



The Nexus Between Deposit Mobilization And Shareholders Funds' Maximization In Nigeria's Microfinance Bank

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ABSTRACT

The paper evaluated the effect of deposit mobilization on shareholders' funds in Nigeria's microfinance banks. Data were collected from statistical bulletin 2019 for twenty eight (28) years. Ordinary least square multiple regression was used to analyze the data. The findings showed that demand deposit had positive and significant effect where as saving and time deposit had no significant effect on shareholders' funds maximization in Nigeria's microfinance bank. Based on the findings, we therefore recommend that Microfinance bank should sustain the tempo of deposit mobilization so as to maximize the shareholders' funds, the management of microfinance bank should re-strategise to increase the saving deposit in order to maximize the shareholders' funds and the management of microfinance bank should devise means of making the interest rate attached to their time deposit attractive so as to draw customers to bank with them and thereby increase the shareholders' fund.

Keywords: Deposit mobilization, Demand deposit, Saving deposit, Time deposit, Shareholders' funds, Shareholders' funds maximization etc.

1. INTRODUCTION

Microfinance bank was established in 2005 to assist the poor who could not cope with the stringent lending conditions of commercial banks. The banks mobilize deposit from the public and give loans to the poor and make profit through the interest rate differentials (Ihenetu 2021). The poor in this context refers to the active poor, that is, the poor entrepreneurs who are engaged in economic activities but do not have enough fund that can liberate them from the shackle of poverty (CBN 2005). Microfinance bank targets these categories of people, mobilize deposit from them and give out loans from the deposit mobilized and thereby increase funds' of the shareholders.

Deposit mobilization is the major role of banks all over the world. It is the process of collecting cash through current account, savings account and fixed deposit account from the public by the financial institution. The funds mobilized are used by the microfinance banks for on-lending to the deficit economic unit and thereby maximize the funds of shareholders and ultimately develop the economy (Ihenetu & Wilson 2021).

Shareholders are the owners of the business. They pool their resources to the company primarily for the purpose of wealth maximization. They are entitled to dividends after settling the creditors and preference shareholders. Shareholders' funds maximization is the mainstay of the shareholders in any organization. The resources pooled to the business are not just for fun but to maximize the funds committed into the organisation. Shareholders' funds maximization is the increase in the current net value of business or shareholders capital gains with the objective of bringing in the highest possible

return (Annon n.d). The funds is maximized when the total equity and the total assets has increased (Ihenetu 2021).

Researchers that conducted researches in this subject area considered the overall activities of microfinance bank such as deposit mobilization, lending operation and transfer payment. None has considered the deposit mobilization as a single variable and the impact on the maximization of shareholders' funds. This therefore constitutes the core problem of the study.

2. Purpose of the study

- i. To determine the effect of demand deposit on shareholders funds' maximization of microfinance bank in Nigeria.
- ii. To determine the effect of saving deposit on shareholders funds' maximization of microfinance bank in Nigeria.
- iii. To determine the effect of time deposit on shareholders funds' maximization of microfinance bank in Nigeria.

3. Hypotheses

H₁: Demand deposit has no significant effect on shareholders funds' maximization of microfinance bank in Nigeria.

H₂: Saving deposit has no significant effect on shareholders funds' maximization of microfinance bank in Nigeria.

H₃: Time deposit has no significant effect on shareholders funds' maximization of microfinance bank in Nigeria.

4. LITERATURE REVIEW

a) Conceptual Framework

The concepts considered here are:

i) Shareholders' Funds - Shareholder funds is the same as the owner's equity. It represents the funds invested in the company through stock purchases or other private investments. It is given as total assets minus total liability. Shareholders' fund is the end result of the firm's worth after liability is completely deducted.

ii) Shareholders – shareholders are the owners of the business. They pool their resources to the company primarily for the purpose of wealth maximization. They are entitled to dividends after settling the creditors and preference shareholders.

