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Industry Features On Profitability In The Financial Services Sector In Nigeria.

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ABSTRACT
Industry features on profitability in the financial services sector in Nigeria investigation study conducted. The examination of this study conservatively explore market growth and product differentiation as dimensions of independent variable and net profit margins as the measure of the dependent variable. *Ex-post facto* research design was adopted. All the 44 listed companies in the sector form the population of the study while 29 companies selected through purposive sampling methods forms the sample size. Descriptive statistics and panel regression analysis methods were the employed data analysis techniques for the study. The study found no statistical significant effect market growth and product differentiation have on net profit margin in the financial services sector in Nigeria. It then concluded that the positive non-significant effect of market growth and product differentiation on net profit margin simply result implies that though these variables might be essential for the overall business strategy, they do not directly add to the profitability in a statistically meaningful manner within the Nigerian financial service sector.
Keywords: Industry, Market, Growth, Product, Performance.

INTRODUCTION

The financial service sector plays major role in the economic development of Nigeria, providing essential services such as banking, insurance, and investments (Sanusi, 2010). The sector's profitability is influenced by various industry features, including market growth and product differentiation amongst others (Bikker & Bos, 2008; Porter, 1980). This study aims to investigate the impact of market growth and product differentiation on profitability in the financial service sector in Nigeria.

Industry features refer to the various characteristics, attributes, or elements that define a particular industry or sector (Porter, 1980). These features can include factors such as market structure, competition, technology, regulation, and customer needs, among others (Hill & Jones, 2010). Understanding industry features is crucial for businesses and organizations to develop effective strategies, make informed decisions, and gain a competitive advantage (Porter, 1980). Industry features can also influence the performance and profitability of firms, as well as the overall industry dynamics (Hill & Jones, 2010).

Market growth is a key driver of profitability in the financial service sector, as it provides opportunities for financial institutions to increase their customer base, revenue, and profitability (Afolabi, 2015).

Product differentiation is also crucial, as financial institutions that offer unique and innovative products and services can differentiate themselves from competitors and attract premium prices (Kotler & Keller, 2016).

Most companies and groups, including commercial banks, aim to maximise their financial performance. Shareholders, workers, suppliers, communities, and governments are just a few of the many stakeholders who have a stake in a company's performance (Summer & Bayraktar, 2012). How well a company does financially is called its financial performance (Tavitiyaman *et al*., 2012). Return on assets (ROA), net profit after tax (NETPT), and return on investment (ROI) are the most popular metrics utilised by banks to evaluate a company's financial performance. A company's success may be evaluated using a variety of financial measures. One is the ratio of earnings to investments, known as return on assets (ROA). The effectiveness with which a company turns its assets into profit is quantified by another metric: return on investment (ROI). Lastly, after accounting for expenses and taxes, the leftover sum is known as net profit after tax. All business-related endeavours must aim to be profitable. The fundamental goal of running a firm is to maximise the wealth of stakeholders, thus it's hard to place too much emphasis on profit performance in any business-oriented setting (Tedi *et al*. 2017).

The financial service sector in Nigeria has experienced noteworthy growth and conversion in recent years, driven by factors like market liberalization, technological innovation, and increasing demand for financial services (Sanusi, 2010; Ujunwa et al., 2012). This study aims to scrutinize the impact of industry features, specifically market growth and product differentiation, on profitability in the financial service sector in Nigeria. Despite the importance of market growth and product differentiation, there is least research on their impact on profitability in the financial service sector in Nigeria. This study purposed to fill this gap by exploring effect these industry features and profitability, and providing insights into the strategies that financial institutions can use to improve their performance.

Literature review

Market growth

One of the domiciled characteristics of industry (financial service sector) is the market growth. When referencing market growth in a research paper or study, it is common to provide supporting data or sources. For example, "Recent market research by ABC Analytics indicates a CAGR of 15% for the organic food market over the next five years" (Johnson & Williams, 2019).In addition, market growth may be defined as the expansion of a certain market in terms of either its total size or its value during a particular time period. This expansion can be attributed to factors such as rising demand, technological advancements, or changing consumer preferences (Jones, 2019). In the context of business, sustained market growth is often indicative of a thriving industry and can present opportunities for corporations to enlarge their market share and profitability (Smith et al., 2020)

Market growth is influenced by various factors. A key driver is technological advancements, as noted by Smith et al. (2020), which enhance productivity and open new market opportunities (Jones, 2019). Additionally, government policies and regulatory support play a pivotal role (Brown, 2021), creating a stable environment for businesses to thrive (Johnson, 2018). Consumer preferences and changing demographics are also critical, shaping market demands (Miller, 2022). Furthermore, global economic conditions, as highlighted by Robertson (2017), impact market expansion by influencing investment and trade dynamics (Lee, 2019).

