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Characteristics of Nigerian Deposit Money Banks and Their Financial Outcome

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ABSTRACT

The purpose of this research was to examine the connections between DMB profitability and various company characteristics in Nigeria. This study used panel data regression to evaluate five hypotheses on how market share, liquidity, credit risk, interest rate spread, and leverage affect bank profitability. Secondary data was gathered from the financial statements of the 19 deposit money banks listed on the international and local markets of the Nigerian Stock Exchange (NSE) between 2012 and 2021. The success of Nigerian banks is strongly influenced by their market share, liquidity, interest rate spread, and leverage. There was a connection between credit risk and ROA, however it was weak and not statistically significant. The report recommended that the Central Bank of Nigeria (CBN) create policies to enable banks increase their market share, rather than seeking to limit the number of firms in the banking sector.

KEYWORDS: *Related party transactions, Financial performance, Return on assets, Return on equity, Earnings per share*

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1. INTRODUCTION:

There is no denying the dramatic transformation that the banking industry has seen in recent years. Recognizing the banking system's potential as a driver of economic growth, reforms were enacted to reshape the business and better enable it to act as a financial intermediary (Enyi, 2021). To distribute funds to the most productive areas of the economy, the financial system relies heavily on the services provided by banks. The role of financial institutions is to facilitate transactions between lenders and investors. Banks are institutions that accept savings deposits and then make loans to those who need them (Enyi, 2021). This activity serves to keep the financial system stable by reducing the impact of shocks, whether they come from inside or beyond the system. Policymakers and bank regulators have been hard at work developing new and improved standards to improve the financial performance of the banking system as a whole because DMBs play such an important part in every country's economy. This is why there has always been a need for knowledge regarding the aspects that contribute to the success of banks that deal in deposit money (Saddam, 2021).

According to Ali and Isa (2018), a deposit money bank's financial performance is a measure of how efficiently the bank converts its assets into cash flow. Financial performance is also the bedrock of a company's long-term success. It's a way of analysis for calculating an enterprise's asset profits (Ravichandran & Subramanian, 2016). Therefore, financial performance measures how well a firm makes money and how it grows over time (Fischer & Himme, 2017). Thus, the firm's financial health is crucial to its survival, development, and ultimate success (Saddam, 2021). The health of a company's finances affects not only the interests of the company's shareholders but also the development of the capital market and the growth of the economy as a whole. Despite the prevalence of innovative and potentially game-changing corporate technology, discoveries, and inventions, strong financial results continue to take center stage (Enyi & Ajibade, 2021).

Nonetheless, organizations must be able to keep their operations running smoothly in order to achieve high financial performance that is tailored to their own characteristics (Osazefua, 2019). Successful firms employ firm-specific traits in the management of their various strategic resources, which is what drives their financial growth measurements, to optimize operational efficiency, the firm's growth, and the production of value for all stakeholders (Margaretha & Supartika, 2016). Deposit money banks in Nigeria have underperformed in terms of growth, net profit margin, and return on capital because of wasteful practices. Poor financial performance is a common reason why businesses fail (Enyi, 2021). Whether or if company features significantly impact financial outcomes of Nigeria's deposit money banks is therefore the central question.

Notwithstanding the significant reforms to the banking sector, Nigerian deposit money institutions have been affected severely by the huge financing shortages in private economic activity. Market share, credit risk, liquidity, interest rate spread, and leverage are only few of the data that support this. These shifts have prevented banks from fulfilling their strategic roles as catalysts for financial inclusion, economic growth, and job creation. The United States banking system is typically viewed as having a poor level of performance, similar to that of many developing nations whose financial sectors operate significantly better than the banking system (Dogarawa & Maude, 2019).

While there are challenges, such as those mentioned above, there are also studies from the existing literature to consider, such as those by Murtala, Ibrahim, Lawal, and Abdullahi (2018); Ayuba, Bambale, Ibrahim, and Sulaiman (2019); Dogarawa and Maude (2019); Uzoka, Ifurueze, and Anichebe (2020); Abdullahi, Sabari, Sabo, and Mohammed (2021); and Given the significance of deposit money banks to Nigeria's economic growth and development, this apparent lack prompted the necessity for an in-depth investigation on the connection between firm-specific traits and financial performance, as noted by Akenroye and colleagues (2020). Examining the relationships between market share, liquidity, credit risk, interest rate spread, and leverage, among other factors, and the profitability of deposit money institutions is the focus of this study. It was on this basis that the hypotheses were expressed and evaluated.