iii) Shareholders wealth maximization – This refers to the generation of sufficient earnings in order to pay adequate dividends (Mbat 2000). Dividends represent one of the shareholders return on investment and exert pressure on the market prices of the shares and implicitly shareholders wealth. The wealth maximization actually refers to the present worth of shares in terms of dividend expectations (Anon n.d).

iv) Deposit Mobilization - Deposit mobilization constitutes another important function of microfinance banks. They mobilize deposits from the general public in the following forms:

(1) **Time deposit:** Microfinance banks operate fixed or time deposits for various customers. These deposits have tenures ranging from call deposits to 90 days, 180 days and 360 day deposits. As miniature banker, microfinance bank takes deposits of lesser amount from the public. This created the major distinction between commercial and microfinance banks. In this regard, the later mobilize deposits of lesser amount and are thus called the bank of the poor (Ihenetu 2021).

(2) **Demand deposits:** These are provided for both corporate and individual customers. They are also withdrawable on demand by cheques, like the case of current accounts with commercial banks.

(3) **Savings Accounts:** As the name implies, this type of account are designed originally to encourage people to save. Monies that are not currently in use could be placed on a savings account. Microfinance bank carried out banking operations by savings funds deposited with them.

b) Theoretical Framework

i. Agency Theory

Agency theory was developed by Jensen & Mackling 1976. The theory showed the connection between two parties known as the principal and the agent. The principal is the owner of the business and the agent is the manager of the business. In the case of bank, the shareholders are the owners of the banks and the managers are the agents. While shareholders want funds maximization in form of increase in equity and assets, the managers want business expansion by plowing back the profit. Agency relationship is always characterized by conflict of interest between the agent and the principal.

ii. Pecking Order Theory

The theory was first developed by Donaldson in 1961 and later modified by Stewart, Myers and Majluf in 1984. The theory states that companies, here microfinance banks, should prioritize their sources of financing from internal financing to equity financing according to the principle of least effort or least resistance. According to them, internal funds should first be used, follow by debt and finally equity if need be. The whole essence of this priority is to ensure that the shareholders' fund is maximized and the company is not prone to danger.

iii. Baumol Model of Cash Management

The theory was developed by William J. in 2002. He developed a model that showed that cash management helps to determine the firm's optimum cash balance with certainty. The theory is very useful and applicable extensively on cash management. The model sees cash and inventory management problems as the same. They developed a model known as the transactions demand for cash: an inventory theoretic approach which is used in both inventory and cash management. His model affirms that managers can make an attempt to minimize the sum of the holding cash and the cost of changing marketable securities to cash.

5. METHODOLOGY

The researcher employed ex post facto design. The fact that the data were original from CBN statistical bulletin 2019 and adopted for the study necessitated the choice of the design. The data collected were demand deposit, saving deposit, time deposit and shareholders' fund was the dependent variable where as demand deposit, saving deposit and time deposit were the independent variables. The sample size is twenty eight years (1992-2019). Ordinary least square multiple regression was used to analyze the data. The model specification is given as:

$$SHF = f(DD, SD, TD)$$

This model can be transmodified to econometric model as:

$$SHF = \alpha + \beta_1 DD + \beta_2 SD + \beta_3 TD + \mu$$

Where SHF = Shareholders fund

DD = Demand Deposit

SD = Saving Deposit

TD = Time Deposit

α = constant variable

$\beta_1, \beta_2, \beta_3$ = Coefficient of independent variables (slope)

μ = error term.

7. DATA PRESENTATION AND ANALYSIS

The data used for the analysis are presented below:

Table1. Shareholders’ Fund (SHF), Demand Deposit (DD), Saving Deposit (SD) and Time Deposit (TD) in Naira (1992 – 2019).

