DETERMINANTS OF SURVIVAL STRATEGIES OF SOME SELECTED DEPOSIT MONEY BANKS IN NIGERIA

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ABSTRACT

The development and adoption of good survival strategies has been considered necessary for the success of any nation. As a result of this, attempts are made to reorganize the banking sector and make it more customer friendly and result oriented. Among the initial steps taken to reduce difficulties in banks was the expansion of the banking sector as deliberate efforts were made to encourage the introduction and emergence of new institutions and expand new ones. Thus, the issue of survival is very important in the banking sector as it helps to ensure or eliminate all forms of imbalances and weakness diverted towards sanity in banks. The strategies were also directed towards the creation of mega banking, competitive environment and enhanced supervision through the most recent recapitalization of banks. However, in this work, attempt was made to expose the strategies adopted and the extent to which it has helped in determining the viability of the bank's performance and more so, in eliminating distress. The study severally used primary sources of data with a survey research design adopted for its collection and collation. The chi-square statistic was used for the analyses with a total of 53 sampled population in Abakaliki. The results proved that good survival strategies are good business means of achieving operational stability in banking environment and that bank consolidation and reform will enhance good survival strategies. We thus recommend that growth in the banking industry in terms of number of banks and the creation of assets should be reduced to prevent "traders" rather than bankers to dominate the industry.

Keywords: Deposit money bank, survival strategies, deregulation, economy, consolidation, Nigeria.

INTRODUCTION

The need for the adoption of enhanced survival strategies by commercial banks has been addressed by different scholars and authors. Accordingly, [1] has it that the more capital a bank has, the more losses it can sustain without going bankrupt. Thus, capital provides the measure for the time a bank has to correct for lapses, internal weakness or negative developments. The importance of liquidity as a survival means in banking cannot be overemphasized. Therefore, capital is needed in absorbing losses. In view of the significance of capital, the regulatory authorities and customers consider liquidity adequacy as a primary index to monitor the soundness of banks [2, 3, 4].

The survival of any bank depends mostly on the proper mix of marketing variables and other reliable instruments so as to make a difference in a terrain characterised by competition. Strategies have been adopted by banks to deal with emanating problems in the sector [5, 6]. The strategies adopted will be explored in the course of this research, after the following questions would have been answered. Does bank attach great importance on survival strategies in order to
improve organisational performance? What are the survival strategies adopted and to what extent have they helped in eliminating distress?

The relevance of banks in an economy cannot be overemphasized. They are the cornerstone, the linchpin of the economy of a country. The Encyclopedia America International edition succinctly puts the position thus "economic activity as it is known could not be smooth sailing without the continuing flow of money and credit [7, 8]. The economy of all market-oriented nations depends on the efficient operation of complex and delicately balanced systems of money and credit. Banks are indispensable element in this system. They provide the bulk of money supply as well as the primary means of facilitating the flow of credit". Consequently, the economic well being of a nation is a function of advancement and development of her banking industry.

The banking system in Nigeria has undergone radical changes since the Nation's Independence in 1960. In a bid to produce a sustainable and efficient banking system, attempts have been made to re-organise the sector and make it more customer friendly, result oriented and proactive to the challenges of modern day banking. The financial deregulation in Nigerian which started in 1987 and the associated financial innovations have generated unprecedented degree of competition in the banking industry [9, 10]. The deregulation of financial sector has pivoted powerful incentives for the expansion of both banking and non-banking institutions. The consequent phenomenal increase in the number of banking and non-banking institutions in providing financial services have led to increased competition amongst various banking institutions, and between banks and non-banking intermediaries. Apart from the keen competition within the range of financial activities, banks have also been faced with problems associated with persistent slow down in economic activities, severe political instability, financial conditions of their corporate borrowers and increasing incidence of fraud [11].

Also, much of the difficulties facing banks reflect their inability to generate stimulatory growth in the real sector as domestic output remains subdued and aggregate demand goes down. The stunted growth in the real sector resulted in significant credit losses for the banks as loan repayment difficulties impaired asset quality condition severely. The number of players continued to grow to compete for a shrinking market share, leading to excessive competition in the industry. Another problem that banks have had to contend with is the inconsistency in the monetary and regulatory policies. The surveillance and regulatory measures of the Central Banking of Nigeria (CBN) have unfortunately been unable to keep pace with the rapidity of changes in the financial sector [8, 9].