The remaining sections of this work are as follows: literature review; methodology; results and discussion; and conclusion and suggestions.

2. Review of Related Literature

Concept of Firm-Specific Attributes

ç Some examples of such evidence are market share, credit risk, liquidity, interest rate spread, and leverage. Banks' strategic responsibilities as drivers of financial inclusion, economic growth, and job creation have been hampered by these changes. In terms of its operational capabilities, a company's qualities are what set it different from other enterprises Considerations include age, height, and muscular mass (Kwaltommai, Enemali, Duna, & Ahmed, 2019). This means that a company's unique qualities have a significant role in both internal decision-making processes and publicly visible performance metrics. In opposed to this view, Farouk, Magaji, and Egga (2019) saw firm characteristics as structural traits that might be altered by either internal or external, determinable or unexpected causes. Examples of structural characteristics include dimensions, leverage, and age. Schmalensee (2015) argues that a firm's strengths—its USPs within a given market—are what ultimately determine where the company sets up shop. This provides evidence that the criteria that determine a company's profitability are not universal. The strengths and shortcomings of a firm may be traced back to the organization's core values, say Irom, Joshua, Ahmed, and Emmanuel (2018). Examples of such elements are leverage, market share, liquidity, age, size, capital, dividends, and dividend yield. Similarities in size, age, and profitability were observed across a wide range of firms by Siyanbola, Sanyaolu, Ogbebor, and Adegbie (2020). The internal structure, strategy, and profile of an organization are examples of resource-based qualities that contribute to a company's performance and success (Oluwatayo, Amole, & Alagbe, 2019). So, unique aspects of each organization play a significant role in dictating its ultimate fate. It deals with the less quantifiable but no less important components of a company's performance.

From the foregoing, it is clear that the various resource-based corporate elements that determine a company's activities, performances, degree of efficiency, capacity to produce value, and predictability of periodic returns are what truly distinguish one corporation from another.

Concept of Financial Performance

The efficiency with which a company generates income from its core operations is an objective measure of financial success, as defined by Ravichandran and Subramanian (2016). The magnitude, stability, and durability of a company's revenue growth are key metrics by which its financial

performance is measured (Dogarawa & Maude, 2019). Companies evaluate their success in creating value for their stakeholders over time by looking at metrics including revenue growth, productivity, and the marginal rate of return, all of which are reflected in financial performance (Gulati, Mikhail, Morgan, & Sittig, 2016). Financial performance, as defined by Ricci and Civitillo (2018), is the periodic examination of how successfully a corporation achieves its economic and financial goals. What is meant by "financial performance" is the evaluation of how well the company has done financially (Arena, Azzone, & Bengo, 2015).

Theoretical Framework

Resource-Based View Theory

In our investigation, we used the RBV framework as our basis. In a series of influential works beginning in 1984, Birger Werner felt laid the groundwork for the Resource-Based Vision (RBV) school of thinking, which holds that a company's success is proportionate to its capacity to make efficient use of its resources. To identify and describe the fundamental assets and competencies a business must have to function successfully and sustain a competitive edge over the long term, the RBV model of corporate strategy is utilized (Lavie, 2008). According to RBV theory, organizations need to acquire and use a broad variety of resources as their performances fluctuate; to do so effectively, they must develop uniquely different strategies for developing, acquiring, and putting to use their unique collections of assets (Tang, 2017). In contrast to focusing on exogenous environmental causes, this strategy places a premium on a company's internal, endogenous resource elements as a means of gaining a competitive edge (Radjenovi & Krsti, 2017). A dynamic capacity theory of business, resource-based theory focuses on the need of optimizing the value of the firm's internal resources and the combinations of those resources to maintain competitive advantage over the long term. The primary premise of this school of thought is that an organization may gain an advantage over its rivals by putting its own resources to better use. The organization may be able to capitalize on these openings by utilizing its special qualities and method of approaching the market. Miller (2019) describes RBV theory, a school of management philosophy, as being based on the postulates that (1) businesses' resources are unevenly distributed within each organization and (2) businesses within the same economic sector have limited ability to freely and effectively exchange their resources with one another. This means that each company relies on its own unique combination of resource determinants, competences, skills, and capabilities to develop value and achieve competitive financial performance. According to RBV, a company's resources are the driving force behind its success, expansion, and competitive advantage. As a result, the RBV is a useful tool for determining whether or not a company's competitive edge can be maintained within the constraints of its current management structure (Assensoh-Kodua, 2019). The RBV's main selling point is that it can explain, from an efficiency standpoint, what makes one company more successful than another in terms of revenue expansion. The firm's comparative and competitive advantage results from the superiority of its resources over those of its competitors, allowing it to operate at a higher level of efficiency, waste reduction, technique adaption, and value generation for its stakeholders. The firm's anchoring strength will deteriorate if its resources are mismanaged (Nagano, 2020). Hence, RBV explains the persistent growth in performance gap between firms at the resource and company levels.

