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Marketing Services and Bank Performance: Evidence from a Developing Banking Industry

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Abstract

This paper evaluates the influence of marketing services on bank performance in Nigeria for a study period ranging from January 2002 to December 2014 using descriptive and inferential analysis. Descriptive analysis shows that both the marketing services and bank performance variables are positively skewed and leptokurtic. It also shows that the variables are not normally distributed. The augmented Dickey Fuller unit root tests show that the series are integrated of the same order (i.e., *I*(1)). The results obtained from the regression model provide evidence in favour of positive and significant influence of marketing services on bank performance in Nigeria. We recommend therefore that banks should utilise their marketing resources and strategies adequately to enhance their performance and to maximise shareholders' wealth.

Keywords

Marketing Services, Banking Industry, Bank Performance, Nigeria

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1. Introduction

The strategic role of marketing services in the actualisation of Deposit Money Banks (DMBs) objectives of enhancing deposit mobilization has come to the fore. Oke (2012) for example, states that marketing has become a major function in the banking industry as a result of increased competition brought about by banks consolidation and reforms. Expectedly the competition among DMBs facilitates efficient deposit management and mobilisation, technical efficiency, varieties of services, convenience, banking services production efficiency, lower cost of fund, absence of customer exploitation, safety of depositors' funds, availability of fund for investment etc. Consequently, DMBs, according to Obasi (2013) have come to embrace marketing services as essential tools in accomplishing their corporate goals.

Marketing services remain largely one of the activities that ensure satisfaction of target audience, optimal performance and growth of any business organisation where it is applied. The role of marketing services in the performance, sustenance and growth of deposit money banks in Nigerian competitive business environment cannot be overemphasized. Ekwueme (2001) observes that it improves corporate performance, creates employment opportunities and utilities, as well as enhances product innovation and development. In the opinion of Kolter and Armstrong (1996), marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products or services and values with others.

Despite these benefits derivable from marketing services, deposit money banks and other service firms exhibit lethargic attitudes in adopting marketing services and orientation in their businesses (Ikpetan, 2013; Ogbadu and Abdullahi, 2013; Ekerete, 2015). Similarly, Oriko and Ujah (2006) observe that late entry of modern marketing in Nigeria, compared to other business functions, is one of the factors

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responsible for the laxity or slow adoption of marketing in Nigeria. According to them, deposit money banks in Nigeria had operated a seller's market which gave rise to excess liquidity which does not encourage adoption of professional marketing in the industry. There is therefore a need to empirically establish the significance of marketing services in influencing the Nigerian banking sector performance. This is very important given the huge resources committed to marketing services.

The objective of this study therefore is to evaluate whether marketing services significantly influence bank performance. The finding of this study is important to investors in the banking industry, board of directors and top management of banking industry, banking system regulators, and researchers. The board of directors and top management of banking industry for example are interested in understanding whether the huge financial commitment to marketing department have any influence on bank performance. Such information will help them to make adjust investment decision made in marketing. The finding will help the banking system regulators to make policies that will enhance protection of depositors against misleading marketing services. This paper will also contribute to grow existing literature on marketing services and bank performance in Nigeria. The remainder of the paper is organised as follows. Section 2 reviews related literature, while Section 3 presents the methodology and data. Section 4embodies the empirical results and discussions, and Section 5concludes the paper.

2. Literature Review

Oke (2012) examined the impact of marketing strategies on bank performance in Nigeria for the period after bank consolidation Analysis. The research methodology employed in the study was Data Envelopment Analysis (DEA). In using this model, revenue and operating profit were the output variable, while advertising was the input variables. Among other findings, the study revealed the significance of the marketing variables in relation to bank performance. He therefore concluded that there is a connection between marketing activities and bank performance.

Another study in this area was the one carried out by Ehimobowei and Ekankumo (2012) analyse customer service strategy and commercial banks survival in the post-consolidation era in Nigeria. The study aimed at identifying evidence of the importance of customer service strategies on survival of commercial banks in the post consolidated period in Nigeria. Data obtained for the study were analysed using the ordinary least square model. Based on the outcome of the study, they conclude that financial institutions such as commercial banks have increased the extent to which new customer services have been increased. At this point, the study highlighted some of the customer services provision such as: Automatic Teller Machine (ATM), money transfer, point of sales payment, on-line banking and others.

