

9-1992

The role and nature of research in a financial environment

O O. Akanji
Central Bank of Nigeria

Follow this and additional works at: <https://dc.cbn.gov.ng/bullion>



Part of the [Educational Assessment, Evaluation, and Research Commons](#), and the [Education Economics Commons](#)

Recommended Citation

Akanji, O. O. (1992). The role and nature of research in a financial environment. CBN Bullion, 16(3), 39-43.

This Article is brought to you for free and open access by CBN Institutional Repository. It has been accepted for inclusion in Bullion by an authorized editor of CBN Institutional Repository. For more information, please contact dc@cbn.gov.ng.



O. O. AKANJI (MRS)

THE ROLE AND NATURE OF RESEARCH IN A FINANCIAL ENVIRONMENT¹

By O.O. Akanji (Mrs)
(Assistant Director of Research)

INTRODUCTION

The important role of research in any socio-economic environment cannot be over-emphasised. However, it is not helpful to look at "research" in isolation. Research should be viewed along with development and technology. My interpretation of the topic of this paper is that it connotes the application of research to achieve some specified objectives. While research aims at increasing scientific knowledge, development is the application of research findings. The results of the application of research is technology which as a product, singly or as a package is the motive force of national economic growth and development.

Linking research with national economic development points to the relevance of this topic which is unique in the Nigeria's Bank contemporary context. For ex-

ample, research in our current financial environment has been minimal and indeed, some of the emerging problems of the financial sector today may be ascribed to inadequate research. However, the Nigerian financial sector is young relatively and much ground can be covered within a short period to recoup some of the losses observed. To discuss meaningfully some of the issues on this subject, this paper has three main objectives. Firstly, to analyse the nature of research in a financial environment and secondly, to examine the approaches for "selling" research findings. The case of the Central Bank of Nigeria is used as an illustration. Thirdly, the paper will discuss some of the major issues and problems in the Nigerian financial sector to provide some rationale for the focus of research in our financial environment.

PART 1

RESEARCH IN A FINANCIAL ENVIRONMENT

In Nigeria today, the financial environment has become very vibrant as a result of the eco-

nomie restructuring that has been in progress since 1986. The banking industry, in particular, has become increasingly complex and competitive, largely as a result of the deregulation of the foreign exchange market, interest rates, as well as the imposition of new regulatory measures such as the prudential guidelines. The import of such rapid changes have created their own problems. The solutions to the problems lie in the ability of the operators in the industry to recognise the eclectic nature of research, especially of management research, which points to a yearning need to apply scientific knowledge and methods in proffering solutions to the management of the industry.

The Objectives of A Financial Institution

The objectives of financial institution must dictate the nature of its research involvement. The financial sector and more specifically the banking industry of today is easily a major focus of both the government and the private business community. With the upsurge in the volume of business in the country in the last two decades, the objectives of

1. The author gratefully acknowledged editorial assistance from Dr. M. O. Ojo, Director of Research, Central Bank of Nigeria in the preparation of this paper. The views expressed in the paper are personal to the author.

the sector have become more diverse. The macro objective of a financial institution could be viewed along two key functions which are vital to the process of economic growth and development. The first is the provision of a convenient and efficient payments system and the second is the pooling of savings from net surplus units and channelling them to productive investment. However, the increasing pressures on the financial institutions from prudential regulations have expanded their operational objectives and obligations, namely, maximising profits for the shareholders, satisfying the regulatory authorities whose interest is to ensure that risks are minimised and satisfying the community depositors as the provider of the environment within which the institution operates. The micro objective of the financial institution is also very diversified. It may be aimed at the interests of particular economic agents or specific economic sectors or activities.

The Approach To Research In A Financial Environment

There are many approaches to research planning and organisation. However, an integrated approach to research is most desirable in the financial environment. A three dimensional approach will be discussed. Firstly, a financial agent must understand the economy in which it operates. Secondly, it must research into the system of which it is a part and thirdly, it must research into the specific industry within the sector. In any re-

search, the method consists of five logical steps towards solving a problem. These are identification and delimitation of the problem; setting up of a hypothesis (which is the tentative answer or solution to the problem); developing a method (research design); gathering data and drawing conclusions.

For the financial sector, It is vitally important to be abreast with changes in major macro-economic variables such as exchange rates, interest rates, inflation, fiscal operations, domestic output and any other relevant cross-sectional economic data. It is imperative even though the sector does not directly generate these macro-economic data as their statutory institutions such as the Government Ministries and parastatals, the Central Bank of Nigeria and the Federal Office of Statistics have responsibility for them. The financial institution obtains these required macro-economic data from them for its own analysis.

