As discussed by Hahn (2005:3), the structure-conduct-performance (SCP) framework is the predominant methodology in Industrial Economics (Waterson, 1984). The basic idea of this framework is reflected by discussing the standard case of a monopolist maximizing profits by equating marginal cost (MC) with marginal revenue. We recall that this is related to price and the elasticity of demand via the well-known condition:

$$\frac{p - MC}{p} = \frac{1}{\eta},$$

(1)

where η is the own-price elasticity of demand and p the price of the good produced.
This relation, also called the Lerner index (L), says that if all firms have identical marginal cost of production, the price-cost margin is equal to the inverse of the elasticity of demand. Obviously, this equilibrium condition becomes a causal relationship by assuming that conduct be determined by structure. In the given example, conduct was embodied in the assumption that the monopolist was able to choose output to maximize profits. Thus, causation runs from structure (monopoly) to performance. Of course, as stressed in Waterson (1984) the SCP paradigm had to extend beyond this simple frame in order to become the leading view in Industrial Economics.

If firms have different MC of production, the Lerner index (equation 2 below) looks at the weighted average of each firm's mark-up of price above marginal cost where the weight is the market share of each firm. If there are n firms and s_i is the market share of firm i, MC_i is the marginal cost of firm i, then

$$L = s_1\left(\frac{p - MC_1}{p}\right) + s_2\left(\frac{p - MC_2}{p}\right) + \ldots\ldots + s_n\left(\frac{p - MC_n}{p}\right)$$

(2)

In its simplest form, the SCP paradigm views market structure as exogenous, in the sense that it is the structural characteristics of markets that tend to influence or dictate both the conduct and, ultimately the performance of businesses. Most early empirical research based on the SCP paradigm focused on the relationship between concentration and performance measured by profitability. A positive correlation

between concentration and profit was typically interpreted as evidence that firms act collusively in order to achieve high profits.

The most rigorous foundation of the SCP paradigm in banking, as reported by Hahn (2005:3), is given in the seminal paper of Hannan (1991). In this paper, Hahn gives special emphasis to the roles of market concentration and market share (which are differentiated across the markets in which banks operate) as implied by the *SCP* paradigm. The structure of the model refers to that developed by Klein (1971).

In the literature, the SCP model as motivated by Hannan (1991) is translated into the following specific form (Frame and Kamerschen, 1997):

$$\Pi_i = a_0 + a_0 CR_j + \sum_{j=2}^{P} a_j Z_{ij} + \varepsilon_i \tag{3}$$

where Π is an accounting measure of performance (either return on assets or return on equity) for the ith bank, CR is a measure of market structure usually proxied by either an $n-$ bank concentration ratio or the Hirschman-Herfindahl index HHI for the jth local (deposit) market (the HHI for a market equals the sum of each firm's market share squared, that is,

$$HHI = \sum_{i=1}^{n} MS_{ij}^{2} \tag{4}$$

where MS_{ij} is the market share of the ith firm in the jth market, and Z_{ij} are additional explanatory variables included to control for individual bank risks and costs, as well as market demand factors. The term ε represents the usual stochastic disturbance term. Evidently, support for the hypothesis that market structure influences economic performance is found when the coefficient a_i is, in a statistical sense, larger than zero.

The SCP paradigm believed that HHI ➞L, differences in H explains differences in L. Based on Cournot oligopoly, where § is price elasticity of demand,

$$L = \frac{H}{\S} \tag{5}$$

In a monopoly, H=1 which indicates that this rule holds. It can also be shown to hold for a general n-firm Cournot oligopoly (but requires a bit of calculus).

Although, this simplified SCP model has been challenged on both theoretical and empirical grounds, there is no alternative theoretically more robust substitute, any other than modified forms of the SCP itself (Neuberger, 1998). A good discussion of the limitations and shortcomings of the *SCP* model applied to the banking industry is given, among other, in Molyneux, Altunbas and Gardener (1997). The criticism on the bank SCP modelling has to be viewed against the background of rather mixed empirical evidence questioning the robustness and significance of a positive relationship between concentration and performance in banking. The lack of consistent results has led some researchers to argue that the literature contains too many inconsistencies and contradictions to establish a satisfactory SCP relationship in banking.