Market growth is the rate at which a specific market or industry expands over a given period. Various factors contribute to market growth, including economic conditions, technological advancements, changes in consumer preferences, and market demand. Empirical studies on market growth often focus on specific industries or sectors, analyzing historical data and predicting future growth rates based on different variables. Bessen (2018) examined software industry market growth by looking at data from 1965 to 2015. Research shows that rising demand for software goods and improvements in technology have led to explosive expansion in the software sector. Thus, the pace of a market's expansion or development over a certain time frame is what we mean when we talk about market growth. Growth in market size as a

percentage is the usual unit of measurement. As a measure of an industry's or a market segment's attractiveness, market growth shows the possibilities that might be accessible in the market

Product Differentiation

The unique architecture and philosophical determinants of a product in an industry is an exceptional feature played to distinguished among products. Product differential is a term used in marketing and refers to the unique or distinctive features and characteristics of a particular product that sets it apart from competitors' products in the market. It is the perception of consumers that a product offers something different or superior compared to other similar products. Product differential refers to the distinctiveness and unique features of a product that make it more desirable and superior in the eyes of consumers.

According to Ubabudu *et al.* (2022), it is an extremely important factor in the decision-making process of customers, as well as in the positioning of brands and price strategies. Product differentiation is another term that refers to the process of separating a service or product from others available on the market by putting an emphasis on distinctive characteristics, qualities, or advantages. It has the potential to have a major influence on the earnings performance of a firm. Product differentiation can lead to higher profit performance by allowing companies to command a price premium for their unique products or services. Differentiated products are perceived as having higher value, which can justify higher prices and increase profit margins. Additionally, product uniqueness has the potential to increase consumer loyalty while simultaneously lowering price sensitivity. When consumers have the impression that a product or service is one of a kind, they are less inclined to move to competing options, even if those alternatives are more affordable. This reduces the need for price competition and allows companies to maintain higher profit margins (Hitt *et al.*, 2017; Kamal *et al*., 2016).

According to Kotler and Keller (2014), Robbins *et al*. (2013), Mateus (2017), Chiguvi *et al.* (2017), and Hosseini *et al*. (2018), product differentiation is the procedure of distinguishing company's products and services from that of its competitors. This is done to ensure that the customers of the company receive a product or service that is distinctive, appealing, valuable, relatively inexpensive, and of high quality. Within the soft drink sector, Schermerhon (2008) gives three instances of differentiation methods: cost leadership, targeted differentiation, and focused leadership. These are all examples of differentiation techniques. He makes the observation that differentiation takes place when an organization's resources and attention are focused on making its goods seem to be distinct from those of its competitors.

In order to better understand how product differentiation might impact customers' purchasing decisions, researchers have conducted research on the topic. Researchers Chen et al. (2018) conducted a study on influence that product differentiation has on the perceptions of consumers and their willingness to pay a higher price. The findings of their study suggested that customers have a perception that differentiated items are of greater quality, and as a consequence, they are prepared to pay a higher price for diverse products. This suggests that product differentiation can positively influence consumers' purchase intentions and willingness to pay. For the quantification of product differentiation, Augusto and Co rating was used to measure the variable.

Augusto and Co are a credit rating agency in Nigeria that assesses the creditworthiness and solvency of financial institutions in the country. The rating that they have assigned to these institutions offers an assessment of their financial health and stability, which enables investors and other stakeholders to make choices that are more informed. The grade that Augusto and Company have assigned to the institution is a reflection of their evaluation of the institution's capacity to fulfil its financial commitments as well as the amount of risk that is involved with dealing with or investing in the institution. Businesses' financial performance may be strongly impacted by a number of crucial aspects, including their creditworthiness and their ability to pay their bills. The reason of this review is to present a summary of the empirical literature and conclusions about the connection between creditworthiness, solvency, and profit performance. The analysis provides insights into how these factors interact and influence financial outcomes for organizations across various industries (Bannier *et al*., 2015).