The second dimension is the research into the financial system which demands maximum but careful effort. The increased number of banks and non-bank financial institutions demands constant review and probing of the sector. No individual institution can afford to ignore the changes taking place in the sector nor can it ignore the fortunes of other banking operators. The effects of various policy measures and changes on the costs of operations should be investigated, while the attitude of the customer in this volatile environment needs careful study so that adequate

inducements could be provided for the old and new customers.

The micro-level research in which individual financial institutions look inward and probe various options for its improved performance becomes very critical for the survival of the individual institution. Situations change quite rapidly and in dimensions that are not always predictable. With the development of ideas and subsequent research, an institution can prepare itself for such eventualities. In particular, the institution must prepare itself to cope with the regulatory activities of the government. Such regulations are designed in the interest of the system and the economy generally. But they affect institutions differently indicating that reactions cannot always be the same.

The Nature of Research in the Banking Industry

In order to paint a picture of research in a banking environment, for instance, I wish to identify some of the issues which can be subjected to research techniques.

(i) Retail Marketing

To enhance profitability, banks must become more competitive at the retail level. Generally, their actions to increase retail profitability have taken two forms. The first approach was to increase the volume of retail activity through expanded services, price competition and innovative technology such as the cash dispensing machine. The second approach focussed on the cost factors involved in providing retail services. Banks generally ap-

plied a combination of both approaches and this clearly created a need for continuous investigation. Such investigation entailed finding out the best trade-off between maximum service and minimum cost. Issues such as the relative profitability of deposits, an optimal advertising expenditure, customer acceptance of new technologies and efficient management of balances usually engaged the minds of researchers in the banking environment.

(ii) **Forecasting and Simulation**

A bank management needs to join effectively for the future. This is usually how difficult exercise as the future is uncertain. No matter how difficult it is, it has to be done, opening up yet another area of research. In a rudimentary way, research can adopt a heuristic approach based on past experience which may recur. An improvement can be made on this approach by the application of management science techniques using forecasting and simulation models. Such models can be used to predict future performance, external market conditions such as the demand for loans, interest rates, return on investment, flows of deposit liabilities and potential bank expansion.

(iii) **Balance Sheet Management**

A bank is very concerned about the state of its balance sheet. Linear programming models have been developed for such evaluations as optimal size and composition of assets, liabilities and capital accounts over a multiperiod planning horizon.

The main management inputs for such an exercise include the constraints on and policies concerning such variables as funds available for investment, acceptable risk levels, volume of portfolio trading, loan limits and regulatory requirements. In general, use of this technique has not spread in the banking sector. The mathematical nature of this technique tends to intimidate uninitiated bank executives, even though successful use of the technique does not require knowledge of the underlying mathematics.

PART II

SELLING RESEARCH RESULTS TO MANAGEMENT: A CBN APPROACH

This section gives a bird's eye view of CBN research framework: its content, the processes involved, the impact of Bank research and the new directions that have been recently initiated. It is assumed that the rest of the financial system must take a queue from the research operations of CBN for them to understand the underlying macroeconomic environment and the basis of government regulations. Also, research in the CBN appears relatively developed and the financial system can learn a lot from it.

Objectives of CBN Research

Research has long been an established part of the regular activities of the CBN. The main objectives of the research activities in the CBN are:

(i) to support all aspects of CBN operations, including the

assessment of developments in the financial sector:

(ii) to advise on policies that enhance maintenance of price stability in the economy through the monitoring of monetary developments, prices, exchange and interest rates and real sector;

(iii) to generate financial statistics for monitoring of the financial sector;

(iv) to improve the Bank's capacity to give policy advice to the government and the financial sector; and

(v) to monitor the external sector and its impact on the domestic economy.

The Research Department of the bank is the centre of all research activities. But other departments cooperate and also undertake research in their field and in some others.

The Research Cycle

An overview of the research cycle illustrate clearly the interplay of Bank's priorities, individual officers initiatives and the financial sector's interests.

The research cycle in the CBN can be broadly summarised into five steps:

(i) research project identification and preparation:

(ii) research committee review and approval;

(iii) research project execution;

(iv) publication and/or dissemination of results;

(v) evaluation.

(1) Project Identification and Preparation

A few research projects are proposed by top management or suggested by external bodies that have some relationship with the

CBN. Generally, most research projects are initiated from the various Divisions of the Research Department. Usually the projects are determined by observed problems of the economy and policy implementation. Since research project implementation is costly, the various research projects are costed and then submitted to the Research Programme Committee for evaluation.

(2) Review And Approval

The Research Committee evaluates research proposals against the objectives of research effort and, with the help of the Director of research, establishes priorities for the use of budgeted funds. Relevance to the Bank's operations and potential for solving existing problems is one of the principal criteria in evaluating research proposals. The committee is advised by specialists in the study areas. Usually, informal seminars or workshops are conducted to review the research studies by the members of the committee and other research staff. Research proposals are frequently modified as a result of these reviews.

