SERVICE QUALITY AND FINANCIAL PERFORMANCE OF SELECTED BANKS IN NIGERIA (2006-2013)

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A thesis in the Department of BUSINESS ADMINISTRATION,
Faculty of Management Sciences
Submitted to the School of Postgraduate Studies, University of Jos, Jos, in partial fulfilment of the requirements for the award of the DOCTOR OF PHILOSOPHY IN MANAGEMENT degree of the
UNIVERSITY OF JOS.

MAY 2015

DECLARATION

I hereby declare that this research work is the product of my own research efforts, undertaken under the supervision of PROF. TERESA M. NMADU and has not been presented elsewhere for the award of a degree or certificate. All sources have been duly distinguished and appropriately acknowledged.

…..……...

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CERTIFICATION

This is to certify that the research work for this thesis and the subsequent presentation of this thesis by Meshach Gomam Goyit (**PGSS/UJ/0546/07**) were carried out under my supervision

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ACKNOWLEDGEMENTS

I honestly appreciate God Almighty for His divine grace, providence and wisdom without which this study would not have reached this level of success. God, is indeed worthy to be praised and adored. Throughout the period of the study, I never lacked the requisite resources for this study. He graciously provided the means and kept me physically fit to have attained this level. God, I am grateful.

Professor Teresa M. Nmadu has helped greatly to ensure that this work reached this level. It has been a pleasant experience during the course of study and an opportunity to have met and worked with Professor Teresa M. Nmadu as my supervisor. She has been realistic in her expectations, fair with her constructive criticisms and a great source of support during the course of this study. Professor Teresa M. Nmadu has always given good and timely suggestions. In addition, she has always been available to discuss and evaluate materials. I am highly indebted to her.

The efforts of my Head of Department and Dean, Faculty of Management Sciences, Prof. Sebastian S. Maimako are quite appreciated. His tremendous support and encouragement given to me in the course of this programme is immeasurable. Prof. Sebastian S. Maimako ensured I did not slag and where I did, he did not give me any breathing space. The good Lord will reward him bountifully. Also, Prof. S. A. Ocholi, who doubly serves as the Departmental and Faculty PhD Coordinator is worthy of appreciation for his contribution throughout the period of this research work.

I also appreciate the efforts of the immediate past Dean, Faculty of Management Sciences, Prof. A.A. Okwoli and all the senior colleagues of the Faculty –Prof. J. O.M. Ande, Prof. F. Ojaide, Dr H. Bulus, Dr P.E. Arinze, Prof E. B. Ekoja, Dr Oladele, Dr C.

Adewole, Dr Y. Jugu and Dr A. Ochigbo. To my friend, Innocent Kairo, I am also grateful for his very valuable assistance in the analysis of data for this study.

To all the discussants who contributed meaningfully at the various stages of the presentations of this work, I say I am grateful for those meaningful contributions which improved the quality of this work. I am highly indebted to them all. These scholars spared their time and energy to give this work the quality therein while discussing this piece of work. These include Dr J. H. Landi, Prof. S.A. Ocholi, Dr. H. Bulus, Dr I. J. Otaha and Dr Clement Adewole. Their efforts have not been in futility.

My special appreciation goes to my colleagues-Reuel J. Dakung and fellow MPhil/PhD students in the department for the encouragement and support while this study progressed. To my beloved wife and children, I say thank you for your understanding, encouragement, inspiration, show of love, prayers, care and concern throughout the period of this study. God will richly bless and reward you bountifully.

DEDICATION

To my beloved wife, children, mother and late father.

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Abstract

This work examined the relationship between investments in service quality programmes by banks on their financial performance as well as the relationship between service quality delivery and the choice of banks and repeat purchase decisions by bank customers. The aim being to enhance Nigerian banks image in the global financial market. Banks in Nigeria continuously declare huge annual profits despite the fact that there has been seemingly increasing cases of complaints about the quality of services these banks render to their customers. This study investigated causality between investments in service quality programmes and the financial performance of Nigerian banks. Survey approach was used in obtaining the primary data and panel data for the secondary data. The use of cointegration method enabled the estimation of relationships among the research variables. Pearson Correlation and Regression methods of data analysis were employed to verify the relationship between investments in service quality programmes and financial performance of these banks using the SPSS Version 22 software package. The aggregated results indicate that profitability of Nigerian banks is not a function of investments in service quality programmes and that choice of banks by customers is not a function of service quality experiences. However, there is a positive relationship between service quality and repeat purchase decisions. Also, there is a positive but insignificant relationship between volume of deposits and investments in service quality; there is also a positive but insignificant relationship between investments in service quality programmes and the earnings of banks. These findings clearly show the absence of a strong relationship between investments in service quality programmes and financial performance in the Nigerian banking sector. This is an indication that there has not been marked improvement in the provision of quality banking services that would

draw the attention of customers. Based on the findings, it was recommended that to be able to achieve patronage on the part of the customers in the increasing competitive banking business, banks should organize their operations according to the needs expressed (or in several cases even not expressed) by the customers so as to attract and maintain such customers. There is the need to evaluate those service quality attributes that contribute to customer satisfaction and loyalty so as to explore the possibility of investing in such service quality programmes which can have the potential for impacting on profits of banks.

CHAPTER ONE
INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The service sector of the economy has increasingly assumed and is playing a major role in most economies of the world and citizens living in such economies are living in increasingly service-based economies. As a result, the service sector plays a dominant role in creating value in such economies and by extension, the purchasing patterns of consumers and managerial decisions of the providers of these services, to a large extent, are influenced by activities of stakeholders in this sector.

Before the end of the twentieth century, agriculture was the prominent industry that contributed most to national income even in some of the developed countries. This trend is being reversed as recent developments indicate that the agricultural sector contributes only about 2% of Gross Domestic Product (GDP) in the United States of America (Drucker, 2002), because the agrarian age paved way for the industrial age and the industrial age in recent times, has had its share of GDP reduced to roughly 15%. On the contrary**,** there has been a dramatic surge in the growth of the service sector as pointed out by Auka (2012) who argued that the service sector accounted for 77% of total employment and 70% of GDP in the U.S.A. Kotler (2003) also posited that services account for nearly 60% of personal consumption in the U.S.A. with the service sector representing 76% of economic activities. In Europe, the service sector accounts for 65% of economic activities and employment figures of almost 70%. He also asserted that the service sector has grown faster in the world economy, making up a quarter of the value of all international trade. These results are indicative of the dramatic global growth of the service sector.

In developing economies, the service sector is not an exception because services constitute an increasing percentage of GDP in many of such countries. In Sub-Saharan

Africa, services contributed 47% of growth over the period 2000-2005, while the manufacturing industry contributed 37% and agriculture only 16% (Oluba, 2008). In Nigeria, extracts from Central Bank of Nigeria (2014) and Barungi (2014) reports indicate that the sectoral contribution to the country's GDP in 2008, 2013 and 2014 is as follows: Agriculture 33.9%, 32.5% and 20.28%, Services 26.1%, 32.3% and 36.62% and industry 42,3%, 35.2% and 21.85% respectively. These statistics indicate a sizeable contribution of the service sector of the service sector to the economy.

Service offer includes all those non tangible economic activities that provide want satisfaction. Stanton (1981) defined services as those separately identifiable essentially intangible activities which provide want satisfaction, and which are not necessarily tied to the sale of a product or service. In this study, service is regarded as any economic activity whose output is not a tangible product. Thus, services are essentially intangible activities which provide want satisfaction which include among others financial services.

For the service sector to maintain dominance, the quality of services being provided should meet or exceed customers' expectations. Quality portends an embodiment of value(s) that is/are capable of meeting standard expectations or requirements. This explains why Crosby (1979) sees quality as conformance to requirement. In view of this, Khan, and Mahapatra, (2009) posited that it is imperative for the operators in the sector to seek for ways of improvement in the delivery of services which they provide. Service providers who seek improvements in profits ought to monitor and employ means of improvements in service quality on a continuous basis.

This has led to the conception that service quality needs to be defined on the basis of the requirements or expectations of the customers. In this regard, a customer's expectations of service quality and the overall impression such a customer has and experiences with the service and the service provider form the basis for the service being

regarded as of quality and it represents a long run overall evaluation or experience with a given service offer. It is a critical prerequisite and determinant of competitiveness for establishing and sustaining satisfying relationships with customers. Service quality is used in the evaluation of services provided to customers or for making comparison between expectations and actual service performance. Auka (2012) defined service quality as the consumer's appraisal of a service's overall quality. Similarly, Lau, Cheung, Lam, & Chu (2013) viewed service quality as the degree of discrepancy between customers' normative expectations for service and their perceptions of service performance, while Gefan (2002) viewed service quality as the subjective comparison that customers make between the quality of the service that they want to receive and what they actually get. From these definitions, service quality is a customer's view point of an experience with the service offer. In this study, service quality is viewed as an assessment by the customer of a firm's service performance compared with the customer's general expectations of how that firm should perform in relation to other firms in the industry.

The service sector of an economy is definitely diverse, encompassing a great variety of activities including the financial sector which is essentially the backbone of every economy. This is the sector responsible for the provision of the requisite financing to all the sectors of the economy. Perhaps, it is in the bid to improve the management of this sector that institutions providing financial services are rapidly changing their strategies/approaches and manner in which these services are being provided.

Arungai (2014) found out that Kenyan banks in recent times have been pre-occupied with innovations in the services they offer and how they offer them. Similarly, Auka's (2012) statement relating to the fact that banks have experienced dramatic changes leading to increased demand for non-traditional services including automation of a large number of services and a move towards emphasis on the customer rather than the

bank product is an indication that bank executives have realised the need for improvement in service quality. Consequently, they have devised approaches or strategies aimed at improvement in banks' service quality delivery. This is the position of Appannan, Doraisamy, & Hui (2013) when they posited that service quality is an imperative element impacting customers' satisfaction level in the banking industry. This perhaps explains the deployment of service quality programmes by banks in an unprecedented manner.

However, in Nigeria, the concept of service quality is largely a new phenomenon since the Nigerian market is largely dominated by primary goods. As a result, quality concerns emerged only more visibly with the introduction of Structural Adjustment Programme (SAP) in July, 1986 (Oyejide, & Bankole, (2001). The introduction of specialised services/consultancy jobs and expatriate professional services into the Nigerian service sector, coupled with intense competition, particularly with the liberalisation of the banking industry, contributed to the concerns for quality as a means for improvements in financial performance in the Nigerian economy.

This phenomenal shift led to the concern for improvement in service quality, particularly in the banking sector. This new spirit brought about competition which meant that banks had little or no choice than to intensify the marketing of their services as foreigners were allowed to own financial institutions without domestic participation. These foreigners are conversant with the effect of service quality on customers' behavioural patterns. The placement of increased emphasis on service quality by operators in the banking industry is aimed at achieving customer satisfaction, creation of new markets, protection and development of market shares, and surviving the competition so as to enhance customer loyalty (Ivanauskiene & Volungenaites, 2014) for long-term financial performance, survival and success in the industry. One of the most important

tasks of business managers is profitability and it is a primary goal of businesses because without profitability long run survival cannot be guaranteed. In this study, profitability refers to excess of revenues over expenses.

The quest for increased deployment of quality programmes in the banking sector is hinged on the fact that the policy thrust of the Nigerian banking industry in recent times is anchored on the achievement of efficiency and effectiveness in the provision of banking services that can ensure depositors' trust and confidence in the face of grave failure that characterised the banking industry in the recent past. This policy thrust can only be realised when managers and policy makers in the Nigerian banking industry employ strategies that can give them a competitive edge or comparative advantage over other global players in the industry. This is based on the premise that the business environment has in recent times become largely competitive and almost borderless.

From the foregone, it could be inferred that the introduction of improved service delivery programmes by the new generation banks necessitated the need to create a niche by financial service providers in Nigeria via the provision and delivery of quality banking services. To buttress this, Williams, Ogege, & Ideji (2014) posited that effective customer service in the banking sector is one of the most important means of ensuring that customers come back to a particular bank despite the hurdles in the sector.

The reality of the scenario in the Nigerian banking industry does portray the contrary as studies by scholars such as Olaleke (2010) indicated that poor service quality is a common feature. Woldie (2003) also found great level of dissatisfaction by many people with the quality of services that are provided by Nigerian banks. This may be evidenced by the occasional seemingly long queues in the banking halls and at ATM locations, failure of ATMs, network failures, unnecessary delays in resolving complaints,

the unusually long period required before interbank cheques are cleared and tendencies of customers switching between products and banks.

In agreement with Olaleke (2010), Cuffe (2008) also found out that certain Nigerian banks that were not much conscious of quality improvement programmes and adjudged as using lowest quality operations declared huge annual profits. Similarly, International Monetary Fund's report (2009) indicated that bank profits in Sub-Saharan Africa compared to other regions are high. The finding indicates that in such banks service quality alone is neither the only determining factor in the choice of banks by Nigerians nor the determining factor for profitability but other factors which are outside the scope of this study such as capital adequacy, assets quality, liquidity management or macro-economic factors.

This scenario raises the question; are Nigerian bank customers actually conscious of service quality or not? This, coupled with instances where market stalls are burnt with huge sums of cash inside make it difficult to view Nigerian business operators as those who appreciate the value of banking such monies/money for the purposes of safety. It could even be deduced that the banks do not motivate holders of such capital to appreciate the value of banking. This scenario depicts Nigerian banking services as poor, thus not capable of attracting savings from prospective customers.

From the findings of Olaleke (2010), IMF (2009) and Cufe (2008), it could be deduced that if the banks have been conscious of service quality programmes, or have been customer focused, much profits would have been achieved or they would have attained higher level(s) of performance. Comparatively, Klynveld, Peat, Marwick and Goerdeler (KPMG), a global network of professional firms providing Audit, Tax and Advisory Services in its 2010 banking industry customer satisfaction survey using key performance indicators including; availability and accessibility to quality of service by

service delivery channels, customer care, convenience, adjudged Guaranty Trust Bank (GTB) out of the 24 banks in Nigeria, as being consistently the best customer focused bank for the third consecutive year.

The KPMG survey indicated that there was a drop in the customer satisfaction index of 6.35%, 4.64% and 3.39% for Guaranty Trust Bank, Zenith Bank and Access Bank, respectively, compared with the same rating in 2009. The decline in the customer satisfaction index (CSI) rating is an indication that Nigerian banks need improvement in product/service quality programmes.

However, there has been a dramatic surge in focusing attention on quality issues by firms globally which results from the quality philosophy that has emerged. This is seen as a major determining factor in the choice, purchase and consumption of banking services. Service quality and indeed the use of Information Communication Technology (ICT) has become the focal point of bank practitioners. In accepting this position, Khan, and Mahapatra, (2009) attested that profitability of banks' business is closely connected to the quality of services they render. It means that if banks must make profits, improvements in service quality then becomes inevitable.

Quite a number of other research findings have established a great deal of positive relationships between service quality and profitability of firms {Dick and Basu (1994), Fornell, Johnson, Anderson and Cha, (1996), Zeithaml, Parasuraman and Berry, (1996), Bolton and Lehman, (1999) Bates, Bates and Johnson (2003)}. However, quite a number of other researchers posited that much of the evidences in support of service – profit chain is anecdotal in nature. Studies such as those of Cronin and Taylor (1992), Zeithaml, Parasuraman and Malhotra, (2002), Thornton and Marche (2003), affirm that there are enormous instances or widespread evidences in support of the frustrations of managers with the inability of quality improvements to improve organizational performance.

It is imperative to note that much of the studies on the relationship between service quality programmes, profitability and customer attitudinal changes are foreign based or conducted in Europe, America and other more advanced economies. The few known studies relating to service quality in the Nigerian banking industry include the study of the impact of service quality dimensions on customer satisfaction and customer loyalty in Nigerian Islamic Bank By Badara, Mat, Mujtaba, Al-Refai & Abubakar (2013), Williams, Ogege, & Ideji (2014) regarding a link between customers service and profitability, Adeoye, & Lawanson (2012) on customer satisfaction and its implications for bank performance in Nigeria and that of Adeyeye (2013) on the impact of customer relationship management on perceived bank performance in Oyo town of Nigeria. In all, we have not specifically identified any known Nigerian study that verified the relationship between investments in service quality programmes on the financial performance of Nigerian banks as a whole.

Thus, there is the need to assess the relationship between service quality improvement programmes and the financial performance of banks in a setting such as the Nigerian economy because such researches have proven positive at some points but negative at other points in the same settings. This scenario explains the rationale behind this study. Also, the motivation for this study is based on the quest to assess whether recorded profits follow any given pattern as posited by Okwoli (2010).

1.2 THE RESEARCH PROBLEM

Where an industry is highly competitive, an understanding of the needs of the customers and other stakeholders is an important factor for success, growth or productivity factor. This has necessitated the move from product centredness to customer centredness not only in marketing circles but in business generally. Consequently, firms do not necessarily find differentiation in their physical products but in services such as

timely delivery, accurate information, better trained personnel and quicker resolution of complaints, which are capable of building good reputation and superior performance. This explains why Kotler (2003) asserted that delivering superior services has become one of the most important ways to gain superior profitability. This suggests the need to study the determinants of service quality in the Nigerian banking sector to assess the relationship between service quality and financial performance in the sector.

Banks worldwide provide homogenous services to their clients and, as a result, they are able to quickly match competitive innovativeness of competitors and innovators. However, customers still can perceive differences in the quality of services banks render. This presupposes that service quality invariably plays a significant role in bringing about customer loyalty and/ or satisfaction (Al-Msallam 2015) and financial performance. Financial performance in the banking industry and, indeed business in general, cannot be overemphasized since it is the main stay of any business venture. Besides, to a large extent it is being used as a measure of wellness of a business venture.

In this respect, banks seek to develop reputation for superior performance, especially in faster and better response to enquiries, on-time delivery and quicker resolution of complaints. Although many banks in Nigeria have investments in service quality programmes that are aimed at providing superior services, customer satisfaction level leaves much to be desired. This is evidenced by the fall in Customer Satisfaction Index (CSI) rating of top Nigerian banks (6.35% of GTB, 4.64% of Zenith bank and 3.39% of Access bank in 2010 (KPMG Survey, 2010). This is an indication that the desired improvement in the services provided by the banks in the face of emerging global economy is not being realised. This may be evidenced by seemingly increasing complaints about unresponsiveness of bank staff, absence of needed courtesy required of

service providers, rudeness of personnel, long wait times and inaccurate information which constitute elements of service quality.

It is apparent that customers who receive poor treatments will perceive the institution in bad light and this can impact negatively on its financial performance, especially for large account holders. The scenario where service quality is marred by incidences of customer complaints, poor handling of complaints, switching from one bank to another by customers and closure of accounts creates great concern to scholars and practitioners alike because they are an indication of poor service delivery.

The findings of Cuffe (2008) which indicated that not all Nigerian banks employ quality operations, yet on the average they declare huge profits annually leaves many questions unanswered in the minds of researchers and students about the operations of the Nigerian banking industry. The major problem borders on whether there is any relationship between investment in service quality and financial performance in the Nigerian banking industry. This study examined the relationship between investments in service quality and financial performance in the Nigerian banking sector.

1.3 RESEARCH QUESTIONS

In the light of the research problem, the study set to provide answers to the following questions:

i. What factors generally influence the choice of bank services by customers?

ii. Does investment in banks' service quality programmes have any relationship with customers' repeat purchase?

iii. What is the relationship between investments in service quality and profitability of banks?

iv. What is the relationship between earnings and investments in service quality by Nigerian banks?

v. What relationship exists between investments in service quality and deposits raised by Nigerian banks?

1.4 RESEARCH OBJECTIVES

This research work seeks to assess the relationship between investment in service quality and the financial performance of banks. This is the broad objective that this research work intends to achieve. In order to achieve this broad research goal, the following specific objectives are hereby stated:

i. To identify those indices that determine customers' choice for banking services in Nigeria.

ii. To examine the relationship between banks' service quality attributes and customers' choice for banking service in Nigeria.

iii. To assess the relationship between improvements in service quality and repeat purchase decisions.

iv. To assess the relationship between investments in service quality and earnings of banks in Nigeria.

v. To assess the relationship between investments in service quality programmes and deposits of banks in Nigeria.

vi. To evaluate the relationship between investments in service quality programmes and profitability of banks in Nigeria.

1.5 RESEARCH HYPOTHESES

Hypotheses are assumptions about the nature of relationships among identified variables. In this study the hypotheses are that:

Hypothesis I

H_o The choice of banks by Nigerian customers has no significant relationship with the quality of banking services these banks offer.

Hypothesis II

H_o There is no significant correlation between bank's service quality attributes and customers' repeat purchase decisions.

Hypothesis III

H_o There is no significant relationship between investments in service quality programmes and earnings of banks in Nigeria.

Hypothesis IV

H_o Investments in service quality programmes has no significant relationship with profitability of banks in Nigeria.

Hypothesis V

H_o There is no significant relationship between investment in service quality programmes and deposits of banks.

1.6 SIGNIFICANCE OF THE STUDY

The banking sector is the pivot on which the other sectors of the economy revolve and depend on for their financing needs thus, the wheel of a nation's economic growth. This explains why Jat (2006:20) rightly observed that the state of the banks is no doubt an evidence of the state of the national economy.

The findings of this research work are of tremendous value and relevance to financial researchers in specific terms and academics in general. The study has achieved this by adding to the array of literature and information needed for decision making, research and study. This work pointed out areas that can be exploited for further research which is another area of benefit to would be researchers.

Due to the significance of this sector also, the outcome of this research work is quite helpful to bank practitioners in the area of planning and resolution of negative trends relating to service quality. This helps practitioners to be better placed and equipped

in the face of the global and intense competition in the industry. This study is of benefit to banks' stakeholders such as managers and regulatory authorities in improving the soundness desired of the Nigerian banking sector by boosting the impact of positive factors and at the same time lessening the impact of those negative factors. The study also avails financial analysts, other operators/beneficiaries and stakeholders in the banking industry with needed information for any advisory banking services. It is also expected that this study has added value to the concept of service quality and services marketing generally.

The findings of this study are a vital tool in assisting government and government agencies charged with the monitoring of banking operations and enforcement of regulatory frameworks in ensuring standardisation in the banking industry generally. It acquaints customers on the concept of service quality and the role of banks in the provision of quality bank services.

1.7 SCOPE OF THE STUDY

Since virtually all sectors of the Nigerian economy depend on the financial sector for all their basic needs, the need to study this sector in a research of this nature is quite relevant. This study is targeted at Nigerian money deposit banks only. Thus, the nation's apex bank, other financial institutions/ regulatory agencies which are not profit oriented in nature are exempted. The choice of money deposit banks is as a result of the fact that they are greater in scope of operations, serve a greater proportion of beneficiaries of financial services and are, by far, more representative of the providers of financial services in Nigeria. This explains why this category of financial services providers are usually seen as playing a more significant role in the development of a nation's economy perhaps, more than others. Besides, money deposit banks as service providers deal with considerable level of operational and marketing complexities, and require very frequent

investments in quality programmes which make them interesting for studying service quality dynamics and its effect on customers' attitudes which invariably affect financial performance of banks.

The period within which this study covers is 2006 to 2013. This is due to the fact that this is the post consolidation period which brought about intense bank marketing and competition nationally and even globally, resulting from higher degree of interconnectivity than ever before, thus, the application of more operational strategies aimed at gaining more customer loyalty and profitability via several service quality programmes.

1.8 LIMITATIONS OF THE STUDY

The following factors have delimitations on the research:

a. The bureaucratic bottleneck associated with the process of obtaining data relating to quality service, financial performance and customer's attitude towards use of bank services.
b. The non co-operative attitude of respondents in filling and returning questionnaires.
c. The tendency of respondents providing biased information or even falsifying and exaggerating information that may tend to invalidate the findings of this research work or make it unreliable

The triangulation approach used in obtaining data from both the customers and depositors via the use of the questionnaire helped in reducing the adverse effects of these constraints.

1.9 DEFINITION OF TERMS

The following terms are hereby defined for the purposes of clarity.

Service – Service refers to those intangible and essentially identifiable activities which provide want-satisfaction, but are not necessarily tied to the sale of a product or another service.

Quality – Means the totality of characteristics of an entity that bear on its ability to satisfy stated or implied needs.