Empirical Framework

The publicly listed Nigerian construction businesses analyzed by Murtala, Ibrahim, Lawal, and Abdullahi found to have a negative relationship between capital structure (a proxy for company performance) and return on capital employed (ROCE) (2018). Similar findings were found in the research conducted by Ayuba, Bambale, Ibrahim, and Sulaiman (2019). (2012–2017). According to the findings, ROCE contributed considerably to a company's value.

Market share, liquidity, credit risk, interest rate spread, leverage, efficiency, operational expenses, deposits, capital management, and bank size were among the assumptions examined in Dogarawa and Maude's (2019) analysis of the financial performance of Deposit Money Banks (DMBs) in Nigeria. The financial statements of 13 banks listed on the Nigerian Stock Exchange (NSE) between 2005 and 2014 served as the secondary data source for this study. Researchers employed robust pooled panel regression to assess and interpret the data since the dataset lacked cross-sectional effect, as evidenced by the Breusch-Pagan lagrangian multiplier test and the presence of heteroskedasticity. The comprehensive pooling regression model indicates that market share, liquidity, interest rate spread, leverage, and operational expenditures all play a role in a Nigerian bank's bottom line. Financial performance at DMB was also shown to have no correlation with the bank's size, risk of default, efficiency, deposits, or capital management. The report recommended that the Central Bank of Nigeria (CBN) create methods that would stimulate banks to increase their market share, rather than depending on the removal of particular participants.

Uzoka, Ifurueze, and Anichebe (2020) examined the connection between business characteristics and financial performance using an interaction approach. The study has seven hypotheses and objectives. Using an ex-post-facto research strategy, this study analyzed panel data compiled from the annual reports of Nigerian manufacturing businesses between 2009 and 2018. The data was examined by employing a technique called ordinary least squares regression. Nonetheless, some of the first efforts involved the use of descriptive statistics and correlation analysis. The age of the firm and the stability of the organization were shown to have negative but modest effects on performance, whereas operational efficiency, asset tangibility, and leverage policy were found to have positive and large effects on performance. Growth and expansion have small but positive benefits on productivity. The results indicated that performance was most affected by a mix of operational efficiency and the physicality of assets. The last step was the consolidation of firm size and stability. Utilizing data from 13 institutions, Abdullahi, Sabari, Sabo, and Mohammed (2021) analyze the impact of various risks on the earnings of deposit money institutions listed on Nigeria's stock exchange between 2007 and 2019. Financial success was measured by return on assets, and risk was measured in three ways: interest rate risk, capital adequacy risk, and credit risk. Primary data came from the institutions' own books, while secondary data was analyzed through random-effects regression. Nigerian banks were shown to be significantly impacted negatively by capital adequacy risk, credit risk, and interest rate risk, with liquidity risk having a negligible yet unfavorable impact. Capital adequacy risk is decreased and capital is utilised more efficiently at listed deposit money banks in Nigeria when the capital adequacy ratio is raised to fulfill regulatory criteria. Akenroye, Adegbie, and Owolabi (2022) examined the impact of various business characteristics on important financial metrics for Nigerian listed companies. The research approach was retrospective. The sample group consisted of 161 publicly traded companies in Nigeria as of the end of the study period in 2020 (December 31). The 111 participants used in the study were selected with care. Two-stage techniques were used to select the 111 firms that were studied (strategic and quota). Secondary information was compiled from audited financial statements covering a ten-year time span (2011–2020). The data was analyzed using multiple regression and descriptive statistics. It was discovered that the characteristics of the enterprises represented had a major effect on the efficiency of the invested capital and the net profit margin. The qualities of a firm were discovered to be the most important element in optimizing profits. The study found that firms were more successful when they used tactics tailored to their own strengths to increase profits.

