Impact of Digital Economy and Value Creation on the Profitability of Multinational Enterprises in Nigeria

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DOI: 10.56201/jafm.v8.no6.2022.pg1.13

Abstract

The study empirically evaluates the impact of broadband penetration and value creation on the profitability of MNEs in Nigeria. The study adopted the survey research design to elicit responses from 1000 Nigerians that were randomly sampled with an e-questionnaire and 152 staff of NCC. The Cronbach Alpha model shows overall reliability of 0.706. The result from the multiple regression from the 1000 Nigerians shows an Adjusted R-square of 0.230 which explains that 23.0% of the variability of profitability is explained by broadband penetration and value creation. The correlation coefficient result shows that there is a significant and moderate relationship between profitability and broadband penetration with a value of 0.414. Similarly, profitability and value creation also show a significant and moderate relationship with a value of 0.359. However, the relationship between value creation and broadband penetration was significant and moderately correlated at 0.346. The Adjusted R-square of 0.040 for the 152 staff of NCC shows that 4.0% of the variability of profitability is explained by broadband penetration and value creation. The correlation coefficient shows that there is a positive but weak relationship between profitability and broadband penetration of 0.111. Also, profitability and value creation have a positive but weak relationship of 0.215. More so, broadband penetration and value creation show a positive but weak relationship of 0.159. The F-statistic value of 4.115 and a P-value of 0.018 indicates that the variables are statistically significant. The study recommended that the Nigerian Communication Commission should develop a national backbone network through which Nigerians can access the internet rather than relying on mobile broadband whose coverage is limited in rural areas.

Keywords: *Digital Economy, Value Creation, Profitability, Broadband Penetration, Multinational Enterprises*

Introduction

Digitalization has changed the dynamics of international taxation that was formed based on the principle of physical presence and value creation in the taxation of an enterprise. With the advancement in technology (cloud computing, big data analytics, and artificial intelligence) and the creation of new digital business models

(business-to-business, business-to-consumer), taxation has become more complex than ever before. Nowadays, transactions can be conducted virtually without a physical presence and companies have realized the need to deploy resources in real-time.

The digital economy relies on intangibles, and it is characterized by the heavy usage of data in creating value and producing income. Value is created as soon as the data is changed into digital information and commercialized. With the emergence of a multi-sided business model determining the location where value is created has become a major problem. The widespread use of digital technology has reduced prices, increased performance, and contributed to the creation of new business activities. Many multinational enterprises (MNEs) have harnessed the opportunities provided using technology in securing market dominance whilst increasing profitability. For example, Amazon allows users to purchase and ship items directly into a country thereby eliminating the services of middlemen and reducing costs. The digital economy has provided opportunities for business growth and increased income whereby more staff are hired to meet demands for goods and services.

Globally, as far back as 2016, the digital economy was estimated to be worth about $11.5 trillion and was projected to reach $14.4 trillion in less than a decade. More so, the overall outlook for developing nations' economies was projected to be boosted by 15-25% (Dahlman, et al. 2016; WEF, 2015). According to The Economist (2017), '*the most valuable resource in the world right now is no longer oil, but data*. The Nigerian Investment Promotion Commission (2018) estimated that the digital economy in Nigeria is expected to generate $88 billion and create about three million new jobs by the end of 2021. According to e-Conomy Africa (2020), Africa's digital economy is estimated to account for $180 billion by 2025, representing 5.2% of the continent's gross domestic product (GDP), and could reach $712 billion by 2050.

The impact of the digital economy has been felt in all sectors of the economy. For example, banks, and other companies operating in the financial sector create more value for customers by allowing them access to manage their finances and conduct business transactions online. It has enhanced design and development in the manufacturing/agricultural sector by providing the ability to monitor production processes, which has influenced precision and product refinement. Educational service providers are also leveraging the digital economy to provide remote courses through technologies such as video conferencing and streaming, which enable them to tap into the global demands for services thereby increasing profitability; efficiencies and patient experience are enhanced in the healthcare sector because medical services can be accessed remotely. The broadcasting and media industries have as well benefited from the digital transformation. More user participation and social networking have enabled companies to gain better positioning through constant analysis of customers' preferences and spending habits.