Service quality (SQ or SERVQUAL) – This is the situation where a service offer meets or exceeds customers' expectations or requirements at a given time.

Service Performance (SERVPERF) – this refers to the ability of service offer to measure up to an expected or desired need as viewed from the customer's perspective.

Profitability – This refers to the ability to attain the level where there exists excess revenues over expenses expressed in monetary terms. The accountant views profit as the excess of revenues over costs while the economist's view of profit includes indirect costs as well. The accountant's view of cost is best suitable for the purposes of evaluating the profitability of an organisation's current business.

Financial Performance – This is a measure of how well a firm uses assets from its primary mode of operation to generate revenues. It is also used as a general measure of a firm's overall financial health or soundness over a given period of time which can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

CHAPTER TWO
REVIEW OF RELATED LITERATURE

In this chapter, the view of scholars regarding the concept of service and service quality and the relationship that subsists between these constructs was reviewed. This was done to help provide an understanding of the concept of service, the importance of the service sector, banking services, service quality, dimensions of service quality, rationale for service quality awareness, steps in achieving service quality, measurement of service quality, service quality and buying patterns, profitability and measurement of banks' profits, concept of satisfaction, models of satisfaction, service quality and bank profitability, developments in the banking industry in other countries and in Nigeria. The review of literature helps provide the framework on which the study is based.

2.1 CONCEPTUAL FRAMEWORK

The essence of a conceptual framework is to help visualise main issues as contained in an existing literature. This study depicts the basic body of knowledge regarding service quality, investment in service quality and the relationship that exists between service quality and financial performance in the banking industry.

2.1.1 Concept of Service

A service organisation will only deliver services after integrating investments in diverse assets, processes, materials and people because services consist of components just as in manufacturing. These service components are not physical entities (Goldstein, Johnson, Duffy and Rao, 2002) which are a combination of these components that must be appropriately integrated.

In marketing, the term product in its strictest sense does not translate into a service. The term 'product' may be used to mean both tangible and relatively intangible service offerings. The scenario where a generic definition of the concept of product is said to mean a complexity of tangible and intangible attributes, including functional, social and

psychological utilities or benefits, an idea, a service, a good or any combination of these seems to suggest that there is no clear distinction between service offers and physical goods offers. However, service marketing scholars have accepted that clear distinctions exist between physical products and service offers due to the distinguishing features of services. To show this distinction, Balaji (2006) says that services include all economic activities whose output is not a physical product or construction. Services are generally consumed at the time of production and are essentially intangible.

Offering a service involves an activity or series of activities associated with elements of intangibility and it requires some form of interactions between the service provider(s) and the user(s) of such service(s). In service marketing, the customer plays an important role or function in the production process which may or may not result into the production of a physical product. By its nature, service offering does not involve the transfer of title or ownership. Some other common features of services include: intangibility, inseparability, perishability and heterogeneity. Consequently, services receive special treatment because they pose different challenges both for the service organisations and manufacturers that offer services as core offering.

In describing a service, there is usually the need to differentiate between the two basic elements of a service offer. These are:

i. ‘Core’ service offer, which forms the necessary outputs of an organisation and which are intended to provide that intangible utility or benefit that the customers need or are seeking for.

ii. ‘Peripheral’ service offer. This is made up of the service elements which are either indispensable for the performance of the core service offer or are only available just to improve the overall quality of the service bundle.

Another area of difference between services and physical goods is that services possess unique features. These major features of services are: intangibility, inseparability, perishability, variability, heterogeneity and lack of ownership. These features act together to make complex the task of marketing services as opposed to that of physical products. More worrisome is the difficulty in determining and measuring service quality by service customers and providers.

In his opinion, Umerah (2003) argued that to produce a service may or may not require the use of tangible goods. When such use is required, there is no transfer of the title (permanent ownership) to those tangible goods. The concept of service has been lucidly analysed by renowned authors such as Pride and Ferrell (2006), Zeithaml and Bitner (2003). In this study, we refer to services as those activities that are separately identifiable and essentially intangible with the capacity to satisfy wants but are not necessarily tied to the sale of a product or another service

2.1.2 Banking Services

Basic banking services are those operations set out by the Banking Act 1969. The Banking Act defined a bank as:

> The business of receiving monies from outside sources as deposits irrespective of payment of interest, and the granting of money loans and acceptance of credits or the purchase of bills and cheques or the purchase and sale of securities for account of others or the incurring of obligation to acquire claims in respect of loans prior to their maturity or the assumption of guarantees and other warranties for others and the effect of transfers and clearings, and such other transactions as the commissioner may, on the recommendations of the Federal Gazzette designate as Banking business.

Similarly, Section 43 of the Banks and other Financial Institutions Act (BOFIA), 2004, defined a bank as any person who carries on banking business and includes a commercial bank, an acceptance house, discount house, financial institution and merchant bank while Section 66 of BOFIA 2004 defined a commercial bank to mean a bank in Nigeria whose business includes the acceptance of deposits, withdrawals by cheques and Section 66 of BOFIA 2004 also defined banking business as the business of receiving deposits on current account, savings account or other similar accounts, paying or collecting cheques, drawn by or paid in by customers; provisions of finance or such other business as the Governor may, by order publish in the Federal Gazette, designate as banking business.

From the definitions, the major services that banks offer include a wide range of operations to their clients. These include:

a) Opening account
b) Safe custody
c) Bankers order and standing orders
d) Open credit or cashing
e) International Trade Services
f) Bankers draft
g) Money transfers (mail and telegraph)
h) Night safes
i) Issuance of performance bonds, and
j) Electronic payments.

This shows that banks address a wide segment of the economy, tailoring their services to meet specific needs of their diverse customers. Perhaps the ability to meet such needs

in a more qualitative way could to an extent determine the customer's predisposition to such a bank or otherwise.

2.1.3 Concept of Quality

Business enterprises worldwide whether involved in the manufacture of physical goods or the provision of services or both recognize quality as a major competitive device to improve or maintain or regain their market share. Therefore enterprises continuously develop innovative ways and it means using quality management principles with a view to design methods and procedures so that effective control and management of quality can be assured in the pursuit of excellence. The goals may differ, but any business that strives to identify its customers' requirements and produces those goods/services that meet such requirements would certainly delight its customers.

Quality service offer is a distinguishing ingredient that is comparatively of a higher grade than other similar offerings. Quality is critical to corporate success as it plays a vital role in improving organisational productivity. This is evidenced by the work of Aremu, Ekpo, & Mustapha (2013) who stated that a quality management leads to a good bank performance and that it is implicitly assumed that such a quality will be reflected in the operating performance of a bank. Lewis (1993) also found out that there was often an initial cost to implement quality service, but the resultant benefit and subsequent increase in profits offset those start-up costs. Quality can be defined as the totality of inherent characteristics of a product or service that bear on its ability to increase the demand for that product or service at a fixed price and can best be measured by capturing customer perceptions of the performance of those characteristics.

Quality therefore is a deciding factor by how much offerings are valued by the consumers. This reminds us of the importance of quality in the wider society in general and the commercial market place more specifically. Although purchase decisions are still

extensively driven by price, quality variables such as reliability and competence as well as reputation and communication are believed to become increasingly important and, particularly, a service driven economy.

As both end-user consumers and institutional customers are no longer impressed by average quality products and services, quality management has shifted from being an extracurricular activity to being an essential prerequisite because it is evident that the debate has moved away from ‘quality costs money’ towards ‘quality makes money’. In considering quality, it is not only necessary to realise that quality and profit are not mutually exclusive but also that quality has become a key differentiator to survive in an increasingly competitive marketplace. Put succinctly by the Juran Institute (1994), to survive in today’s environment of global competition, never-ending change and complexity, rising customer expectations and continuous cost pressures, focusing on quality is no longer a choice; it is a mandatory obligation for business executives.

Although quality is seen as essential to corporate success, one has to be able to measure it before being able to properly manage it. Consequently, a clear definition of quality is needed. However, adequate and commonly shared definitions of quality are rarely found within both academic and commercial circles.

The construct “quality” is elusive and indistinct. Subsequently, it is not surprising that many researchers and practitioners found that quality is difficult to define and measure (e.g. Rathmell 1966, Zethaml, Berry and Parasuraman, 1985, Cronin and Taylor 1992, Gronroos 2000). The construct is often times mistaken for or misrepresented with imprecise adjectives like superiority or luxury (Crosby 1979). Quality and especially, its underlying characteristics are difficult to pin down for both customers and suppliers of both products and services (Takeuchi and Quelch 1983). Operationalisation of quality and

its features also present serious challenges for academics and researchers who often present clear definitions to capture this complex construct.

Researchers and practitioners from diverse disciplines such as philosophy, economics, operations and marketing have offered rival opinions on what quality is. Following extensive research by Garvin (1984), these viewpoints can be classified into four categories:

a. Philosophy: innate excellence - although difficult to define, it is absolute and universally recognised through experience.
b. Economics: quantity of desired ingredients or attributes or the weighted sum of desired attributes in a product or service
c. Operations: conformance to requirements - specifications in the case of products and expectations in the case of services
d. Marketing: satisfaction of consumer preferences simplified as fitness for use.

A more value-based definition of quality would be a measure of not only the degree of excellence, quantity of desired attributes, conformance to requirements, and satisfaction of consumer preferences, but also conformance at an acceptable cost or price'. The difficulty is that this hybrid of 'affordable excellence' lacks well-defined limits and is therefore difficult to apply in practice (Garvin 1984).

To simplify the debate, while side-stepping the philosophical approach and avoiding the difficulties associated with a hybrid of 'affordable excellence', all non-price attributes can be grouped into one entity called 'quality' - defined as 'the totality of inherent characteristics of a product or service that bear on its ability to increase the demand for that product or service at a given price. This is coined after ISO 9000 Series of Standards. In this definition a characteristic is a distinguishing feature that can be physical e.g.

mechanical or electrical, temporal e.g. availability or punctuality, functional e.g. capability or durability, sensory e.g. touch or sound, or behavioural e.g. honesty or veracity.

Although this definition is applicable to both products and services, it can be argued that quality management in relation to services demands a different approach when compared to products, for the simple reason that services have different distinguishing features. Similar to the game of soccer, where one can at least measure the final score of a match, product quality can be measured against predetermined specifications; service quality can only be based on customer perceptions (Gronroos 2000, Zeithaml, Parasuraman and Berry 1996).

Therefore, it is not surprising that quality measures for product manufacturing are widely understood and used, whereas quality measures are specific, service operations have developed more slowly. This slower development has been mainly attributed to intangibility, labour intensity and complexity. Ignoring these characteristics, quality management in the services industry has for too long been dominated by the logic of manufacturing (which is seen as less complex, less labour intensive and less intangible). While comparing quality between service operations and product manufacturing, one of the basic claims has been that the complexity of service operations demands a more holistic approach including a customer-orientation to quality (e.g. Gronroos 2000, Parasuraman, Berry and Zeithaml 1985). The management of quality is further complicated when considering quality in a business-to-business environment (as opposed to a business-to-consumer context) - for the simple reason that additional stakeholders are involved in the delivery process.

As a result, quality management in a business-to-business environment is arguably more challenging when compared to a business-to-consumer context as additional stakeholders play part in the delivery of products and services. Whereas a transaction in a

business-to-consumer context takes place between two stakeholders i.e. end-user consumer and operational staff, a transaction in a business-to-business environment takes place between four stakeholders (i.e. customer contract manager and end-user consumer as well as supplier account manager and operational staff). According to Bell and Shea (2000), all stakeholders in the delivery process must agree on the relevance, definition and measurement of quality. Consequently, quality management in business-to-business setting is more complex as there may be more discrepancies between the views of the stakeholders involved.

Following the almost universal belief that services are different from products in certain key respects, it seems unlikely that quality frameworks developed for manufacturing practices can be applied directly to service operations. Contrary to product manufacturing, where it is relatively easy to measure for example conformance to specifications or the durability of an end-product, much of the quality in service operations is in the eye of the customer. Consequently, data on service quality is to be obtained by capturing customer perceptions. Irrespective of the diverse attempts at describing this construct, there is the imperative for organisations to define quality from customers' view point. According to Palmer (2005), quality can only be defined by customers and occurs where an organisation supplies goods or services to specifications that satisfy their needs. Quality therefore is synonymous with the high expectations of customers towards a product or a service. Osissioma (2003), quoting McClelland (1977), sees quality as the degree to which a service conforms to established specification and workmanship standards. Similarly, Cooper (2002) opined that quality is the degree to which an object (entity) [e.g., process, product, or service] satisfies a specified set of attributes or requirements.

2.1.4 Concept of Service Quality

Service quality (SQ) is viewed as an important issue in the banking industry because of its apparent relationship to customer satisfaction (Jamali, 2007), to costs as viewed by Crosby (1979), and to profitability (Williams, Ogege and Ideji, 2014, Rust and Zahorik, 1993). In the like manner, Ganguli, & Roy, (2011) defined service quality in terms of key dimensions that customers use while evaluating the service provided.

Consequently, service quality could be widely regarded as a driver of corporate marketing and financial performance. It can be inferred from these that service quality is commonly noted as a critical prerequisite and determining force in competitiveness and for establishing and sustaining satisfying relationship with customers since it is an important indicator of customer satisfaction. Parasuraman, Zeithaml and Berry (1985) defined service quality as a consumer's comparison between service expectations and service performance. It presupposes that until a customer judges a service as meeting or exceeding a certain perceived level of expectations, quality is not determined. This puts a lot of pressure on service providers to design production systems that are responsive to customers' expectations and desires/wants so as to meet or exceed their expectations.

To Fry, Stoner and Hattwick (1997), quality has seven (7) dimensions. These are: performance, special features, conformance, reliability, durability, service after sale and perceived quality. Performance relates to the primary operating features of a product or service which can be objectively measured on individual on aspects of performance i.e. how well a product performs or how well a service is provided. Special features are those added extras that affect or enhance the appeal or performance of the product or service offer to the user but are not standard on all competing products or services. Conformance is critical to a customer. It relates to how well a product performs compared to consumer expectations. Reliability relates to the consistency of

performance. Can the service always be expected to perform the way it should? Durability relates to the life of the service. Perceived quality is almost as important as quality itself. Quality is, by definition, customer focused. However, customers also have perceptions of quality based on advertisements, past experiences and competing products/services. The perceived quality is important because it affects customer' expectations. Finally, Service after sale is the handling of complaints and requests as well as whether the company checks on the customers' satisfaction.

Generally, quality is a construct that is difficult to give a generic meaning. Crosby (1984) opined that quality means conforming to requirements. The big question is whose requirements-customers or producers? ISO defines quality as the totality of characteristics of an entity that bear on its ability to satisfy stated and implied needs (Gryna, 2001). From these definitions, a marketer delivers quality when the services meet or exceed the expectations of the customer. The emphasis should be prevention of quality of service problem rather than just correction of quality problems. It is worthy of mention to stress here that improving quality of service can be the driving force to improving results in other parameters.

In an attempt to give a clearer picture of service quality, Gronroos (1984) categorized service quality into two dimensions, namely:

i. Technical quantifiable aspects e.g. standard of equipment, producer's knowledge and other measurable aspects. These are dimensions that are relatively quantifiable aspects of a service which customers receive in their interactions with a service firm. They can be measured by both customers and suppliers and this often forms a significant basis for the judgement of the quality of services. For example, the time spent in waiting to be attended to by a bank cashier, supervisor, restaurant waiter, or the reliability of an ATM device. These all form

an important basis for measuring or judging service quality provided by service firms.

ii. Functional aspects of service quality. These aspects cannot be measured quite objectively as those of the technical dimensions of service quality. Examples include attitude of staff, appearance of staff and atmosphere / environment of supplier's practice.

To probably reduce the difficulty in defining service quality, it is safer to view it in two perspectives, namely:

i. Producer's or Provider's perspective, and

ii. Customer' perspective

Provider's Perspective

Providers would always have a target planned quality and delivered quality levels. The management or provider's perspective of service quality is dependent on the service quality management system in an organization. From the service organisation's perspective, designing a service offer means defining an appropriate mix of physical and non-physical components. But customers always have an image of the service concept. To ensure that the service package and encounter fit the needs of the customers and the service provider, a good focus on the design and delivery is paramount.

Customer's Perspective

This is made up of the level of service that customers expect or demand from service firms and the impression that is created after using the service. Two components of this perspective are worthy of mention. They are sought quality (expected quality) and perceived quality. Expected/sought quality refers to the level of quality that customers demand or expect from service providers. They may indicate this demand either expressly or implicitly. The second aspect i.e. perceived quality, refers to the

overall impression created after using the service. The difference between perceived and expected quality provides an opportunity for customers to measure satisfaction and/or assess the level of service quality of an organization's products/services.

Consumers generally judge service quality as the level to which perceived service delivery matches with their initial expectations of the service quality. Thus, a service offer that is perceived as low quality may be regarded as high quality when compared against low expectations, but a low quality when evaluated against high expectations. The determination of service quality may be represented by the quantitative formulation:

$$\text{Service Quality} = \frac{\text{Perceived Performance}}{\text{Desired Expectations}} \times 100$$

Customers have quite a varied means of forming service expectations. They could be formed via word of mouth or advertising messages. It means, they are able to compare perceived service with expected service, and where the latter falls below the former, they are disappointed. However, where perceived service meets or exceeds expected service they are satisfied or delighted and are prone to using the provider again. There are a number of perspectives on quality as identified by Lovelock (1983):

1. Transcendent viewpoint. This viewpoint is synonymous with innate excellence and it reflects a mark of uncompromising standards and high achievements. This viewpoint suggests that people learn to recognise quality only via the experience gained from repeated exposure.
2. The product-based approach. This sees quality as a precise and measurable variable and that difference in quality reflects differences in the amount of an ingredient or attributes possessed by the product.

3. User-based viewpoint. This perspective equates quality with maximum satisfaction and views that different customers have different wants and needs, thus, quality lies with the consumers of the goods/services.
4. The manufacturer-based approach. This viewpoint focuses on conformance to internally developed specifications and is concerned primarily with engineering and manufacturing practices.
5. Value-based approach. This viewpoint defines quality in terms of value and price i.e. using the trade-off between performance and price.

These different definitions or perspectives of quality show that there is the potential for conflicts between managers in functional departments; and that reliance on a single definition is the source of this problem. Besides, the distinctive nature of services (intangibility, inseparability, homogeneity, perishability) requires a different approach to the definition and measurement of quality. It also means it is quite very hard to evaluate service quality in comparison to the evaluation of physical goods. Also, the fundamental differences in the way services are produced, consumed and evaluated imply that marketers of services face real and distinctive challenges.

The unique nature of services - inseparability, intangibility, heterogeneity, etc, makes it quite difficult to make much inroad into the analysis of service quality. These features make the analysis of service quality quite complex unlike that of physical goods. However, quite a number of attempts have been made to make an analysis of service quality and its indicators. Kotler (2003) reports that various studies have shown that well-managed service firms share these common practices: a strategic concept, a history of top management commitment to quality, high standards, self-service technologies, systems for monitoring service performance and customer complaints, and an emphasis on employee satisfaction. In one of such studies, Parasuraman, Zeithaml

and Berry as reported by Kotler (2003: 456) developed a model called Service-Quality Model as shown in Fig. 1

The SERVQUAL methodology identifies five gaps where there may be a shortfall between expectations and perceptions of actual service delivery. The model shows five gaps that could cause unsuccessful service delivery as depicted in Fig.1. These gaps are:

a) Gap 1: Gap between consumer expectations and management perception. Management may think that they know what consumers want and proceed to deliver this, when in actual fact consumers may expect something quite different. But quite often, management does not perceive what customers want correctly. Banks may think customers want quick service, but customers may need responsiveness and serene environment.

b) Gap 2: Gap between management perception and service quality specification. Management may not set quality specifications/ performance standards or may not set them clearly. Alternatively, management may set clear quality specifications but these may not be achievable. Bank management may tell staff to give fast service without specifying the time with which to deliver the service.

c) Gap 3: Gap between service quality specifications and service delivery. Unforeseen problems or poor management can lead to a service provider failing to meet a service quality specification. This may be due to human error but also breakdown of facilitating or support goods or staff not being able to meet the specification or unwilling to do so or even holding to conflicting standards.

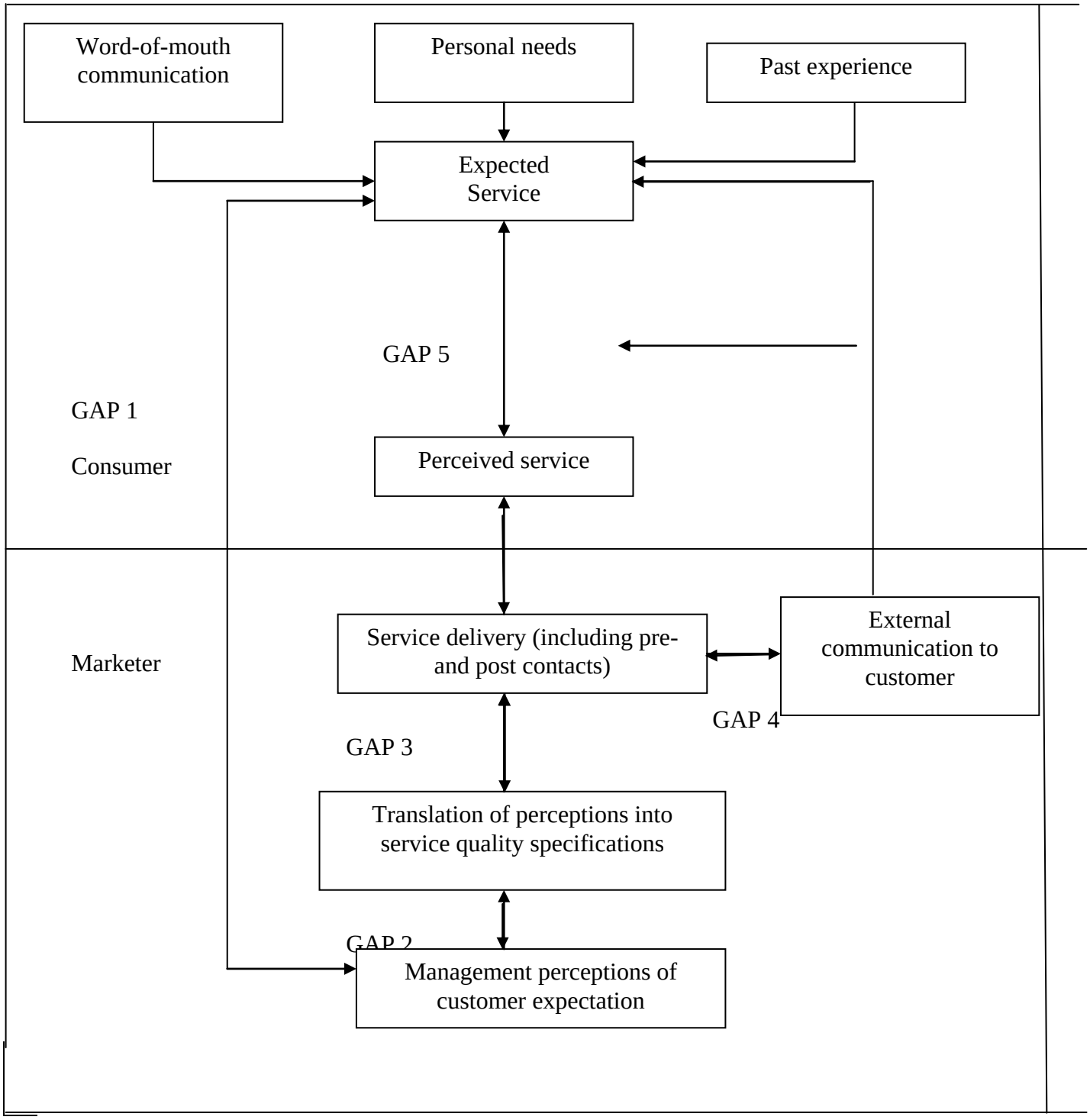

Fig. 1: Service Quality Model

Source: Kotler (2003:456)

Gap 4: Gap between service delivery and external communications. There may be dissatisfaction with a service due to the excessively heightened expectations developed through the service provider's communications efforts. Dissatisfaction occurs where actual delivery does not live up to expectations held out in a company's communication for example, bank's advertisement shows eloquent and efficient staff but customers encounter different things in the banking hall.

d) Gap 5: Gap between perceived service and expected service. This gap occurs as a result of one or more of the previous gaps. The way in which customers perceive actual service delivery does not match up with their initial expectations i.e. customers misperceiving the service quality.