Chandra and Srinivasan (2018) after reviewing empirical literature on credit worthiness and solvency, as well as profit performance, several key findings emerge:

1. Credit Worthiness: Several studies have found that factors such as profitability, cash flow, leverage, and liquidity significantly affect credit worthiness. Generally speaking, businesses that have higher levels of profitability, stronger cash flow, fewer levels of debt, and higher levels of liquidity are seen as being more creditworthy. There is a correlation between having a strong creditworthiness and having a decreased chance of default, cheaper borrowing rates, and improved access to capital markets. Various credit scoring models and techniques have been developed to assess creditworthiness, including statistical models, machine learning algorithms, and credit rating agency methodologies.

2. Solvency: When we talk about a company's capacity to satisfy its long-term commitments, we talk about its solvency. The factors of solvency and the influence that solvency has on the financial health of a company have been the subject of a number of empirical studies. Key factors influencing solvency include profitability, leverage, liquidity, asset quality, and market conditions. Higher profitability and liquidity ratios are associated with better solvency, while higher levels of leverage increase the risk of insolvency. The inability of businesses to generate adequate cash flows to satisfy their commitments can have a detrimental influence on their solvency, which can be badly impacted by economic downturns and recessions.

3. Performance: Numerous empirical studies have explored the determinants of profit performance, such as firm-specific factors, industry dynamics, and macroeconomic conditions. A number of facts, including but not hampered to an increase in revenue, effective management of costs, efficient utilisation of assets, pricing power, market rivalry, and technical improvements, can have an impact on profitability. ROA and ROE are two examples of profitability ratios that are frequently utilised in the process of evaluating the profitability of a business. Findings suggest that efficient management of costs, investments in research and development, competitive positioning, and effective corporate governance positively impact profit performance.

It is imperative to note that the findings from empirical literature may vary across industries, regions, and time periods. Furthermore, correlation does not imply causation, and different methodologies and sample sizes used in various studies may lead to different conclusions.

Industry features

Industry features refer to the characteristics, attributes, or elements that define a particular industry or sector (Porter, 1980). These features can include factors such as market structure, competition, technology, regulation, and customer needs, among others (Hill & Jones, 2010).

Key Industry Features:

1. Market Structure: The number and size of firms in the industry, including perfect competition, monopoly, oligopoly, and monopolistic competition (Bain, 1956).
2. Competition*: The level of rivalry among firms in the industry, including price competition, non-price competition, and competitive strategies (Porter, 1980).
3. Technology: The level of technological advancement and innovation in the industry, including the use of digital technologies, automation, and artificial intelligence (Teece, 1986).
4. Regulation: The level of government intervention and regulation in the industry, including laws, policies, and standards (Viscusi et al., 2005).
5. Customer Needs: The demands and preferences of customers in the industry, including quality, price, convenience, and service (Kotler & Keller, 2016).

Theoretical Framework

Resource-Based View Theory (RBV)

The founder of the theory proposed a sculpt on the effective utilizations of organisations' resources, diversification strategy and productive opportunities. The theory suggests that a firm's profitability is influenced by the exclusive resources and capabilities it possesses. It emphasizes the consequence of valuable, rare, inimitable, and non-substitutable resources in achieving sustainable competitive advantage (Barney, 1991).The resource-based view (RBV) theory is a management concept that focuses on the internal resources and capabilities of a firm as sources of sustainable competitive advantage. According to

RBV, a firm's unique combination of tangible and intangible resources, such as physical assets, intellectual capital, and human resources, drive its performance and success.

The following are some key resources and references related to the resource-based view theory:

1.Resource-Based View: A Comprehensive Framework - This seminal paper by Jay Barney provides an overview of RBV and introduces the concept of firm-specific resources as the basis for competitive advantage. (Barney, 1991).

2. Dynamic Capabilities and Strategic Management - This paper by David J. Teece explores how dynamic capabilities, such as the ability to integrate, build, and reconfigure resources, help firms to adapt and sustain competitive advantage. (Teece, *et al*., 1997).

3. Building Sustainable Competitive Advantage - This book by Andrew Faulkner provides a comprehensive overview of RBV and its practical applications in strategic management, including resource identification, analysis, and leveraging for competitive advantage. (Faulkner (2004). "Building sustainable competitive advantage." John Wiley & Sons.)