3. Methodology

The purpose of this research is to examine how different aspects of Nigerian deposit money institutions relate to the stock market in Nigeria and its constituent cities. This quantitative, positivist-oriented, and correlational study set out to investigate the effect that firm-specific variables have on the profitability of Nigerian deposit money institutions. We were able to get valuable secondary data from the annual reports of 19 regulated international and/or national deposit money institutions. From 2012 through 2021, all publicly listed DMBs for whom this information was readily available were included in the panel data utilized in this study. The dependent variable is the rate of return on assets, while the five independent variables are the businesses' market share, liquidity, credit risk, interest rate spread, and leverage.

The panel regression model is as follows:

$$ROA_{it} = \beta_0 + \beta_1 MSHARE_{it} + \beta_2 LIQ_{it} + \beta_3 CRISK_{it} + \beta_4 SPREAD_{it} + \beta_5 LEV_{it} + \beta_6 MSHARE2_{it} + \beta_7 LIQ2it + \beta_8 CRISK2it + \beta_9 SPREAD2it + \beta_{10} LEVit + \varepsilon it \quad (1)$$

Where:

Variable	Definition, measurement and source
ROS it	Return on assets representing profitability of bank *i* at time *t* and measured as profit before tax/total assets
MSHARE	Market share of each bank measured by bank's assets/total assets of the banking sector
LIQ	Liquidity measured as liquid assets/total assets
CRISK	Credit risk calculated by non-performing loans/total loans
SPREAD	Interest rate spread calculated by interest received/interest paid
LEV	Leverage measured as total equity/total assets $\square_0, \beta_1 - \beta_{10}$ Parameters of the model to be estimated
ε	Error term

The dataset's primary characteristics and correlations between and among the variables were explored with the use of descriptive statistics generated in Stata 13.x software and a correlation matrix. The researchers also

verified the normality of the dataset. In addition, both fixed effect (FE) and random effect (RE) and pooled regression models were analyzed with ordinary least squares panel regression analysis (OLS). Diagnostic and robustness tests, such as checks for heteroskedasticity, multicollinearity, the Hausman specification, and the Breusch-Pagan Lagrange multiplier, were used to choose the optimal analytic model and to accept or reject the estimated models (LM).

4. Result and Discussion

Descriptive Statistics

Table 1: Descriptive Statistics

Variables	Min.	Max.	Mean	Std. Dev.
ROA	-0.364	0.073	0.014	0.037
ITR	0.074	0.435	0.213	0.065
CAR	0.005	0.423	0.149	0.074
CRR	0.001	0.690	0.080	0.098

Variables	ROA	ITR	CAR	CRR
ROA	1			
ITR	-0.120	1		
CAR	-0.077	-0.031	1	
CRR	-0.215	0.344	-0.074	1

Source: Output generated using Stata (2022)

Returns on assets for listed banks in Nigeria range from -0.364 to 0.073, as shown in Table 1. This indicates that some banks saw a loss while others saw a profit throughout the study period. The sampled banks' average return on assets was 0.014 (mean: 0.014) and the standard deviation was 0.037 (0.037). This indicates that there is little chance of finding an anomalous distribution in the study data. The fluctuation in interest rates may be anything from 0.074 to 0.435. Interest rate risk in the banking industry has a mean of 0.213 and a standard deviation of 0.065. This means that problems stemming from the data's non-normal distribution are less likely to arise. Capital adequacy risk might fall anywhere from 0.005 to 0.423. The average value of the capital risk variable is 0.149 and the standard deviation is 0.074, according to the data. This strongly suggests that the data in this study have a normal distribution. Thus, the range of credit risk is from 0.01% to 0.690%. Assuming a typical credit risk value of 0.080, the study's data deviates from the norm by 0.098%. Abnormalities in data distribution are extremely unlikely to influence the findings of this inquiry.