Years	SHF	DD	SD	TD
1992	227.00	207.90	304.20	127.50
1993	625.30	588.50	1,107.90	491.80
1994	935.40	836.30	1,865.70	514.70
1995	861.00	832.90	1,672.30	329.40
1996	870.70	780.70	1,786.20	309.40
1997	1,385.80	842.10	1,945.70	394.10
1998	1,479.30	1,252.40	2,595.30	606.50
1999	1,858.40	1,163.42	2,413.79	563.10
2000	2,773.60	2,160.72	4,482.92	1,045.76
2001	1,034.80	926.27	1,919.41	448.31
2002	3,825.60	2,725.48	5,654.63	1,319.09
2003	7,011.10	5,079.08	10,537.73	2,458.20
2004	8,156.40	6,015.62	12,480.81	2,911.47
2005	18,107.30	13,354.16	27,706.32	6,463.22
2006	12,829.82	34,017.70	0.00	0.00
2007	21,810.70	41,217.70	0.00	0.00
2008	37,021.80	61,568.10	0.00	0.00
2009	45,166.00	76,662.00	0.00	0.00
2010	43,997.50	75,739.60	0.00	0.00
2011	29,094.80	59,375.90	0.00	0.00
2012	42,829.10	98,789.10	0.00	0.00
2013	64,939.00	121,787.60	0.00	0.00
2014	53,039.03	110,688.41	0.00	0.00
2015	91,376.50	159,453.52	0.00	0.00
2016	77,868.65	149,798.38	0.00	0.00
2017	91,486.51	186,405.86	0.00	0.00
2018	96,787.92	201,721.84	0.00	0.00
2019	117,983.43	260,810.46	0.00	0.00

Source: CBN Statistical bulletin 2019

Aprior expectation: A positive significant effect is expected between deposit mobilization variables such as DD, SD, TD and shareholders fund’s maximization (SHF).

Ordinary least square multiple regression was used for the analysis. The result of the analyses is summarize below:

Table 2. Ordinary Least Square Multiple Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DD	0.495016	0.009121	54.27319	0.0000
SD	0.463075	3.700954	0.125123	0.9014
TD	-0.206801	15.85322	-0.013045	0.9897
R-squared	0.985096	Mean dependent var		31263.66
Adjusted R-squared	0.983903	S.D. dependent var		35941.50
S.E. of regression	4560.005	Akaike info criterion		19.78899
Sum squared resid	5.20E+08	Schwarz criterion		19.93173
Log likelihood	-274.0459	Hannan-Quinn criter.		19.83263
Durbin-Watson stat	1.303368			

Source: *Eview version 9*

From table 2, DD, SD, TD are the independent variables whereas the SHF is the dependent variable. The result of the analysis shows that DD has positive and significant effect on SHF whereas SD and TD have no significant effect on SHF at 5 percent level of significance during the period of the study. The r^2 0.99 implies that variation in all the explanatory variables account for 99% of the variation in shareholders' fund. F – Statistic measures the overall significance of the model. The F-statistic is 548.190 and the probability of F-statistic is 0.000 is far less than 0.05 power of test. This means that deposit mobilization has positive and significant effect on shareholders' funds of microfinance banks in Nigeria. The SD and TD having no significant could be as a result of the low mobilization of funds from customer by microfinance bank. This means that the impact recorded by the microfinance bank on the shareholders' funds is attributable to demand deposit.

The implication here is that many customers join microfinance bank as a result of facilities that they will get from microfinance bank to boost their business. For you to obtain loan from microfinance bank, you must open current account with them, and the funds raised from them are used to maximize the shareholders' fund, hence the significant effect.

8. CONCLUSION AND RECOMMENDATIONS

From the findings, it is very clear that deposit mobilization has positive and significant effect on shareholders' funds maximization in microfinance bank in Nigeria. The positive significant is attributed to their aggressive demand deposit (current account). The saving and time deposit could not make any significant impact because their mobilization stopped in year 2005 as seen from the CBN statistical bulletin 2019. Therefore, the researcher recommended that:

1. Microfinance bank should sustain the tempo of deposit mobilization so as to maximize the shareholders' funds.
2. The management of microfinance bank should re-strategise to increase the saving deposit in order to maximize the shareholders' funds.
3. The management of microfinance bank should devise means of making the interest rate attached to their time deposit attractive so as to draw customers to bank with them and thereby increase the shareholders' fund

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