Effects of Globalization on Market Structure, Conduct and Performance in the Nigerian Banking Industry

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ABSTRACT

The study assessed the effect of globalization on the structure of Nigerian banks; evaluated the effects on the market conduct; and examined the effect of globalization on product formulation and promotional strategies with a view to appraising the effects of globalization on the performance of Nigerian banks.

Both primary and secondary data were used for the study. Primary data were collected through questionnaire administration. Data on variables such as number of marketers, financial strength of each bank, on-line banking activities and the number of products were collected from all the 25 post-consolidation banks in Nigeria. Two sets of questionnaire (structured and unstructured) were administered on marketers and customers of the banks. Interviews were also conducted with top management staff in the marketing departments of the banks. Random sampling technique was used in selecting 30% of marketers, while purposive sampling was used to select two top management staff in the marketing departments at the headquarters of each bank as well as fifty customers each from the 25 banks. Secondary data were obtained from the Annual Reports and Statement of Accounts for the existing banks covering the study period. Other sources included the Central Bank of Nigeria Statistical Bulletin, Central Bank of Nigeria Annual Reports and Statements of Accounts, Federal Office of Statistics, Research and Data Services Limited, Agusto and Co. Data Services limited, Annual Reports and Statements of Accounts of Nigeria Deposit Insurance Corporation and the Nigerian Stock Exchange Factbook. Both descriptive and inferential statistics were used to analyze the data.

The results showed that the Nigerian banking industry was competitive with Herfindahl Hirschman Index ranging between 752.7 and 1299.48. Furthermore, the result showed that the Nigerian banking industry was highly concentrated in 1999 (CR_3=58.42) but moderately concentrated between 2000 (CR_3 =36.74) and 2007 (CR_3 = 48.78). Also, the result revealed that globalization had no significant effect on the structure (t=0.35, p>0.05) and the conduct (t= -0.38, p>0.05) of banks in Nigeria. However, the result showed that globalization succeeded in changing the criteria for new product formulation from top managements' final decision. As reported by most of the respondents, the new criteria included

consideration of growth potential of market (72.8%), potential profitability of market (63.9 %) and competitiveness of market (57.2%). The phenomenon also led to increase in the number of products from 2 or 3 in 1999 to 20 in 2007; and a reduction in service time from an average of 30 minutes in 2001 to 20 minutes in 2007 across the industry. Finally, the study revealed that globalization had a significant and positive effect on the performance of banks (t= 2.04; p<0.05). The higher profitability was a result of wider market coverage of banks in the country, both locally and internationally.

The study concluded that globalization though had no significant effect on market structure; nonetheless it greatly improved the performance of banks in Nigeria, as well as their product formulation and promotional strategies.