4. Resource-based View and Competitive Advantage - This article by Heli Wang discusses how the RBV theory has evolved over time and its implications for understanding competitive advantage and firm performance in various industries. (Wang,2008).

5. Exploring the Resource-Based View in the Context of Services - This paper by Raphael Amit and Paul. Schoemaker explores the relevance of RBV in the services industry and highlights the role of intangible assets, such as knowledge and reputation, in creating and sustaining competitive advantage. (Amit & Choemaker, 1993).

Leonidou *et al.*, (2017) opposed to the industrial organisation view that focuses on external features, the resource-based theory try to explain the heterogeneity of presentation among firms based on firm-specific factors. Moreover, the dynamic capabilities approach, as an extension of the resource-based view of the firm's success, explains that the sustainability of the firm's competitive advantage and performance relies on the firm's ability to renew resources as its external environment changes (Teece, 2007). The author stressed further that capabilities that are pertinent for the firm's competitiveness and enhanced performance encompass the capability to sense and grab opportunities, and the capability to recalculate the firm's resources.

Empirical Review

Market Growth

Johansson *et al.* (2018) supports this notion, as they found that firms operating in growing markets had lower average costs per unit compared to those in stagnant or declining markets. This suggests that market growth plays a crucial role in driving efficiency and enhancing profit performance. Market growth provides opportunities for firms to enter new market segments or expand their customer base. As the market expands, firms can identify untapped or underserved segments and develop targeted marketing strategies to capture these opportunities. By diversifying their customer base, firms can reduce the risk of relying on a single market segment and increase their chances of generating higher profits.

Cheng *et al.* (2014) analyzed the impact of market growth on profitability in the telecommunications industry. The researchers found that companies operating in a growing market had higher profit margins compared to those in stagnant or declining markets. This is attributed to the increased sales volume and economies of scale that come with market growth. Tucker and Zahra (2014) found that firms that actively pursued growth opportunities in expanding markets experienced higher profitability compared to their competitors. This indicates that firms that adapt their strategies to capitalize on market growth can achieve superior profit performance.

In addition to higher sales, market growth can also provide opportunities for companies to enter new markets or expand their product offerings. These expansion opportunities can lead to increased market share and higher profit margins. A study by Kotler et al. (2013) found that companies that were able to capitalize on market growth through effective market entry strategies experienced greater profitability compared to their competitors.

Product Differentiation

An ex-post facto descriptive survey study approach was utilised by Ubabudu *et al*. (2022) in order to investigate the influence that product diversification has on the profitability of an organisation. The research was conducted with special reference to Seven-Up Bottling Company, established in Kaduna, Nigeria. In order to set the course of the research, three research questions were devised. After the Product Differentiation influence on Organisational Profitability Questionnaire (PDIOPQ) was put through its paces and its content reliability coefficient was determined to be 0.86 through the use of Cronbach Alpha, it was utilised for the purpose of data collection. In addition, the authenticity of its obvious appearance was established. As a result of the distribution of eighty-nine questionnaires to the respondents, only eighty (80), which is equivalent to ninety percent, were returned. Both descriptive and inferential statistical procedures were utilised in the process of conducting the statistical analysis at hand. According to the findings of the study, 7UP Bottling Company Kaduna was significantly influenced by the way in which product diversification, product features, and unique selling proposition were implemented. It is suggested that 7UP Bottling Company should embrace strategic change and the most recent knowledge technologies in order to learn, unlearn, and relearn more inventive methods of conducting company, which would enable them to realise higher benefits.

Gropp *et al*. (2020) discovered that when guarantees are in place, enterprises that are not productive acquire larger loans, invest more, and sustain greater rates of sales and wage growth. In addition, firms produce less productively. In addition, companies are able to remain in the portfolios of banks for a longer period of time, and those that enter the portfolios of guaranteed banks are less profitable and productive. Furthermore, there are fewer instances of firms leaving the economy as a whole and filing for bankruptcy when guarantees are there.

The trend in the financial performance of renewable energy companies based in India and the United States was identified by Rastogi *et al*. (2020) through the utilisation of the k-means cluster of machine learning algorithm. Furthermore, the trends that emerged from the cluster analysis were studied in conjunction with the major events that occurred both within and outside of the company. Additionally, the government regulations and changes in tariff policies have emerged as the common factors that are determining the future of the company. For a developed economy like the United States, an announcement made by a global governing body or a dispute between two countries over terms of trade can have a significant impact on the performance of the companies that are affected. As a result, it is concluded that the tariff rates and policies for renewable energy companies need to be framed in a manner that encourages the companies to increase their investments towards the production of clean energy.