Many MNEs some without physical presence are taking advantage of the digital space to boost their revenue for better repositioning. For example, Google has 90 percent of the search engine market, Facebook is the most used social media platform in more than 90 percent of the world's economies (UNCTAD 2019). MNEs are formed when

companies move beyond their borders to acquire another company, creating a competitive advantage (Ogidiaka, et al. 2022). The threat posed by the digital economy to the nation's tax system is quite challenging because of the absence of physical presence, complexity of transactions, difficulty of qualifying assets, and types of income. To address the challenges posed by the digital economy, the organization for economic corporation and development (OECD) inclusive framework on based erosion and profit shifting (BEPS) approved a two-pillar solution on 1 July 2021 to address the tax challenges emanating from the digital economy. However, because of untapped value in the digital space due to poor internet penetration and connectivity MNEs having a commercial presence in Nigeria but no physical establishment have not been able to create value to increase profitability because the digital economy runs on data time. Numerous studies have been carried out on the digital economy; however, no study has been conducted on the impact of the digital economy and value creation on the profitability of multinational enterprises in Nigeria. Therefore, the study empirically evaluates the impact of broadband penetration and value creation on the profitability of MNEs in Nigeria. The rest of the paper contains several sections. Section 2 literature review, section 3 methodology, section 4 discussion of results, and section 5 conclusion and recommendation.

2.0 Literature Review

2.1 The Digital Economy in Nigeria

The digital economy has grown rapidly after being first coined in the mid-1990s to reflect the dynamic nature of technology and its use by enterprises and consumers. The digital economy comprises artificial intelligence, (AI), machine learning, 3-D printing, data analytics, robotics, a gig economy, an industry 4.0, and e-commerce among others. According to Bukht and Heeks (2017), the digital economy is based on data and other intangibles whose economic importance is derived from digital technologies with business models programmed for the provision of digital commodities. Digital service providers in Nigeria include Netflix, Alibaba, Ali Express, PayPal, Amazon, LinkedIn, Facebook, Twitter, Uber, Airbnb, and a host of others.

The Compound Annual Growth Rate (CAGR) of the digital space in Nigeria has experienced an exponential growth rate between 2000 and 2019, caused by reforms that open the market and have attracted both local and foreign investment. From an initial 0.1% contribution to GDP in 1999 to 17.83% in 2020. Interestingly, nominal GDP has also increased from N26.3bn to N7.4tn. The average growth rate between 2017 and 2020 was 6.9% and has been one of the important contributors to economic growth since the 2016 recession.

Before the introduction of the Finance Act (The Act), 2019 and its enforcement on 13 January 2020, MNEs that operate in the digital space were not subjected to tax in Nigeria despite the profit derived from Nigeria. Section 13(ii) (c) of The Act provides that MNEs will tend to derive profit in Nigeria and therefore be subject to tax if it has a significant economic presence (SEP). In May 2020, the Ministry of Finance released the Companies Income Tax (Significant Economic Presence) Order 2020. The Order became effective on 10th February 2020 and brings into the Nigeria income tax net

MNEs who do not have a fixed base but render remote digital services to Nigerian customers based on certain criteria.

The key features of the digital economy can be summarized as follows: reliance on data, network effect-which means that the decision of users can affect the benefit received; frequency in users' mobility, this is because individuals can easily travel remotely abroad to conduct business transactions; the multi-sided business model allows both sides of the market to be in two different locations, high volatility because of constant technology change.

Digital Economy and Profitability

The number of devices connected to the internet known as the internet of things (IoT) has increased drastically over the years. Cisco has estimated that between 10 and 15 billion devices are currently connected to the Internet, which is less than 1% of the total devices and things that could ultimately be connected (Evans, 2011). Analyzing and using the data collected and transmitted by connected devices can help individuals and organizations use their resources more accurately, make informed purchasing decisions, ramp up productivity, and respond faster to changing environments. These changes because of digital advancement have resulted in cost reduction, thereby boosting the overall profitability of the MNEs.

A big data report by the McKinsey Global Institute in 2011, estimated that the sum of USD 300 billion can be generated through the analysis and use of big data in the health sector in the United States and EUR 250 billion in other sectors of the Europe economy. In the same vein, big data can generate a consumer surplus of USD 600 billion (World Economic Forum, 2012). About 110,000 e-commerce websites generated revenue in 2014. Similarly, the number was greater than 1 million worldwide in 2016. More so, in the food and agriculture value chain, $138 billion has been reported in 26 countries, leading to greater efficiency and business sustainability. Generally, massive investment in technology leads to productivity, competitiveness, and profitability.

Countries that cannot turn digital intelligence into value are at a disadvantage in these digital eras. Companies with a data-centric business model are placed among seven of the eight top companies in the world based on market capitalization representing a combined market value of $7,176 billion in 2017. But a decade ago, companies in the oil and manufacturing sector boasted the highest market capitalization (PWC, 2018). MNEs profit from digital space activities by imposing usage or commission charges to providers of digital services.