All these factors have combined to create challenging and precarious financial environment for banks. Thus, in a bid to survive and maintain adequate profit levels in the highly competitive environment, banks have tended to take excessive risks all in a bid to meet high revenue targets out of a virtually stagnant economy, bank workers were groomed to discard to honesty in banking profession. Uchendu (1998) [10] Many banks introduced various types of client cheating 'innovations' that greatly belittled the banking profession. Under intense pressure to win deposits, unethical marketing practices became the norms of many banks. As the competitive struggle for survival intensified, marginal banks resorted to excessive risk taking and rampant breaking of regulatory rules. The increasing tendency for greater risk taking has resulted in the solvency of a large number of banks.

Despite financial distress resolution measures applied, the banking system remained vulnerable to a number of risks and serious concern about the idness and stability of the Nigerian banking sector has remained the minuing deterioration in the financial health of the banks and increasing incidence of bank failure since deregulation has raised questions on the nature and state of the Nigerian banking sector. Also, the extent
of survival strategies of commercial banks in Nigeria would be explored. The issue of survival is cardinal in the heart of every banking organisation, as various yardsticks have been assigned by customers and observers in assessing surviving banks. The issue is that non-surviving banks exist presently like healthy ones, which have a well stated objectives, well formulated and executed policies, staff motivation and controlled operations. Also, "as the current wave of the banking sector reform progress, experience is likely to provide before long new answers to old questions and also points to new issues that are now under look" [7].

This study exposes an indept insight that will fully explain the survival strategies adopted by banks and the factors affecting the strategies and also the overall performance of these banks and its impact on the Nigerian economy. The selected banks have been carefully chosen from the old and new generation banks (First bank, Union bank and Diamond bank) operational in Abakaliki metropolis.

**Empirical Literature**

Result from empirical investigations into the structure of competition in the Nigerian banking industry show that the industry is highly concentrated and oligopolistic in nature [2, 10].

According to the Central Bank of Nigeria CBN (2001) [2], only 10 banks dominate the banking system in Nigeria. The influence and powers of these banks is reflected in their share of the total deposits, loans and advances and total assets put at 53.1 percent, 46.5 percent and 50.8 percent of the industry in 2001. The oligopolistic structure of the Nigeria banking system has been influenced by a number of factors. These include extensive branch network of the old generation banks as well as the customer confidence built over the years. The patronage of these banks also include a substantial proportion of public sector funds being deposited. As opined by Uchendu (1998) [10], while the emergence of new commercial banks in the 1980s significantly diluted the concentration of the industry, the liquidation of a larger proportion of the distressed banks in the late 1990s Somehow Vitated the dilution thus reverting the industry to earlier level of concentration. Banks have to a good extent adopted recent advances in information technology. This was driven largely by both external and domestic factors. On the external scene was globalisation i.e integration of markets (including banking markets) across national boundaries. This meant that banks want to remain actively involved in international banking transactions would have to adopt technology employed for such deals. On the domestic front, competitive pressure and regulatory inducements prompted the banks to slowly but steadily embrace the computerization of both front and back office banking operations. With time if was no longer enough to merely computerize bank operations, networking of systems (Local area network (LAN) or wide area network (WAN) Internet linkage became imperative and strategic. Many banks now have their branches online and real-time. However, because most banks used network architecture and solution with little attention paid to their compatibility, interfacing these applications for overall system synergy was difficult [2].

**Survival Strategies of Banking Industry In Nigeria**

In an attempt by banks to survive in a highly competitive environment, most banks have resorted to the use of the following strategies so as to meet up with the present requirements of the banking sector. The strategies are listed as follows:

- **Diversification of Service Delivery Channels**: Banks in the country are .experiencing growth while the real sector and informal sector are experiencing slow growth, stagnation and even negative growth. The reason being that the more income generating line for the Nigerian banking industry has been import finance. The impetus for the Nigerian banking sector to support the relatively riskier real and informal sectors of the economy has been eroded since the import finance business with shorter turn-around time and reduced risk can deliver the required profitability for banks. But, unfortunately, the impact has been a falling naira and dwindling
foreign reserves. With the present bank consolidation and banking sector reforms, specifically the removal of public sector funds from banks, banks should diversify their services to the real and informal sector of the economy by devising creative means of offering services to the currently underserved sectors of the economy, thereby supporting economic growth in a sustainable way.

- **Providing Banking Services at a very Low Cost**: Most banks provide most of their services like opening of accounts, bank commission, cash on transaction at a very cheap and low cost. This is as a result of the inherent competition visible in them.

- **Innovation**: In this era, for banks to generate superior returns, it needs to roll out innovative products and services to its customers that is to say, banks should distinguish themselves in this kind of service they offer.