Huang and Zhou explored the relationship between credit ratings and the profitability of Chinese commercial banks. Their study revealed a positive relationship between credit ratings and profit performance. They found that higher-rated banks exhibited better profitability than lower-rated banks, signaling the effectiveness of credit ratings in predicting financial institutions' profitability. (Huang & Zhou, 2020). The Effects of Product Differentiation in Online Marketplaces, evidence from a Natural Experiment by Hortacsu and Liu (2020); The study examined the impact of product differentiation on seller behavior and consumer welfare in online marketplaces. The authors utilized a natural experiment in online used car sales and found that increased product differentiation leads to higher price dispersion, increased consumer search costs, and reduced consumer welfare.

Product Differentiation, Branding, and Pricing Strategies: Evidence from the U.S. Smartphone Market" by Cao *et al*. (2019): The study examined the impact of product differentiation and branding on pricing strategies in the U.S. smartphone market. The authors found that product differentiation and branding significantly affect pricing decisions, with higher product differentiation and stronger brand loyalty leading to higher prices.

Wang and Zhang (2018) investigated the joint impact of credit worthiness and solvency on profit performance in a sample of 300 Chinese manufacturing firms. The authors results suggested that both credit worthiness and solvency had positive effects on profitability. They proposed that a combination of

strong credit ratings and healthy financial stability provides firms with more opportunities for investment and growth.

In their 2017 study, Hitt and colleagues discovered that there was a positive correlation between product differentiation and profit performance. Following the completion of a meta-analysis consisting of 46 studies, the researchers discovered that product differentiation has a large and favourable impact on both the growth of sales and the performance of profits. Product differentiation positively affects profit performance by enabling companies to command higher prices, improving customer loyalty, and reducing price sensitivity. Kamal *et al*. (2016) investigated the effect of product differentiation on profit performance in Malaysian firms. And the study found that product differentiation has positive effect on profit performance. The researchers analyzed data from 132 Malaysian firms and found that firms with higher perceived product differentiation had higher profit margins.

Ouiden (2016) explored the impact of solvency on firm profitability. It revealed that companies with higher levels of solvency tend to exhibit stronger profitability, as increased financial stability allows them to invest in growth opportunities and weather economic downturns more effectively. Vu and Khuong (2016) explored the bearing of credit rationing on the profit performance of small and medium-sized enterprises and found that credit rationing adversely affected their performance.

Li and Chen (2016) explored the effect of solvency on profit performance in the finance sector. Their analysis of a sample of 20 international banks revealed a U-shaped relationship between solvency and profitability. They argued that excessively high or low solvency levels can hinder a bank's ability to generate profits, highlighting the importance of maintaining an optimal solvency ratio.

Bannier *et al*. (2015) study examined the determinants of credit spreads (a measure of creditworthiness) and their impact on firm profitability. The found suggest that firms with higher credit spreads experience lower profitability due to increased borrowing costs and reduced access to capital. Fisher and Ohlson (2015) scrutinized the upshot of credit risk on firm valuation. Their findings highlight that firms with higher credit worthiness tend to have higher valuations, suggesting a positive link between credit worthiness and profit performance.

DATA AND METHODS

The research design adopted in this investigation is *Ex Post Facto* research design. The study employed this design because it data cannot be manipulated sincere its secondary data.

The population of the study is forty-four (44) listed companies in the sector in Nigerian at the time of field work. Twenty-nine (29) companies operating in the sector was used as sample size. The study used secondary data from the published financial statements through the Nigerian Exchange Group (NGX) bulletins and firms' websites for the period, 2013 to 2022. The descriptive statistics, unit root test, Hausman test and panel data regression analysis methods were used for the analysis.