In their own study, Grigorian and Manole (2012) examined the determinants of commercial bank performance in transition by applying Data Envelopment Analysis (DEA) model. The scope of the study was global, especially on transition economics. The method adopted to estimate indicators of commercial bank efficiency was DEA model. The study found evidence that securities and nonbank financial institutions development hinders the efficiency of banks. There was equally indication that higher securities market capitalization reduced revenue-based efficiency, while more developed non bank financial institutions constrain deposit taking. Contrary wise, the study also found that more developed non bank financial institutions such as pension funds, insurance companies, brokerage firms etc. show the likelihood of producing greater demand for household savings, consequently reducing the amount of bank deposits available to the banks as well as transaction services rendered by the banks.

Promotion as a function of marketing was examined by Aliata, Odondo, Aila, Ojera, Abougo and Odera (2012). They carried out a study examine the influence of promotional strategies on bank performance. The major objective of the study was to examine the nature and influence of the relationship between the bank's promotional strategies and its performance. It also sought to determine the importance of promotional strategies in explaining the bank's performance. The study employed a descriptive sample survey to gather and select data for the study. The data obtained were analyzed using correlation analysis to ascertain the relationship between the bank's promotional strategies and its level of performance. On the other hand, regression analysis was used to explain its performance. From the outcome of the study, they established a positive relationship between promotional strategies and profit of the bank.

The study of Ogbadu and Abdullahi (2013) evaluated the fundamental role of marketing in the Nigerian banking sector. The aim was to determine the role of marketing in Nigerian banking sector. Data obtained for the study was manually computed with the use of Analysis of Variance Model (ANOVA). This was done to ascertain the extent of marketing practice in Nigerian banks and to determine the role marketing places in the banking sector. Findings from the study revealed that marketing is moderately being practiced in Nigerian banks. They equally revealed that the role of marketing in Nigerian banks is highly significant and contributed immensely to the survival and competitiveness of the banks. In conclusion, the study remarked that marketing is pivotal to the performance of banks in Nigeria.

In another captivating study, Alao, Afuape and Diyaolu (2013) empirically evaluated the changing trend in marketing of financial services on bank performance in Nigeria using a sample of eight banks, four samples drawn from old generation banks and four from the new generation banks. Relationship between the adoption of marketing activities of the banks and the banks performance was obtained using spearman's rank correlation coefficient (r). They established from the study that there was a weak positive relationship between the variables. The study concluded that the banks' achievement of performance goals with reference to customers' satisfaction, customer loyalty and brand equity may not be entirely as a result of marketing services. For instance customer patronage of a particular bank may be based on notion that any deposit made into the bank will be secured.

Akeen (2014) equally carried out a study to examine the effect of strategic marketing of financial services on organization performance using multinomial logistic regression model. From the result of the study it was inferred that marketing activities of the bank has a significant impact on their profitability. It also agreed that modern information technology has improved their marketing services. The study concluded that there is a significant and positive relationship and their profitability.

Mobile Money Service as part of marketing services in the bank was studied by Alala and Musiega (2014). The study concentrated on the Effect of mobile money services on the performance of the banking industry. The primary objective of the study was to examine the effects of mobile money services on the performance of banking institutions in the study area. Data for the study was obtained through primary source by questionnaire instrument. The data collected was analyzed qualitatively and quantitatively. Based on the finding of the study, it was concluded that the introduction of mobile money services has contributed positively to the financial performance of the banking institutions. It was also inferred that convenience and reliability of various mobile money services has largely led to increased customer satisfaction and loyalty irrespective of occasional technical hitches that result to disappointment to the customers.