- **Information Technology (IT)**

Banking in Nigeria today I will say is semi-IT driven in the sense that only few services of banks can be accessed through their IT facilities. In order to be a major player in the banking sector of Nigerian banks, should make their IT product to be more sophisticated in the sense that customers can check account balance, deposit and do other banking transaction online.

- **Curtail Fraud and financial Misappropriates**: Over the years, there have been many cases of fraud and moral hazards like insider lending in the banking sector causing many banks to distress. Thus, in a bid to generate superior returns banks should stimulate their financial control to guide against fraud and financial misappropriates. Also, banks should make frantic effort to guide against insider lending.

- **Mobile Banking**: It is no news that about 40% of the Nigerian population lives in rural area but what is pathetic is that this community still save their money in the traditional way and thus this has led to several lost of money either by theft or fire. Thus, in order to generate superior returns, banks should encourage saving in rural area by establishing mobile banks since onsite banks will be expensive.

- **The Use of Automated Teller Machine (ATM)**

Nigerian banks are commendable in this aspect, because there is ATM machines in virtually all banks in the country today but this is not enough. Banks should place their ATM machine in market places, fast food criteria, school hostels, hotels, holiday inn etc. and mosy importantly, development in the regulatory framework.

**However, the following factors affect banks’ survival in Nigeria which ofcourse necessitated its consolidation:**

- **i) Banks Operating Environment**: It has been severally observed that the economic, socio-political and regulatory environment in which the bank operates as remained unstable [3]. The major concern here is that banks are faced with increased uncertainties and inability to make long-term business plans.

The economy is highly dependent on widely fluctuating income from oil making the three tiers of government to exhibit on settling fiscal indiscipline. This has made monetary policies ineffective and compelled authorities to impose thresholds. For this reason, banks are made to face harsh regulatory regime,

- **ii) Weak Corporate Governance**: A notable feature of the industry is low ethical standard and transparency. This has manifested in the rising cases of unwholesome practices being recorded. A number of banks engage in some sharp and orthodox practices to achieve compliance with some regulatory requirements.

Another dimension of the weak corporate governance issue is the managerial incompetence of the top management of some banks as evident in weak internal control system in the banks.

- **iii) Fraud in the Banking Sector**: In Nigeria, fraud contributed significantly to the failure of 36 banks in liquidation [7].

Fraud is one of the serious economic crimes being perpetrated in our banking industry today. Frauds result in huge financial losses to banks and their customers, the depletion of shareholders funds and bank capital base as well as loss of confidence in
the sector. Moreover, indiscipline in ensuring banking soundness or non-publication for annual accounts and submitting them to the apex regulatory authority (The CBN), for scrutiny.

Methodology

Research Area, Design and Analytical Techniques

The research area for this project work covered commercial banks in Abakaliki metropolis. The commercial banks involved are First Bank of Nigeria Pic, Union Bank of Nigeria Pic and Diamond Bank. In collecting the Primary data, questionnaires was used in an effort to determine the extent of survival strategies on the growth and development of these banks within the study area. The study adopted the survey research design due to the secondary nature of data. However, for the purpose of this work, questionnaires were administered to collect relevant data. This was done in order to ensure that the respondents expressed their opinions freely in their understanding on the topic under study. We adopted dichotomous response format and multiple choices responses format in administration of questionnaires.

The investigation of this research study used all the 53 staff (senior staff) of the three selected banks as the study population. Data was collected through the use of structured questionnaires and unstructured interviews. The tools used in this research work in analyzing the questionnaires are tables and percentage. The reason is that it reveals and gives at a glance issues being addressed. Also, the statistical tool used in the analysis of the result was the Chi-square. The \( \chi^2 \) statistical calculation is given as:

\[
\chi^2 = \sum_{i=1}^{n} \frac{(0 - E)^2}{E}
\]

*Where: \( \chi^2 = \text{Chi-square}, 0 = \text{Observed frequency}, E = \text{Expected frequency}, n = \text{Sample size}, i = \text{Constant}, \sum = \text{Summation}."

Data presentation and results

In this section, the data was presented in tabulation form and gave the percentage of the responses to various questions. A total of 53 questionnaires were distributed only 13 were returned to the researcher.

**Analyses of Data**

Table 1: Has survival strategies had any significant effect on your financial stability?