While the functional model of the study should be:

$NPM = f$ [MKTG, AUGR] … 3.1

Mathematical equation is presented as:

$NPM_{it} = \beta o + \beta_1 MKTG_{it} + \beta_2 AUGR_{it}$ ….3.2

From equation 3.2, the panel regression equation is expressed as:

$NPM_{it} = \beta o + \beta_1 MKTG_{it} + \beta_2 AUGR_{it} + \mu_{it}$…… 3.3

Where;

NPM = net profit margin

MKTG = market growth

AUGR = product differentiation

Bo = constant or intercept term

β_1 - β_2= coefficient using OLS regression

μ = error term

RESULTS

The results of the various analyses are presented as follows;

Table 1: Descriptive Statistics

Variables	**NPM**	**MKTG**	**AUGR**
Obs	**290**	290	290
Mean	12.619	.133	7.476
Std. Dev	27.386	.252	1.281
Min	-307.382	-.999	5
Max	84.446	1.884	10
Skewness	-5.402	1.621	.148
Kurtosis	66.416	15.188	2.255
Variance	749.977	.063	1.641
Sum of wgt	290	290	290

Source: Stata 18 output

The displayed accumulated Probability value and Jargue – Bera statistics figure for the data set:
P – value: 0.021
Jargua – Bera: 7.746

The dataset comprises 290 observations for most variables. The descriptive statistics provide an overview of the key characteristics and variability of the data, which will be analyzed in subsequent sections of the dissertation to understand their impact on profit performance and market dynamics within the financial sector of the Nigeria Exchange Group (NGX) over the study period from 2013 to 2022.

With an average of 12.619 and a standard deviation (SD) of 27.386, the sample's Net Profit Margin (NPMR) shows a great deal of variation among the companies. A rating of 84.446 indicates very profitable businesses, while a value of -307.382 indicates that some organisations lost a lot of money. Then, the skewness and kurtosis are to measure the asymmetrical of the data around its mean and the presence of outliers in the data respectively. Market Growth (MKTG) demonstrates a mean of 0.133 and a SD of 0.252. The minimum value of -0.999 indicates that some markets have experienced contraction, whereas the maximum value of 1.884 shows significant growth in other markets. The skewness and kurtosis values are 1.621 and 15.188 respectively. This means in MKTG, the right tail is longer which indicating that there is more extreme high value and the distribution is leptokurtic with heavy tails, indicating more outliers than normal distribution.

Lastly, the Augusto and Co Rating (AUGR) variable has a mean of 7.476 and a SD of 1.281. The ratings range from 5 to 10, reflecting varying levels of creditworthiness and financial health among the firms evaluated in the sector. The skewness and kurtosis values are 0.148 and 2.255 respectively. This means in AUGR, the right tail is longer which indicating that there is more extreme high value and the distribution is platykurtic with lighter tails, indicating fewer outliers.

These descriptive statistics provide a foundational understanding of the data sets key characteristics and variability, setting the stage for further analysis of their impact on firm performance and market dynamics within the financial sector of the NGX from 2013 to 2022.

Finally, the on Jargua – Bera statistics and Probability value is use to determine whether a series do follows a normal distribution or not. Therefore, it is been interpreted as a given result of the Jargue – Bera and a corresponding p. value. Low JB statistics and high p. value, when p.value is greater than 0.05; the series likely follows a normal distribution which resulted fail to reject null hypothesis. While high JB statistics and low p. value, when p.value is less than 0.05, means the series likely does not follow a normal distribution which means rejection of null hypothesis. Therefore, the collective study Jargua – Bera (7.746) and P – value (0.021) shows that the series does not follow a normal distribution which means the null hypothesis is rejection.

Table 2: Hausman Cross-section random effects test comparisons

Variable	Fixed	Random	Var(Diff.)	Prob.
MKTG	6.410323	6.460128	0.797430	0.9555
AUGR	-4.607766	1.292941	128.905294	0.6033

Source: Author's Computation

Table 4.4b presents a detailed comparison of the coefficients for each explanatory variable under both the fixed effects (FE) model and the random effects (RE) model, along with the variance of their differences and the corresponding p-values. The purpose of this test is to determine whether the differences between the fixed and random effects estimates are statistically significant.

For each variable in the model (MKTG, and AUGR), the p-values are all greater than 0.05. This indicates that there is no statistically significant difference between the coefficients obtained from the fixed effects and random effects models. In other words, the random effects estimates are not significantly biased, meaning that the assumption of no correlation between the explanatory variables and individual-specific effects holds.

Key Findings:

MKTG (Market Growth): The estimates for fixed and random effects are very close (6.41 vs. 6.46), and the p-value (0.9555) confirms that the difference is not significant.

AUGR (Augusto and Co. Rating): The estimates differ in sign (-4.61 vs. 1.29), but again, the difference is not statistically significant (p = 0.6033).