The gap model is useful as it allows management to make an analytical assessment of the causes of poor service quality. If the first gaps are great, the task of bridging the subsequent gap becomes greater, and, indeed, it could be said that in such circumtances quality service can only be achieved by good luck rather than good management. Service customers naturally form service expectations from a variety of sources – word of mouth, advertisements and/or past experiences- and use these as basis for comparison between perceived service and expected service offer. Customers will normally become disappointed when the perceived service falls below the expected service; whereas when the perceived service meets or exceeds the expected service, they are prone to use the service in the future.

From the foregone, we can refer to service quality as a situation where customers' expectations of what they perceive as quality in a service is met or exceeded. Consumers may use past experiences, word of mouth, etc to compare their perception of the service quality with expectations. The ability of the service organisation to have a clear sense of its target customers and their needs can lead the organisation to develop distinctive

strategies to satisfying these needs. This may culminate into a concerted commitment of top management to service quality/performance, high service quality standards and the deployment of self-service technologies such as ATM devices in banks, the internet, customer surveys and other similar monitoring mechanisms/systems to track effectiveness and efficiency in service delivery.

2.3 IMPORTANCE OF THE SERVICE SECTOR

Marketing efforts hitherto were focused primarily on selling of manufactured products. But today, the importance of the service sector to the economy has grown tremendously more than the manufacturing sector (Nwokoye, 2000). Currently, more people are employed in the provision of services than in the manufacture of physical products, and this area shows every indication of expanding even further. In fact, more than eight in ten of U.S.A.'s labour force is in such service areas as transportation, retail, health care, entertainment and education. Besides, the USA economy shows there has been a dramatic growth of services in the eighties, with service jobs accounting for 70% of total employment contributing more than 70% of GNP and these figures were expected to provide 90 percent of all jobs by 2012 (Lovelock 1983, Nwokoye, 2000).

According to Lovelock (1983), this revolution in the service sector in the U.S.A was brought about by the following factors:

1) A decline in government regulation (deregulation) that opened up competition in such major industries as securities, airfreight, railroad and trucking;
2) Changes in professional associations' regulations that allowed advertisement and other forms of promotion (and hence, more competition) in such professions as medicine, law, accounting and architecture;
3) Competition and technological innovation affecting operations and service delivery in industries like retail banking, airfreight and health care;

4) Growth of franchising, which has seen the rise of large franchise chains displacing and absorbing large numbers of small service businesses in such fields as real estate, fast-food restaurants, plumbing, and haircutting.

Similar trends should be expected in the Nigerian economy of the future. Nwokoye (2000: 281) also reported that apart from agriculture (including livestock, forestry and fishing), mining and manufacturing, the remaining business sectors in the Nigerian economy essentially provide services.

Global Forum on International Investment (2008) also reported that the service sector constitutes an increasing percentage of GDP in nearly all developing countries with services contributing 47% of growth in Sub-Saharan Africa over the period 2000 - 2005, whereas industry contributed 37% and agriculture only 16%. After the rebasing of the Nigerian economy, KPMG (2014) reported the following statistics about sectoral employment and contribution to GDP: Agriculture 44.6% and 22%; Industry 11.5% and 25.8%; Services 41.7% and 52.1%. These clearly depict the increasing relevance of this all important sector of the economy to the Nigerian economy.

This service sector of the economy is definitely diverse, encompassing a great variety of activities as may be seen in Table 1. These reflect the categories used by the Federal office of statistics in presenting the national accounts.

Due to the liberalisation and globalisation of the economies of many nations, the service sector in those economies has been opened to multinational firms. In order to overcome the competition and to attain world-class standards, firms have been forced to adopt quality management programmes which can lead to customer satisfaction and an improved market share/base and profitability. For the service sector to be meaningful and capable of achieving this all important role in an economy, service quality should form

the basis for a reasonable customer retention strategy in line with the findings of Khan, & Mahapatra (2009) who argued that service quality is related to loyalty and profitability.

The National Bureau of Statistics Report (2013) showed that the Nigerian service sector has enjoyed a remarkable growth in recent times. For example, the finance and insurance sub-sector alone recorded a growth of 3.61% in the first quarter of 2013 compared with 3.57% in the same period in 2012. On the other hand, the wholesale and retail sector recorded a growth rate of 8.22% in 2013. These statistics entail increased performance of the service sector. To continue to reap the benefits of this important sector, an increased investment in achieving quality service is a necessity.

Table 1: Service Industries in an Economy

1. **Utilities**
   - Electricity
   - Water
2. **Building**
3. **Transportation**
   - Road
   - Rail
   - Ocean
   - Air
   - Pipeline
8. **Real Estate and Business Services**
   - * Real Estate
   - * Professional Services
9. **Housing (Dwelling)**

11. Producers of Government Services
- * Government
- * Universities
- * Others

4. Communication
- *Independent Telecommunication outfits
- *Public Communication Outfits
- * Radio and television

5. Hotels and Restaurants

6. Wholesale and Retail Trade

7. Financing
- * Universal Banks
- * Insurance Companies
- * Other Financial services

10. Community, Social and Personal

personal Services
- * Private non-profit institutions
- * Repairs and other services

Source: *Palmer, 2005*

2.4 DIMENSIONS OF SERVICE QUALITY

After a thorough examination of the research in the areas of service quality and customer satisfaction, it would be appropriate to examine the variables that have relationship with service quality and financial performance particularly in the Nigerian banking sector. In the initial research relating to SERVQUAL, Parasuraman, Zeithaml and Berry (1985) established ten dimensions for measuring service quality. Those original dimensions were tangibility, reliability, responsiveness, competence, courtesy, credibility, security, access, communication, and understanding the customer. This ten-dimension breakthrough approach to measuring service quality was criticized by Cronin and Taylor (1992) who did not only agree with the measurement issue, but also criticized the conceptualisation of SERVQUAL, and reported that the perceptions aspect of SERVQUAL was a much better measurement device than SERVQUAL itself. Parasuraman, Zeithaml and Berry (1988) revised their SERVQUAL instrument by conducting a new study, which in its refined form changed some scale measurement elements and changed wording relating to those scales. They provided a direct measurement relating to the importance of each dimension reported by the respondents. After substantial research and an evaluation of various critical reviews of SERVQUAL, the modified dimensions are tangibility, reliability, responsiveness, assurance, and empathy (Parasuraman, Zeithaml and Berry 1988 and 1994).

The service quality dimensions in the banking industry as agued by Khan, & Fasih (2014) comprise of bank ambience, service equipment, human resources and the means of communication to ensure that their customers get an exceptional and positive foremost impression. In a related study by Acheampong and Asamoah (2013), they posited that the various prepositions by service-profit-chain analysis are that profitability and growth are

stimulated by customer loyalty which results from customer satisfaction which in turn is influenced by the value of the service to the customer.

Three of the original ten elements – tangibility, reliability and responsiveness – remained unchanged, while the other seven were combined into two elements. Competence, courtesy, credibility and security were combined to form one of the new elements known as assurance and the elements of access, communication and understanding the customer were combined to form the new element known as empathy The five new dimensions are described as follows:

Reliability – This means the ability of the service to perform the service it promised accurately and dependably. Reliability involves consistency of performance and dependability. In the banking sector, it means that the bank performs the service right the first time. Also, that the company honours its promises. It involves accuracy in billing, keeping records correctly, performing the service at designated time, keeping promises, etc. Reliability items include: account accuracy, keeping promises, meeting deadlines, providing timely and accurate information, availability and dependability.

Responsiveness – This refers to the willingness of the organisation's staff to help customers and to provide prompt service. Responsiveness concerns the willingness or readiness of employees to provide service; mailing a transaction slip immediately, calling the customer back quickly, giving prompt service. Responsiveness items include: readiness of staff to tell customers, when exactly things will be done, the prevision of prompt service, giving customers' undivided attention, being demonstrably responsive to the customers' requests. In analysing which of these dimensions has highest level of relationship with customer service, Appannan, Doraisamy, & Hui (2013) found out that responsiveness is the most important variable in customer service in Butterworth, Malaysia.

Assurance – This implies the knowledge and courtesy of the organisation's personnel and their ability to convey trust and confidence. Assurance involves the knowledge and courtesy of employees and their ability to convey trust and confidence. Courtesy involves politeness, respect, consideration, and friendliness of contact personnel. It is consideration for the customer's property, clean and neat appearance of public contact personnel. Competence means possession of the required skills and knowledge to perform the service. It is knowledge and skill of contact personnel, knowledge and skill of operational support personnel, research capability of the bank.Assurance items include: Knowledge of staff to answer customers, staff ability to provide competence, staff's ability to provide confidential service, staff ability to provide courteous service, friendly service and ability to convey trust, and confidence

Empathy – This involves care and provision of individualised attention to customers. Empathy is the caring that the bank provides to its customers. It includes: credibility, trustworthiness, believability and honesty. It involves having customer's best interest at heart. It is bank's name, bank's reputation, personal characteristics of the contact personnel, and the degree of hard sell involved in interactions with the customer. Empathy items include: customers' best interests at heart, convenient opening hours, understanding of individual customer needs and problems and providing individual attention

Tangibility – This refers to the appearance of physical facilities, equipment, personnel and communication materials. Tangibles include the physical evidence of the service; physical facilities, appearance of personnel, tools or equipment used to provide the service, physical representations of the service, other customers, service facilitates. Tangible items include: investment in equipment, appearance of branches in terms of appeal, cleanliness, tidiness, customer leaflets, letters, statements and customer

communications. It is expected that these attributes to a large extent contribute in no small measure in creating a favourable impact on customers' decision making process, particularly in repeat purchase decisions.

2.5 RATIONALE FOR SERVICE QUALITY AWARENESS

It may be hard to achieve quality focus in service industries. How can a company build and portray better quality focus into the services they provide? Mistra (1993) lists some of the key areas to include: human factors and behavioural characteristics, timeless characteristics, service nonconformity characteristics, and facility- related characteristics. In restaurants like Mr. Biggs and McDonald's, indicators of quality could include the friendliness of the table server (human factors), the length of time from when the order is placed until the food arrives (timeless), the correctness of the food compared to the order (nonconformity), and the cleanliness of restrooms (facilities). An airline could have the willingness of flight attendants (human factor), the length of time to load a plane and take off (timeless), the number of lost pieces of luggage (nonconformity), and the number of flights cancelled because of equipment (facilities).

The legendary success of Japanese organizations has been attributed to their strong commitment to improving service quality. This was made possible via the prominence of service quality in the public mind (Goyit, 2010). One of the major factors that necessitated the service quality awareness in many organisations is competition. Hitherto, it was thought that higher quality meant higher price. This notion has changed because customers can obtain higher quality and lower prices simultaneously. Gryan (2001), in a research involving more than 225 service companies, found out a relationship between quality and competitiveness. The study shows that in the long run, the most important factor affecting business performance is quality relative to the competition. In the banking industry, Zenith Bank, Oceanic Bank, Fidelity Bank, FBN, UBA, Bank PHB,

Skye Bank etc are constantly striving to have a unique competitive edge. Such they do through on time service delivery, customer responsiveness and quality service.

In that regard, a firm must adopt itself to the emerging dynamic expectations of customers with regard to what constitutes quality services. The quality revolution has become a global phenomenon and Nigerian banks must not do less if they want to be relevant in the world of marketing banking services in the 21st century because the practice of banking has become global in nature and quite competitive more than ever before.

2.6 STEPS IN ACHIEVING SERVICE QUALITY

Quite a number of methods may be employed to achieve improvements in service quality. The following are some of these steps as identified by Palmer (2005):

a. **Organisational Commitment to Quality**. Quality culture usually enables a firm to implement a strategy in a way that encourages people to embrace the quality strategy and makes it successful. The need to have a change in the organisation culture is required to start at the top. This change usually comes with training of the top management staff and the chief executive officer. This simply is expected to train the next cadre until all have received the new philosophy.

b. **Customer Orientation.** The customer is one who is affected by a firm's service or process. Once the firm's customers have been identified, the firm's services must yield satisfaction. In this regard, quality must be defined from the customer's view point. Quite often there always exist a quality gap between managers and customers. The challenge is to identify what customers really want or expect of a product/service and what the firm fully provides to its customers. Secondly, they also need to identify the gap that exists between what is expected and what is provided by formulating a plan of action that will fill this gap. Stanton (1981), in

concurring with this, affirms that the customers' want satisfaction is the economic and social justification for a firm's existence. This implies that quality ought to be defined from the customer's view point if the firm wants the service to be accepted.

c. **Measurement of Quality**. There is the need to create a quality measuring system that will be adopted in measuring service quality. This requires managers to correctly identify the meaning of the concept-quality-from a customer's view point and devise measures that capture this. In essence, units of measurement must be carefully defined to inspire positive priority for quality. Where quality measures exist, they serve as vital signs that provide people with data not only for performance of tasks but also to maintain continuing quality awareness. Measuring quality is not quite easy. Nevertheless, many service organisations have devised quality measures by being more creative, for example, identification of the factors that dissatisfy service customers such as the time it takes to handle and complete customers' requests.

d. **Set Quality Goals and Institute Reward Systems**. Khan, & Fasih (2014) opined that setting quality goals is key to gaining a competitive advantage in services industry. To ensure action and quality goals, setting quality goals is quite paramount at all levels. This implies an alignment between goals, measures and mission statement. Clear quality goals are vital stimuli for inspiring superiority in quality drive. Goals by their nature give direction and avoid wastes. When quality goals are challenging, employees are motivated. It is required that rewards should be accorded those employees that meet set goals e.g. bonus pay or promotion. To have a competitive advantage, such goals need not only be well spelt but communicated effectively to those concerned employees.

e. **Employer Involvement.** This is a deliberate attempt to solicit employee's inputs in the quality management drive. A service firm could have quality circles i.e. groups of staff that meet very often and discuss about ways of improving quality. It is expedient for managers to receive and act on inputs from lower level employees even if there are criticisms that can bring about the desired quality.

f. **Defects Identification and their Sources.** To have a competitive edge, organisations must identify defects in the work, trace them to their sources and find out why they occurred, effect corrective measures to forestall future occurrence. With the development of IT, this process is made much easier.

2.7 MEASURING SERVICE QUALITY

The quantum of contemporary competition in the service industry has intensified, and it is now increasingly important for service companies to critically understand service quality as a factor of marketing competitiveness. This therefore presupposes that, service quality should be viewed as a distinctive marketing approach. Competitive service strategies may be different, but they need to be based on service quality, customers' needs and purchasing behaviour.

There exists a dire need for companies to focus their efforts on developing and improving service quality in order to satisfy their customers. In services marketing, the expected service is the function of earlier experiences of the consumer, personal needs and oral or written communication. Thus, the manner in which the management of organisations perceive the expectations of the consumer becomes the guiding principle when making decisions on the specifications of the quality the organisation should provide since there exists a direct connection between service quality and satisfaction.

Given the complex nature of service quality, it is not surprising that there have been divergent views about the best way to conceptualise and measure it. These frameworks as noted by Palmer (2005) are presented here:

1. Performance-only measures
2. Importance-performance approaches
3. Disconfirmation models

Performance -only Measures

This is perhaps the simplest measure of service quality. It consists of questions asked to rate the performance of service quality so as to provide feedback on service quality. This measure has its roots from the manufacturing sector where it is possible to define quality from objectively measurable criteria.

Importance-Performance Analysis (IPA)

The IPA approach compares the performance of the elements of a service with the importance of each of these elements to the consumer. This may involve using scale items quite similar to those in the SERVQUAL model. The only difference is with the treatment of the scores. In SERVQUAL, we subtract expectations from perceptions (P-E), while with the IPA, we take away importance from performance (P-I). High performance of a relatively important aspect of the service is an indication that management is ‘over delivering’ on that aspect, while poor performance on an important aspect means a priority area for management action.

Disconfirmation Approaches

This approach opines that, a service is deemed to be of high quality when expectations of consumers are confirmed by subsequent service delivery. The emphasis is on differences between expectations and perceptions; the model is often referred to as a disconfirmation model.

Parasuraman, Zeithaml and Berry (1996) have been strong advocates of the need for service organisations to learn more about their customers through marketing research – oriented approach with focus on the expectations and perceptions of customers. They point out that only customers can judge quality and that all other judgments are considered to be essentially irrelevant. They developed an instrument for measuring customers' perceptions of service quality compared to their expectations. Their effort is basically aimed at defining service quality in the mind of the customer. Their findings have evolved from a set of qualitative marketing research procedure culminating in the quantitative technique for measuring service quality which is known as SERVQUAL which has been applied widely. It may be used by firms to have a better understanding of the expectations and perceptions of their customers. The SERQUAL model is applicable across a broad range of services industries and can easily be modified to take cognisance of the specific requirements of the various enterprises. In effect, it provides a benchmark or guide for an investigatory instrument which can be adapted or added to as needed.

Disconfirmation models of service quality have been challenged on a number of grounds. One stream of objection holds that absolute measures of attitudes provide a more appropriate measure of quality than explanations based on diconfirmation models (Cronin and Taylor, 1994). Researchers have asked whether the calculated difference scores (the difference between expectations and perceptions) are appropriate from a measurement and theoretical perspective. Invariably, customers expectations are measured after consumption of a service, at the same time as they are asked about their perception of a service. Should not expectatons be based on a respondent's state of mind before consumption, free of influence from actual consumption? There has been debate about whether it is practical to ask consumers perception of performance immediately after. It has also been suggested that expectations may not exist or be clear enough in

respondents minds to act as a benchmark against which perceptions are assessed (Iacobucci, Kent and Ostrom, 1995). Furthermore,expectations are only formed as a result of pervious service encounters- that is, perceptions feed directly into expectations (Kahneman and Miller, 1986).

In an attempt to address the issue of how to measure service quality, a scale based upon the utilization of ten elements was developed by Parasuraman, Zeithaml and Berry (1988).This was based upon a series of focus group interviews, which could be used to measure service quality perceptions. Originally, the ten elements developed for use in measuring service quality were tangibles, reliability, responsiveness, competence, courtesy, credibility, security, access, communications, and understanding the customer. Further studies by Parasuraman, Zeithaml and Berry (1988) brought about a major modification that changed the dimensions that could be used to measure service quality perceptions.

Following the concept that service quality could be measured utilizing customer perceptions, Parasuraman, Zeithaml and Berry (1988) in their model provided for the customer to judge the process of quality throughout the delivery of service and then, examine product quality after the service delivery. They noted that the intangible, such as a friendly greeting or smile, during the delivery of service is a part of process quality, and that the proper handling of the business transaction constitutes output quality.

The model by Parasuraman, Zeithaml and Berry (1988), as shown in Figure 1, seeks to examine the amount and direction of the discrepancy between expected levels of service and the customer’s perception of a delivered service noted as Gap 5 in Figure 1 In order to eliminate the discrepancies between expectations of service and the perception of the delivered service, the provider of the service must close the four gaps (Gaps 1-4). To close Gap 1, the management must know what the customers expect and Parasuraman,

Zeithaml and Berry (1988) noted that this is in all likelihood the most important gap to close. It was also noted that in service companies, the absence of well defined "cues" may cause Gap 1 **(**Figure 1**)** to be larger in service companies than in manufacturing firms.

Additionally, a lack of adequate marketing research can cause Gap 1 to be more difficult to close. Translating the customer expectations into service quality can close gap 2 specifications. An inadequate management commitment is the single largest cause for widening Gap 2. From Figure 1, it is evident that perception of infeasibility, inadequate task standardization, and absence of goal setting are also major factors in widening this Gap. Hax and Nicolas (1984) observed that most U. S. firms suffer significantly from short-term accounting-driven measures of performance used in establishing the reward mechanisms for high-level managers, who are mainly responsible for implementing strategic actions. It was also noted by Parasuraman, Zeithaml and Berry (1988) that when managers are not dedicated to providing service quality from a customer's point of view; their entire focus is to bottom-line objectives without any consideration to improve service quality.

For Gap 3 to be closed, Parasuraman, Zeithaml and Berry (1988) model indicates that it would be necessary as set out in Figure 1, the key elements necessary to close Gap 3 are elimination of role ambiguity, role conflict, poor employee-job fit, poor technology job fit, inappropriate supervisory control systems, lack of perceived control and lack of team work. Care must be taken to ensure when evaluating the elements that too broad an interpretation does not distort the evaluation.

Of all the gaps, it is Gap 3 that relies on actual employee performance and training which would imply that management's role in closing the gap is proper training and supervision of the staff. In discussing their model, Parasuraman, Zeithaml and Berry

(1988) found that service provision by employees plays a major role in customers' selection of firms.

Gap 4 entails management ensuring that employees do not promise more than can be delivered and that everything promised in oral and written communications, advertising, and selling is delivered. Some of the pitfalls to closing Gap 4 as noted in Figure 1, revolve around inadequate horizontal communication, namely between the advertising function and the operations function; inadequate communication between sales personnel and operations; inadequate communications between human resources, marketing, and operations; and differences in policies and procedures across branches or departments. Another major area of concern in Gap 4 is the propensity to overpromise what the firm will or can deliver to the customer. The advantage of Parasuraman, Zeithaml and Berry's (1988) model is the logical process by which organizations can measure and improve service quality: determine customer needs, translate needs to service standards, provide service that measure up to specified standards, and communicate accurate service information to customers.

Much has been written in support of SERVQUAL, and conversely, much has been written critically of various aspects of the instrument or the measurement obtained. It seems appropriate to present challenges to and arguments for SERVQUAL as discussed in general and as it relates specifically to banking. Since the introduction of SERVQUAL by Parasuraman, Zeithaml and Berry in 1988, there has been numerous revisions to the original format, but most researchers who have been frequent critics of this service quality measurement device (e.g., Brown, Churchill, & Peter; 1993, accept and recognize the determinant roles of expectations and perceptions in service quality evaluation.

The area that is most troublesome for the critics of SERVQUAL revolves around whether the five key dimensions capture all of the possible determinants of service

quality. Brown, Churchill and Peter (1993) would agree that SERVQUAL is the most popular measure of service quality measurement, but they have taken exception with using a scoring method to conceptionalise service quality. Their empirical investigation indicated that the problems they found with SERVQUAL manifest itself empirically in that it failed to achieve discriminant validity for all of its various components. When they utilized non-difference score measures they did not manifest the same problems as SERVQUAL. In fact, their measures allowed for direct comparison of expectations and perceptions without linear difference. They also had serious doubts that modification of wording to fit conceptualisation had validity and felt that it should be studied further.

Dabholkar, Shepherd, and Thorpe (2000) also were critical of SERVQUAL's five dimensions. They found that perceptions and measured disconfirmation are more advantageous than computed disconfirmation, but they suggest further study to determine their study's ability to predict the power of service quality and customer satisfaction evaluations. They also recommended measured disconfirmation if gap analysis is used.

Carman (1990) found from six to eight dimensions, while Babakus and Boller (1992) determined that a two-dimension approach offered the most efficient and effective measurement device. Cronin and Taylor (1992**)** came to the conclusion that the five dimensions did not hold for perceptions measured against performance, but did very well if only performance was measured.

Their study concluded that utilizing the consumer's assessment of performance was adequate by itself to determine perceptions of service quality. Their non-difference score measure evaluated service quality without relying on the disconfirmation paradigm. They found out that the perceptions component of SERVQUAL was able to outperform SERVQUAL itself, which caused them to conclude that the disconfirmation paradigm is not appropriate for perceived service quality.

They observed that perceived quality should be reflected as an attitude, and as a result their criticism of Parasuraman, Zeithaml and Berry for failing to define perceived service quality as an attitude in spite of their (Parasuraman, Zeithaml and Berry 1988) stating that service quality was “similar in many ways to an attitude”. Parasuraman, Zeithaml and Berry (1994) responded to specific concerns raised by two of the researchers (Cronin and Taylor, 1994) relating to the SERVQUAL instrument as well as the perceptions without expectations.