The defects of trying to quantify empirically the relationship between commercial bank performance and market structure are many ranging from the difficulty to define a meaningful market area and a reasonable measure of concentration under a multi-product banking regime, to the incompetence to settle on

adequate standards of performance measurements in banking (see Mooslechner and Schnitzer, 1994). However, the most profound objection against the SCP paradigm has been raised by researchers associated with the 'Chicago School' such as Demsetz (1973) and Brozen (1982). Their argument rests on the view that the structure of an industry may exist as a result of a superior efficiency in production by some firms which enables them to increase market share thus increasing market concentration. This proposition termed "efficiency structure hypothesis" (ESH) suggests that it is not collusion which leads to higher-than-normal profits but rather economies of scale and scope. In response to the ESH, Shepherd (1982) introduced the relative market power hypothesis (RMPH) that states that only firms with large shares and well-differentiated products would be able to exert market power in pricing these products and earn supernormal profits.

A major shortcoming of the *SCP* paradigm in investigating banking performance has also been considered to be the neglect of the risk-return preference of the bank's management. Rhoades (1982) rightly claims that ignoring the possibility of trading off potential profits for lower risk when a bank operates in different concentrated markets may very likely result in biased estimates of the coefficient of the concentration measure. Though neglecting risk preference aspects in the SCP paradigm is viewed as a serious defect enhancing bank SCP modelling into this direction has so far not been a very active area of research. Most empirical work in the literature is closely related to the so-called quiet-life hypothesis. This hypothesis proposes that banks with larger market power may forego some of their potential profits by choosing safer portfolios than banks with less market power. Thus, the profit rates in the monopolistic markets may not exceed those in the competitive markets but the monopoly profits may be more secure. Heggestad (1977) argues that the failure to find convincing evidence supporting the concentration-profitability relationship in banking as suggested by the SCP paradigm may result from greater avoidance of uncertainty by banks exercising large market power. This argument resembles very much the point already raised by Hicks (1935) who tartly stated that the best of all monopoly profits be the quiet life. Likewise, little attention has also been paid to the fact that the propensity of banks with large market power to inflate operating expenses could also be a possible explanation for the failure to find empirical evidence for the concentration-profitability relationship in banking. This point was forcefully raised, among others, by Leibenstein (1966). In this paper, neither the 'Hicks' nor the 'Leibenstein' effect will be covered.

Conversely, more attention has been paid to the notion of contestability. According to the theory of contestability, the weak linkage between concentration and profitability in banking is mainly due to the low entry and exit barriers in local banking which forces banks to adopt competitive behaviour. Contestability also implies that potential competitors could weaken any non-competitive pricing behaviour through the threat of entry, thereby limiting the role of antitrust scrutiny during bank concentration, for example, through bank mergers. Of course, in modern banking, the threat of new entry no longer require the presence of bricks-and-mortar offices, because banks can easily get access to new markets through telephone and Internet banking. As put in Goddard, Molyneux and Wilson (2001), nowadays brand image is likely to be more important than a physical presence. Consequently, the theoretical framework for this study is the SCP being the most relevant theory of all the theories discussed in this section.

There are five approaches for studying the marketing process. These are: the functional approach, the institutional approach, the behavioural systems approach, the marketing mix approach, and the structure, conduct, and performance paradigm approach (Olufokunbi 1984). The functional approach classifies and discusses what is done in the marketing process. They are functions to be performed in getting goods from producer to consumer regardless of "who performs them". The institutional approach focuses on the various agencies that perform the marketing process; it emphasises the human element of the process. In behavioural systems approach, either a particular marketing firm or an organisation of firms can be viewed as a system of behaviour; each institution is composed of people who are making decisions in an attempt to solve particular problems. The marketing mix approach of studying the market process

involves looking at the variables that must be mixed or programmed for a successful or profitable marketing operation in the light of the circumstances faced by the management. The structure, conduct, performance paradigm approach is a convenient conceptual framework of studying marketing systems, and assumes that casual relations run from structure through conduct to performance, e.g. performance results in a marketing system is a reflection of the business behaviour (conduct) which also arises from the structure. The structure, conduct, performance paradigm approach is adopted for this research.