Overview of Broadband Penetration

The global internet market has experienced significant growth in the last decade, increasing its speed and accessibility. Presently, the global internet users are 4.157 billion, and the internet penetration rate has reached 54.4% with China and India accounting for about 772 million and 462 million internet users respectively (E-

Commerce Development Report, 2018). McKinsey (2019) reported that the cross-border bandwidth between 2005 and 2017 increased from 5 terabits per second to 704, and it is estimated to reach 2,000 by 2021 because of the Internet of Things (IoT) growth.

The penetration rates for mobile-cellular subscriptions are high in Europe, and the Americas, predominantly consisting of developed countries and middle-income developing countries as compared to the Asia-Pacific and African regions. According to UNCTAD (2019), there is a digital divide between the under-connected and the hyper-digitalized countries of the world. For example, half of the world remains offline, and one out of five persons are online in the least developed countries (LDCs) as compared to four out of five in developed countries. If this situation is not tackled early, it will further deepen the income gap.

In Nigeria, the broadband penetration rate is still very low at 0.04% as at 2018 compared to the African standard of 0.6% and the world average standard of 13.6%. This can be attributed to the lack of a national backbone network through which access to the internet can be extended to all parts of the country, making mobile broadband the best option in which Nigerians connect to the internet. According to Kim, et al. (2010) a 10% increase in broadband penetration rate will increase the GDP of under-developing countries by 1.4%. The broadband infrastructure in Nigeria consists of the First Mile (international connectivity), Middle Mile (the fibre-optic backbones and interurban networks), Last Mile (access by the end-users), and The Invisible Mile (invisible elements of the chain, such as access to frequencies, and the associated 4G+ services). However, the Middle Mile and the Last Mile remain underdeveloped and have reduced access to high-speed internet.

Interestingly, the digital economy is creating new opportunities, and improving lives. Access to fast internet can expand a country's growth matrix by bridging the information gap, connecting people rapidly to the market, increasing efficiency, lowering the cost of transactions, and improving the supply chains. Based on this, broadband penetration can help leapfrog developmental stages, as far as there are policies in place to enhance its usage as one of the required inputs for growth.

Theory of digital diffusion

The theory was developed by Everett Rogers a sociologist in 1962, and it centres on innovation that occurs because of spontaneous or planned new ideas. It emphasizes that perception is the major driver for innovation. The theory examined some perceptions considered new such as the digital economy, and the hum in the refrigerator among others. This theory is, therefore, suitable for this study because it proposed a perceived method through which the digital economy can create value and the profitability that accrues from MNEs using the digital ecosystem.

Technology Acceptance Model (TAM)

The theory was developed from Davis's theory of reasoned action (TRA) in 1989. TAM aims to explain that the computer is the main factor that promotes users' behaviour based on perceived usefulness and perceived ease of use. The perceived usefulness is achieved when MNEs conclude that an enormous benefit lies in the usage of digital to create value and increase productivity. The belief that comes with the simplicity of user-friendly sites, and smart devices create the perceived ease of use nurture which can be used by MNEs to increase profitability and create value. Therefore, this theory is important to this study.

Empirical Review

Nagy (2020) in his article titled, assessing the digital economy: aims, framework, pilots, results, and lessons. The study identified the challenges facing the digital economy to include digital diagnosis objectives, addressing inequality and poverty issues, securing participation and partnership of stakeholders, addressing implementation challenges, mobilizing local demand for the new technologies, and integrating digital transformation strategy into a country development strategy. The study adopted a content analysis methodology by reviewing other literature, and the overall aim was to produce just-in-time learning. The major findings revealed that digital diagnostic tools impact little in closing the gap between digital development practice and digital economy strategies. It concluded that the pandemic and climate change disruption have made nations of the world to be heavily indebted. Leveraging digital technology will enhance growth and productivity.

Grigorescu, et al (2021) analyzed human capital in the digital economy in central and Eastern European countries in the European Union. The multiple regression analysis was employed, and the latter tested the panel models with fixed effects, both from a temporal and country perspective. The results showcased a positive connection between the dependent and independent variables, confirming that the digitization of the economy and the developed human capital will ultimately increase the population's welfare. Also, digitization and the influence of human capital are differentiated across the latter in terms of their overall effect and amplitude.