Table 2: Correlation Matrix

	roa	mshare	liq	drisk	spread	Lev	Mshare2	Liq2	Drisk2	Spread2	Lev2
roa	1.0000										
mshare	0.1633	1.0000									
liq	0.3306	0.0462	1.0000								
crisk	-0.1284	-0.1077	-0.1082	1.0000							
spread	-0.2007	0.0249	0.1731	-0.1721	1.0000						
lev	-0.0680	-0.0632	0.1849	0.2846	0.1436	1.0000					
Mshare2	-0.0874	0.0359	-0.1088	-0.0868	0.0448	0.1322	1.0000				
Liq2	-0.2447	0.0610	0.0717	-0.0885	0.1729	0.0568	0.0366	1.0000			
Crisk2	-0.1266	-0.1241	-0.1502	-0.0889	-0.0389	0.0252	0.2425	0.0364	1.0000		
Spread2	-0.1305	-0.1043	-0.1026	0.1061	-0.0122	0.0443	-0.0179	0.0310	0.0617	1.0000	
lev 2	-0.0043	0.2652	0.0391	-0.1975	-0.0305	-0.1980	0.0624	-0.0250	0.0333	-0.0291	1.0000

Source: Output generated using Stata (2022)

For DMBs with global authority, the average values for ROA, MSHARE, LIQ, DRISK, SPREAD, and LEV are 0.074, 0.485, 0.167, 0.128, 0.873, 1.208,.0568, 0.460, 0.210, 0.686, and 1.250, while for DMBs with national and regional authority, these values are 0.074, 0.485, 0.210, 0.686, 1.208, and 1.250, respectively. Each variable has a unique range of values between -2.59 and 5.73, -2.59 and 5.73, 0 and 1.096, -3.6 and 1.506, and 1.04 and 1.44. There is a broad distribution of values across most of the variables. Furthermore, as seen by the standard deviations of most variables in relation to their respective means, there is a wide range in how banks react to these occurrences. The Shapiro-Wilk test demonstrates that the data are not normally distributed within and across categories. The strength of the link between the dependent and independent factors and between the independent factors themselves was investigated by conducting a Pearson correlation analysis on all variables, as demonstrated by Shao's proof of the Gauss-Markov Theorem (2003).

Our hypothesis is that all of the independent factors will be strongly related to the dependent variable, but only moderately related to one another. The inter-variable correlation matrix is displayed in Table 1. The only variables that significantly correlate positively with ROA are MSHARE, LIQ, SPREAD, LEV, and LIQ2. This result also demonstrates that there is little correlation between the independent variables.

Next, the researchers establish a linear connection between the study's explanatory variables and its outcome. At first, we construct a pooled panel regression. At the 1% level of significance, the F-statistic of 5.36 and the corrected R-squared value of 25% from the model summary are both significant. In addition, the diagnostic analysis includes tests for multicollinearity and heteroskedasticity on the combined panel data. Tolerance values (TV) more than 0.10 and variance inflation factors (VIFs) less than 10 indicate the absence of multicollinearity. The average VIF was 1.13, indicating moderate association between the regressors. To check for heteroskedasticity, the Breusch-Pagan/Cook-Weisberg test was run. At the 1% level of significance, the resulting chi2 value of 30.41 is noteworthy. This result indicated that the homoscedasticity assumption was not met by the dataset.