METHODOLOGY

This study was conducted on banks in Nigeria. Both primary and secondary data were used for this study. As a result of various financial reforms in the Nigerian banking sector, all banks that existed between 1999 and 2007 were purposively used for this study. The primary data were collected from marketing departments of head offices and customers of the twenty five banks remaining after the 2005 consolidation using both purposive sampling technique and simple random sampling technique. Simple random sampling technique was used in selecting 30% of marketers, purposive sampling for selecting two top management staff each in the marketing section of the headquarter of each bank and fifty customers from each bank. On the whole, a sample size of 1520 consisting of 50 top management staff, 220 marketers and 1250 customers, was used for the study.

The secondary data covered the period from 1999 to 2007. The motivation for choice of this period is that it marks the beginning of the third republic when a lot of reforms that greatly impact on banking sector in Nigeria took place. The secondary data sources were the annual reports and statement of accounts for the existing banks during this study period. Other sources were CBN Statistical Bulletin; CBN Annual Reports and Statements of Accounts; Data from the Federal Office of Statistics; publications of Research and Data Services Limited (REDASEL), Annual Reports of NDIC, the Nigerian Stock Exchange Fact book, *International Financial Statistics Yearbook* of the International Monetary Fund and Schemes of Mergers of merged banks. The variables used for this work included globalization; profit after tax, profit before tax, return on equity, total deposits, demand deposits, assets, loans, capital base, marketing cost, and years of experience of each bank; market deposit, number of customers and number of employees. They were used for relevant analysis. Performance measures in this study included profit before tax (PBT).

The secondary data collected are panel in nature. Both descriptive statistics such as arithmetic mean of the respective variables, and inferential statistics, such as correlation and regression analyses and analysis of variance, were employed to analyse the data using the computer Statistical Package for Social Sciences (SPSS) and E-views econometric package. The student's Z or t was used to investigate the degree of statistical difference in some statistics of the banks at five per cent level of significance. The appraisal of the effects of globalization on performance of Nigerian banks was achieved using inferential statistics such as correlation and regression analyses.

The descriptive statistics obtained were the maximum, minimum, arithmetic mean, mode, median and standard deviation of the respective variables; histograms, bar charts or line graphs of some of the variables were also constructed. The student's Z or t was used to investigate the degree of statistical difference in some statistics of the relevant variables. Before any regression runs, the correlation matrix was obtained for all variables used in the regression. On the basis of the coefficients obtained and their significance at an initially adopted five per cent level, some variables were dropped to avoid the problem of multicollinearity.

Model Specification

To test the hypotheses regarding the relationship between the dependent and the explanatory variables, a regression model, following Smirlock (1985) and Evanoff and Fortier (1988) was estimated using pooled ordinary least squares (OLS) estimation within the framework of panel data.

$$P_{it} = \beta_1(CR_t) + \beta_2(MS_{it}) + \beta_3(TAS_{it}) + \beta_4(CAR_{it}) + \beta_5(LTA_{it}) + \beta_6(DTD_{it}) + \beta_7(MKD_t) + \beta_8(MGR_t)$$
$$+ \beta_9 BBR_{it} + \beta_{10}GL1_{it} + \beta_{11}EXPR_{it} + \varepsilon_t \tag{6}$$

where for time t, bank i;

P = bank profits measured by profit before tax.

CR_3 = three-firm concentration ratio (the share of bank deposits accounted for by the three largest banks). The more concentrated the industry the higher the level of profitability ($\beta_1 > 0$).

MS = market share of the banks. Larger market shares are a result of efficiency, which in turn leads to higher profitability ($\beta_2 > 0$).

TAS = bank assets (thousands of naira). The relationship may be positive, reflecting economies of scale, or negative, reflecting greater ability to diversify assets, which results in lower risk and lower required return ($\beta_3 > 0$ or $\beta_3 < 0$);

DTD = demand deposits to total deposits ratio of banks. This variable represents the relative cost of funds. Demand deposits are a cheaper source of funds and the higher the ratio, the higher the level of profitability ($\beta_6 > 0$);

MKD = market deposits (thousands of naira) of the banking industry. This is a proxy for market potential. Higher profits are expected when a larger market provides new opportunities, while lower profits may be expected if the large market makes entry relatively easy ($\beta_7 > 0$ or $\beta_7 < 0$);

MGR = annual growth rate of market deposits for the banking industry. Higher profits are expected when a market grows, while lower profits may be expected if the growing market makes entry relatively easy ($\beta_8 > 0$ or $\beta_8 < 0$);

BBR = number of bank branches. Higher profits are expected when the number of branches increases, while lower profits may be expected if BB decreases ($\beta_9 > 0$);

GL1 = percentage of foreign ownership in shareholders' funds of Nigerian banks. For banks having high percentage of its shareholders' funds owned by foreigners, we expect higher profitability as a result of wider market coverage, otherwise globalization can weaken the monopoly power of existing banks ($\beta_{10} > 0$ or $\beta_{10} < 0$); and

EXPR years of experience. The more experienced a bank is, the higher should be the level of profitability ($\beta_{11} > 0$).