Bankole and Adetoro (2022) evaluated the taxation of digital activities in Nigeria. The content analysis methodology was applied by reviewing the literature on the topic. The finding revealed that the increase in online activities has many benefits, especially in the generation of revenue for both government and business in Nigeria. The study concluded that a huge benefit awaits Nigeria because of the surge in the digital economy, but adequate policy and measures must be maintained to enable the government to reap the benefit of the digital economy.

3.0 Methodology

The study adopts the survey research design, by employing a Likert scale with five options 1 (strongly disagree), 2 (disagree), 3 (doubtful), 4 (agree), and 5 (strongly agree) to elicit responses from one thousand (1000) Nigerians that were randomly sampled through an e-questionnaire and also from one hundred and fifty staff (152)

from the Nigerian Communication Commission (NCC). To test for the internal consistency of the questions asked the Cronbach Alpha model was applied and it turned out a high-reliability value of 0.706

The model is specified thus:

Profitability $= f$ (DE and VC)
Profitability $= \beta_0 + \beta_1 BP + \beta 2VC + \mathcal{E}$
Where:
BP = broadband penetration
VC = value creation
$\mathcal{E}$ = *error term*

4.0 Discussion of Result

The results from the tests of the normality table show that the variables are normally distributed as displayed by the skewness and the kurtosis values within the range of -1.96 to +1.96. Therefore, multiple linear regression was applied. The descriptive output of the respondents shows that 41.7% have a first degree, 38.6% have a second degree, and 19.7% have a third degree. More so, 24.2%, 15.2%, 26.0%, 18.0%, and 16.6% have spent 1-5, 6-10, 11-15, 16-20, and 20 above years respectively on their job. The Adjusted R-square of 0.230 shows that 23.0% of the variability of profitability is explained by broadband penetration and value creation. The correlation coefficient shows that there is a significant and moderate relationship between profitability and broadband penetration with a value of 0.414. Similarly, profitability and value creation also show a significant and moderate relationship with a value of 0.359. However, the relationship between value creation and broadband penetration was significant and moderately correlated at 0.346. The F-statistic value of 18.800 and a P-value of 0.000 indicates that the variables are significant, therefore, the null hypothesis is rejected. The Unstandardized Coefficients of 0.331 for broadband penetration predicts that for every 1% increase in broadband penetration, there is a proportional increase in profitability by N331. The result is in line with the study of Kim, et al. (2010) that a 10% increase in broadband penetration rate will increase the GDP of under-developing countries by 1.4%. More so, 0.288 for value creation suggests that for every 1% increase in value creation, there is an increase in profitability by N288. The Durbin-Watson statistic of 2.162 which is greater than 2.00 shows the likely absence of autocorrelation in the model. See the statistical output in appendix 1.

The descriptive output for the 152 questionnaires returned by NCC shows that 57.2% of the respondents are males and 42.8% are females. Furthermore, 7.2% have a first degree, 48.1% have a second degree, and 44.7% have a third degree. More so, 4.6%, 34.9%, 28.9%, 15.8%, 15.8% have spent 1-5years, 6-10years, 11-15years,16-20years and above 20years respectively in NCC. The Adjusted R-square of 0.040 shows that 4.0% of the variability of profitability is explained by broadband penetration and value creation. The correlation coefficient shows that there is a positive but weak relationship between profitability and broadband penetration of 0.111. Also, profitability and value creation have a positive but weak relationship of 0.215. More

so, broadband penetration and value creation show a positive but weak relationship of 0.159. The F-statistic value of 4.115 and a P-value of 0.018 indicates that the variables are significant, therefore, the null hypothesis is rejected. The Unstandardized Coefficients of 0.063 for broadband penetration predicts that for every 1% increase in broadband penetration, there is a proportional increase in profitability by N6. Similarly, 0.077 for value creation suggests that for every 1% increase in value creation, there is an increase in profitability by N8. The Durbin-Watson statistic of 2.152 which is greater than 2.00 shows the likely absence of autocorrelation in the model. See output in appendix 2

5.0 Conclusion and Recommendation

The digital economy has changed the approach to which business transaction is conducted all over the world. Businesses do not need to rely on having a physical presence when reaching out to consumers because the world now operates on data time. With the development of a new business model, MNEs are leveraging technology to create value whilst increasing their profitability. Broadband penetration is the speed at which people and things access the internet. The internet divides are felt more in the LDC where 1 out of 5 persons have access to the internet, unlike the developed countries where 4 out of 5 individuals have access to the internet. It was recommended that the Nigerian Communication Commission should develop a national backbone network through which Nigerians can access the internet rather than relying on mobile broadband whose coverage is limited in rural areas. With more Nigerians gaining access to the internet, more value is created which will boost the overall GDP of the economy.