In addressing the criticism by Cronin and Taylor (1994), Parasuraman, Zeithaml and Berry (1994) noted that the argument of Cronin and Taylor that the SERVQUAL items form a unidimensional scale is questionable, because averaging the scores across all items to create a single measure of service quality in evaluating their structural models is inappropriate. They further noted that it would be important to determine the practical value of SERVQUAL to Cronin and Taylor’s SERVPERF from the standpoint of asking if managers who measure service quality are seeking accuracy in determining service shortfalls or explaining variances. Parasuraman, Zeithaml and Berry (1994) agreed that measuring variances is the only area in which SERVPERF performs better than SERVQUAL, but indicated that SERVQUAL’s superior ability to be diagnostic more than outweighs any loss in predictive power.

The validity of SERVQUAL in the banking industry utilizes studies by Carman (1990), Brensinger and Lambert (1990), Babakus and Boller (1991), Ivanauskiene and Volungenaites (2014) and Zeithaml, Berry and Parasuraman, (1993) to compare and assess the validity of the refined SERVQUAL instrument. Of special note is the part of the study by Zeithaml, Berry and Parasuraman (1993) which involved two banking organizations. Additionally, each of these studies further reinforced SERVQUAL as a reliable instrument, albeit with slight modifications.

The SERVAUAL model is based upon a generic 22 - item questionnaire which is designed to cover five broad dimensions of service quality which the research team consolidated from their original qualitative investigations. The five dimensions covered with some description of each and the respective numbers of statements associated with them are given as:

Table 2: Five Dimensions of Service Quality

Dimension		***Statements***
1.	Tangibles (appearance of physical elements)	1 to 4
2.	Reliability (dependability, accurate performance)	5 to 9
3.	Responsiveness (promptness and helpfulness)	10 to 13
4.	Assurance (competence, courtesy, credibility and security)	24 to 17
5.	Empathy (easy access, good communications and customer understanding)	18 to 22

The process involves asking customers to complete the 22-item generic questionnaire statements that relate to their expectations and perceptions by marching a set of company statements about service delivery. Measures of service quality can be derived by subtracting expectation scores from perception scores. These scores can be weighted to reflect the relative importance of each aspect of service quality. The outcome is a measure that tells the company whether its customers' expectations are exceeded or not. SERVQUAL results can be used to identify those components or facets of a service for which the company is particularly good or bad. It can be used to monitor service quality performance over time, to compare performance with that of competitors, to compare performance between different branches within a company, or to measure customer's satisfaction with a particular service industry generally.

An organisation or industry group can use the information collected in this way to improve its position by acting upon the results and seeking to surpass customer's expectations on a continuous basis. Additionally, the expectations – perceptions results along with the demographic data, may facilitate effective customer segmentation. This model to a large extent is releveant to our study since the banking sector is service oriented and the elements in the model are measures of service quality. For instance, the physical elements, how helpful the banks' staff are and the competence of the staff among other variables in this model, are quite relevant to the choice of banks, thus relevant to this study.

Much attention has been given to the processes by which customers' expectations of service quality are formed. Two main standards of expectations emerge. One standard represents the expectation as a prediction of future events (Swan and Trawick, 1981). This is the standard typically used in the satisfaction literature. The other standard is a normative expectation of future events, operationalised as either desired or ideal

expectations. This is the standard typically used in the service quality litrature (Parasuraman, Zeithaml and Berry, 1988).

Zeithaml, Berry and Parasuraman (1993) have proposed three levels of expectations which can be defined against quality assesssement:

1. The desired level of service. This reflects what the customer wants;
2. The adequate service level. This is defined as the standard that customers are willing to accept; and
3. The predicted service level. That level of service expectation which they believe is most likely to actually occur.

This has led to the idea that zones of tolerance may exist in consumers' perceptions of serivce quality. If perceptions fall below the desired level of service, this may still be acceptable as long as they do not fall below expectations based on an adequate level of service. In other words, rather than a service either meeting or failing a consumer's quality expectations, there is an intermdiate zone of tolerance .

From a measurement perspective, there are three psychometric problems associated with the use of different scores: reliablitity, discriminant validity and variance restriction problems. A study by Brown, Churchhill and Peter,(1993) found evidence that psychometric problem indeed arise with the use of SERVQUAL, they recommended instead the use of non-difference score measures which display better discriminant and nomological validity. However, Zeithaml, Parasuraman and Malhotra (2002), respond by arguing that the alleged psychometric defficiences of the difference-score formulation are less servere than those suggested by critics.

Despite their argument that the differences score offer reseachers better diagnostics than separate measurement of perception and expectiations, from a theoretical perspective, there is little evidence to support the theory of the expectations- performance

gap as the basis for measuring service quality (Carman, 1990). Instead, considerable research supports a more straightforward approach of assessing quality on the basis of simple performance-based measures (Cronin and Taylor, 1994). It has been claimed that the five dimensions of quality which form the basis of the SERVQUAL scale items are transferable to most services sectors. However, many studies have failed to reproduce the five-factor model.

There have been numerous criticisms of SERVQUAL for the inductive nature of the original research in that it failed to draw on the theory based on the disciplines of psychology, social sciences and economics (Anderson, 1982). Relatively, little attention has been devoted to an understanding of how perceptions are formed. It can be argued that disconfirmation models are flawed because when a respondent gives a response to his or her perception of service delivery, it can be just as important as the actual recorded score or the level of expectations against which perceptions are compared. For example, a person may have a very negative attitiude towards haircut immediately after leaving a hairdresser, but that person's perceptions of the haircut may become more favourable over time as he or she gets used to it (O'Neill and Palmer, 2001). It could be argued that in terms of understanding behaviour intention, it is the later measure of perception which is most useful to management.

Finally, disconfirmation models do not in themselves indicate the importance to a consumer of the quality of individual items although the SERVQUAL methodology has been adapted to incorporate an additional question asking respondents to rate the importance to them of each item.

2.8 SERVICE QUALITY MEASUREMENT IN BANKS

While there has been considerable research in the area of service quality, there are a number of fields in which a thorough examination of the service gaps has not been

conducted, such as the subject study that will address this important measure from the standpoint of empirical studies of perceptions versus expectations. Banking in Nigeria is one of those areas in which a thorough examination of gaps between customers' expectations and bankers' perceptions of what the customer expects have not been thoroughly examined.

Additionally, gaps between customers' expectations and actual services delivered are an area ripe for study. Parasuraman, Zeithaml and Berry (1988) noted that most financial institutions are alike in the services provided to their customers. Likewise, they noted that their prices are generally comparable, and, in fact, might look similar in design, but where they differed was in the level of service provided to their customers. This scenario perhaps explains the rationale behind the importance of the quest for measuring service quality in the Nigerian banking sub-sector of the financial sector. As financial institutions grow, there is a tendency for service to give way to volume delivery to enhance profitability. Large banks appear to have mistakenly concluded that quality service caused profits to erode. It would appear that service quality could make a difference according to Lewis (1993), who noted that service quality leads to reduced costs, increased profitability, and other beneficial elements. In answer to critics, Lewis (1993) noted that there was often an initial cost to implement quality service, but the resultant benefit and subsequent increase in profits offset those start-up costs.

Acquiring customers and having them leave is not only disconcerting, it is counterproductive and a profit drain on the organization. One of the principal reasons for customers to leave an organization is poor service delivery. Avkiran (1994) indicated that a telephone study in the Australian state of Victoria revealed poor service to the customer as the most likely reason for customers to consider moving their banking relationships.

He observed that service basically had two levels. The first level was desired service, which the customer desires, and the second level is known as adequate service, which is the minimum level the customer will accept. His research led to the conclusion that developing a “true customer franchise” requires firms to exceed both levels of desired service and acceptable service. Coyne (1989) takes the opposite stance on service quality, which he stated as follows: that there appeared to be thresholds of service affecting customer behaviour. When satisfaction rose above a certain threshold, repurchase loyalty climbed rapidly. In contrast, when satisfaction fell below a different threshold, customer loyalty declined equally rapidly. Between these thresholds, loyalty was relatively flat. Though Coyne made an interesting case for a lack of loyalty other than the extreme limits of service quality, his arguments are easily refuted as it relates to American banks. Loyalty can be thought to be the continuing patronage of a particular bank by a particular customer over time (Calik, & Balta, 2006). In a similar study, Khan, & Mahapatra (2009) reported that there is a positive relationship between service quality and loyalty.

Finch and Helms (1996) noted that the delivery of superior service is the best means for satisfying and consequently retaining customers. Further, a two nation study of banking services by Witkowski and Keliner (1996) noted that American bank customers rank their American banks’ services higher than German bank customers rank German banks’ services, but they also noted that service expectations by the customers is considerably greater in American banks. In a slightly different approach, but equally as compelling, Beckett, Hewer and Howcroft (2000) noted that consumers change their buying habits more frequently due to the rigid structure of many financial institutions at the expense of service to the customer. From the foregone, there may not be apparent generic measures for the measurement of perceived service quality as argued by Calik, &

Balta (2006) when they found out that different type of transactions produce different perceived service qualities which might be linked to the demographic factors of the customers and also to the types and sizes of the bank.

It was noted by Bahia and Nantel (2000) that there are no publicly available standard scales for measuring perceived quality in banks, yet it is apparent from the studies that service quality is extremely important to an organization or a bank. The dilemma seems to be how to accurately and reliably accomplish such measurements. The primary focus of this study is to seek a means of measurement of the relationship between investments in service quality programmes and financial performance of banks. This has become imperative since banking customers are more conscious of competitive offers and more demanding than in the past. This implies that there has been a paradigm shift – power migrating from the producers to the consumers of banking services.

2.9 SERVICE QUALITY AND BANK SELECTION

There have been a number of studies proving the importance of service as one of the primary elements in the selection of a bank by customers. Among the early empirical studies relating to bank selection decisions, Anderson, Fornell and Fulcher (1976) recognized the importance of selection as a priority for obtaining and retaining bank customers. Until this study, most of the early literature postured that location was consistently cited as the most important criterion in bank selection. Utilizing determinant attribute analysis, they established two clusters, one made up of convenience oriented bank customers and the other based upon service oriented bank customers. Recommendation by friends and reputation ranked one and two respectively with the convenience oriented bank customers, while location ranked seventh. However, in the service oriented bank, customers' recommendation by friends and location ranked one and two respectively, while reputation was a close third.

It should be noted that service, while implied was not specifically offered as a category. Quick to attack the validity of the above study, Dupay and Kehoe (1976) pointed out inconsistencies in the location criterion due to the determinant attribute utilized in the studies thus; they concluded that location was the most important factor in the selection process and that the glaring inconsistency of Anderson, Cox and Fulcher (1976) related to the "location" criterion. They posited that the result was inconsistent with previous research. Rebutting this claim, Anderson, Cox and Fulcher (1976) discounted the comments, noting that selection criterion could be important and still not be a determinant in the decision process.

It could be deduced from this exchange that further research is definitely in order and was forthcoming in several empirical studies that examined the influence of physical and psychological dimensions of product performance on consumer satisfaction. A few studies were conducted in the USA during the 1980s, but these studies failed to focus on the reasons for selection of banks by consumers rather they sought to identify the banking needs of the business customers.

Most of the studies relating to both businesses' and consumers' criteria for selection of a bank have been conducted outside the US. Three US examples, Schlesinger and Heskett (1991) sought to study what attributes 174 small businesses in New York utilized in selecting their bank. They concluded from the study that lending rates, accessibility of borrowing, and the number of services offered were the compelling attributes for selection of a bank. These are attributes of a service which contribute to bank selection.

Buerger and Ulrich (1986), in a survey of 475 small businesses in Pennsylvania, observed that price was the most important criterion for these businesses to select a bank, but had no other significant findings. Rosenblatt, Laroche, McTacish and Sheahan (1988)

studied the selection criteria of 423 financial managers seeking to determine who is responsible for selection of a bank, the most important attributes in selecting a bank, and evaluation of bank services by corporate financial officers. Over forty percent of those surveyed responded. The survey gave a choice of thirty-one selection criteria to be rated on a seven-point scale (7 = very important). The first four criteria with rankings over six points were in this order, efficiency of service, reliability of services, responsiveness of contact person, and service delivery.

A study relating to the selection of banks and banking services among corporate customers in South Africa (Turnbull and Gibbs, 1989) sought to determine the attributes that were considered most important in the selection of a commercial bank. Additionally, the study also sought to determine whether the companies had single or split banking relationships. A sample of 388 companies from the top 1,000 companies in South Africa was surveyed with a 44 per cent response rate. Nine criteria were available for selection. Quality of service ranked number one, followed by both pricing of services and quality of staff tied for number two. Ratings were consistent over small, medium, and large companies. Reputation/image and convenience of location were seventh and eighth.

Similarly, Haron (1994) evaluated commercial banks in Malaysia and noted that the level of success enjoyed was based upon bankers' ability to understand and satisfy customers' needs. As part of the issues examined, the customer base was uniquely diverse in that it was made up of Muslim and non-Muslim customer bases which on its face had the potential to offer inconsistent results. Therefore, the study was designed to determine selection criteria differences and usefulness of services.

The findings established in a non-biased way, with nominal exceptions, that both Muslims and non-Muslims basically valued the same traits when selecting banks. Most important for the Muslims was fast and efficient service, which ranked second with non-

Muslims. Friendliness of bank personnel was the most important factor with non-Muslims, but was ranked third by Muslims. Convenience of location was ranked seventh (last) by both groups.

Convenience of location, price, and advertising were found to have a nominal effect in bank selection in a Swedish study by Zineldin (1996). He examined strategic positioning by banks and the determinants of bank selection. It was concluded that it helps to build loyalty by creating more meaningful and deep customer relationships. This study was conducted to determine how customers select a bank in relation to other competing banks. Results of the survey revealed that functional quality such as friendliness, helpfulness, accuracy, efficiency, and speed of service ranked first among the customers surveyed.

Conversely, the study found that convenience of location, price and advertising had a minor effect as noted above. Concluding his study, Zineldin (1996: 22) noted that for customers, the most important criteria used in selecting a bank was related to service quality and delivery systems. Hierarchical information integration was used to examine customer preferences in banking by Ulengin (1998). Using sixteen profiles in a survey of Turkish banks, the study concluded that the consumer was more interested in functional quality (such as loyalty) as opposed to technical quality (such as location.) The study surveyed consumers in the five largest cities in Turkey that have 75 percent of the nation's banking facilities. It was noted that in this country the variety and quality of the products offered by banks exceeded customer expectations. Likewise, there was little, if any differences in the products offered by the various banks. While there was high customer satisfaction, there were many problems in the delivery mechanisms and customer relations.

Nielsen's (2002) survey of banks in Australia showed that customers perceived long term relationships first, location seventh and service delivery eighth. On the other hand, banks ranked their perceptions of customer needs, showing competitive prices first, service fourth, and location fifteenth. Nielsen (2002) had an interesting observation, which was inconsistent with the results: Other banking studies have not found the day-to-day efficiency of bank operations to be important in the bank selection process. However, he found service quality to be significant (Chan and Ma, 1990; Turnbull and Gibbs, 1989). One could assume that in the mind of business customers, both are clearly related.

In a similar research work by Ta and Har (2000), they studied undergraduate students in Singapore, seeking their criteria for bank selection, utilizing the Analytic Hierarchy Process, which involves the structuring of a given hierarchy in relation to the overall objective. The study utilized nine criteria for the selection decision within five banks. Their findings indicate that undergraduates place high emphasis on pricing and product dimensions for bank selection. Ta and Har (2000), noted that studies such as those of Sinkula and Lawtor (1988); and Ying and Chua (1989), found quality of service among the most important factors in the selection of banks by customers.

A possible weakness of such a study revolves around two unknowns. First, were the students employed in the study and second, did they have a banking relationship? Interestingly, convenient location and quality service ranked second and third, respectively. In summarizing determinants of bank selection, Zineldin (1996) had a general hypothesis that before and after the 1990s customers' views changed in bank selection. He noted that prior to the 1990s, customers did not have all of the electronic methods available to provide banking services such as credit cards, point of sale opportunities, electronic funds transfer and internet, hence location convenience was most important. Subsequent to the 1990s, with all of the electronic opportunities, service

convenience became more important. He found out that service quality and delivery systems were most important in his study of Swedish banks. It was further concluded that convenience of location, price, and advertising continued to have only a minor effect in selecting a bank consistent with his prior study in 1996. This therefore is an indication the service attributes' influence of bank selection varies over time.

2.10 SERVICOM

In Nigeria, incidences of dysfunctional, poorly developed public bureaucracies and shrinking public services have led to inaccessibility of public goods (either for economic; physical or intellectual reasons). There has been an increased awareness of the crucial role of quality services not only in the private sector of the economy but even in the public sector which has in recent times seen the need to step up this process. These are issues prompting initiatives that are being taken by leaders in a quest to perform ever better for the citizenry. SERVICOM is one of such initiatives.

Rationale for the Introduction of SERVICOM

In the developed economies, the level of consciousness of both producers and consumers about their rights and privileges has reached an appreciable degree. In Nigeria, where the level of consciousness of consumers and producers is significantly at a very low ebb, due to the fact that there is virtual absence of the consumers' consciousness about their rights and privileges, it implies that consumers are subjected to unethical business practices by both the operators of the private and public sectors.

This scenario is more worrisome with government agencies who are supposed to set the pace. The idea about SERVICOM came about basically to examine institutional environment for service delivery; reflect on people's lives and experiences; and draw a road map for a service delivery programme for the Nigerian nation. It is a simple, straightforward contract between the service providers and its customers, staff and

stakeholders, where service providers are enjoined to observe realism in the formulation of their charters. Thus, a SERVICOM charter should be realistic, achievable, and promising only what can be delivered.

The realisation of this fact necessitated the birth of the concept of SERVICOM in 2004. Ibietan & Joshua (2015) simply described SERVICOM as service compact with all Nigerians and a concept which is basically meant to be a scheme applicable only in government establishments including ministries, agencies, departments, parastatals, etc. and it is designed around the requirements of consumers of the services provided by these government establishments. The scheme has at the core of its concern commitment to selflessness, integrity, objectivity, accountability, openness, honesty and patriotism.

The concept of SERVICOM was intended to show government's demonstration of leadership commitment to quality of service as well as its delivery. SERVICOM came about when a research report revealed that services are not only serving the people but inaccessible, poor in quality as well as not being based on customers' requirements. SERVICOM therefore is an approach by government to improve the quality of life of Nigerians through the provision and delivery of quality services. This means that government is also seen to be committed to the quality improvement process by having a charter aimed at providing quality services. When the concept is seen to be visibly practicably, it would mean that this combined effort of government and the private sector could lead to the improvement of the lives of Nigerians and the products and services they produce/provide.

SERVICOM ideology requires the preparation of a charter by each ministry, agency, etc. based on the following principles: quality services designed around customers requirements; citizens entitlements in ways they can readily understand; consideration for the needs and rights of all Nigerians to enjoy social and economic

advancement and dedication to deliver services to which citizens are entitled, timely, fairly, honestly, effectively and transparently.

The stated cardinal principles of SERVICOM include the following:

i. Conviction that Nigeria can only realize its full potential if citizens received prompt and efficient services from the state.
ii. Renewal of commitment to the service of the Nigerian nation
iii. Consideration for the needs and rights of all Nigerians to enjoy social and economic advancement
iv. Declaration to deliver quality services based upon the needs of citizens
v. Dedication to providing the basic services to which each citizen is entitled to in a timely, fair, honest, effective and transparent manner.

It is required that each establishment should display its SERVICOM charter at its offices and that such charters form the basis on which customers:

i. can expect quality service delivery;
ii. demand their rights to good service;
iii. have recourse when service delivery fails; and
iv. are actively involved in the service delivery programme.

Operational Structure of SERVICOM

It is required that a SERVICOM unit be established in each government establishment with the unit headed by a deputy director who serves as the nodal officer. The nodal officer is expected to report to the minister, the permanent secretary of the extra-ministerial department or the Director General of the agency, as the case may be, and that each SERVICOM unit is required to establish the following desks:

i. Charter Formulation, Implementation and Review;
ii. Customer Relations/Grievance Redress Mechanism;

iii. Service Improvement;

iv. Support staff i.e. Data Processing Officers and Assistants for (i) – (iii)

Diverse functions are assigned to the SERVICOM Unit. Among other things, it is the responsibility of the unit to produce, review and monitor the performance of charters from the ministry and its parastatals; manage the ministry's customer relations policy, including providing opportunities for customer feedback on services; institute complaints procedure, including Grievance Redress Mechanism for the ministry and its parastatals; institute appropriate Market Research Techniques in identifying customer needs and expectations; ensure the promotion of quality assurance and the best practices in the ministry's performance of its functions; disseminate best practices and other tips on service delivery improvement; serve as a link between the ministry and SERVICOM office and facilitate a safe and conducive working environment for staff at all levels of service delivery.

The Nodal Officer is required to submit quarterly reports on SERVICOM activities of the establishment to the SERVICOM Office. In addition, the officer is required to periodically publish summary of complaints, commendations and compliments from customers about the Ministry, Department or Agency (MDA) and report same to the SERVICOM Office.

Monye (2009) opined that SERVICOM enjoins the ministers to maintain effective liaison with relevant agencies of government concerned with service delivery so that SERVICOM principles are upheld throughout the Nigerian society

2.11 MEASUREMENT OF BANKS' PROFITS

Service in recent times has become such an interesting issue in every economy and in particular in the banking industry. Parasuraman, Zeithaml and Berry (1988) noted that most financial institutions are alike in the services provided to their customers.

Likewise, they noted that their prices are generally comparable, and in fact, might look similar in design, but where they differed was in the level of service provided to their customers. In today's banking environment, banks' profitability levels have been compressed due to increased competition.

Banks once relied upon products to make their profit margin in a highly regulated industry, and the customers, basically, were on the sidelines, but today, there is deregulation and liberalisation in the industry which are driven by customers who demand service quality. Parasuraman, Zeithaml and Berry (1988) observed that quality of service is very important in separating competing businesses in the retail sector as well as in banking. Lewis (1993) found that service quality was one of the most effective means of establishing a competitive position and improving profit performance. Banks which seek to make optimal profits have to realise that good quality helps them obtain and keep customers and poor quality will cause customers to leave a bank.

To establish a competitive position, it was noted by Hall (1995) that banks must measure and determine their level of service quality, if they desire to keep their customers and satisfy their needs. In addition, it should also be pointed out that the only means through which service can be measured is to ask the service recipients. Reinforcing this important research, there have been a large number of researchers who identify service quality as a primary means of providing a competitive advantage to banks, and according to Soteriou and Stavrinides (1997), the importance of service quality has been documented in numerous studies. They found that the advantage was readily identifiable through their research.

In some specific studies in four U. S.A. banks, Morrall (1994) found that the implementation of service quality at First Chicago Bank, Compass Bank, Marquette Bancshares, Inc., and Wachovia Bank gave them a substantial advantage over their

competitors. Once banks implemented service quality, their profitability was also noticeably improved. Acquiring customers and having them leave is not only disconcerting, it is counterproductive and a profit drain on the organisation. One of the principal reasons for customers to leave an organisation is poor service delivery.

Avkiran (1994) indicated that a telephone study in the Australian state of Victoria revealed poor service to the customer as the most likely reason for customers to consider moving their banking relationships. He observed that service basically had two levels. The first level was desired service, which the customer desires, and the second level is known as adequate service, which is the minimum level the customer will accept. His research led to the conclusion that developing a “true customer franchise” requires firms to exceed both levels of desired service and adequate service. The attainment of this level may be required to make a good level of profit that can sustain and grow a firm.

Profitability in the banking industry and every business enterprise is quite a significant success/growth indicator. This is so because profits reassure depositors of the competence of management and adequacy of capital base which together provide good defence against risk which is inherent in the banking industry. A good level of published profits also reassures stakeholders of the safety of their investments particularly, during adverse economic periods. Banks with low profits can hardly venture into new markets, new programmes or develop/innovate packages for their customers and the business, Net profit is an important determinant of financial success level of an enterprise as well as an indicator of good performance or productivity.

However, firm’s productivity, such as those realised during windfall gains or good fortunes are not necessarily linked to the firm’s productivity. It is therefore imperative that profits are the tangible rewards which market-oriented economies bestow on businesses that identify with and meet the demand of the consuming public.