Nwankwo, Eze and Nwankwo (2014) conducted a study to investigate implication of marketing of banking services on the profitability of Nigerian banks using First Bank Plc as a case study. The aim was to determine the implication of marketing of banking services on profitability of Nigerian banks. The model adopted was multiple regression where the profit was the dependent variable, while size of deposit, loan and advances and e-banking formed the independent variables of the model. Varioustools adopted for testing the data obtained for the study were: unit root test which tested the stationarity of the data, cointegration test which tested for the long run relationship between the dependent and the independent variables and the Error Correction Model (ECM) which was used to investigate the speed of adjustment from the short-run to the long-run equilibrium. From the outcome of the study, it was found that the implication of marketing of banking service on profitability of Nigerian banks is positive and significant. They conclude that marketing of banking services has indeed significant positive implication on profitability of Nigerian banks.

The investigation of Islam and Raham (2015) was on the impact of service marketing mix and their impact on bank marketing performance. The main objective of the study was to analyse the present position of service marketing mix elements practiced by the banking sector in order to determine the relationship between service elements of marketing mix with the marketing performance of the banking sector. Data for the study was drawn from both primary and secondary data for statistical analysis and literature review respectively. The tools of data analysis adopted were descriptive statistics, one way analysis of variance (ANOVA) and multiple regression. They conclude that marketing services influence the performance of the banking sector.

3. Methodology and Description of Data

3.1. Description of Data

The data for this study are monthly time series of bank marketing services variables and bank performance variables in Nigeria. While the banking system total assets proxy bank performance; private sector savings, time and demand deposits proxy marketing services. The rationale in selecting the proxies is that the key essence of embarking on marketing services is to increase the deposit base of the banking system. Hence it is expected that effective marketing service would increase deposits base vice versa. Similarly, an increase in bank performance is expected directly related to increase in bank assets. Hence bank asset is an appropriate proxy for bank performance. The data sample ranges from January 2002 to December 2014, and were obtained from Central Bank of Nigeria (CBN) statistical bulletin for various years.

3.2. Methodology

To empirically evaluate whether marketing services have significant influence on bank profitability, we apply descriptive analysis and regression analysis. This involved numeric data (numbers) which do not require making general statement. It is appropriate for presenting information in a convenient usable and understandable form (Panneerselvam, 2013). Our descriptive analysis involve plotting of time series graph and computation of mean, standard deviation, skewness, kurtosis, and Jarque-Bera statistic for the level and return series of marketing services and bank performance variables. While the mean presents information on the average of the marketing services and bank performance level and return series, the standard deviation shows the level of variation of the series from their average. The skewness and the kurtosis provide insight into their symmetric and distributional patterns.

The regression analysis, on the other hand, was conducted using multiple regression model. This model is considered appropriate where functional relationship between two or more variables is suspected (Sekaran and Bougie, 2014). The outcome of the dependent variable depends on the behaviour of the independent variable. The model for multiple regression is specified in accordance with Lucey (1994) and Osuala (2009) thus:

$$\Delta BP_t = f(\Delta PSD_t, \Delta PTD_t, \Delta PDD_t) \quad (1)$$

$$\Delta BP_t = \beta_0 + \beta_1 \Delta PSD_t + \beta_2 \Delta PTD_t + \beta_3 \Delta PDD_t + \mu_t \quad (2)$$

Where, ΔBP_t, which is the dependent variable, is return series of bank performance at time t, β_0 to β_3 are the coefficients of marketing services, β_0 is Y intercept, ΔPSD_t, ΔPTD_t and ΔPDD_t are proxy for marketing services which include: savings, time and demand deposits and μ_t is the error term. The sign of the slope coefficients will determine that nature and significance of influence of marketing services on bank performance. If for example the slope coefficients are negative and significant, it would imply that the marketing services have negative influence on deposit money bank performance. Conversely, positive slope coefficients would imply positive influence of marketing services on bank performance.

4. Empirical Findings and Discussions

4.1. Graphic Presentation

Figure 1 presents a graph of the level data for the marketing services and bank performance series in Nigeria for the period under study. As we can see from Figure 1, the private sector saving series is has upward trending movement with fluctuations but the private sector time deposits exhibit more fluctuation than the saving deposit though the series has a relatively stable movement before the first quarter of 2006. A major noticeable spike in all the series is seen in the first quarter of 2006, which occurred as a result of the 2005 banking consolidation. Notice also that the private sector time deposits series show a very significant downward spike at the last quarter of 2011. This is associated the shock to the Nigerian banking sector as a result of the global financial crisis which lead to nationalization of three banks. Another major noticeable feature of the Figure 1 is that all the series exhibit signs of non-stationarity, as they do not appear to be mean reverting.

