

ESTIMATING THE MARGINAL EFFECT OF INTERACTION BETWEEN INDUSTRY CONCENTRATION AND CAMELS INDICATORS ON FINANCIAL PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

¹Dogarawa A. B. ²Maude F. A. and ³Ringim K. J.

¹Department of Accounting, Ahmadu Bello University, Zaria

²Department of Business Education, Federal College of Education, Zaria

³Department of Business Administration, Ahmadu Bello University, Zaria

Corresponding Author's email: abellodogarawa@gmail.com



Abstract

*This paper estimates the marginal effect of the interaction between industry concentration and CAMELS indicators on financial performance of deposit money banks in Nigeria. The paper used secondary data extracted from the financial statements of 15 out of 22 licensed banks over the period of nine years, 2010-2018 to first examine the moderating effect of industry concentration on the relationship between CAMELS indicators and financial performance before estimating the marginal effect of the interaction. The analysis carried out shows that unlike the result of the clustered robust random effects regression, which reveals that asset quality, management efficiency, liquidity and sensitivity to market risk have significant effect on financial performance of DMBs in Nigeria; the estimates of the marginal effect shows that only the marginal effect of the interaction between capital adequacy - CAR and industry concentration - INC (CAR*INC) and managerial efficiency - MGE and industry concentration - INC (MGE*INC) is statistically significant each at 1% level of significance based on their respective p-values of 0.004 and 0.000. This confirms the fear that focusing on moderation effect of an interaction variable rather than marginal effect in a cause-effect relationship could lead to the problem of overstating regression results that involve such interaction variables. In light of the above, the paper recommends that researchers who use moderator variables should always extend their analysis to cover estimation of marginal effect of the interaction variable(s).*

Keywords: CAMELS indicators; Deposit Money Banks (DMBs); Financial performance; Industry concentration; Marginal effect