Consequently, firms need to analyse their performances from the viewpoint of its profit. In this regard, profit and profitability ratios are employed as indices of a banking firm's performance. In measuring a bank's profit and profitability, analysts have developed a number of methods.

One of such analysts' studies was that of Revell (1980) where an investigation into the trends of interest margin and the cost of intermediation in 80 series of aggregated accounts of banks and savings banks in 18 OECD (Organisation for Economic Cooperation and Development) countries were concluded. It was concluded that the best single indicator of the cost of intermediation is the Gross Earning Margin (GEM) because it represents what the consumers have to pay for the services provided. The Gross Earning Margin basically is the total revenue of an institution (apart from abnormal items) less what it has to pay customers and holders of debt capital for the use of resources employed (Jat, 2006).

2.12 SERVICE QUALITY AND BUYING PATTERNS

Since the core of every business endeavour is to meet the expectations of the customer, much attention in recent times is drawn to those indices that customers perceive as an indicator of service quality. Many industries are paying greater attention to service quality and customer satisfaction for reasons such as competition and deregulation (Reicheld and Sesser, 1990). Academics have also been studying quality and satisfaction to understand determinants and processes of customer evaluation, (Parasuraman, Berry and Zeithaml, 1995).

The buying behaviour of a customer is of great importance to the producer of goods and services. This explains the rationale behind increased focus on customer satisfaction and loyalty. Customers' buying behaviour invariably is a function of many factors, some of which are formed from a previous purchase, word of mouth or other

marketing communication activities. Naturally, the expected level of quality of a customer represents the minimum attribute. This means that if the performance of the basic attribute is poor, there exists a strong tendency of dissatisfaction while better performance means or leads to greater satisfaction since the level of performance is not only pleasant but acceptable to the customers.

Sometime the terms quality and satisfaction are used as if they are essentially the same. Though the two appear highly similar but there are distinctions. For instance, some service quality researchers describe satisfaction as a more specific, short term evaluation (e.g. evaluating a single service encounter) and quality as a more general and long term evaluation (Bitner and Hubbert, 1993, Parasuraman Zeithaml and Berry 1985). In contrast, some customer satisfaction researchers posited that quality is the more specific judgment and a component of satisfaction (Oliver, 1996). However, if these concepts are distinct then they are worthy of further separate pursuit, but if they are the same, then more efficient theoretical progress would be made if these concepts would be studied via convergence in a shared literature.

The literature on service quality and buying patterns postulates that customer satisfaction is the discrepancy between a customer's prior expectations and his/her perception regarding the purchase (Yi, 1990). Not surprisingly, there has been considerable debate concerning the nature of the relationship between the constructs of satisfaction and quality. While much research suggests that service quality is a vital antecedent to customer satisfaction (Parasuraman, Zeithaml and Berry 1985; Cronin, & Taylor, 1992), there is also strong evidence to suggest that satisfaction may be vital antecedent of service quality (Bitner, Boom and Tetronssult, 1990). Regardless of whichever view is taken, the relationship between satisfaction and service quality is strong when examined from either direction. Satisfaction affects assessments of service

quality and assessments of service quality affect satisfaction (McAlexander, Kaldenberg and Koening, 1994). In turn both are vital in helping buyers develop their future purchase intentions.

In one of the few empirical studies of the relationship between quality and satisfaction, Iacobucci, Kent and Ostrom (1994) concluded that the key difference between the two constructs is that quality relates to managerial delivery of the service while satisfaction reflects customers' experience with that service. They argued that quality improvements are not based on cost. These findings are an indication that the two terms are worthy of study since there is a relationship that subsists between them in many economies.

2.13 CONCEPT OF SATISFACTION

Providing services that customers prefer is a starting point for providing customer satisfaction. Consumer satisfaction is central to the marketing concept. There exist evidences of strategic links between satisfaction and the overall performance of firms as in the study of Luo and Homburg (2007). It should be noted that service quality and customer satisfaction are distinct concepts, although they are closely related. In this sense, satisfactory experience may affect customer attitude and his or her assessment of perceived service quality. This is in agreement with the view points of Zeithaml and Bitner (2003) and Jamali (2007) that satisfaction with a specific transaction may result into positive global assessment of service quality. To sum up, the relationship between quality and satisfaction is complex. Jamali (2007) described this relationship as Siamese twins. It can be concluded that service quality and customer satisfaction can be perceived as separate concepts that have causal relationship.

It is common to find mission statements designed around the satisfaction notion, marketing plans and incentive programmes that target satisfaction as a goal. A number of

studies have investigated the relationship existing between customer behaviour patterns such as those of Kandampully and Suhartanto (2000); Dimitriades (2006); Olorunniwo, Hsu, & Udo (2006); Chi and Qu, (2008) and Faullant, Matzler, & Fuller (2008). According to the studies customer satisfaction increases customer loyalty, influences repurchase intentions and leads to positive word-of-mouth. Satisfaction generally is conceptualised as an attitude like judgment following a purchase act or an act based on series of consumer interacting with a product or service. Auka (2012) viewed satisfaction as a

> customer's post-purchase evaluation and effective (emotional) response to the overall product or service experience. It is a measure of how customer's needs, wishes, desires or expectations have been met or exceeded. Like customer loyalty, it is a behaviour that customers explicitly vocalise or exhibit. It is strong indicators for a behavioural variable such as repurchase intentions, word-of-mouth communications and loyalty.

The popular view is that the confirmation/ disconfirmation of preconception about product standards is the essential determinant of satisfaction (Erevelles and Leavitt 1992; Oliver 1996). These comparison standards lead to moderate satisfaction; positively disconfirmed (exceeded) standards lead to high satisfaction and negatively disconfirmed (underachieved) standards lead to dissatisfaction. Several different comparison standards exclusively tied to positively valence aspects of product features and their implications for consumers have been used in quite many past researches.

I. By far, the most common are predictive expectations of attribute performance, as incorporated in the expectations – disconfirmation (ED)

model of satisfaction response (Boulding, Staelin, Kalra and Zeithaml; Oliver 1996, Tse and Wilton 1988).

II. Desires based on features and benefits that are considered ideal or inspirational in the service quality domain have also been recommended (Westbrook and Renlly, 1983).

III. Other models use equity expectations based on what the consumer believes reasonably should occur given the product/ service price (Oliver and Swan, 1989).

IV. Experience based norms derived from personal experiences or information received. Although these four (4) types of comparison standards reflect the four principal satisfaction models articulated within the customer satisfaction (CS) paradigm, past researchers probably have overemphasized the significance of predictive expectations and the ED model

A few CS paradigm researchers have gone beyond these cognitively toned model formulations to consider the affective nature of satisfaction (Oliver, 1996). Perhaps most intriguing is Oliver's (1989) suggestion that there exist five different modes or prototypes of satisfaction: contentment, pleasure, relief, novelty and surprise. Empirical examinations of these modes indicate a more parsimonious structure than originally proposed (Oliver 1996). In any event, these ideas clearly suggest that research within the CS paradigm has likely underrepresented the emotional aspects of satisfaction and that further study of affective satisfaction modes could play a promising corrective role.

Although satisfaction has been conceptualised in terms of either a single transaction (i.e. an evaluative judgment following the purchase occasion) or a series of interactions with a product over time, as noted by Anderson and Fornell (1994) they

stated that nearly all satisfaction researches have adopted the former, transaction- specific view. Indeed, several observers have chastised the marketing field for treating satisfaction as a static evaluation derived from a lone trial event, noting that comparison standards are likely to change with consumer experience (Iacobucci, Grayson, and Ostrom, 1994). A pungent critique by Tse, & Wilton, (1988), contends that (i) satisfaction is not an evaluative state but a process extending across the entire consumption horizon and (ii) the study of consumer – Product interactions following purchase is fundamental to advancing knowledge along these lines. Among the few satisfaction studies that have adopted longitudinal designs, most remain wedded to CS paradigm (e.g. Bolton and Drew, 1991; LaBarbera and Mazuraki, 1983).

In buttressing this position, Krishnan, Ramaswamy, Meyer and Damien (1999: 1195) opined that, satisfied customers of a firm decide to stay with the firm for future business. They even went on to assert that

> .....the cost of retaining existing customers by improving the products and services that are perceived as being important is significantly lower than the cost of winning new customers. Furthermore, since a customer may do business with multiple investment companies, enhancing customer satisfaction can increase a firm's "share of portfolio" with its customers, and thereby its total revenues and long-term profitability.

It is evident that the quality programme designed to attract customers are by no means an end in themselves. These strategies are targeted towards having improved market share, sales volume and/or financial performance. In summary, lengthy reviews and empirical applications suggest that satisfaction research founded on CS paradigm is maturing. At the same time, some propose that this tradition has classified into certain beliefs and methodological predictions that obstruct new knowledge breakthroughs.

Iacobucci, Grayson and Ostrom (1994) present their review as "a flashing yellow light serving as a warning to look closer at *status quo* conceptualisation before proceeding further". Despite – or possibly because of – the seasoned status of this research domain, satisfaction has not been considered thoroughly as it is experienced and expressed through the consumer's own voice. As yet, the marketing field has not assessed critically whether the CS paradigm and its models characterised satisfaction accurately and comprehensively in the context of daily life.

2.14. COMPOSITE MODEL OF SATISFACTION

Quite a number of attempts have been made to measure customer satisfaction at a broad based level, so as to provide a base line when tracking customer satisfaction over time. The currently available approaches for studying customer satisfaction include the Swedish Barometer (Fornell, 1992), the Norwegian customer satisfaction Barmeter (Andreassen and Lindestal, 1998), the American customer satisfaction Index (Fornell, Johnson and Anderson, 1996) and European Consumer Satisfaction Index (ECSI) (Palmer, 2005).

The theoretical model for the European Consumer Satisfaction Index (see figure 2.2) introduces seven interrelated latent variables. The model links image, customer expectation, perceptions of quality and perceived value, to customer satisfaction and distinguishes between the tangible and intangible contributors to customer satisfaction by dividing perceived quality into two parts – 'hardware and software'. The component that is termed hardware refers to the quality of the product while the software component refers to those associated services such as warrantee, guarantee or after-sales service provision.

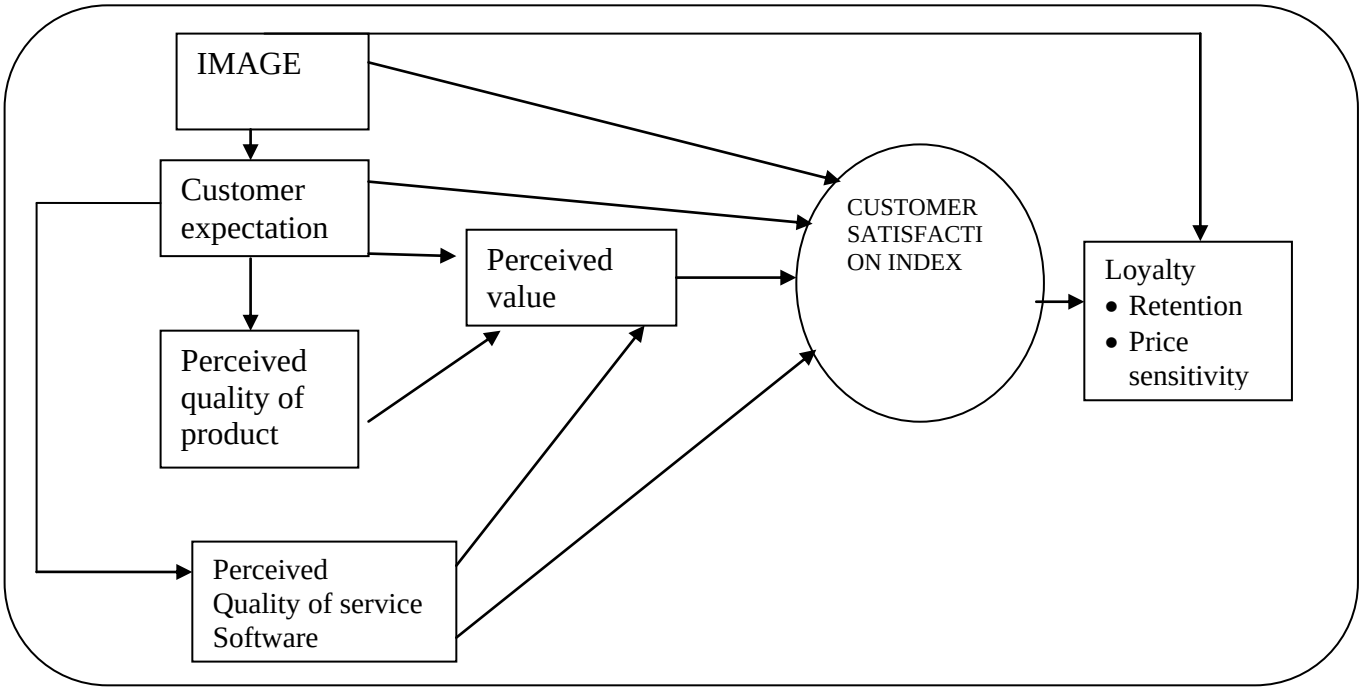

Fig. 2: The European Customer Satisfaction Index Model

Source: *Palmer, 2005:277.*

The variables on the left- hand side of the model are causative factors which explain satisfaction, and those on the right-hand side are indicators of performance. The model shows the main causal relationships, although in reality there may exist many more points of dependence between the variables, and also bidirectional interactions (it could also be argued that all causative variables are related to one another). The ECSI model is much less detailed and elaborate than many standard company specific approaches to measuring customer satisfaction. This follows from the fact that it has to be applicable for a number of different industry sectors in parallel. Numerous implications and deductions have been introduced in the specification in order to make it as comparable and as useful as possible from industry to industry (Palmer, 2005)

Although composite measures of customer satisfaction such as that presented by ECSI may be too general for many services organisations' internal quality management purposes. These indexes provide an important complement to traditional measures of economic performance, providing useful information not only to the firms themselves, but also to shareholders and investors, government regulators as well as buyers.

2.15 BANKING SECTOR DEVELOPMENT IN OTHER ECONOMIES

Developments in the banking sector of other nations have some common features with that of the Nigerian economy. In India, the Indian Banking Regulation Act of 1949 governs all banking operations. The industry is classified into non-scheduled and scheduled banks. The scheduled banks are made up of commercial and co-operative banks. Just like the Nigerian banking industry, the Indian banking sector witnessed different phases of financial reforms.

The first phase led to the indigenization of 14 major banks in 1969 with a resulting effect of the emergence of mass banking and significant growth in geographic spread. The second phase which came into force in 1980 witnessed a further

nationalization of 6 additional commercial banks. This resulted into the liberalisation of the sector in the 1990's. This has created immense tension for the Indian public sector banks, a difficulty in competing with the private sector banks and the foreign banks. The latter are however attempting to match the powers of the former via mergers and acquisitions. The public sector banks have the power of size and access to low cost deposits. In their quest to dominate this sector, the private sector banks employ a lot of internet and telephone banking, mobile banking; debt cards among others to fast track their operations. In recent times, the sector has witnessed high liquidity, falling interest rates and increasing demand for customer services. The Indian banking sector is characterized by a prime concern for perceived service quality between service providers and customers (Angur, Natarajan and Jahera 1999).

The Thailand banking industry like the Indian's is also divided into categories. The first category has its major shareholders as Thai investors, individuals and institutions, while the second is owned predominantly by foreign shareholders (international) who came into the country during the Thai economic crisis in 1998. The third category is made up of banks whose operations mirror government policies (Chaoprasert and Elsey, 2004).

The Thai banking sector in recent times like those in other economies has witnessed high level of competition which has led to the emergence of the second category of banks. This nation's banking industry is quite small with few commercial banks, but has been able to provide branch banking with a large number of branches nationwide, and in 2002, the total number stood at 3,664 (Chaoprasert, and Elsey, 2004).

Similarly, the Swedish banking industry has witnessed much deregulation since the 1990s. However, prior to this period, regulatory frameworks were aimed at upholding stability within the sector so as to be able to govern banks' activities. The indices that

were monitored include deposits, withdrawals and interest rates. Now, the market determines interest rate setting and distribution of loans. This enabled new entrants into the sector who are more specialised than the traditional operators in the sector: The new entrants into the Swedish banking industry are called Niche‘ banks who introduced new dimensions into the sector such as the use of telephones and the internet. This strategy has the ability to de-emphasize bank offices and have more focus on technology advancement. As such this has led to a tremendous reduction in the cost of entering the industry and greater competition as well as mergers and acquisitions within the industry.

In the United States of America, banking has changed in many ways through the years. Banks today offer a wider range of products and services than ever before, and deliver them faster and more efficiently. The central function of banking remains as it has always been by putting a community's surplus funds (deposits and investments) to work by lending to people to buy homes and cars, to start and expand businesses, and for countless other purposes. Banks are vital to the health of every nation's economy. For tens of millions of Americans, banks are the first choice for saving, borrowing, and investment.

The onset of the worldwide depression in 1929 was a disaster for the banking system. In the last quarter of 1931 alone, more than 1,000 U.S. banks failed, as borrowers defaulted and bank assets declined in value (OCC). This led to scenes of panic throughout the country, with long lines of customers queuing up before dawn in hopes of withdrawing cash before the bank had no more to pay out.

In June 1933, Congress enacted federal deposit insurance. Accounts were covered up to $2,500 per depositor (now $100,000). Other laws were passed regulating bank activities and competition, with the objective of limiting risks to banks and reassuring the public that banks were, and would remain, safe and sound. During the last quarter of the

last century, banking in the USA underwent a revolution. Technology has transformed the way Americans obtain financial services. Telephone banking, debit and credit cards, and automated teller machines are commonplace, and electronic money and banking are evolving. The techniques of bank examination have changed, too.

Today OCC examiners use computers and technology to help ensure that the banks they supervise understand and control the risks of the complex new world of financial services. The OCC supervises national banks and enforces federal banking laws. It rules on new charter and merger applications for national banks, and conducts basic research on banking and the economy. The tools have changed, but for the OCC, the basic mission remains the same: to ensure a safe, sound, and competitive national banking system that supports the citizens, communities, and economy of the United States.

It could be deduced from these developments that a new wave of strategies characterise the development of banking operations globally. Thus, there is the basic need to study these happenings to enhance the operations of banking business in Nigeria and to assess their relationship with financial performance of banks in Nigeria.

2.16 DEVELOPMENT IN THE NIGERIAN BANKING SECTOR

This sub-section can best be appreciated if discussed under the following sub-topics:

1. Pre-Independence Era
2. Independence Era
3. Post Consolidation Era

Pre-Independence Era

The emergence of the banking industry in Nigeria was made possible via the initiative of the Elder Dempster and Company. This was a Lagos based company which transported silver coins for the colonial administration between London and Lagos. This

transaction was managed by George William Neville who later perceived the need for a bank to take over the business of handling the money transactions (Ndekwu, 1994). This proposal found favourable grounds and was accepted, leading to the opening of an operational branch in Lagos in 1891 under the name, African Banking Corporation (later to become The Bank of British West Africa). The Bank was already operating in South Africa and only opened a branch in Lagos.

The African Banking Corporations, Lagos, Collapsed soon after its establishment but was replaced immediately by the British Bank of West Africa via acquisition. The bank was re-incorporated as the British Bank of West Africa in 1894 (Essien, Okere and Ogunlowo, 1988). The banking industry in pre independence Nigeria was aimed at serving foreign commercial interests and as such established operations in localities where British commercial interests predominated and did not aim to satisfy the needs of indigenous Africans (Uche and Ehikwe, 2001). At this time, the banks were registered and headquartered in London as well as controlled from London with no clear interest in developing new markets and clients. This scenario angered the indigenes since the banks were not helpful to them. As a result, indigenous banks were established to carter for the needs of the indigenes. These indigenous banks saw Africans and their accounts as their primary constituency. They used nationalist sentiments as marketing strategy to gain acceptance.

However, since there were few regulations or legal provision regulating the operations of banks in Nigeria at this time, the banks were not only poorly capitalized and staffed but in some cases largely infested with fraudulent practices. Consequently, they were short-lived and went into liquidation.

In a bid to curb the instances of bank failures, the Banking Ordinance of 1952 came into being. However, the Ordinance was concerned more with regulating entry into

the industry rather than detailed regulation and control of the operations of the banks in existence. Thus, this led to the failure of more indigenous banks that were in existence, meaning that foreign banks continued their dominance of the banking industry unchallenged.

The period between 1899 and 1959, saw the establishment of many banks-foreign and indigenous. According to Ndekwu (1994), the period 1929 – 1952 witnessed a significant development of indigenous banks. This development aroused the consciousness of the colonial administration. It is however regrettable that many of these indigenous banks collapsed at their introduction levels with capital inadequacy as their major feature.

The first banking legislation in Nigeria, the Banking ordinance was not enacted until in 1952. Its main duty was to regulate banking practice in the country. This perhaps marked the beginning of modern banking business in Nigeria (Essien, Okere and Ogunlowol, 1988). Prior to 1953, banks in the country were only commercial banks and were not favourably disposed to dealing with small and rural customers who engaged in agriculture and other similar activities that could be regarded as economically visible and productive. This scenario necessitated the establishment of the first cooperative bank in 1953, the Co-operative Bank of Western Nigeria. The Eastern and Northern regions quickly followed this development and floated the Co-operative Bank of North Central Nigeria in Kaduna, Co-operative Bank of Eastern Nigeria, Kano State Co-operative Bank, etc.

Perhaps, of great significance is the establishment of the country's apex bank- the Central Bank of Nigeria (CNB) in 1959. The bank was established to regulate and ensure viability of the banking system. The sole functions of the bank as contained in the CBN Ordinance of 1959 are: To issue legal tender currency in Nigeria, to maintain external

reserves in order to safeguard the international value of the currency, to promote monetary stability and a sound financial structure in Nigeria and to act as a banker and financial advice to the federal government.

The Central Bank of Nigeria was established upon the recommendations of the World Bank Mission of Nigeria in 1954 and the CBN Act of 1958. Not quite sooner had the CBN been established than the emergence of the first merchant bank was made possible. This was when Phil Hill (Nigeria) Ltd was licensed as a merchant banker. Subsequently, several other merchant banks emerged.

Independence Era

After the attainment of independence in 1960, the concern of the government was the promotion of stability in the banking industry thus, foreign banks were given free hand in doing their businesses. However, newly acquired oil wealth changed the predisposition of the Nigerian government and in its 1970 National Development Plan (Federal Republic of Nigeria Report, 1976:289), the Government clearly stated that:

> Experience has shown, through history that political independence without economic independence is but an empty shell. The validity of this statement derives from the fact that the interest of foreign private investors in the Nigerian economy cannot be expected to coincide at all times and in every respect with national aspirations. It would be naïve, indeed dangerous to hope that in the process of industrial development, a set of national objectives will automatically be achieved by their mere declaration. A truly independent nation cannot allow its objectives and priorities to be distorted or frustrated by the manipulations of powerful foreign investors, for Government to acquire and control on behalf of the Nigerian Society, the greater proportion of the productive assets of the country.

The desire for the realisation of the above objective led to the nationalisation of foreign banks that were in operation in Nigeria. Consequently, many banks emerged for example; The Nigerian Industrial Development Bank (NIDB) that came into existence in 1964. The bank was meant to facilitate the take-off and growth of private industrial enterprises via equity, debentures and loan financing. The emergence of the Nigeria Bank for Commerce and Industries (NBCI) in 1973 was yet another turning point in the history of the banking industry in the country. This bank was established primarily to finance the indigenisation programme that was introduced in 1972. This financing function was later extended to small and medium scale businesses (Owualah, 1996).

Therefore, subsequent post independence administrations established quite a number of other banks such as the Nigerian Agricultural and Co-operative Bank – NACB in 1977, The Federal Mortgage Bank of Nigeria- FMBN, Peoples Bank of Nigeria – PBN in 1989 and community Bank in 1990 (Olwuala, 1996, Segbama, 1997, Ogoegbulem, 2003,). Some of these latter banks were rural based. The establishment of these rural based banks were attempts at not only the encouragement of rural banking but also of transformation of the rural environment by promoting the rapid expansion of banking services and facilities in the country. This was particularly so because conventional banks performed dismally as a result of the low volume of business activities in the rural areas.