Logarithmic Transformation of Profit

Some banks had negative profit while some had zero profit in some of the years; hence the logarithmic transformation of profit generated by banks was not done. This is because some of the laws of logarithm say:

     a.   logarithm of zero to any base is undefined; and

     b.   logarithm of a negative number does not exist under real number set.

Hence, the use of logarithmic transformation cannot give a reliable result in any regression analysis that has any of its variables' value equal to zero or negative. For all the equations estimated, the standard errors of respective regression coefficients were expressed in the parentheses under it. For each of the regression model, where at least a hypothesis was tested, it was assumed that the stochastic disturbance (or error term) was normally distributed with mean zero, and was homoscedastic and non-autoregressive, that is:

$e_i \quad N(0,\sigma^2)$ and $E(e_i, e_j) = 0 \ (i \neq j)$.

Each explanatory variable, as the case may be in any particular regression was, non-stochastic, That is:

$$\frac{1}{n}\sum_{i=1}^{n}(X_i - \overline{X_i})^2 \tag{7}$$

i.e. a definite number different from zero (Kmenta, 1986). Where at least one of the assumptions became violated, the emphasis was no longer to test hypothesis, but to determine goodness of fit. The interpretation of the adjusted R^2 ($\overline{R^2}$) would then become goodness of fit rather than the proportion of the variability in the dependent variable that is explained by the variability in the independent variables (Kmenta, 1986). The *a priori* magnitude and direction of each relationship are as stated under model specification. The position taken was to examine the structural equations estimated and determine the one to accept as the lead equation on the basis of economic, *a priori* expectation, statistical, and econometric criteria. Relevant inferences were drawn from the results of the analyses.

RESULTS AND DISCUSSIONS

The Demographic Characteristics of Respondents

The age of bank marketers ranged from 20years to 48years with an arithmetic mean age of 30.53, median age of 29 and modal age of 27 years in the industry (Table 1). The study also revealed that about 60 per cent of marketers in the industry were below 30 years, meaning that by the time the marketers above 30 years grow too old for the business, the younger ones constituting 60 per cent of the sample would have become mature to replace them. There is therefore no sign of shortage of marketers warranted by old age in the future.

Table 1: Some Descriptive Statistics of Respondents in the Nigerian Banking Industry

Statistic	Age of Respondents		Years of Experience in Banks		Years of Experience in Industry	
	Marketers	People at Mgt. Level	Marketers	People at Mgt. Level	Marketers	People at Mgt. Level
Mean	30.53	35.29	4.84	6.00	5.77	7.47
Median	29.00	37.00	2.50	4.00	4.00	6.00
Mode	27	37.00	1.00	1	1	6
Standard	5.848	4.845	6.109	5.574	5.098	5.234
Deviation	20	26	1.00	1	1	1
Minimum	48	42	27	20	27	20
Maximum						

Source: Akinola 2008

It can be assumed that the number of years in business influences performance in that business. Table 2 summarizes findings on the number of years of experience of marketers in their various banks and in the industry by the respondents. The study revealed that there are wide variations in bank marketers' experience. The overall arithmetic mean number of their years of experience in their various banks was 4.84 and in the industry was 5.77 years. About 70 per cent of the marketers entered the industry within the last three years (2005-2007), but about 30 per cent of them entered between 1980 and 2004. This could suggest that there had been a consistent increase in the net percentage of marketers entering the industry within the last three years. This phenomenon could suggest that the relevance of bank marketers increased tremendously in the industry as a result of consolidation which came about to strengthen the financial worth of Nigerian banks to be able to cope in the global market. However, for such an inference to be totally valid, one would need a measurement of exits (by reason) of marketers from the industry.