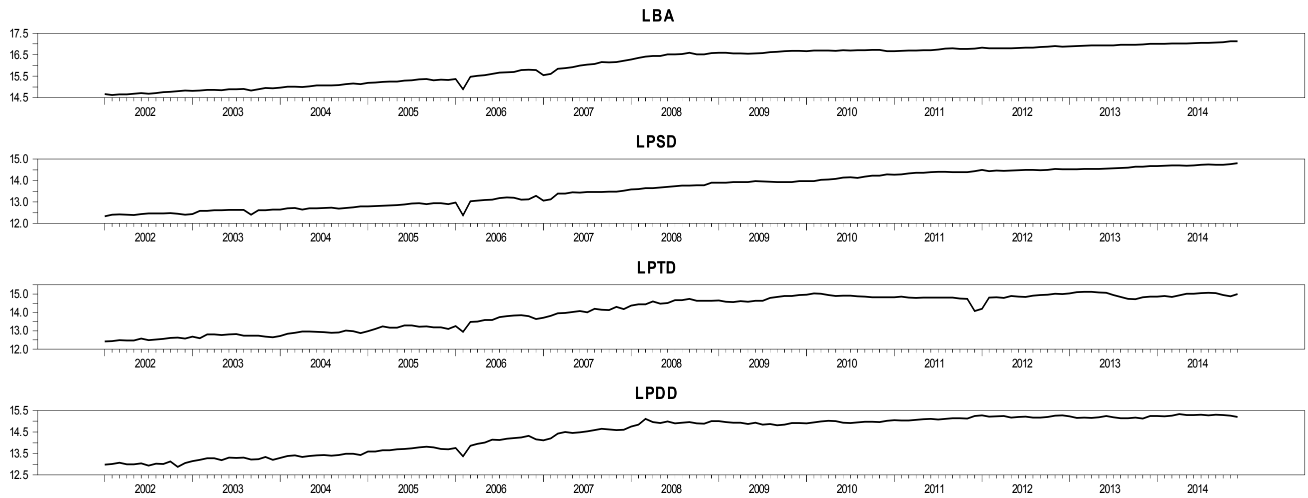

Figure 1. Graph of Level of Marketing Service and Bank Performance Series in Nigeria January 2002 to December 2014.

The time series graph of the returns series of the marketing services and bank performance in Nigeria are presented in Figure 2. A visual inspection of the Figure that the returns series show signs of returning to their mean suggesting that they are stationary. The only significant spikes are observed in the first quarter of 2006, after bank consolidation.