Appreciations

My profound thanks go to the Executive Vice-Chairman and Chief Executive Officer (EVC/CEO) of the Nigerian Communications Commission (NCC), Professor Umar Garba Danbatta, and the entire staff for their co-operation and assistance during the period of data collection.

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Appendix 1

Descriptive Statistics

	Mean	Std. Deviation	N
Profitability	1.9806	.71177	1000
Digital Economy	2.1229	.67674	1000
Value Creation	2.2500	.70777	1000

Correlations

		Profitability	Digital Economy	Value Creation
Pearson Correlation	Profitability	1.000	.414	.395
	Broadband Penetration	.414	1.000	.346
	Value Creation	.395	.346	1.000
Sig. (1-tailed)	Profitability	.	.000	.000
	Broadband Penetration	.000	.	.000
	Value Creation	.000	.000	.
N	Profitability	1000	1000	1000
	Broadband penetration	1000	1000	1000
	Value Creation	1000	1000	1000

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14.663	2	7.331	18.800	.000[b]
	Residual	45.625	117	.390		
	Total	60.288	119			

a. Dependent Variable: Profitability

b. Predictors: (Constant), Value Creation, Broadband penetration

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.630	.228		2.770	.007
	Broadband Penetration	.331	.090	.314	3.667	.000

	Value Creation	.288	.086	.286	3.341	.001

a. Dependent Variable: Profitability

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.493[a]	.243	.230	.62447	.243	18.800	2	117	.000	2.162

a. Predictors: (Constant), Value Creation, Broadband Penetration

b. Dependent Variable: Profitability

What is your gender?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	267	26.7	26.7	26.7
	Male	733	73.3	73.3	100.0
	Total	1000	100.0	100.0	

What is your highest qualification?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	First Degree	417	41.7	41.7	41.7
	Second Degree	386	38.6	38.6	80.3
	Third Degree	197	19.7	19.7	100.0
	Total	1000	100.0	100.0	

How many years of experience have you acquired?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1- 5	242	24.2	24.2	24.2
	6 - 10	152	15.2	15.2	39.4
	11 - 15	260	26.0	26.2	65.4
	16 – 20	180	18.0	18.0	83.4
	20 above	166	16.6	16.6	100.0
	Total	1000	100.0	100.0	

Appendix 2

ANOVA[a]

Model	Sum of Squares	df	Mean Square	F	Sig.

1	Regression	2.525	2	1.262	4.115	.018[b]
	Residual	45.705	149	.307		
	Total	48.230	151			

a. Dependent Variable: Prof
b. Predictors: (Constant), VC, BP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.773	.142		12.519	.000
	Broadband Penetration	.063	.065	.078	.971	.333
	Value Creation	.077	.031	.203	2.511	.013

a. Dependent Variable: Profitability

Model Summary[b]

Model	R	R Square	Adjusted R Square	Error of the Estimate	Change Statistics					Durbin-Watson
					Square Change	F Change	df1	df2	Sig. F Change	
1	.229[a]	.052	.040	.55385	.052	4.115	2	149	.018	2.152

a. Predictors: (Constant), Value Creation, Broadband penetration
b. Dependent Variable: Profitability

What is your gender?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	87	57.2	57.2	57.2
	Female	65	42.8	42.8	100.0
	Total	152	100.0	100.0	

What is your highest qualification?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	First Degree	11	7.2	7.2	7.2
	Second Degree	73	48.0	48.0	55.3
	Third Degree	68	44.7	44.7	100.0
	Total	152	100.0	100.0	

How many years of experience have you acquired?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5	7	4.6	4.6	4.6

	6-10	53	34.9	34.9	39.5
	11-15	44	28.9	28.9	68.4
	16-20	24	15.8	15.8	84.2
	20 and above	24	15.8	15.8	100.0
	Total	152	100.0	100.0	

Correlations

		Profitability	Broadband Penetration	Value Creation
Pearson Correlation	Profitability	1.000	.111	.215
	Broadband Penetration	.111	1.000	.159
	Value Creation	.215	.159	1.000
Sig. (1-tailed)	Profitability	.	.087	.004
	Broadband Penetration	.087	.	.025
	Value Creation	.004	.025	.
N	Profitability	152	152	152
	Broadband penetration	152	152	152
	Value Creation	152	152	152