Performance Measure and Its Explanatory Variables

Profit before tax (PBT) was used as the performance measure in this study. Each of bank branches (BBR), deposit market share (DMS), market deposit (MKD), profit after tax (PAT), and total assets (TAS) was correlated with profit before tax(PBT) but other variables were not.

$(r_{PBT,BBR} = 0.584, r_{PBT,DMS} = 0.582, r_{PBT,MKD} = 0.562, r_{PBT,PAT} = 0.975, r_{PBT,TAS} = 0.892);$

Also some variables were correlated with each other (See Table 3). From the viewpoint of econometrics, variables that are correlated should not be included together as explanatory variables of PBT in this regression analysis; and while trying to select the variables, the level of significance of globalization must be considered as well. Hence, the explanatory variables were selected based purely on the multicollinearity and autocorrelation econometric criterion.

Table 2: Years of Experience and Age of Marketers in the Nigerian Banking Industry

Years of Experience	No and % of Marketers with the experience	Age of Marketers (Years)	No and % of Marketers within the Age Range	No and % of People at Mgt. Level within the Age Range
Less than 4	125 (69.44)	20 – 24	10 (6.1)	0
4 – 8	35 (19.44)	25 – 29	76 (46.6)	4 (11.8)
$\leq 9 – 13$	9 (5.00)	30 – 34	47 (28.8)	7 (20.6)
$\leq 14 – 18$	4 (2.00)	35 – 39	15 (9.2)	14 (41.2)
$\leq 19 – 27$	7 (3.89)	40 – 44	7 (4.3)	9 (26.5)
		45 – 49	8 (4.9)	0(0)
Total	180 (100)		163 (100)	34(100)

Source: Akinola, 2008.

Based on this, some equations were formed to show the relationship of PBT with the explanatory variables but the one having the highest degree of adjusted R^2 ($\overline{R}^2 = 0.822$), indicating the highest goodness of fit and at the same time in which globalization is significant, was therefore considered as a possible lead equation. However, since the signs of the explanatory variables followed *a priori* expectation and are statistically significant, the final choice equation was equation of Table 4; with $\overline{R}^2$ of 82 per cent. Here all the explanatory variables together were responsible for 82 per cent of the variability of profit before tax. Table 4 summarizes the set of statistically significant variables across the estimated equations from the preferred specification. Equation in Table 4 presents the estimation results of the profit before tax (PBT) equation. As indicated in the table, profit before tax is positively influenced by number of bank branches (BBR), market deposit (MKD), globalization (GL1) and total assets (TAS) at the five percent level of significance, and positively influenced by three firm concentration ratios (CR$_3$) and demand to deposit ratio (DTD) – that is the relative cost of fund at the ten per cent level; whereas it is negatively related to years of experience of banks and market growth.

Since five percent level of significance has been indicated for this research work, CR$_3$ and DTD were not shown in the equation. As these results show, each of the estimated regression coefficients BBR, TAS, GL$_1$, EXPR and MGR is individually statistically highly significant, because the p values are so small. That is, each of the coefficients of BBR, TAS, GL$_1$, EXPR and MGR is significantly different from zero.

The positive sign of the bank branches (BBR) and performance measure (PBT) indicates that higher profits are made when the number of branches increases; the interpretation of the slope coefficient of BBR of about 7.07 means that holding other variables constant, if BBR goes up by one, the PBT goes down by about ₦7.07 million. For market deposits (thousands of naira) of the banking industry (MKD), this is a proxy for market potential, the positive sign indicates that larger market provides new opportunities in the Nigerian banking industry, higher profits are obtained when a larger market provides

new opportunities. The interpretation of the slope coefficient of MKD of 0.0008 means that holding other variables constant, if MKD goes up by one million naira, PBT goes up by ₦0.0008 million.