Since the p-values for all variables are greater than 0.05, the differences between the fixed and random effects estimates are not statistically significant. This supports the results of the Hausman test in Table 4.4, which suggested that the random effects model is more appropriate for this study. Therefore, using the random effects model ensures efficiency in estimation without introducing significant bias.

Table 3: Panel random effect estimated model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.284143	16.91085	-0.312471	0.7549
MKTG	6.460128	5.319514	1.214421	0.2256
AUGR	1.292941	2.235985	0.578242	0.5636
	Effects Specification			
			S.D.	Rho
Cross-section random			10.62469	0.1898
Idiosyncratic random			21.95281	0.8102

Source: Author's Computation

Table 4.5b presents the results of the panel random effects estimation using the Panel EGLS (Estimated Generalized Least Squares) method, which accounts for cross-section random effects. The Swamy and Arora estimator is applied to estimate the variance components. The dependent variable in the model is NPMR (Net Profit Margin Ratio), and the analysis spans 10 periods (2014–2023) across 29 cross-sections, with a total of 289 unbalanced panel observations.

The intercept (C) has a coefficient of -5.2841, but it is not statistically significant (p = 0.7549), indicating that it does not have a meaningful standalone effect on NPMR. Among the independent variables, MKTG (Market Growth) has a small positive coefficient of 6.4601, but it is also statistically insignificant

(p = 0.2256), suggesting that market growth does not significantly influence NPMR. And AUGR (Augusto and Co Rating) also show no significant influence, with p-values of 0.8320 and 0.5636.

The effects specification indicates that the standard deviation for the cross-section random effects is 10.6247, with a variance proportion (Rho) of 0.1898, suggesting that approximately 18.98% of the total variance in NPMR is due to cross-sectional differences. The idiosyncratic random effects have a larger standard deviation of 21.9528, with 81.02% of the variance attributed to factors unique to each observation. This suggests that most of the variation in NPMR is driven by idiosyncratic shocks rather than cross-sectional differences.

Conclusively, the random effects model shows that market growth (MKTG), and Augusto and Co rating (AUGR), do not have significant effects. However, most of the variance in NPMR is explained by firm-specific factors rather than differences between cross-sections.

Test of Hypotheses

Hypothesis One: There is no meaningful effect of market growth on NPM in the financial service sector in Nigeria.

An examination of the regression In the Nigerian enterprises that are involved in the financial service industry, the effect of market expansion on the NPM is presented in Table 3. The probability value of MKTG is given as 0.2256. Consequently, the findings of the analysis indicate that the expansion of the market has a favourable impact on the NPM, but that this impact is not statistically significant in the Nigerian financial service industry. This occurs as a consequence of the fact that the p-value of 0.2256 is higher than the recognised threshold for decision making, which is set at 0.05. It is important to note that there is no substantial occurrence but a positive influence of net profit margin (the dependent variable) on market expansion (the independent variable) in the financial service industry in Nigeria. This is something that should be taken into consideration.

Decision: Base on the output presented in the Table 3, the study accepted the null Ho2, which means net profit margin is not affected by market growth in the financial service sector in the NGX.

Hypothesis Two: Product differentiation has no effect on NPM in the financial service sector in Nigeria.

From the regression Table 3 results that shows 0.5636 as the value for probability (p-value). This result simply depicted that product differentiation (Augusto and Co rating, AUGR) has a positive effect but insignificant impact on NPM in the financial service sector firms in Nigeria. The scenario is as a result of the p.value of 0.5636 which is higher than the significant level of 0.05 in the study. Thus, product differentiation even though it has a positive impact, cannot totally rely on profit performance factor in the financial service sector in Nigeria. This simply means that the dependent variable (NPM) has no substantial occurrence on the independent variable (product differentiation) even though there is a positive effect.

Decision: From preceding analysis on the variable, the null Ho7 is not accepted which means that product differentiation has an impact on NPM in the financial service sector in Nigeria.

DISCUSSION

Firstly, there is a positive but insignificant effect that market growth has on net profit margin in the financial service sector in Nigeria. Market growth (MKTG) challenges some traditional theoretical implications. For example, the insignificant impact of market concentration may suggest that Bain's (1996) barriers to entry theory might not fully apply in the context of this analysis, potentially due to the dynamic nature of modern markets where innovation and market adaptability may outweigh the benefits of concentration.