<table>
<thead>
<tr>
<th>Response</th>
<th>Respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No significance</td>
<td>08</td>
<td>15</td>
</tr>
<tr>
<td>Little significance</td>
<td>13</td>
<td>25</td>
</tr>
<tr>
<td>Much significance</td>
<td>32</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>
Researcher’s field survey, 2014

Here, 15% stated that it has created no significance on their financial stability, 25% said it made little significance. While 60% stated that it has had much significance on their financial stability.

Table 2: Does stability in Operational environment correlation with good survival strategies?

<table>
<thead>
<tr>
<th>Response</th>
<th>Respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>52</td>
<td>98</td>
</tr>
<tr>
<td>No</td>
<td>01</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>

Researcher’s field survey, 2014

From the above table, 2 of the respondents out of 100% said that there is no correlation of strategies on the operational environment, while 98% indicated yes.

Table 3: Have bank consolidation and reform enhanced survival strategies of banks?

<table>
<thead>
<tr>
<th>Response</th>
<th>Respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50</td>
<td>94</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>

Researcher’s field survey, 2014

Respondent from table 3 shows that 94% accepted that bank consolidation and reform enhanced survival strategies of banks, while 6% stated otherwise.

Table 4: What level of growth did your bank record in the course of adopting these strategies?

<table>
<thead>
<tr>
<th>Option</th>
<th>Respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% - 40%</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>50% - 70%</td>
<td>46</td>
<td>87</td>
</tr>
<tr>
<td>Above 70%</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>

Researcher’s field survey, 2014

Table 4 above shows that 8% of the respondents said their banks recorded 10% - 40% level of growth, 87% of the respondents indicated between 50% - 70% level of growth. While only 6 indicated growth level of above 70%.

Table 5: Did you bank consolidate the gains brought about by these strategies?

<table>
<thead>
<tr>
<th>Response</th>
<th>Respondents</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50</td>
<td>94</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100</td>
</tr>
</tbody>
</table>

Researcher’s field survey, 2014

Here, 95% of the respondents consolidated the growth realised from these strategies. While 6% did not.

Testing of Hypotheses
In testing the entire hypotheses, a statistical model of chi-square ($X^2$) was used. The researcher considered it suitable for comparison of observed and expected frequencies. However, the hypotheses are stated as thus;

1. $H_0$: The financial stability of a bank has no significant effects on good survival strategies.
2. $H_0$: Stability in operational environment is not correlated with good survival strategies.

To determine the extent to which firms in Lagos as sampled has adopted good survival strategies, respondents were classified according to their respective Banks, so, the responses to question One (1) of the questionnaires were used to draw the contingency table as shown below.

<table>
<thead>
<tr>
<th>Response</th>
<th>First Bank</th>
<th>Diamond</th>
<th>Union</th>
<th>Row Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pic</td>
<td>Bank Pic</td>
<td>Bank Pic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No significant</td>
<td>2(7.113)</td>
<td>6(3.434)</td>
<td>5(2.453)</td>
<td>13</td>
</tr>
<tr>
<td>Little significant</td>
<td>7(5.472)</td>
<td>1(2.642)</td>
<td>2(1.887)</td>
<td>10</td>
</tr>
<tr>
<td>Much significant</td>
<td>20(16.42)</td>
<td>7(7.925)</td>
<td>3(5.660)</td>
<td>30</td>
</tr>
<tr>
<td>Column Total</td>
<td>29</td>
<td>14</td>
<td>10</td>
<td>53</td>
</tr>
</tbody>
</table>

The expected frequency and the computed chi-square ($X^2$) are calculated in the table below:

<table>
<thead>
<tr>
<th>O</th>
<th>E</th>
<th>O-E</th>
<th>(O-E)^2</th>
<th>(O - E)^2/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>7.113</td>
<td>-5.113</td>
<td>26.143</td>
<td>3.675</td>
</tr>
<tr>
<td>6</td>
<td>3.434</td>
<td>2.556</td>
<td>6.533</td>
<td>1.902</td>
</tr>
<tr>
<td>5</td>
<td>2.453</td>
<td>2.547</td>
<td>6.487</td>
<td>2.645</td>
</tr>
<tr>
<td>7</td>
<td>5.472</td>
<td>1.528</td>
<td>2.335</td>
<td>0.427</td>
</tr>
<tr>
<td>1</td>
<td>2.642</td>
<td>-1.642</td>
<td>2.696</td>
<td>1.020</td>
</tr>
<tr>
<td>2</td>
<td>1.887</td>
<td>0.113</td>
<td>0.013</td>
<td>0.007</td>
</tr>
<tr>
<td>20</td>
<td>16.42</td>
<td>3.58</td>
<td>12.82</td>
<td>0.781</td>
</tr>
<tr>
<td>7</td>
<td>7.925</td>
<td>-0.925</td>
<td>0.856</td>
<td>0.108</td>
</tr>
<tr>
<td>3</td>
<td>5.660</td>
<td>-2.66</td>
<td>7.076</td>
<td>1.250</td>
</tr>
<tr>
<td>Total 53</td>
<td></td>
<td></td>
<td></td>
<td>$X^2$ 11.815</td>
</tr>
</tbody>
</table>
Calculation of chi-square tabulated \((X^2)\) Degree of freedom i.e. \(df = (C - 1) (R - 1)\)
\(2(2) = 4\). Then \(X^2_{0.05\text{ (tabulated)}}\) under 4 = 9.488