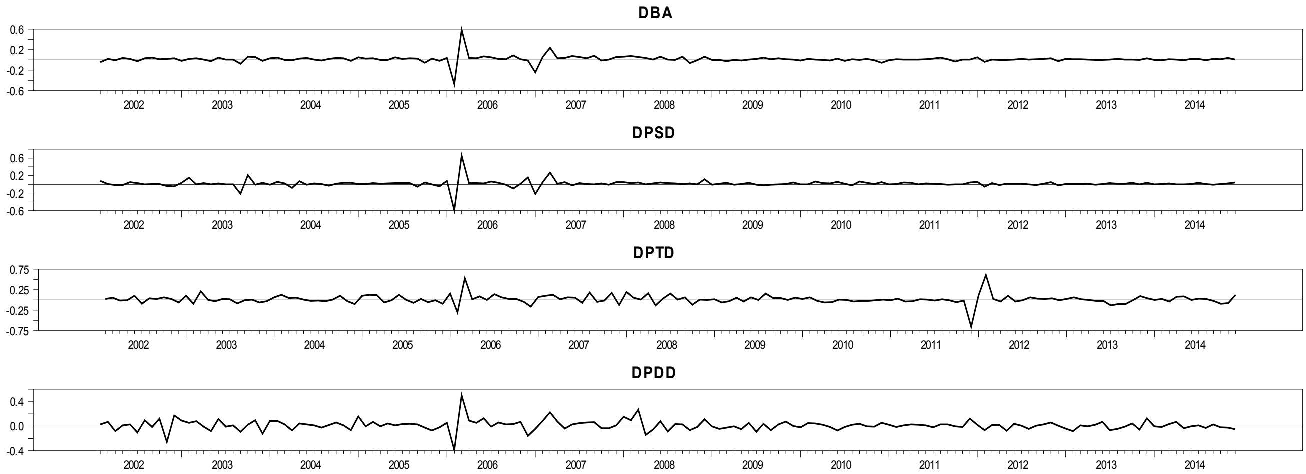

Figure 2. Graph of Returns of Marketing Service and Bank Performance Series in Nigeria January 2002 to December 2014.

4.2. Descriptive Statistics

Table 1 shows the results of descriptive statistics for marketing services and bank performance level and return series respectively. The average private sector savings deposit, private sector time deposit and private sector demand deposit, which are proxy of marketing services, for the study period are approximately ₦1.1 trillion, ₦1.8 trillion, and ₦2.4 trillion respectively. On the other hand, show that the mean return for bank assets (proxy for bank performance), private sector savings deposit, private sector time deposit and private sector demand deposit for the study period are 1.58%, 1.60%, 1.67%, and 1.44% respectively. These imply that private sector time deposit has the highest rate of change whereas the private sector demand deposit has the lowest. The standard deviation shows that the private sector time deposit equally has the highest variability from the average, while bank profitability has the lowest. These imply that the bank assets have remained relatively stable over the study period.

The distributional characteristics of the four series appear to be inconsistent with the normality assumption. In a normally distributed series, the skewness is zero (0), Kurtosis is three (3), and Jarque-Bera coefficient is equal to zero (0). Positive or negative skewness and Jarque-Bera indicate evidence against the normality assumption. Also, Kurtosis greater than three or less than three, suggest deviation from normality (Gujarati, 2003; Emenike, 2015). From Panel B of Table1, skewness is 1.09, 0.38, 0.12, and 0.58 for bank assets, private sector savings deposit, private sector time deposit and private sector demand deposit respectively. These show, at 5% significance level, that the private sector time deposit is not skewed whereas the other series are positively skewed. Positive skewness implies that there are more positive returns than predicted by normal distribution (Opare, Emenike and Ani, 2015). Kurtosis is 39, 35, 15, and 10 for bank assets, private sector savings deposit, private sector time deposit and private sector demand deposit respectively. These suggest that return distribution of all the series are peaked. Jarque-Bera estimates indicate that all the series are normally distributed.

Table 1. Descriptive Statistics.

	Mean	Standard Deviation	Skewness	Kutorsis	J-B. Stat.
	Level Series				
BA	12581854.38	8008951.66	.082	-1.487	14.546
PSD	1084384.19	752126.28	.507	-1.157	15.381
PTD	1760403.03	1157966.79	-.010	-1.621	17.086
PDD	2381390.96	1416632.30	-.110	-1.587	16.684
	Return Series				
DBA	.0158	.07177	1.096	39.930	10328.357
DPSD	.0160	.08626	.380	35.450	8120.090
DPTD	.0167	.11180	.128	15.275	1507.269
DPDD	.0144	.08444	.586	10.253	687.847

Note: DBA, DPSD, DPTD and DPDD are the return series of bank performance, private sector savings, time and demand deposits.

4.3. Unit Root Test

In Table 2, we present results of stationarity tests on the level and first difference series of the bank assets, private sector savings deposit, private sector time deposit and private sector demand deposit for the January 2002 to December 2014 period. The critical value of the tests is at 5% level of significance to avoid the problem of accepting a false null hypothesis. The critical value of the Augmented Dickey-Fuller (ADF) test is -3.439 for both the level and first difference series. Both the marketing services and bank performance series are not stationary at levels. These are evidenced in the computed tau values being less than theoretical values in absolute terms.