Table 3: Correlation Matrix of Relevant Variables in the Nigerian Banking Industry (1999-2007)

	BBR	CR3	DMS	DTD	EXPR	GL1	HHI	LDR	MGR	MKD	PAT	PBT	SVR	TAS
BBR	1.0000-	-0.1428	0.8302-	-0.1168	0.3918	-0.2989	-0.1154	-0.1266	0.0334	0.1583	0.5748-	0.5840-	-0.1159	0.6641-
CR3	-0.1428	1.0000-	0.0184	-0.2398	-0.0120	-0.0226	0.7760	0.8369-	0.0350	-0.7846-	-0.4354	-0.4504	0.8824-	-0.4821
DMS	0.8302-	0.0184	1.0000-	0.0114	0.1353	-0.2047	0.0392	0.0151	-0.0148	0.0020	0.5822-	0.5817-	0.0171	0.6332-
DTD	-0.1168	-0.2398	0.0114	1.0000-	-0.3357	0.1852	-0.0780	-0.2975	0.0887	0.2084	0.2034	0.2333	-0.2994	0.1681
EXPR	0.3918	-0.0120	0.1353	-0.3357	1.0000-	-0.1696	-0.0306	-0.0002	0.0206	0.0387	-0.0846	-0.0473	0.0102	0.0669
GL1	-0.2989	-0.0226	-0.2047	0.1852	-0.1696	1.0000-	0.0499	-0.0852	0.0292	-0.0096	-0.0970	-0.0931	-0.0978	-0.1876
HHI	-0.1154	0.7760-	0.0392	-0.0780	-0.0306	0.0499	1.0000-	0.5175-	-0.0345	-0.5588-	-0.2897	-0.2992	0.4870	-0.3284
LDR	-0.1266	0.8369-	0.0151	-0.2975	-0.0002	-0.0852	0.5175-	1.0000-	-0.3583	-0.8088-	-0.4084	-0.4239	0.9339-	-0.4805
MGR	0.0334	0.0350	-0.0148	0.0887	0.0206	0.0292	-0.0345	-0.3583	1.0000-	0.4407	0.1177	0.1373	-0.0654	0.2239
MKD	0.1583	-0.7846-	0.0020	0.2084	0.0387	-0.0096	-0.5588-	-0.8088-	0.4407	1.0000-	0.5250-	0.5616-	0.6851-	0.6140-
PAT	0.5748-	-0.4354	0.5822	0.2034	-0.0846	-0.0970	-0.2897	-0.4084	0.1177	0.5250-	1.0000-	0.9752-	-0.3617	0.8873-
PBT	0.5840-	-0.4504	0.5817-	0.2333	-0.0473	-0.0931	-0.2992	-0.4239	0.1373	0.5616-	0.9752-	1.0000-	-0.3663	0.8923-
SVR	-0.1159	0.8824-	0.0171	-0.2994	0.0102	-0.0978	0.4870	0.9339-	-0.0654	-0.6851-	-0.3617	-0.3663	1.0000-	-0.4093
TAS	0.6641-	-0.4821	0.6332	0.1681	0.0669	-0.1876	-0.3284	-0.4805	0.2239	0.6140-	0.8873-	0.8923-	-0.4093	1.0000-

Note: BBR is number of bank branches, CAR is capital to asset ratio, CR3 is the concentration ratio of the three largest banks, DMS is the deposit market share of banks, DTD is the ratio of demand deposit to total deposits, EXPR is the year of experience of individual banks, GL1 is globalization, HHI is Herfindahl Hirschman index, LDR is lending rates, LTA is loan to asset ratio, MGR is market growth, MKD is market deposit, PAT is profit after tax, PBT is profit before tax, SVR is saving rates and TAS is total assets. -indicates significance at the 5 percent level. Source: Akinola, 2008.

Table 4: The Estimation Results of the Profit before Tax (PBT) Equation

Explanatory Variables	The Estimated Coefficients
BBR	7.066582 (2.3777)**
EXPR	-44.87505 (-3.0255)***
GL$_1$	21.62548 (2.0444)**
MGR	-21.90291 (-2.8348)***
MKD	0.000790 (2.4572)**
TAS	0.021448 (10.6916)***
F	70.41346
SS Res	779000000
R^2	0.83415
R^2	0.822303
OBS	151

*Note: The t values of the variables are in parentheses after the estimated coefficients. BBR is number of bank branches, CR$_3$ is the concentration ratio of the three largest banks, EXPR is the year of experience of individual banks, GL$_1$ is globalization, MGR is market growth, MKD is market deposit, PBT is profit before tax and TAS is total assets.***, **, and * indicate significance at the 1, 5 and 10 percent levels respectively. Source: Akinola, 2008.*