**Decision Rule**
If \(X^2_c \geq X^2_t\), Reject Ho, otherwise Accept \(H_1\). Therefore \(X^2_c = 11.815\) and \(X^2_t = 9.488\)
It follows that \(X^2_c > X^2_t\), we then reject Ho and accept \(H_1\) and conclude that the financial stability of bank has significant effects on good survival strategies.

Secondly, to determine the extent of correlation that survival strategies have on the operational environment of bank, respondents were classified according to their various sectors, so the responses to question two (2) of the questionnaires were used to draw the contingency table as shown below.

<table>
<thead>
<tr>
<th>Response</th>
<th>First Bank</th>
<th>Diamond Bank</th>
<th>Union Bank</th>
<th>Row Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>13(12.754)</td>
<td>34(33.36)</td>
<td>5(5.887)</td>
<td>52</td>
</tr>
<tr>
<td>No</td>
<td>0(0.245)</td>
<td>0(0.642)</td>
<td>1(0.113)</td>
<td>1</td>
</tr>
<tr>
<td>Column Total</td>
<td>13</td>
<td>34</td>
<td>6</td>
<td>53</td>
</tr>
</tbody>
</table>

The expected frequency and the computed chi-square \((X^2_c)\) are calculated in the table below.

O  
E  
O-E 
\((O-E)^2\)  
\(\frac{(O-E)^2}{E}\)
13  
12.754  
0.246  
0.061  
0.005  
34  
33.36  
0.64  
0.5  
0.005  
5  
5.887  
0.887  
0.787  
0.134  
0  
0.245  
0.245  
0.06  
0.245  
0  
0.642  
0.642  
0.412  
0.642  
1  
0.113  
0.887  
0.787  
6.96  
8.001

Calculation of chi-square tabulated \((X^2)\) Degree of freedom i.e. \(df = (C - 1) (R - 1)\)
\(df = (2 - 1) (3 - 1) = (1)(2) = 2\)
Therefore, \(X^2_c = 8.001\) \(X^2_{0.05\text{ (tabulated)}}\) under 2, = 5.992.

**Decision Rule**
If \(X^2_c \geq X^2_t\), Reject Ho, otherwise Accept \(H_1\). Therefore, \(X^2_c > X^2_t\), we then reject Ho and hereby accept \(H_1\) and conclude that the stability in operational environment is correlated with good survival strategies of banks.

**CONCLUSION AND RECOMMENDATIONS**

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The issue of survival has been a center stage one in the banking industry. The reason is that a good and efficient economy financial system is a pre-requisite for an efficient economy with respect to the importance of the financial sector. The banking industry as earlier stated have been beset with problems that made them look for ways of solving them. A number of measures taken were tried and those that seem ineffective were discarded while new measures were employed. Some of the new measures include re-packaging of products, computerization to ensure quick and efficient customer services and recently the government establishment tribunal on failed banks just to bring sanity to the banking industry.

This study has clearly shown that survival strategies in Nigerian banks have lot of factors militating against it despite the innumerable benefits. The center stage is in the approach for solving these problems. One finds survival strategies as one of the best means of achieving financial stability. Furthermore, the hypotheses tested proved that good survival strategies are good business means of achieving operational stability in banking environment.

This research has shown that good survival or banking service is a sine-qua non for the stability of the banks studied. Therefore, the researcher strongly recommends more aggressive banking strategies in order to increase the financial stability of the banks. By aggressive banking strategies, the researcher meant that banks should employ strategies that will keep them above their competitors in terms of customer service and productivity.

Growth in the banking industry in terms of number of banks and the creation of assets should be reduced to prevent "traders" rather than bankers to dominate the industry and some of the crises ridden banks can pull their resources together through mergers. Stronger banks could take over the weaker one-for the purpose of strengthening them.

REFERENCES