At first differences, however, the computed tau values of the bank performance (-17.507), private sector savings deposit (-13.351), private sector time deposit (-14.171) and private sector demand deposit (-16.197) of the ADF exceed the critical values (-3.439) at 5% significance level. These results imply that the bank performance, private sector savings deposit, private sector time deposit and private sector demand deposit series are integrated of order one; i.e. they require first differencing to be become stationary.

Table 2. Unit Root Test Result.

	5% Critical t	Computed t		5% Critical t	Computed t
	Log-level Series			Return Series	
BA	-3.4394	-1.1217	DBA	-3.4394	-17.5075**
PSD	-3.4395	-2.2933	DPSD	-3.4396	-13.3512**
PTD	-3.4392	-1.9089	DPTD	-3.4394	-14.1717**
PDD	-3.4394	-0.9392	DPDD	-3.4394	-16.1970**

Note: ** indicate significance at the 1% level.

4.4. Regression Results

This sub-section reports the results of the regression model estimated to examine the influence of marketing of bank services on bank performance in Nigeria, which will answer the question raised in this study. To answer the question, we examine the behaviour of slope coefficients of the regression of bank performance on marketing services variables which include private sector savings deposit, private sector time deposit and private sector demand deposit. Thus, if the slope coefficients are negative and statistically different from zero, we shall conclude that marketing of bank services impacts negatively on bank performance, vice versa. The summary of the OLS regression results is presented in Table 3 below.

From Table 3, notice that the slope coefficients for the private sector savings deposit (0.526), private sector time deposit (0.095) and private sector demand deposit (0.235) are positive and significant at the 5% level of significance. This result provides evidence to support positive influence of marketing services on bank performance since the calculated *t*-statistics (13.176), (3.38), and (5.90) private sector saving deposits, private sector saving deposits, and private sector saving deposits respectively, which are proxies for marketing of bank services, are greater than the critical *t*-statistic at 5% significance level (1.960). Similarly, the *p*-values (0.000), (0.000), and (0.000) private sector saving deposits, private sector saving deposits, and private sector saving deposits respectively, are less than the significance level (0.05). Hence, Marketing services positively and significantly influence deposit money banks performance in Nigeria. This finding agrees with Oke (2012), Akeen (2014), Nwankwo, Eze and Nwankwo (2014), etc. Oke (2012) for example, among other findings, report significance of the marketing variables in relation to bank performance and concluded that there is a connection between marketing activities and bank performance. Nwankwo, Eze and Nwankwo (2014) also report that the implication of marketing of banking service on profitability of Nigerian banks is positive and significant.

Table 3. Results of the Influence of Marketing of Bank Services on Bank Profitability.

Variable	Coefficients	*t*-statistics	*p*-value
Constant (α)	0.0024	0.9147	0.3617
ΔPSD	0.5268	13.3911	0.0000
ΔPTD	0.0950	3.8145	0.0001
ΔPDD	0.2354	5.9084	0.0000
R^2 = 0.79, F(3,151) = 198.11 [0.000], DW= 2.018			

Note: The variables are as defined in Table 1.

5. Conclusion and Recommendation

The objective of this study is to answer the question: does marketing services significantly influence bank performance in a developing economy such as Nigeria. We employ both preliminary and econometric analyses. The preliminary analyses were conducted using descriptive statistic and unit root test, whereas the econometric method adopted was the regression analysis. The estimates from the descriptive analysis show that both the marketing services and bank performance variables have positive returns, positive skewness and leptokurtic. In addition, they are not normally distributed at 5% significance level. The ADF unit root tests show that the marketing services and bank performance series are integrated of order one (i.e., *I*(1)). They require first differencing to become stationary. The results from the regression model provide evidence in favour of positive and significant influence of marketing services on bank performance in Nigeria at the 5% significance level. We therefore conclude, with 95% confidence, that marketing services has significantly positive influence on bank performance in Nigeria. Deposit money banks must therefore focus on practical implementation of marketing services in production and sales of their services. To do this efficiently, it is essential that the deposit money banks utilise their marketing resources and strategies adequately to enhance performance and growth.

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