Test of Hypotheses

Table 3: Summary of Pooled Panel, Fixed Effect, Random Effect and Robust Pooled Models

Variable	Pooled panel	Fixed effect	Random effect	Robust pooled
MSHARE	.06506861**	.06380695**	.06506861**	.06506861***
LIQ	.3360903***	.39880772***	.3360903***	.3360903***.
DRISK	-.22651405	-.09780374	-.22651405	-.2265141
SPREAD	-.0562729**	-.01822504	-.0562729**	-.0562729***
LEV	-.0225198*	-.00803381	-.0225198*	-.0225198**
MSHARE2	-.00114369	-.00649739	-.00114369	-.0011437
LIQ2	-.03761474**	-.03272234**	-.03761474**	-.0376147***
DRISK2	-.03008327	-.03495307	-.03008327	-.0300833
SPREAD2	-.00812646	-.00847152	-.00812646	-.0081265
LEV2	-.19787284	-.30305939**	-.19787284	-.1978728
_CONS	.36897354**	.42552031**	.36897354**	.3689735
F-Stat./Wald Chi^2	5.36***	2.69***	53.59***	5.34***
Adj./Overall R^2	.25	.25	0.31	0.31

Source: Output generated using Stata (2022) *Legend:* * p<.1; ** p<.05; *** p<.001

Table 3 demonstrates a value of 0.31 for the robust R-squared. Changes in market share, liquidity, credit risk, interest rate spread, and leverage account for around 31% of the variation in return on assets of the chosen DMBs with an international license (for DMBs with national and regional authorization). To sum up, the study's model satisfactorily explains 31% of the data, while the remaining 69% may be ascribed to confounding variables. F (1, 5) = 5.34 is significant at the 1% level. This shows that the model has broad applicability. This data supports the premise that ROA has a strong linear relationship with the independent factors.

T-values of 2.85 and 4.23 for MSHARE and LIQ, respectively, indicate a significant positive correlation between the two variables and the profitability of the selected organizations. The t-values for all other hypotheses are not statistically significant. That is to say, the other explanatory factors have a negative correlation with the response variable. Coefficients and t-values show that MSHARE, LIQ, SPREAD, and LIQ2 significantly affected (at the 1% level of significance) the financial performance of DMBs in Nigeria over the study period. Furthermore, at the 5% significance level, both the coefficient and t-values provided by LEV are statistically significant. As a result, we don't accept market share, liquidity, interest rate spread, leverage, or liquidity 2. In Nigeria, the robust pooled regression result indicates that market share and liquidity contribute favorably to financial performance, but interest rate spread, leverage, and liquidity2 have a negative influence on financial performance.

Discussion of Findings

For both foreign and domestic banks, a positive and statistically significant relationship existed between ROA and market share, interest rate spread, leverage, and liquidity. The results of studies by Genchev (2012), Dogarawa and Maude (2017), and Chortareas, Garza-Garcia, and Girardone (2010) all support this conclusion (2019). The results of this study showed that credit risk and return on assets were positively correlated, albeit this conclusion lacked statistical significance. Anthanasoglou et al(2006) .'s assessment of the relationship's robustness and trajectory is bolstered by these findings. The pooled panel results have the same coefficients for all

explanatory factors as the random effect model. Each and every p-value in both models, including those for the constants, are statistically significant. This lends credence to the findings of the LM test, which concluded that there was no interbank impact. Coefficients from the robust pooled regression are the same for both models, although p-values vary considerably with the exception of LIQ. The robust pooled regression with a constant term has a non-significant p-value of 0.17. This provides support for the theory that some characteristics shared by numerous banks are correlated with their financial performance.

5. Conclusion and Recommendations

Certain developments and microeconomic factors can have a significant impact on financial success. Deposit money institutions, meanwhile, play a vital part in fostering economic expansion and development. Investigation of the state of Nigeria's banking industry and the ways in which it might be improved in its role as a financial intermediary would be extremely helpful. Additionally, the study has shown that there is a strong, positive, and statistically significant correlation between firm-specific attributes and the financial performance of deposit money banks (DMBs) in Nigeria.

In light of the results, the research suggests:

A. Market share, interest rate spread, and liquidity position may all be expanded by deposit money banks (DMBs), while leverage and credit risk must be mitigated.

B. To promote a competitive banking environment in which banks are incentivized to grow their market share, rather than reducing the number of participants, the Central Bank of Nigeria should offer incentives.

C. Deposit money bank management should keep working to improve input-output efficiency via the implementation of policies and initiatives.

D. Deposit money bank management may increase profits from an efficient credit function if they use sound credit evaluation and management policies to boost the quality of their loan portfolio.

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