In line with global business realisation, the Nigerian banking industry and indeed the economy as a whole is experiencing virtually a total overhaul. To attain the desired economic growth and development, there emerged a radical departure from regulation to deregulation and/or liberalisation of the economy and the banking sector in particular. This development has become a fundamental phenomenon, considering the fact that banks provide the requisite financing for any economic growth and development objective of an economy. The global nature of contemporary business environment has

led to the move towards the development of strategies that will enhance efficiency in banking operations. These range from mergers and acquisitions to the development of quality improvement programmes so as to position the industry on similar footing with counterparts worldwide.

Worthy of mention is the fact that in 1981, there were only 26 banks (both commercial and merchant) operating in Nigeria. Between 1986 and 1990, when deregulation was introduced, and in 1991, when licensing of banks was liberalised, the number of registered banks increased from 41 to 199, but by December, 2000, there were 89 registered banks (CBN, 2005).

Post Consolidation Era

The performance of these banks was below expectations, particularly when distress emerged in the 1990s. This perhaps led to the emergence of reforms or measures aimed at improving banking regulation and operations in Nigeria (Osho, 2004). The most recent of such reforms is the recapitalisation reform (consolidation) that resulted into the emergence of universal banking operations in Nigeria with only 25 banks as at 2005.

Apart from governmental influences as the sole factor influencing the historical development of the Nigerian banking industry, the global environment and of particular mention is competition within and without, gave impetus to an increasing rising concern by banks to distinguish themselves in the area of the provision of unique and quality services to their consuming populace.

The Nigerian banking industry in recent times has witnessed a new trend in service delivery and it is characterised by a strong competition from banks and other financial institutions, constant development of new products, strategic alliances, mergers and acquisitions. This explains the rationale behind the opinions of researchers such as Alehile (2014) who postulated that the Nigeria financial system has undergone major

changes in terms of both nature and composition. Liberalisation further helped in creating a diversified financial system. This new turn is greatly attributable to the increased competiveness in the industry. In a bid to keep pace with the emerging realities in this industry, there arose a keen desire to attract skilled employees and an increased investment in IT infrastructure. These two components are crucial to a successful operation in a keenly competitive banking environment such as ours. Consequently, this has resulted to rising costs and shrinkage in profit margins.

To a large extent, growth indicators characterise the Nigerian banking industry as evidenced by recent findings (Cuffe, 2008, Jat, 2006 and Okwoli, 2010). Cuffe (2008) asserts that continued growth in the Nigerian economy pave way for the substantial outperformance of the industry relative to emerging market banks index. He also posits that the strong long-term economic profits warranted quality operations. However, he found out that certain Nigerian banks, Zenith and Guarantee Trust banks are the highest quality operations and Union bank being the bank with the lowest quality operations (andrew.j.cuffe@jpmorgan.com).

Banking services by their nature are not only highly diversified but also complex to the extent that the customer often times needs to be thoroughly informed on new services or products in order to feel some level of comfort and security. This requires some level of service quality and skilled employees to guarantee customer satisfaction, loyalty and/or retention to a large extent. Perhaps, this explains the rationale in Auka's (2012) postulation that customer loyalty is very significant in the creation and maintenance of competitive advantage associated with retaining loyal customers as opposed to recruiting new ones. This quality reorientation is predicated also on the need to reposition the banks in order to attain an effective and efficient status with a view to achieving core objective in the drive towards attaining economic business imperatives.

Due to present global and dynamic exigencies, the quality phenomenon has become an inevitable banking business strategy. Thus, the banking sector if it must play its financing functions, effectively and efficiently, needs such an approach.

These quality functions definitely have tremendous benefits (Chaoprasert and Elsey, 2004, and Mahapatra, 2009). These researches indicate that service quality has influence on customer satisfaction (Khan and Mahapatra, 2009), profitability and customer loyalty. However, despite the benefits of enhanced service quality, there are associated costs implications, though the benefit by far outweigh the cost since there are no empirical evidence(s) to support any loss suffered by the customers or the banks, instead, there is a strengthening of the financial sector in terms of contribution to economic growth and participation in the financial sector- regular activeness in equity dealings. The Nigerian banking sector has developed rapidly in terms of size, industry structure and products/services offer. This is quite welcome. However, Jat (2006) reported that despite the remarkable growth in the number of institutions and total assets in the banking sector, its performance has remained largely unsatisfactory owing to its underdevelopment and exogenous factors such as low banking habits in the country.

2.17 FINANCIAL SECTOR AND ECONOMIC DEVELOPMENT

The relevance of financial institutions and banks particularly in the economy of any nation cannot be overemphasized since economic activity as it is known could not be smooth sailing without the continuing flow of money and credit. All market-oriented economies depend on the efficient operation of complex and delicately balanced systems of money and credit. Banks are an indispensable element in these systems. They provide the bulk of the money supply as well as the primary means of facilitating the flow of credit. Consequently, the economic well being of a nation is a function of advancement and development of the banking industry in that economy.

The financial deregulation in Nigeria that started in 1987 and the associated financial innovations have generated an unprecedented degree of competition in the banking industry. The deregulation initially pivoted powerful incentives for the expansion of both size and number of banking and non-banking institutions. The consequent phenomenal increase in the number of banking and non-banking institutions providing financial services led to increased competition amongst various banking institutions, and between banks and non-banking financial intermediaries.

The financial sector and its role in the process of economic development have attracted notable attention since the early 1990s. In particular, the crucial need for a stable banking system was highlighted in the wake of the Asian financial crisis of the late 1990s. The rapid influx of short-term, speculative capital flows to Asian economies was a major contributing factor to the crisis. States with stronger domestic financial sectors and particularly robust banks, however, better absorbed the ripple effects of the external shock. Increasing the openness of financial markets via liberalisation may not be positively related to economic growth unless banks are stable and sophisticated enough to absorb international investment, competition, and negative shocks.

Individual entrepreneurs or investors commonly lack sufficient capital to proceed with projects on their own. Banks provide an intermediation service that brings savers and investors together, theoretically channelling investment funds to the uses that yield the highest rate of return, thus increasing specialisation and the division of labour. Risk is pooled, transferred, and reduced by banks while liquidity and information increase through the use of progressively more sophisticated financial products and technology. Neoclassical growth models tell us that an increase in the efficient investment of savings in new and innovative projects is one of the main engines of economic growth.

2.18 SERVICE QUALITY AND THE NIGERIAN BANKING INDUSTRY

The banking industry in Nigeria prior to the emergence of liberalisation as from the late 1980s was operating in what may be termed a protected business environment. Prior to this period, banks did not need to pay attention to service quality issues. Thus, they gave little or no attention to the identification and satisfaction of customers' needs. However, from the 1990s and the early parts of this millennium, coupled with the emergence of new generation banks and competitiveness that characterised this development, it called for the improvement in the provision of banking services in comparison to international banking standards. Consequently, modern technology began to characterise banking operations. Of particular note is the introduction of information technology and communication (IT, & C) devices such as telebanking, on-line systems, ATM (automated teller machines), etc. This situation warranted bank customers the opportunity of making choices from a number of banks and banking services since such modern devices paved the way for the introduction of an array/ range of a variety of services and mode of delivery of these services as well.

In the light of the above, Nigerian banks are seen employing strategies that are aimed at achieving competitiveness through enhanced service quality delivery so as to make them more market oriented as well as being more courteous to customers. Besides, in order to overcome competition and to attain global class standards, the Nigerian banks are forced to adopt quality management standards.

There have been a number of studies on retail bank service quality. Most of these studies have measured service quality by replicating or adapting the SERVQUAL model (Aldlaigan and Buttle, 2002). Other studies concerned customer satisfaction (e.g. Ting, 2004, 2006). Moreover, there are number of studies that have provided critical analysis and assessment of SERVQUAL (e.g. Cronin, and Taylor 1994). However, in the service

quality literature, the most prominent studies that have attempted to measure the quality of service are the studies reported by Parasuraman, Zeithaml and Berry (1988), Cronin, and Taylor (1992). SERVQUAL, to the researchers' knowledge has not been used to measure Nigerian customers' satisfaction with banking operations.

For the Nigerian banking sector to develop and help grow the economy, appropriate service quality systems and strategies must be incorporated to match with competition, particularly from foreign operators within and without. The mere incidence of profit indicators even before the application of quality programmes, to some extent, shows that other variables also account for these profits.

2.19 FACTORS INFLUENCING BANK PROFITABILITY

Profitability is a function of many variables. To a large extent it depends on the degree to which scarce resources are utilized. In accordance with the theories and models discussed in the previous sections, many studies (Elsiefy, 2013), Flamini, McDonald, & Schumacher (2009) have introduced some useful variables in the profit function of commercial banks to shed light on key factors that make a difference in bank profits. Such studies are not without ambiguity, especially with regard to the measurement of the variables and the results reported thereafter.

However, there is general agreement that bank profitability is a function of internal and external factors. Koch (1995) observed that the performance differences between banks indicate differences in management philosophy as well as differences in the market served. Quin and Pastory (2012) argued that profitability of a commercial bank is determined by the ability of the bank to retain capital, absorb loan losses, support future growth of assets and provide return to investors. This is in agreement with the findings of Athanasoglou, Brissimis (2006) that profitability is a function of internal factors that are mainly influenced by a bank's management decisions and policy

objectives such as the level of liquidity, provisioning policy, capital adequacy, expense management and bank size, and the external factors related to industrial structural factors such as ownership, market concentration and stock market development and other macro-economic factors. Most of the studies on bank profitability are based in developed countries, especially the USA and Europe a couple of studies focusing on developing countries (Naceur (2003), Flamini, McDonald, and Schumacher (2009). Sufian and Chong (2009) have also used more or less the same variables to study the determinants of bank profitability.

Several studies (Elyor (2009), Uzhegova (2010) have used Capital adequacy, Asset quality, Management efficiency, Earnings performance and Liquidity (CAMEL) to examine factors affecting bank profitability with success. The system was developed by the US Federal Deposit Insurance Corporation (FDIC) for "early identification of problems in banks' operations" (Uzhegova, 2010). Though some alternative bank performance evaluation models have been proposed, the CAMEL framework is the most widely used model and it is recommended by Basle Committee on Bank Supervision and IMF (Baral, 2005).

Capital Adequacy and Profitability

Capital adequacy refers to the sufficiency of the amount of equity to absorb any shocks that the bank may experience. The capital structure of banks is highly regulated. This is because capital plays a crucial role in reducing the number of bank failures and losses to depositors when a bank fails as highly leveraged firms are likely to take excessive risk in order to maximize shareholder value at the expense of finance providers. Although there is general agreement that statutory capital requirements are necessary to reduce moral hazard, the debate is on how much capital is enough. Regulators would like to have higher minimum requirements to reduce cases of bank failures, whilst bankers in

contrast argue that it is expensive and difficult to obtain additional equity, and higher requirements restrict their competiveness (Koch, 1995). Bechmann (2007) argued that high capital leads to low profits since banks with a high capital ratio are risk-averse, they ignore potential (risky) investment opportunities and, as a result, investors demand a lower return on their capital in exchange for lower risk.

However, Gavila and Santabarbara (2009) argue that, although capital is expensive in terms of expected return, highly capitalized banks face lower cost bankruptcy, lower need for external funding, especially in emerging economies where external borrowing is difficult. Thus well capitalized banks should be profitable than lowly capitalized banks. Neceur (2003) using a sample of 10 Tunisian banks from 1980 to 2000 and a panel linear regression model, reported a strong positive impact of capitalization to return on assets (ROA). Sufian and Chong (2008***)*** also reported the same results after examining the impact of capital to the performance of banks in Philippines from 1990 to 2005. The banking sector in Nigeria provides an interesting case to examine the impact of capital because the minimum statutory requirement was upgraded to N25billion naira in 2005.

Assets Quality and Profitability

Credit risk is one of the factors that affect the health of an individual bank. The extent of the credit depends on the quality of assets held by an individual bank. The quality of assets held by a bank depends on exposure to specific risks, trends in non-performing loans, and the heath and profitability of bank borrowers (Baral, 2005). Aburime (2008) asserts that the profitability of a bank depends on its ability to foresee, avoid and monitor risks, possibly to cover losses brought about by risks arisen. Hence, in making decisions on the allocation of resources to asset deals, a bank must take into account the level of risk to the assets.

Poor asset quality and low levels of liquidity are the two major causes of bank failures. Poor asset quality led to many bank failures in Kenya in the early 1980s. During that period, 37 banks collapsed following the banking crises of 1968-1993-1994 and 1998 (Mwega, 2009). According to Waweru and Kalaani (2009), many of the financial institutions that collapse in 1986 failed due to non-performing loans (NPLs) and that most of the larger bank-failures, involved extensive insider lending, often to politicians. The CBK measures asset quality by the ratio of net non-performing loans to gross loans. However, Koch (1995) argues that a good measure of credit risk or asset quality is the ratio of loan loss reserve to gross loans because it captures the expectation of management with regard to the performance of loans. Hempel, Simonson, and Coleman (1994) observed that banks with high loan growth often assume more risk as credit analysis and review procedures are less rigorous, however returns are high in such loans indicating a risk and return trade-off.

Kosmidou (2008) applied a linear regression model on Greece 23 commercial banks data for 1990 to 2002, using ROA, and the ratio of loan loss reserve to gross loans to proxy profitability and asset quality, respectively. The results showed a negative significant impact of asset quality to bank profitability. This was in line with the theory that increased exposure to credit risk is normally associated with decreased firm profitability, indicating that banks would improve profitability by improving screening and monitoring of credit risk.

Liquidity Management and Profitability

Another important decision that the managers of commercial banks take refers to the liquidity management and specifically to the measurement of their needs related to the process of deposits and loans. The importance of liquidity goes beyond the individual bank as a liquidity shortfall at an individual bank can have systemic repercussions. It is

argued that when banks hold high liquidity, they do so at the opportunity cost of some investment, which could generate high returns (Kamau, 2009). The trade-offs that generally exist between return and liquidity risk are demonstrated by observing that a shift from short term securities to long term securities or loans raises in bank's return but also increases its liquidity risks and the inverse is true. Thus, a high liquidity ratio indicates a less risky and less profitable bank (Hempel, Simonson, and Coleman 1994). Thus, management is faced with the dilemma of liquidity and profitability.

Although more liquid assets increase the ability to raise cash on short-notice, they also reduce management's ability to commit credibly to an investment strategy that protects investors which, finally, can result in reduction of the firm's capacity to raise external finance in some cases (Uzhegova, 2010).

Operational Costs Efficiency and Profitability

Poor management of expenses is the main contributor to poor profitability (Sufian and Chong 2008), where the CIR of local banks is high when compared to other countries and there is need for local banks to reduce their operational costs to be competitive globally

Although the relationship between expenditure and profits appears straightforward implying that higher expenses mean lower profits and the opposite, this may not always be the case. The reason is that higher amount of expenses may be associated with higher volume of banking activities and therefore higher revenues. In relatively uncompetitive markets where banks enjoy market power, costs are passed on to customers; hence there would be a positive correlation between overheads costs and profitability (Flamini, McDonald, Schumacher 2009). Neceur (2003) found a positive and significant impact of overheads costs to profitability, indicating that such costs are passed on to depositors and lenders in terms of lower deposit rates/or higher lending rates.

Income Diversification and Profitability

Financial institutions in recent years have increasingly been generating income from "off-balance sheet" business and fee income. Albertazzi and Gambacorta (2006), as cited by Uzhegova (2010), noted that the decline in interest margins, has forced banks to explore alternative sources of revenues, leading to diversification into trading activities, other services and non-traditional financial operations. The concept of revenue diversifications follows the concept of portfolio theory which states that individuals can reduce firm-specific risk by diversifying their portfolios. However, there is a long history of debates about the benefits and costs of diversification in banking literature. The proponents of activity diversification or product mix argue that diversification provides a stable and less volatile income, economies of scope and scale, and the ability to leverage managerial efficiency across products (Choi and Kotrozo, 2006). Similarly, Olweny and Shipho (2011) noted that as a result of activity diversification, the economies of scale and scope caused through the joint production of financial activities leads to increase in the efficiency of banking organizations. They further argued that product mix reduces total risks because income from non-interest activities is not correlated or, at least, perfectly correlated with income from fee based activities and as such diversification should stabilise operating income and give rise to a more stable stream of profits (Uzhegova, 2010).

The opposite argument to activity diversification is that it leads to increased agency costs, increased organizational complexity, and the potential for riskier behaviour by bank managers. Kotrozo and Choi (2006) mentioned that activity diversification results in more complex organizations which make it more difficult for top management to monitor the behaviour of the other divisions/branches. They further argued that the benefits of economies of scale/scope exist only to a point. The costs associated with a

firm's increased complexity may overshadow the benefits of diversification. As such, the benefits of diversification and performance would resemble an inverted-U in which there would be an optimal level of diversification beyond which benefits would begin to decline and may ultimately become negative.

Using annual bank level data of all Philippines commercial banks, Sufian and Chong (2008) found a positive relationship between total non-interest income divided by total assets, a proxy for income diversification and bank profitability. Uzhegova (2010) using a HH index of interest income, commissions, fee income, trading income, non-interest income and other operating income found empirical support of the idea that banks involved in diversification activities expect some benefits. While Kotrozo and Choi 2006, using a similar index found that activity diversification tends to reduce performance compared to banks more focused in their activities.

Market Structural Factors and Bank Profitability

There are a variety of market structural factors that have relationship with bank profitability. These factors were analysed under this sub-section.

Effect of Ownership on Profitability

In determining the effect of ownership on bank profitability, Classens and Jansen (2000) as cited by Kamau (2009), argued that foreign banks usually bring with them better know-how and technical capacity, which then spills over to the rest of the banking system. They impose competitive pressure on domestic banks, thus increasing efficiency of financial intermediation and they provide more stability to the financial system because they are able to draw on liquidity resources from their parent banks and provide access to international markets. Beck and Fuchs (2004) argued that foreign-owned banks are more profitable than their domestic counterparts in developing countries and less profitable than domestic banks in industrial countries, perhaps due to benefits derived from tax

breaks, technological efficiencies and other preferential treatments. However, domestic banks are likely to gain from information advantage. They have about the local market compared to foreign banks.

However, the counter argument is that unrestricted entry of foreign banks may result in their assuming a dominant position by driving out less efficient or less resourceful domestic banks because more depositors may have faith in big international banks than in small domestic banks. The ownership structure of banks in Nigeria has changed over the last few years. There has been less state involvement in the industry with more foreign banks being allowed to expand their operations in the country. Similarly, Kamau (2009) used a sample of 40 banks in Kenya from 1997-2006 and used linear regression method to analyse factors of X-inefficiencies. The results showed that an increase in the degree of foreign ownership in Kenya was associated with a reduction of cost X-inefficiencies, suggesting that the degree of foreign-owned banks influenced the performance of the local banking sector. In Nigeria, the financial position of local banks deteriorated rapidly in 1992, and at the end of the year, eight local banks were among the 16 insolvent banks with the other eight being state government banks while foreign banks often had profitable operations, outperforming their domestic counterparts.

Effect of Market Concentration on Profitability

The market power theory posits that the more concentrated the market, the less the degree of competition (Tregenna, 2009). According to Nzongang and Atemnkeng (2006), high degrees of market share concentration are inextricably associated with high levels of profits at the detriment of efficiency and effectiveness of the financial system due to decreased competition. Secondly, since commercial banks are the primary suppliers of funds to firms, the availability of bank credit at affordable rates is of crucial importance for the level of investments of the firms, and consequently, for the heath of the economy.

In situation of increased concentration, there is the possibility of rising costs of credits reflected by a reduction of the demand for bank loans and the level of business investments. The effect multiplies many folds in as much as bank management capitalizes on the market share concentration factor.

However, there is a long held view that market power is necessary to ensure stability in banking. Banks that are profitable and well-capitalized are best positioned to withstand shocks to their balance sheet. Hence banks with market power, and the resulting profits, are considered to be more stable (Northoctt 2004). Large banks with market power have typically been viewed as having incentives that minimize their risk-taking behavior and improve the quality of their assets. Tregenna (2009) using a sample of USA commercial banks and savings institutions from 1995 to 2005 and a linear regression panel model, found robust evidence that concentration increases profitability in USA banks and then concluded than the high profitability of banks in the USA before the 2007/2008 financial crisis was not earned through efficient processes, but through market power and the profits were not reinvested to strengthen the capital base of the financial institutions.

Nzongang and Atemknkeng (2000) examined the effects of concentration to the profitability of Cameroonian commercial banks from 1987 to 1999. The results indicate that market concentration power is of paramount importance in the determination of bank profitability. The banking sector in Nigeria looks very competitive judging by number of local and foreign banks in the industry.

The review of literature has revealed that bank financial performance can be influenced by bank-specific factors and external factors. Bank-specific factors are those factors within the direct control of managers and can be best explained by the CAMEL framework, while external factors include industry-specific and macroeconomic factors.

This study focuses only on industry-specific factors as external factors are outside our scope. The relevant interrelationships among bank-specific factors, market specific factors and their impact on bank profitability are depicted in Figure 3.

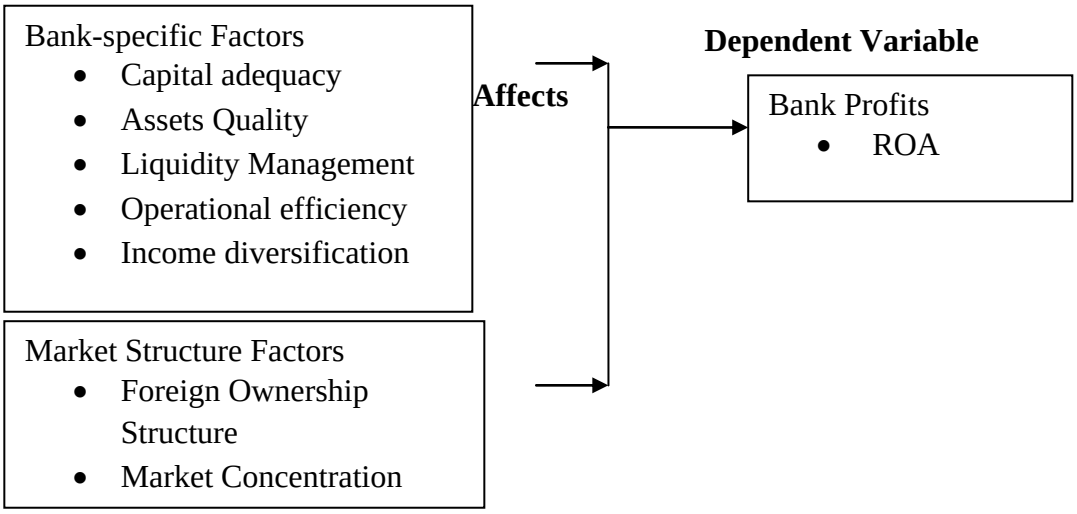

Figure 3: Schematic Diagram Showing Relationships between Variables Independent Variables

Source: Olweny, & Shipho, 2011:9

2.20 THEORETICAL FRAMEWORK

In this sub-section, theories regarding the concepts of service quality and profitability were examined. This work is basically anchored on the service-profit chain. However, other profitability theories were examined in the course of the research. The rationale is based on the preposition by scholars such as Amare (2012) that there is no generally acceptable theory of profitability that provides a unifying framework for the study of financial performance determinant in the banking industry. Consequently, a review of some theories of bank profitability becomes necessary.

2.20.1 Service Profit-Chain Theory

The central issue in service quality is an emphasis on customer's perceived quality. Many scholars have argued that service quality improvements that are not based on customer needs will not lead to improved customer satisfaction; while others argue that consumers are indifferent to levels of service quality that fall within their zone of tolerance but are motivated by unexpectedly high levels of service quality that in turn produce delight (Palmer, 2005). However, there are also evidences that indicated that satisfied customers may not return to a service provider (Brady and Cronin (2001). This probably is the rationale for the extensive research in the study of the relationship between service quality and profitability and other similar variables.

Since service refers to the situation where a service offer meets customers' expectations, thus these expectations differ as there are many customers with diverse needs and expectations of services they need or require. Researchers have come to agree with Gronroos (1984) and have identified two dimensions of service quality. The dimensions are technical and functional. Technical dimensions are those measurable dimensions of a service offer which are relatively quantifiable, which customers receive in their interactions with a service firm e.g. standard of equipment, time spent on waiting

to be attended to, etc. The functional dimensions relate to those dimensions that cannot be easily measured e.g. attitude of staff, appearance of staff, etc.