The non-significance of market growth suggests that policymakers might need to reconsider the emphasis placed on these factors in traditional competition policies. For example, the findings imply that high market growth does not necessarily lead to increased profitability, which might indicate that current antitrust regulations focusing solely on growth levels may need to be adjusted to consider other factors like innovation and market dynamics (Aghion *et al.*, 2005).

On the ground of practical implications, the non-significant effects of market growth suggest that firms should carefully evaluate the potential returns on investments in the area. While this factor may still be important for other aspects of firm performance or in different contexts, they do not appear to directly influence profitability in the model analyzed. Therefore, firms may need to consider a more nuanced approach that balances this factor with other strategic priorities.

The result is in conformity to the studies such as: Cheng *et al*. (2014) the researchers found that companies operating in a growing market had higher profit margins compared to those in stagnant or declining markets. This is attributed to the increased sales volume and economies of scale that come with market growth. Tucker and Zahra (2014) concluded that firms actively pursued growth opportunities in expanding markets experienced higher profitability compared to their competitors. This indicates that firms that adapt their strategies to capitalize on market growth can achieve superior profit performance.

Lastly, product differentiation (Augusto and Co rating, AUGR) has a positive effect but not substantial on NPM in the financial service sector firms in Nigeria. However, the non-significance effect on product differentiation (AUGR) challenges some traditional theories. For instance, the lack of significance in product differentiation contradicts the structure-conduct-performance (SCP) paradigm, which suggests that higher product differentiation should lead to greater profitability due to reduced competition (Bain, 1996). This finding might indicate that in modern dynamic markets, the role of concentration is diminishing, possibly due to factors like globalization and technological disruption, which have altered competitive dynamics.

The product differentiation with non-significance suggests that policymakers might need to reconsider the emphasis placed on these factors in traditional competition policies. For instance, the findings imply that high product differentiation does not necessarily lead to increased profitability, which might indicate that current antitrust regulations focusing solely on product differentiation levels may need to be adjusted to consider other factors like innovation and market dynamics (Aghion *et al.,* 2005).

Practically, the non-significance effects on product differentiation (Augusto & Co rating) recommend that firms should carefully evaluate the potential returns on investments in this aspect. Whereas these factors may still be important for other aspects of firm performance or in other contexts, product differentiation does not appear to directly affect profitability in the model analyzed. Hence, firms may need to think of a more active approach that balances product differentiation with other priorities in the sector.

The result is in agreement with the following studies; Huang and Zhou (2020) study exposed a positive connection between credit ratings and profit performance. The authors found that higher-rated banks exhibited better profitability than lower-rated banks, signaling the effectiveness of credit ratings in predicting financial institutions' profitability. Hortacsu and Liu (2020) found that increased product differentiation leads to higher price dispersion, increased consumer search costs, and reduced consumer welfare. Same vain Cao, *et al*. (2019) found that product differentiation and branding significantly affect pricing decisions, with higher product differentiation and stronger brand loyalty leading to higher prices. Wang and Zhang (2018) and Hitt *et al.* (2017) concluded that credit worthiness and solvency had positive effects on profitability which is in line with the findings of the study.

CONCLUSION

The outcome of hypotheses tested, revealed the operationalized elements of industry features and the proxy of profit. Market growth and product differentiation (using Augusto and co rating) have a positive but not substantial effect on NPM.

The positive non-significant effect of market growth and product differentiation on net profit margin simply result implies that though these variables might be essential for the overall business strategy, they do not directly add to the profitability in a statistically meaningful manner within the Nigerian financial service sector. It is potential that these variables control other aspects like market share or brand strength, but their consequence on instant profit margin is negligible. This shall reflect exclusive circumstances in Nigeria's financial service sector, in a situation which aggressive dynamics, regulatory dynamic and economic unsteadiness could reticent the cause of competition on profit.

The study recommended that market growth in the industry is not a measure for the improvement of net profit. Consequent on the above, the researcher in his view recommends less concentration on market growth as it is not a determinant of increase in profitability. Also, firms should approach growth strategies with caution, ensuring that expansion efforts do not compromise quality. Market growth initiatives should be data-driven, with clear performance metrics, to ensure that it positively affect NPM.

And that product differentiation should be rigorously undertaken to enhance profit performance by uniquely design her product to cause a huge difference with attraction to gain higher purchases patronage in the market.

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