The positive sign of the total assets variable indicates economies of scale in the industry; the interpretation of the slope coefficient of TAS of 0.02 means that holding other variables constant, if TAS goes up by one million naira, PBT goes up by ₦0.02 million. The positive sign of the globalization variable indicates that higher profitability was a result of wider market coverage. The interpretation of the slope coefficient of about 21.62548 suggests that holding other variables constant, if globalization goes up by 1.00 per cent, the performance of banks in terms of profit before tax goes up by 21.6 million naira for all banks; that is, for every one per cent increase in foreign ownership in shareholders' funds of Nigerian banks, the banks make ₦21.6million profit before tax. The equation also shows that globalization (GL$_1$) is a statistically significant positive explanatory variable of profit before tax at the 5 per cent level (t= 2.044427; p=0.0428).

For demand deposits to total deposits ratio of banks (DTD) which represents the relative cost of funds, demand deposits are a cheaper source of funds and the positive sign indicates that the higher the ratio, the higher the level of profitability; the slope coefficient of 2095.50 means that holding other variables constant, if DTD goes up by one point, PBT goes up by ₦2095.50 million but this relationship is not significant at 5 per cent level. Also, the positive sign of three-firm concentration ratio (CR3) indicates that the more concentrated the industry the higher the level of profitability; the slope coefficient of CR_3 of 175.62 means that holding other variables constant, CR_3 goes up by one per cent, PBT goes up by ₦175.62 million, but this relationship is not significant at 5 per cent level of significance.

The negative sign of the years of experience of banks (EXPR) indicates the more experienced Nigerian banks are the lower their levels of profitability. This could mean that old banks still make use of old marketing strategies that are not working for them in a globalized set-up. This is experienced in the way marketers of new banks in Nigeria go from office to office, marketing their products and looking for customers which is hardly found among the long existing banks. The slope coefficient of EXPR of -44.88 means that holding other variables constant, if EXPR goes up by one year, PBT goes down by ₦44.88 million. The negative sign of market growth (MGR), which is the annual growth rate of market deposits for the banking industry, indicates that the growing market in the industry makes entry relatively easy thereby resulting in lower profits. The slope coefficient of MGR of -21.90 means that holding other variables constant, if MGR goes up by one per cent, PBT goes down by ₦21.90million. Collectively, the explanatory variables are also highly statistically significant, because the p value of the computed F value is extremely low; and the $\overline{R^2}$ of 0.82 indicates that all the explanatory variables therefore account for about 82 per cent of the variation in the profit before tax (PBT).

Testing Hypothesis about Coefficient of Globalization and PBT

For this study, the hypothesis is stated thus:

H_0: Globalization has no significant effect on performance of banks in Nigeria.
If β_3 is the coefficient of globalization in the model (Table 4), it implies that

$H_0: \beta_3=0$; $H_1: \beta_3 \neq 0$

Since t=2.044427 in the model, on the basis of computed t value, to reject the null hypothesis that globalization has no significant effect on performance of banks in Nigeria or not, the test of significance approach will be used. α=5% level of significance had been earlier chosen for this study. Since this is a two tailed test, the critical t value at α/2=2.5 for (151-11) degrees of freedom, which is 140 will be found. Then from the t table, it is observed that for 140 d. f., (-1.96 ≤ t ≤ 1.96) = 0.95. That is, the probability that a t value lies between the limits -1.96 and +1.96 is 95 per cent. The computed t value here is approximately 2.04 which obviously exceeds the critical t value of 1.96. The null hypothesis is therefore rejected and it is therefore concluded that globalization has a positive significant effect on performance of banks in Nigeria.

The study revealed that profit before tax is positively influenced by number of bank branches (BBR), market deposit (MKD), globalization (GL₁) and total assets (TAS) at the five percent level of significance, and positively influenced by three firm concentration ratios (CR_3) and demand to deposit ratio (DTD) – that is the relative cost of fund at the ten per cent level; whereas it is negatively related to years of experience of banks and market growth. Since five percent level of significance has been indicated for this research work, CR3 and DTD were not shown in the equation. The positive sign of the bank branches (BBR) and performance measure (PBT) indicates that higher profits are made when the number of branches increases; the interpretation of the slope coefficient of BBR of about 7.07 means that holding