Perhaps, of more difficulty is the relationship between service quality and financial performance and that between service quality and satisfaction or positive attitude change. These situations have attracted much concern. The relationship between service quality and a company's profit has led to extensive research. This relationship is best portrayed via the concept of service profit-chain as depicted in Figure 4.

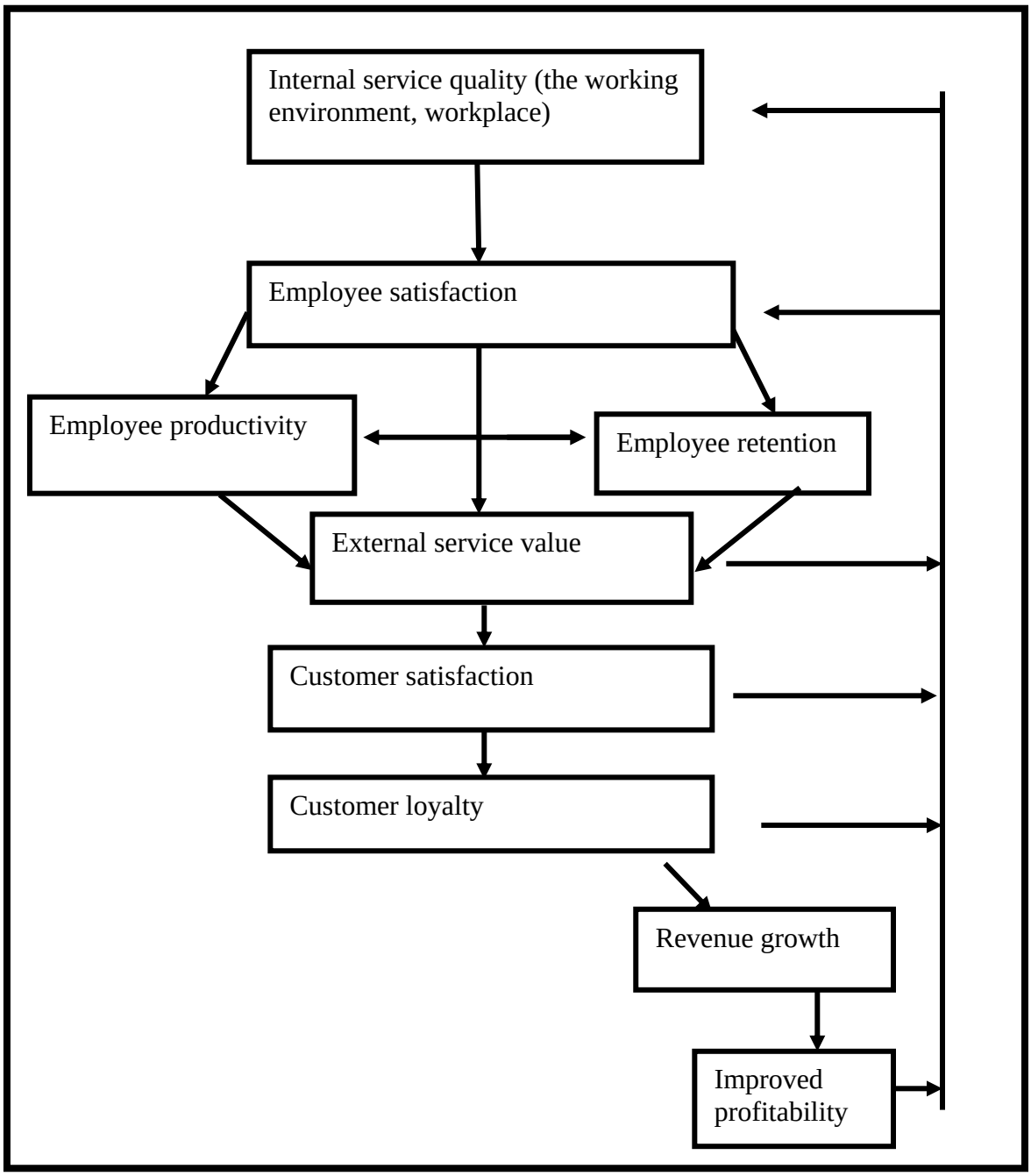

Fig 4: The service–profit chain

Source: Palmer, 2005:265

Figure 4 shows that improvement in service quality and the general internal environment are capable of resulting into employee satisfaction, employee retention, and improved productivity which translate into improvement in the quality of goods and services and thus, leading to customer satisfaction and loyalty with the concomitant positive impact on revenues and corporate profits. In this direction, a number of researches have sought to establish a possible link between service improvements and financial performance, for example, Grant (1998) reported that studies have found a positive correlation between customer satisfaction and stock market returns. Zeithaml, Parasuraman and Berry (1990) advocate that when a company advocates and provides excellent customer service, it results into excellent customer services which leads to customer satisfaction which in turn increases customer's desire to use the supplier's services in the future, thus increasing company revenue and that the beneficiary of improved service offer is willing to pay a premium price and to remain loyal even when prices go up.

Bolton and Leman (1999) found out that individual's perceptions of equity in service encounters have been shown to influence repeat service purchase; Bates, Bates and Johnson (2003) posit that a positive relationship exists between improvements in service quality and a company's profitability. In their studies of companies in the United Kingdom (U.K.), it was found out that better service providers had a significantly better return on equity than the poorer providers, and this appeared to apply to both small and large organisations.

These findings show that there is a positive relationship between loyalty, favourable attitudinal behavioural intentions such as praise for the company and expressions of preference for the company and its goods and services over others. This is

the clear situation when Soteriou and Zenious (1999) in Heskett, Jones, Loveman, Sasser and Schlesinger (1994) concluded that:

i. Profit and growth are stimulated primarily by customer loyalty

ii. Loyalty is a direct result of customer satisfaction

iii. Satisfaction is largely influenced by the value of the services provided to customers.

iv. Value is created by satisfied, loyal and productive employees,

v. Employee satisfaction results primarily from high quality support services and policies that enable them to deliver results to customers.

The proponents of the quality-profit chain framework posit that profits are driven by service quality. Thus, there is great emphasis on driving the firms' operations based on analysis of customer surveys to identify key service attributes that can impact aggregate quality with a view to driving financial outcomes. These studies are indications that higher levels of satisfaction lead to customer loyalty and that increasing loyalty helps secure future revenues, reduce the costs of future transactions and those of defective goods and services with the resultant effect of decreasing price elasticity and minimising the likelihood of customers' defection.

Conversely, there abound results of studies that support the contrary position, that there is lack of evidences to support a link between quality and financial performance, pointing out that evidences pointing to a direct positive linkage between service quality and profitability are anecdotal in nature since many managers were frustrated by the inability of quality improvements to result into organizational performance. For example, the British Airways which scored well on customers' satisfaction ironically did performed poor financially compared to relatively low quality carriers such as Ryanair (Palmer, 2005). Anderson, Fornell and Lehman (1994), Passikoff, (1997), Zeithaml, Parasuraman

and Malhotra (2002), also did not establish any positive relationship between service quality improvements and corporate profitability.

The proponents of the school of thought that there is a positive linkage between service quality and financial performance to a large extent may be based on the fact that bank services are highly homogeneous and that service quality is one of the major means of differentiation, thus a deliberate focus on improvement in service quality, is a powerful tool for competitive marketing in the sector.

2.20.2 Profitability Theories

Due to the great importance of profit for good functioning of the banking system, there are series of attempts by authors in this area. Some of the theories are discussed in this sub-section. The traditional theory of the firm assumes that a firm's objective is simply to maximise profits. In practice, this theory is not applicable because most modern industries are involved in providing a variety of products/services, and faced with much more complex decisions to be taken in a dynamic and uncertain environment.

Marx's Theory of Profit

Marx's theory provides the best theory of profit. The theory provides a logically robust theory of profit with very impressive explanatory power. Marx's theory of profit of course says that profit is produced by the surplus labour of workers. That is, it only takes a part of the working day for workers to produce value equal to their wages (the "necessary labour" portion of the working day). In the remainder of the working day, the value produced by workers becomes the profit of capitalists. Therefore, Marx's theory concludes that the profit of capitalists is the result of the exploitation of workers; because the value produced by workers is greater than the wages they are paid.

Marx's theory argues that there are inherent limits to the increase in the profit produced by each worker. The main limit is that there are only so many hours in the

working day, and so it becomes harder and harder to increase the profit produced by each worker in a given working day. Another limit is the resistance of workers, who usually fight against wage cuts and fight for higher wages and a share of the benefits of the higher productivity. As a result of these limits, Marx's theory concludes that "labour-saving" technological change will eventually cause the rate of profit to decline. Studies on the performance of banks started with the application of two industrial organizations models:

The Market Power (MP) Theory

Applied in banking, the MP hypothesis posits that the performance of banks is influenced by the market structure of the industry. There are two distinct approaches within the MP theory: the Structure-Conduct-Performance (SCP) and the Relative Market Power hypothesis (RMP). According to the SCP approach, the level of concentration in the banking market gives rise to potential market power by banks, which may raise their profitability. Banks in more concentrated markets are most likely to make 'abnormal profits' by their ability to lower deposit rates and to charge higher loan rates as a result of collusive (explicit or tacit) or monopolistic reasons, than firms operating in less concentrated markets, irrespective of their efficiency (Tregenna, 2009). Unlike the SCP, the RMP hypothesis posits that bank profitability is influenced by market share. It assumes that only large banks with differentiated products can influence prices and increase profits. They are able to exercise market power and earn non-competitive profits.

The Efficiency Structure (ES) Theory

The ES theory states that efficiency in the banking market leads to increase in the firm's size and market share due to aggressive behaviour. This behaviour of the efficient banks allowed them to concentrate and earn higher profits with further capacity of enhancing their market share. Those firms can obtain improved profits either by

maintaining the present level of product price or service charge and firm's size or by reducing the service charges and expanding the firm's size because of the ability to reduce cost through superior management and efficient production processes.

The ES hypothesis, on the other hand, posits that banks earn high profits because they are more efficient than others. There are also two distinct approaches within the ES; the X-efficiency and Scale-efficiency hypotheses. According to the X-efficiency approach, more efficient firms are more profitable because of their lower costs. Such firms tend to gain larger market shares, which may manifest in higher levels on market concentration, but without any causal relationship from concentration to profitability (Athanasoglou, Brissimis and Delis 2006). The Scale-Efficiency approach emphasizes economies of scale rather than differences in management or production technology. Larger firms can obtain lower unit cost and higher profits through economies of scale. This enables large firms to acquire market shares, which may manifest in higher concentration and then profitability.

The Balanced Portfolio Theory

The balanced portfolio theory has also added greater insight into the study of bank. The portfolio theory approach is the most relevant and plays an important role in bank performance studies (Nzongang and Atemnkeng, 2006). According to the Portfolio balance model of asset diversification, the optimum holding of each asset in a wealth holder's portfolio is a function of policy decisions determined by a number of factors such as the vector of rates of return on all assets held in the portfolio, a vector of risks associated with the ownership of each financial assets and the size of the portfolio. It implies that portfolio diversification and the desired portfolio composition of commercial banks are results of decisions taken by the bank management. Further, the ability to obtain maximum profits depends on the feasible set of assets and liabilities determined by

the management and the unit costs incurred by the bank for producing each component of assets (Nzongang and Atemnkeng, 2006).

The above theoretical analysis shows that MP theory assumes that bank profitability is a function of external market factors, while the ES and Portfolio theories largely assume that bank performance is influenced by internal efficiencies and managerial decisions. Due to this, most researchers prefer market structure theories rather than the traditional theory to analyze the profitability of the industry in terms of industry structure.

The literature on the measurement of market structure (structural approach) is divided into two mainstreams, called the structure-conduct-performance (SCP) paradigm and the efficiency structure hypothesis (ESH). The first one lies in limiting the number of banking units in the market through encouraging mergers among existing banks. This helps to increase the bank size for pursuing scale of economics. The second strategy lies in sharing common facilities such as ATM with other banks in the industry. There is no need to encourage mergers, since the efficient entities can improve their market share by providing banking services. Proponents of this hypothesis posit that this is more economical in the market.

Market Structure Conduct and Performance (SCP) framework is derived from the neo-classical analysis of markets. It was first formalized by Mason in 1939 as a method of analyzing markets and firms (Worthington, Briton and Andy 2001). The SCP was the central opinion of the Harvard school of thought and popularized during 1940-60 with its empirical work involving the identification of correlations between industry structure and profitability. The SCP paradigm asserts that there is a relationship between the degree of market concentration and the degree of competition among firms.

This rivalry leads to uniqueness of prices, profits and other aspects of market performance. (The Structure-Conduct-Performance (SCP) hypothesis, which is also sometimes referred to as the MP hypothesis, asserts that increased market power yields monopoly profits.

In theory, determinants are categorized into three indicators: bank-specific, industry-specific and macroeconomic. Bank specific indicators include: growth in bank assets, capital adequacy, operational efficiency and liquidity. Much of the empirical literature agrees that bank level as well as macroeconomic factors largely influence bank profitability. There is however, limited evidence that industry-specific factors have any influence on bank profitability. It is against this background that the study utilized only bank level factors to estimate profitability. Research seems to have focused on the impact of macroeconomic factors on banks' performance. In all these studies, however, the literature reveals that service quality in the Nigerian banking industry is less studied and therefore would require more information on the banking sector for better planning of the sector.

Toddard, Molneux and Wilson (2004), Guru, Stauton and Balalashanmugam (2002) and Panayiotis, Anthanasoglou, Brissimis, and Mathaios, (2005) show that bank profitability is a function of internal and external factors. Internal factors include bank-specific factors; while external factors include the industry-specific and macroeconomic factors. According to this literature, there are six standard key bank-specific indicators that are widely used to study banks: profitability; capital risk; asset quality; operational efficiency; and growth in bank assets. Industry-specific factors include: ownership, bank size, bank concentration index; while macroeconomic factors include interest rate, interest rate spread, inflation and per-capita income and growth in GDP. This study concerns itself with bank specific indicators (operational efficiency and specifically, service

quality) to estimate financial performance for Nigerian banks. The study on Malaysian banks by Guru, Stauton and Balalashanmugam (2002) also shows that efficient management is among the most important factors that explain high bank profitability. Extending a similar study to Nigeria, therefore, may generate comparative results.

Smirlock (1985) and Berger (1995) investigated the profit structure relationship in banking, providing tests of the aforementioned hypotheses. To some extent, the relative market power hypothesis was verified; since there was evidence that superior management and increased market share (especially in the case of small to medium sized banks) raise profits. In contrast, weak evidence was found for the efficient structure hypothesis.

2.21 SERVICE QUALITY AND BANK PROFITABILITY

A profitable bank is that bank which can accrue financial gains from the capital invested into the operational activities of the bank. In the Nigerian context, there has been a sustained effort by the Central Bank of Nigeria (CBN) over the years in enhancing banks' profitability and stability via the introduction of various reforms. An effort at achieving the profitability objective of a bank is a major concern for both bank managers and analysts. This concern is necessitated by the significant relationship of the financial performance of money deposit banks and the potential growth of the economy.

A number of studies relating to bank profitability concentrated more on factors such as asset quality/composition, management efficiency, deposit liabilities, labour productivity, state of information technology, ownership, control-ownership disparity and structural affiliation, bank size and less research on service quality and financial performance. In the banking industry, the indices of profitability are usually a function of a number of variables, ranging from both internal and external factors. Al-Tamimi (2010) reported that a large number of empirical studies regarding service quality and bank

profitability are conducted in developed economies with less of such studies in emerging economies.

From the analysis of the service-profit-chain, there is a link between profitability and service quality which agrees with the study of El Grzinic (2007) who reported that in a study involving 2600 companies in the U.S.A., there was a direct connection between the level of quality of goods and services and their financial performances. This entails that all components of quality are very much important so as to satisfy specific needs that have bearing with performance.

The banking environment in recent times indicates that banks' profitability levels have been compressed due to increased competition. Banks once relied upon products to make their profit margin in a highly regulated industry, and the customers basically were sidelined, but banks today are driven by customers who demand service quality (Stone, 1995). Parasuraman, Zeithaml and Berry (1988) observed that quality of service is very important in separating competing businesses in the retail sector as well as in banking. Banks seeking to increase financial performance have come to realise that good quality helps a bank obtain and keep customers and poor quality will cause customers to leave a bank. It is well and good to recognise this need for implementing the practice of service by all of its employees, but how to carry out the practice and convince the bank's employees of this need is another matter. Studies by Khan and Fasih (2014) and Lewis (1993) indicate that service quality was one of the most effective means of establishing a competitive position and improving profit performance. Khan and Fasih (2014) argued that General Electric (GE) invested heavily in quality service and the result was huge annual profits and they concluded that service quality has a linear relationship with success and profitability.

To establish a competitive position, it was noted by Hall (1995) that banks must measure and determine their level of service quality, if they desire to keep their customers and satisfy their needs. In addition, it should also be pointed out that the only means through which service can be measured is to ask the service recipients. Reinforcing this important research, there have been a large number of researchers who identify service quality as a primary means of providing a competitive advantage to banks, and according to Soteriou and Stavrinides (1997) the importance of service quality has been documented in numerous studies. They found that the advantage was readily identifiable through their research.

In some specific studies in four U. S. banks, Morrall (1994) found that the implementation of service quality at First Chicago Bank, Compass Bank, Marquette Bancshares, Inc., and Wachovia Bank gave them a substantial advantage over their competitors. Once banks implemented service quality, their profitability was also noticeably improved.

2.22 SUMMARY OF LITERATURE REVIEW

From the review of literature, several scholars have established some level of prediction in relation to the relationship between service quality and financial performance of banks such as positive relationship between customer satisfaction and stock market returns; influence on repeat service purchase; better service providers had a significantly better return on equity than the poorer providers. These are indications that higher levels of satisfaction lead to customer loyalty and that increasing loyalty helps secure future revenues, reduce the costs of future transactions and those of defective goods and services with the resultant effect of decreasing price elasticity and minimizing the likelihood of customers' defection. Conversely, there abound results of studies that support the contrary position; that there is lack of evidences to support a link between

quality and financial performance, pointing out that evidences pointing to a direct positive linkage between service quality and profitability are anecdotal in nature since many managers were frustrated by the inability of quality improvement to result into organizational performance.

Due to the great importance of profitability for good functioning of the banking system, series of attempts by authors in this area have postulated theories that could predict some form of relationships between variables. These theories that were reviewed include the MP hypothesis, the ES hypothesis, the balanced portfolio theory.

Although, similar studies were carried out by other researchers but with different focus. For example, Babalola (2012) investigated the determinants of banks' profitability in Nigeria but with special focus on capital adequacy, bank size and tangibility; Aminu (2013) focussed on management efficiency and its impact on the profitability of Nigerian banks; Ani, Ugwunta and Imo (2012) examined bank size, asset composition and quality, and capital adequacy. The literature reviewed could not point particularly to Nigerian circumstance (s) where profits in the banking sector are linked to investment in service quality programmes by banks. This relationship is a necessary ingredient for bank executives/managers in as much as it will determine the linkage between investments in service quality and financial performance in the industry.

Besides, causality with respect to the nature of relationship between quality and profits in other countries is a contentious matter as other findings did prove otherwise. Also, reviewed literature did not precisely indicate that behavioural patterns of Nigerian bank customers did show any direct relationship with the application of service quality systems in service provision and delivery. Consequently, there is every need for a search towards filling this gap. As such, it is apparent that the reviewed literature revealed a level of inadequacy in the current body of knowledge relating to prediction of the

relationship between investment in service quality and banks' financial performance within the Nigerian context. Considering this, it becomes obvious this is an area that has not been thoroughly researched. Therefore, sufficient gap exists in the literature to indicate that an empirical study is justified and needed. The value of this study will be justified by this empirical research which made important contribution to the body of knowledge and the literature in the areas of predicting customers' loyalty, repeat purchase and choice of banks as a result of investments in service quality programmes. Likewise, it also made contribution to the general body of knowledge on service quality and bank profitability.

CHAPTER THREE
RESEARCH METHODOLOGY

This chapter is the description of the types and sources of data, the techniques of data collection, the research instruments employed, the specifications and descriptions of the population, sample size determination, the sampling techniques as well as the methods of data collection and analysis. To provide answers to the research questions, test the hypotheses and achieve the objectives of the research, efforts were made to arrive at appropriate methods of conducting the research. A preliminary study was conducted to test the adequacy and the reliability of the primary instrument of data collection.

3.1 RESEARCH DESIGN

This study employed the survey approach in the collection of the primary data. The survey approach was employed since the study aimed at establishing relationship among variables. To achieve this, the study employed the cointegration approach which enabled the estimation of relationships among non-stationary variables by revealing the long-run equilibrium relationship among the variables (Haron and Azmi, 2004). Cointegration implies the existence of an error correction term. If an Ordinary Least Squares (OLS) regression is estimated with non-stationary data and residuals, then the regression is spurious. To overcome this problem, the data has to be tested for a unit root (i.e. whether it is stationary). If both sets of data are I (1) (non-stationary), and if the regression produces an I(0) error term, then the equation is said to be cointegrated.

The most basic non-stationary time series is the random walk, the Dickey-Fuller test essentially involves testing for the presence of a random walk.

$$y_t = y_{t-1} + u_t \qquad \ldots (1)$$

Although this has a constant mean, the variance is non-constant and so the series is non-stationary. If a constant is added, it is termed a random walk with drift. To produce a stationary time series, the random walk needs to be first-differenced:

$$\Delta y_t = u_t \quad \ldots (2)$$

To test for cointegration between two or more non-stationary time series, it simply requires running an OLS regression, saving the residuals and then running the Augmented Dickey Fuller (ADF) test on the residual to determine if it is stationary. The test for cointegration among the variables was done in order to test for the presence of any long run relationship. In this regard, the Johansen cointegration test based on trace and maximum eigen values test statistic was conducted. The existence of cointegration among the variables suggests that a VECM model can be estimated in order to make long run analysis.

The time series are said to be cointegrated if the residual is itself stationary. In effect the non-stationary I (1) series have cancelled each other out to produce a stationary I(0) residual. Johansen cointegration procedure was used to test the co-integration. Trace statistics and the Max-Eigen statistics were used to determine stationarity or non-stationarity of the variables. If the variables (dependent and independent) are cointegrated, then the relationship between the two can be expressed as an error correction model (ECM), in which the error term from the OLS regression, lagged once, acts as the error correction term. In this case, the cointegration provides evidence of a long-run relationship between the variables, whilst the ECM provides evidence of the short-run relationship. A basic error correction model would appear as follows:

$$\Delta y_t = \chi_0 + \chi_1 \Delta x_t - \tau(u_{t-1}) + \varepsilon_t \quad \ldots (3)$$

Error correction model (ECM) shows how equilibrium relationship among variables is achieved. This means that changes in the dependent variable are a function of the level of disequilibrium in the cointegrating relationship as well as changes in other explanatory variables. Upon the variables being found to have cointegrated, a vector correction model was used to investigate the dynamic interactions among them in the system.

In this research, the panel data regression approach was adopted to determine the important factors in achieving financial performance via investment in service quality. Panel data also known as longitudinal or cross-sectional time-series data- is a dataset in which the behaviour of entities is observed across time. Panel data also helps to control for unobservable variables that change over time but not across entities. Panel data can include variables at different levels of analysis suitable for multilevel or hierarchical modeling. Panel data analysis refers to a cross-section or group of elements which are surveyed periodically over a given period of time.

Panel data gives more informative data as it consists of both the cross sectional information, which captures individual variability and time series information and this permits for dynamic adjustment. In this regard, panel data modelling helps to identify a common group of characteristics while at the same time taking into account the heterogeneity that is present among individual units.

The consensus from the literature on banks service quality and financial performance is that the appropriate functional form of analysis is the linear one. Thus, in this study, a linear model was used to analyse the cross section and time series data to isolate the financial performance determinants of Nigerian banks.

Those indices are the appearance of the bank's physical facilities, equipment, personnel, and communication materials; the bank's ability to perform the promised

service dependably and accurately; the bank's willingness to help customers and provide prompt services; the knowledge and courtesy of the bank's employees and their ability to convey trust, confidence and care.