(3) Execution

The first phase of project execution typically consists of refining the methodology to be used in the analysis and in assessing the available data. Next comes a phase of field work and data collection, which is undertaken in collaboration with individuals or institutions especially if the information is outside the purview of the CBN. Analysis of the data is typically done by the statistical services division, with

the preparation of the overall report being the responsibility of the principal investigator.

(4) Publication, Dissemination And Application

The principal means of disseminating CBN research findings is through publications. All major research projects lead to some form of written reports. This is reviewed in the Research Department seminars or vetted by individual staff who are experienced in the subject area. Finalised reports and papers are then published in the relevant medium of the CBN. These include the periodical reports and the academic journals. Official reports are usually forwarded to management for appraisal, besides routine dissemination to the staff of the Bank and the general public, the bank's training centre also incorporates the research findings into various training programmes for staff.

(5) Evaluation

At the end of each year when a new research programme is being designed, the old one is also appraised in terms of execution and relevance for resolving current policy issues. Uncompleted projects that are still relevant are pushed into the new programme while those that are of immediate need are put aside for now. Usually it happens that several research issues are introduced into a programme in the course of the year because of new situations. Thus, a research programme is expected to be elastic and flexible.

The Place of Management

The only way to sell research findings successfully to manage-

ment is to involve it in all the stages of the research cycle. Management should be convinced that a research programme that is proposed is relevant for the institution's operations. It must be informed of the execution of the programme and the findings must be clearly stated, with the implications well articulated. In this way, the presentation of the findings leads to a fruitful dialogue between the professionals and management.

PART III MAJOR ISSUES AND PROBLEMS IN THE BANK- ING INDUSTRY

The analyses of modalities of research carried out in parts 1 & 11 of this paper was against the background of the banking industry. The global recession has had very serious impact on the financial sector. For Nigeria, the main issues of concern to the banking industry today are: the implementation of the measures of deregulation, macroeconomic instability and growing distress in the banking industry.

Certainly, the banks and other financial institutions welcome the process of deregulation. But because of the structural rigidities in our economy, the implementation of the measures has neither been smooth nor fast enough. Typical examples are the operations of the FEM, deregulation of interest rates and monetary and credit controls. As indicated earlier, these are issues of concern to the industry as a whole. A good research framework must aim at informing management to enable it take critical decisions on

the various aspects. In some instances, the framework could assist banks to take individual actions when necessary.

Macroeconomic instability is one of the current problems of our development process. The instability constraints private sector industrial activities, the development of which policies are supposed to promote. No effort must be spared to achieve stability. For this reason, a bank must be well informed to give enlightened opinions to the authorities. Indeed, well researched papers on this and other problems from banks could make a significant contribution to policies that aimed at the enhancement of performance of the Financial Sector.

The phenomenon of increasing distress in the banking industry should be of concern to all operators. The Nigerian banking industry is so closely knit that what happens to an operator through his own research programme should improve his own status, from which others particularly those with whom he has financial links may benefit. Distress usually builds up gradually and management must be made aware of developments as they unfold including research findings that may arrest the situation.

Central bank has, in the effort to bring stability to the economy

and the financial sector in particular, has undertaken research studies in the area of problems of liquidity position of banks, high interest rates and inefficiency of some banks which resulted from imposition of credit ceiling. The results of these studies informed the steps taken so far on the approach to indirect monetary and credit control. It is believed that research findings of other institutions in the banking industry can contribute to the effectiveness of the new approach.

SUMMARY AND CONCLUSION

This paper has attempted to sensitise research in a financial environment and elucidated on the types of integrated approach to research that should be encouraged and developed in financial sector. The paper also analysed the Central Bank approach and discussed how it involves CBN management. The major issues and problems in the banking industry highlighted were the problems of implementing measures of deregulation, macroeconomic instability

and distress in the financial sector. It is suggested that articulate research programme could make significant contribution to the solution of these problems. It was suggested that the best way to sell research findings to management is to

evolve management with the research process from the beginning. Research generates ideas without which development cannot take-off. Unfortunately, research is yet to assume its pride of place in our developing environment since its immediate relevance is not fully appreciated. Here lies the essence of justifying research activities to management staff and ensuring effective dissemination. This approach will promote support for research effort through the provision of the relevant human and material resources.

SELECTED REFERENCES

1. **ANSOFF, H. I. (1973):** Corporate Strategy, Penguin publishers
2. **COHEN, KALMAN J. (1978):** Management Science in Banking; Warren, Gorham and Lamont, Boston and New York
3. **NWANKWO, G. O. (1991):** Bank Management: Principles and Practice malthouse Press Ltd.
4. **ROMAN, DANIEL D. (1968):** Research and Development: The Economics and Administration of Technology; Prentice Hall, Inc. Englewood Cliffs, New jersey.
5. **SAVENI, M. (1986):** operations Research Methods and Problems; Wiley International Edition.