other variables constant, if BBR goes up by one, the PBT goes down by about ₦7.07 million. Market deposits (thousands of naira) of the banking industry (MKD) is a proxy for market potential, the positive sign indicates that larger market provides new opportunities in the Nigerian banking industry, higher profits are obtained when a larger market provides new opportunities. The interpretation of the slope coefficient of MKD of 0.0008 means that holding other variables constant, if MKD goes up by one million naira, PBT goes up by ₦0.0008 million. The positive sign of the total assets variable indicates economies of scale in the industry; the interpretation of the slope coefficient of TAS of 0.02 means that holding other variables constant, if TAS goes up by one million naira, PBT goes up by ₦0.02 million. The positive sign of the globalization variable indicates that higher profitability was a result of wider market coverage. The interpretation of the slope coefficient of about 21.62548 suggests that holding other variables constant, if globalization goes up by 1.00 per cent, the performance of banks in terms of profit before tax goes up by 21.6 million naira for all banks; that is, for every one per cent increase in foreign ownership in shareholders' funds of Nigerian banks, the banks make N21.6million profit before tax. The equation also shows that globalization (GL_1) is a statistically significant positive explanatory variable of profit before tax at the 5 per cent level (t= 2.044427; p=0.0428).

For demand deposits to total deposits ratio of banks (DTD) which represents the relative cost of funds, demand deposits are a cheaper source of funds and the positive sign indicates that the higher the ratio, the higher the level of profitability; the slope coefficient of 2095.50 means that holding other variables constant, if DTD goes up by one point, PBT goes up by ₦2095.50 million but this relationship is not significant at 5 per cent level. This findings, though the signs follows a-priori expectation, deviates from those of Smirlock (1985) and Evanoff and Fortier (1988) who found a significant and positive relationship between the ratio of demand deposits to total deposits and bank profitability. Also, the positive sign of three-firm concentration ratio (CR_3) indicates that the more concentrated the industry the higher the level of profitability, the slope coefficient of CR_3 of 175.62 means that holding other variables constant, CR_3 goes up by one per cent, PBT goes up by ₦175.62 million, but this relationship is not significant at 5 per cent level of significance; this findings agrees with Agu (1992) who found no significant statistical relationship between concentration and profitability.

The negative sign of the years of experience of banks (EXPR) indicates that the more experienced Nigerian banks are (in terms of years of existence) the lower their levels of profitability. This could mean that old banks still make use of old marketing strategies that are not working for them in a globalized set-up. This is experienced in the way marketers of new banks in Nigeria go from office to office, marketing their products and looking for customers which is hardly found among the long existing banks. The slope coefficient of EXPR of -44.88 means that holding other variables constant, if EXPR goes up by one year, PBT goes down by ₦44.88 million. The negative sign of market growth (MGR), which is the annual growth rate of market deposits for the banking industry, indicates that the growing market in the industry makes entry relatively easy thereby resulting in lower profits. The slope coefficient of MGR of -21.90 means that holding other variables constant, if MGR goes up by one per cent, PBT goes down by ₦21.90million. The positive sign of the globalization variable indicates that higher profitability was a result of wider market coverage. The interpretation of the slope coefficient of about 21.62548 suggests that holding other variables constant, for every percentage increase in foreign ownership in shareholders' funds of Nigerian banks, the banks make N21.6million profit before tax.

CONCLUSION AND RECOMMENDATIONS

This study assessed the effect of globalization on the performance of Nigerian banks. Primary and secondary data were used for the study. Two sets of questionnaire were administered on marketers and customers of the banks. Interviews were also conducted with top management staff in the marketing departments of the banks. Secondary data on relevant variables were collected from the banks. Descriptive and inferential statistics were used to analyse the data. Test of significance approach was used

in testing the hypothesis stated for this study. The results showed that globalization had a significant and positive effect on the performance of banks. The higher profitability was a result of wider market coverage of banks in the country, both locally and internationally. The study concluded that globalization greatly improved the performance of banks in Nigeria. The limitation of this paper is that it focused only on the financial measures of marketing performance; it is therefore suggested that further research be conducted on effect of globalization on both financial and non-financial measures of marketing performance of Nigerian banks. The study recommended that Nigerian banks should create enabling environment for global competitiveness to be able to attract foreign investors. Global competitiveness in this sense is the ability of Nigerian banks to produce services that meet or exceed quality expectations of the customer, deliver these services at the time, place and price required by the customer; and in the form and quantity required by the customer.

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