3.2 RESEARCH POPULATION

The Central Bank of Nigeria (2008) typically divides Nigerian banks into four groups as follows: Group one (1) comprises the first generation banks and the largest traditional banks that achieved the capital threshold mostly on their own. These banks therefore, have significant advantages in terms of their franchise and large resource base. These banks include: First Bank Nigeria Plc, Guaranty Trust Bank Plc, United Bank for Africa Plc, Union Bank Nigeria Plc, and Zenith Bank Nigeria Plc. Group two (2) constitutes banks that achieved the capital threshold by merging through voluntary partnerships. These include; Access bank Plc, Diamond bank Plc, Eco bank Plc, Fidelity Bank Plc, etc. Group three (3) is made of banks that achieved their capital threshold through four or more banks partnering out of necessity. This group includes the following banks: FCMB, First Inland bank, Skye bank, Sterling bank, Unity bank and Spring bank. Group four (4) is made up of banks whose ownership is either majority or wholly foreign. Examples include: Stanbic IBTC Bank and Standard Chartered Bank. Market share for the banks for 2006, clearly demonstrates the dominance of Group 1 banks, with this group having at least 69% market share between them.

The target population for this study is divided into three:

a. The first population consists of the entire number of money deposit banks that are licensed by the Central Bank of Nigeria, registered with the Corporate Affairs Commission (CAC), quoted on the Nigerian Stock Exchange Market and are operating in Nigeria. Current Central Bank of Nigeria (CBN) report indicates that

out of the twenty-four (24) banks, only fourteen (14) banks meet this description. In this study fourteen of these banks make up the target population.

b. The entire personnel of these banks as reported by Abulo (2009) are eighty-five thousand, five hundred and ninety-one (85,591). Due to the large number of personnel of the banks and the nature of information that is required, only the senior management personnel was our target. The concern in this study however, is with the senior staff who are knowledgeable enough to give response on investments on service quality and bank financial performance. This category of staff is believed to be the group of employees who are not only competent enough to assess the influence of service quality programmes on the performance of the banks but as well give reliable opinion on the variables being studied**.** This figure is two thousand four hundred and seventy-seven (2477) (See Appendix B (1).

c. The third category of population consists of the total number of customers of the money deposit banks in Nigeria that utilize the services of these banks which Ujah (2011) reported that is forty-four million, four hundred and thirty-nine thousand , three hundred and forty-eight (44,439,348).

3.3 SAMPLE SIZE

In a social/management science research, sampling has become inevitable due to the obstacles in reaching the entire population. This difficulty is particularly worrisome more so, when the target population is quite large. This, therefore, imposes some technical and financial constraints in enumerating the entire target population. In this research, therefore, an option of choosing a researchable sample size becomes inevitable. The researchable sample size in a research depends on the basic characteristics of the population; the type of information required from the survey and of course the cost involvement. Osuala (1987) maintains that examining the entire population of a study can

lead to so many errors such that the overall cumulative errors may even be greater than the errors inherent in using the sampled result to draw inference for the population.

In this study, thirteen banks (13) were selected for the purposes of the study. These banks are as shown in Appendix A (4). Thus, from the thirteen banks selected with total population of 2477 management staff, the sample size was determined using the Yamane (1967) formula. Five banks were selected from the first category of banks, four banks were selected from the second, three banks were selected from the third category and one bank was selected from the forth category.

Using the Yamane (1967) formula for determining the sample size:

$$n = \frac{N}{1+N(e)^2} \quad . \; . \; . (4)$$

Where,

n = sample size;

N = population size;

e= Level of precision required;

1 = constant

In determining the sample size, the following variables were used:

Confidence interval = 95 %

e = Margin of error = 0.05

Substituting into the formula,

Sample size (n_2) Number of senior staff) = $\frac{2477}{1+2477(0.05)^2} = 344$

We drew a sample of the number of the banks' customers using the Yamane formula at 95% confidence interval and at 0.05 margin of error. The sample size for the number of depositors - {Sample size (n_3)} = 400

Our study was based on the thirteen sampled banks, 344 senior staff and 400 depositors. Generalisations were drawn from our findings based on these sample sizes.

3.4 SAMPLING TECHNIQUES

The technique adopted in sampling the staff of these thirteen banks was simple random sampling technique. This helps in reducing bias inherent in non-probability sampling methods and also affords equal chance of every subject being selected without bias. For the techniques of selecting the customers, a stratified random sampling method was employed. First, they were categorized into strata and then chosen from each stratum using random sampling. The number of strata depended on the number of groups of the population, according to sex, education and occupation. This permits representativeness.

3.5 SOURCES OF DATA COLLECTION

The data for this study was obtained from two main sources namely primary and secondary sources.

3.5.1 Primary Sources of Data Collection

Bank customers were asked to fill in the questionnaire that was administered. The questionnaire is both open and close ended to measure customers' assessment of service quality in the banking industry. This technique was used because of its inherent merits, namely: speed in administration, elimination of biases and undue pressure on respondents. Questionnaire is one of the commonly used methods for data collection in social/management sciences. However, the process of questionnaire construction is complex. With closed –ended questions, the respondents were asked to provide answers in their own words (Edwards, 2002:24). Researchers usually prefer to use closed-ended questions because the alternative answers are set in a way that can easily be quantified (Whitely, 2002:345.).

In this study, closed-ended questions were used with Likert 5 – point rating scale. Likert rating scale is a popular form of multi-item scale which presents the respondents with a set of statements about a person, a thing or a concept and the respondents are required to indicate how they strongly feel, positively or negatively, about the statements. In this research, a five - point Likert scale was used.

The respondents were asked to respond according to how strongly they agreed or disagreed with the statements relating to service quality. Questionnaire survey using Likert scale is widely used by researchers in analyzing relationships between variables. For example, Gitau, Mikulu, & Kihoro (2014); Ewino (2013) all used the Likert scale in their researches.

3.5.2 Design/Administration of Instrument

Questionnaires were designed and administered to both the customers and employees of the chosen banks. Open-ended, close-ended and scaled types of questions were used. These questionnaires were made up of structured questions. This technique is useful since it enables us to win the respondents' cooperation. Besides, the detailed explanations to the open-ended questions would permit a good and reasonable understanding of the influence of service quality improvements and initiatives on customers' buying habits.

3.5.3 The Customers' Questionnaire

The questionnaire administered to bank customers comprises two sections (sections 1 and 2). Section one (1) contains demographic factors such as; gender, age, marital status whereas section two (2) contains statements that relate to service quality components which in turn influence decisions about banks and banking services or operations. These statements are meant to test the relationship between banking

operations and the expectations of the customers of banks in relation to service quality in Nigeria.

Service quality is a construct of interest, which the current study is exploring within the Nigerian banking sector. It is the independent variable in this study. Therefore, the variables being considered are timeliness, delivery on promise, safety of transactions, consistency, professionalism, loyalty, facilities and range of services. While much has been said about service quality in the service industry, this aspect of the study intends to analyse the relationship between investments in service quality and the financial performance in the Nigerian banking sub-sector. The variables are closely related conceptually to the financial performance of the Nigerian banking sector as in this study.

3.5.4 The Employees' Questionnaire

The questionnaire meant for the employees comprises two sections (sections 1 and 2). Section one (1) contains preliminary data which are basically demographic factors such as; gender, age, marital status, duration of work with the bank, qualification, etc., whereas section two (2) contains statements that relate to banks' employees perspectives of customers' expectations of service quality. The independent variable here is service quality made up of handling of complaints, operational facilities, reduced prevalence of errors, self-service technologies, monitoring systems, readiness to responses, innovation, size of bank, while the dependent variables are profitability, volume of earnings and volume of deposits.

3.5.5 Secondary Sources of Data Collection

Relevant data relating to investments in service quality programmes by banks and profits or returns that accrue to banks were sourced from the books of these banks, such as their financial statements, information relating to the performance of the banks relative to improvements in service quality and financial performance from the nation's apex bank

(CBN), journals, textbooks, the internet, government sources and other information that have been gathered for purposes other than for this study, but beneficial to us in this study.

3.6 THE RESEARCH VARIABLES

A variable is any entity that can take on different values and is typically the focus of a study. In most cases, researchers seek to find relationship between two or more sets of variables, which will enhance the answering of research questions as well as achieve the stated research objectives. An important step in designing all quantitative research is defining or identifying the variables that will be manipulated, measured, described, or controlled. Although qualitative researchers do not define variables to the same extent that quantitative researchers do, they still must outline what kinds of phenomena they are studying. In this regard, one can then dichotomize between dependent and independent variables. In experiments, the independent variable is the variable that is varied or manipulated by the researcher, while a dependent variable is one which changes as a result of the manipulation of the independent variable.

In this research, the dependent variables being studied are banks' profitability, deposits and earnings. These dependent variables are the measure of a bank's performance in this research. Investment in service quality is the independent variable being observed. These include expenditures on staff training, computer hardware and software, self-service equipment and information and communication technology related items.

3.6.1 Measurement of Research Variables

The measurement of the research variables are discussed in table 3.

Table 3: Measurement of Research Variables

Variable	Meaning	Measurement
Earnings	These are revenues from the banks' primary business operations and activities.	Earnings of banks from the financial statements of the chosen banks in millions of naira.
Profitability	The state of yielding financial gain	Profits of banks from the financial statements of the chosen banks in millions of naira.
Deposit	Bank deposits are made up of money placed into bank account account(s) for safe keeping such saving accounts, checking accounts and money market accounts. The account holder can withdraw such money as contained in the terms of and conditions of the account.	Deposits of banks from the financial statements of the chosen banks in millions of naira.
Investments in Service Quality	Investments in service quality in this study involve expenditures on staff training, computer hardware and software, self-service equipment and information and communication technology related items.	Figures showing investments in service quality of banks from the financial statements of the chosen banks in millions of naira.
Choice of Banks	The process of deciding the bank to select	Highest responses from the respondents
Repeat Purchase	The tendency for a customer of the same product or service that was previously bought on another occasion.	Highest responses from the respondents

3.6.2 Structure of the Research Variables

For the customer response, the first to nine components have eigen-value above 1(4.316, 2.625, 1.820, 1.515, 1.509, 1.387, 1.314, 1.154, and 1.086) and they explain69.695 of the total variance. The subsequent components have eigen-values less than 1 and explain only small amount of variance. The ten to twenty-four components have eigen-value 0.940 to 0.185. The Scree Plot of the eigen-values for all the components before extraction is as shown in above diagram. After extraction only nine factors are retained, they explain69.695% of the total variance.

For the staff response, the first to seven component have eigen-value above 1(3.622, 2.666, 2.237, 2.037, 1.692, 1.543, and 1.287) and they explain65.581 of the total variance. The subsequent components have eigen-values less than 1 and explain only small amount of variance. The ten to twenty-three components have eigen-value 0.994 to 0.112. The Scree Plot of the eigen-values for all the components before extraction is as shown in above diagram. After extraction only seven factors are retained, they explain 65.581% of the total variance.

The components from the factor extraction show that the questionnaires (customers and staff) are structure into four major factors in this study that encourage and enhance service quality in banks. These four major components are bases on the responses of the sampled respondents. They include:

1. Employment of Professional and Knowledgeable employees
2. Physical facilities and efficient transactions
3. The variety of choice services and prompt delivery
4. Duration of customer relationship with their choice bank

3.7 METHOD OF DATA ANALYSIS

In order to develop the service quality and financial performance indices, exploratory principal component analysis (PCA) was employed to identify the underlying dimensions and structure of service quality and financial performance to determine which indicators are best associated with our service quality construct. PCA was invented in 1901 by Karl Pearson (Pearson, 1901). It is mostly used as a tool in exploratory data analysis and for making predictive models. PCA can be done by eigenvalue decomposition of a data covariance (or correlation) matrix or singular value decomposition of a data matrix, usually after mean centering (and normalizing or using Z-scores) the data matrix for each attribute (Abdi, and Williams, 2010). The results of a PCA are usually discussed in terms of component scores, sometimes called factor scores (the transformed variable values corresponding to a particular data point), and loadings (the weight by which each standardized original variable should be multiplied to get the component score) (Shaw, 2003). PCA is sensitive to the scaling of the variables. If we have just two variables with the same sample variance and are positively correlated, then the PCA will entail a rotation by 45° and the "loadings" for the two variables with respect to the principal component will be equal.

The method of analysis for the secondary data collected for this research is Pearson Correlation analysis. The Pearson Product – moment Correlation Coefficient designated as ‘r’. This helped us determine if the relationship between the variables is positively or negatively related.

In order for us to calculate the correlation coefficient we used the formula:

$$r = \frac{n(\Sigma XY) - (\Sigma X)(\Sigma Y)}{\sqrt{[n(\Sigma X^2) - (\Sigma X)^2][n(\Sigma Y^2) - (\Sigma Y)^2]}} \quad \ldots (5)$$

Where n is the number of paired observations

ΣX is the X variable summed

ΣY is the Y variable summed

(ΣX^2) is the X variable squared and the sum squared

$(\Sigma X)^2$ is the X variable summed and the sum squared

(ΣY^2) is the Y variable squared and the squared summed

$(\Sigma Y)^2$ is the Y variable summed and the sum squared

ΣXY is the sum of the products of X and Y

Where the coefficient of the correlation is positive the relationship is referred to as strong, where it is negative, it is said to be a weak relationship and where it is zero, it is said that there is no relationship. However, these do not give a precise meaning, so the coefficient of the correlation is squared in order to have an easily interpreted meaning and it is referred to as the coefficient of determination ($r^{2)}$ which gave a proportion or a percentage of the variation between the two variables.

In this study, the significance of correlation coefficient was tested. This helped to have a correlation that truly represented the population. So the use of the population perimeter represented by a Greek letter p = rho; with the following assumptions:

If Ho: p = 0 (the correlation in the population is zero)

H1: $p \neq 0$ (the correlation in the population is different from zero)

For a two tailed test, the t test for the coefficient of correlation

$$t = \frac{r\sqrt{n-2;}}{1-r^2} \qquad \ldots \qquad (6)$$

with n – 2 is degree of freedom. The level of significance is 0.5. Our Decision Rule is that, if the computed t value falls within the acceptable area demarcated by both the negative and positive regions of rejection, Ho will be accepted.

The computed t is the rejection region if our calculated t falls within the rejection region; it means that the correlation in the population is not zero. Then it can be said that, there is a relationship.

The Pearson correlation test was used to test hypotheses one and two while the regression analysis was employed to test for the significance of hypotheses three, four and five, using the probability value via the SPSS software package.

To ascertain the significant relationship between profitability, investment in service quality, earnings and volume of deposit, the following model was formulated:

$Y_{it} = \alpha_0 + \alpha_1 X_{it} + \mu_{it}$ … (7)

$W_{it} = \beta_0 + \beta_1 X_{it} + \varepsilon_{it}$ … (8)

$Z_{it} = \lambda_0 + \lambda_1 X_{it} + e_{it}$ … (9)

Where:

Y_{it}= volume of deposit

W_{it}= Earnings

Z_{it}= Profitability

X_{it} = Investment in service quality

μ_t, ε_{it} and e_{it} = error term;

but, $u_t = Y_t - \hat{Y}_t$

The error term must meet the following assumptions:

$E(u_i|X_i) = 0$

$\text{var}(u_i|X_i) = E[u_i - E(u_i|X_i)]^2 = E(u_i^2|X_i) = \sigma^2$

$\text{var}(u_i|X_i) = \sigma^2_i$, $\text{cov}(u_i,u_j|X_i,X_j) = E\{[u_i - E(u_i)]|X_i\}\{[u_j - E(u_j)]|X_j\} = E(u_i|X_i)(u_j|X_j) = 0$, t= time variant (2000, 2001, 2002…2010) , α_0 = constant term α_1 α_2 = the parameter estimates. The apriori expectation for the parameters are α_1 α_2, $\beta_1 > 0$,

The data for this study were analysed using two different methods. Hypotheses one and two were tested using Pearson Correlation analysis. This method was chosen because this permits us to bring to focus all the elements or dimensions of service quality and their relationships with revenue, patronage and consumers' habit. Regression analysis was employed to test hypotheses three, four and five using the SPSS version 22 software package to ascertain the significant relationship between profitability, investment in service quality, earnings and volume of deposit. The data necessary for the tests of the last three hypotheses were both cross-sectional and time-series in nature; thus they were presented in the form of panel.

3.8 TESTS OF INSTRUMENT

Given that the usefulness of any theoretical construct is conditioned on the reliability of the instruments used to measure the construct this section focuses on achieving this objective by subjecting the measures to factor analysis and reliability checks. The underlying intention of performing factor analysis is to identify how the variables in the instrument relate to one another, such that grouping of highly related variables can be achieved to determine the dimensionality of the scale (Nuanality and Beinstein, 1994).

3.8.1 Tests of Reliability

The reliability analysis is to test the internal consistency of the items. Cronbach's alpha is a reliability coefficient that indicates how well the items in a set are positively correlated to one another. The closer the Cronbach's alpha is to 1, the higher the internal consistency of the items. With this in mind, reliability tests were performed which varied from Correlation Matrix to Cronbach Alpha test.

In this study, other tests (Split-half, Guttman, Parallel and Strict Parallel) were used as confirmatory measures to support the Cronbach's alpha analysis. The use of more

than one test is to ensure the robustness of the result thereof. The results of the Cronbach's alpha analysis and the other confirmatory tests are presented in the following sub-sections.

Table 4: Tests of Reliability for Customers' Questionnaire

Number	Type of Reliability Test	Value	Remarks
1	Cronbach's Alpha	0.799	Very Reliable
2	Split-half	Part 1 =0.715	Very Reliable
		Part 2 =0.692	fairly Reliable
3	Guttman	Lambda 1 = 0.765	Very Reliable
		Lambda 2 = 0.818	Very Reliable
		Lambda 3 = 0.799	Very Reliable
		Lambda 4 = 0.686	fairly reliable
		Lambda 5 = 0.795	Very Reliable
		Lambda 6 = 0.849	Very Reliable
4	Parallel	0.799	Very Reliable
		0.801 (unbiased)	Very Reliable
5	Strict Parallel	0.699	fairly Reliable
		0.703 (unbiased)	Very Reliable

According to Hinton, Brownlow, McMurray, & Cozens (2004), an “Alpha” score above 0.75 is generally taken to have a high reliability, 0.5-0.75 indicates a moderate reliable scale, and a value below indicates a low reliability. Therefore, the items in the questionnaire were high and reliable (ranging from 0.686 t0 849) and appropriate for further analysis in this research work.

3.8.2 The Kaiser-Meyer-Olkin (KMO) and Bartlett’s tests

The Kaiser-Meyer-Olkin (KMO) and Bartlett’s tests show that the KMO statistics vary from 0 to 1 and it is normally used in testing the adequacy of the samples. The rule of the thumb is that the KMO must be greater than 0.5 to be adequate. From Table 5, it can be seen that the KMO is 0.811 which shows that the sample is adequate and factor analysis is appropriate for the data.

Table 5: KMO and Bartlett's Test (Customers' Questionnaire)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.811
Bartlett's Test of Sphericity	Approx. Chi-Square	1203.354
	Df	276
	Sig.	.000

To proceed with the factor analysis, we need to check further if there are relationships between the variables and that the original correlation matrix is not an identity matrix. Barlett's test of sphericity is used to conduct this test. On checking the result, it is seen that the Bartlett's test is highly significant (.000) with $p < .001$. This shows that the R-Matrix is not an identity matrix.

Table 6: Tests of Reliability for Banks' Staff Questionnaire

Number	Type of Reliability Test	Value	Remarks
1	Cronbach's Alpha	0.600	Reliable
2	Split-half	Part 1 =.573	Reliable
		Part 2 =0.517	Reliable
3	Guttman	Lambda 1 = 0.573	Reliable
		Lambda 2 = 0.636	Reliable
		Lambda 3 = 0.600	Reliable
		Lambda 4 = 0.300	Not reliable
		Lambda 5 = 0.616	Reliable
		Lambda 6 = .704	Very Reliable
4	Parallel	0.600	Reliable
		0.604 (unbiased)	Reliable
5	Strict Parallel	0.434	Not Reliable
		0.442 (unbiased)	Not Reliable

According to Hinton, *et al* (2004), an Alpha score above 0.75 is generally taken to have a high reliability, 0.5 - 0.75 indicate a moderate reliable scale, and a value below indicates a low reliability. Therefore, the items in the questionnaire were generally high and reliable (ranging from 0.434 to 0.704) and appropriate for further analysis in this research work.

Table 7: KMO and Bartlett's Test (Bank Staff)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.828
Bartlett's Test of Sphericity	Approx. Chi-Square	2230.694
	Df	231
	Sig.	.000

From Table 7, it can be seen that the KMO is 0.828 which shows that the sample is adequate and factor analysis is appropriate for the data.

CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS

Data becomes meaningful only when it has been analysed**.** In this research, we used tables and charts in presenting most parts of the primary and secondary data that were generated or sourced. This permitted us to bring to focus all the elements of service quality and their relationships with on revenue, patronage and consumers' habit.

4.1 DATA PRESENTATION

Since data for the study came from two sources, both have been presented here. The coded data generated from the primary source of data were summarized to enable the application of the mathematical analysis while the secondary data which was generated from the books of accounts of the banks have also been presented (See Appendix B (3).

4.1.1 Questionnaire Responses from Bank Customers

A total of four hundred questionnaires were administered to bank customers. Out of this figure, a total of 270 were duly filled and retrieved. This represents 67.5% response rate. This is adequate for the purpose of analysis.

Table 8: Reasons for Banking with a Bank

Service elements	Percentage
Service charges or fees	8.5%
Empathy	8.9%
Assurances	25.5%
Resolution of complaints	8.2%
Courtesy	4.4%
Credibility of staff	5.2%
Availability of range of services	4.4%
Location	19.5%
Recommendation of others	15.2%
Total	**100%**

Source: Field Survey, 2014

In a survey of the Nigerian bank customers, many of the reasons advanced as the most important for banking with their banks include assurance, location and recommendations of others. 69 respondents Assurance ranked first with 69 respondents (25.5%), location ranked second with 52 respondents (19.3%) and recommendations of others with 41 respondents (15.3%) ranking third. On the other hand key service quality elements such as empathy has 24 respondents (8.9%), credibility of staff 14 respondents (5.2%), courtesy has 13 respondents (4.7%), and resolution of complaints with 22 respondents (8.2%) ranked very low. These figures are an indication of the prevalence or near absence of good service quality attributes since they are key service quality indicators.

Table 9: Duration of Banking with the Bank

	Period of banking transaction	Frequency	Percentage
	0-1 year	11	4.1
	1-5 years	77	28.5
	6-10 years	105	38.9
	10-15 years	44	16.3
	Above 15 years	28	10.4
	Total Valid	265	98.1
Missing	System	5	1.9
Total		270	100.0

Source: Field study, 2014

Majority of Nigerian bank customers have a relatively low period of banking relationship with their banks. From table 9, a total of 193 respondents which represents over 72% of the customers had banking relationship ranging between 1-10 years only. This indicates that most of the customers never had a very prolonged banking relationship with their bankers.

Table 10: Monthly frequency of transaction with a bank

	Rate of transaction	Frequency	Percentage
	Once	69	25.6
	2 to 4 times	142	52.6
	5 to 8 times	29	10.7
	above 8 times	19	7.0
	Total valid	259	95.9
Missing	System	11	4.1
Total		270	100.0

Source: Field study, 2014

From table 10, a total of 211 of the customers (81.5%) had transactions with the banks not more than four times in a month, while only an average 19 (7.3%) made transactions with their banks above eight (8) times in a month. To a large extent, few Nigerian bank customers frequent their banks. In another research, Calik, & Balta (2006) found out that those customers with higher frequencies of banking transactions are more satisfied than those with lesser frequencies, and that those with higher volumes of transactions are also more satisfied customers. Deducing from the findings of Calik and Balta (2006), a service quality would not have been met due to the mere fact that most Nigerian bank customers do not frequent their banks.

Table 11: Mode of Banking Transactions

	Means of transaction	Frequency	Percentage
	Banking hall	125	46.3
	Automated Teller Machine (ATM)	127	47.0
	Internet	12	4.5
	Total valid	264	97.8
Missing	System	6	2.2
Total		270	100.0

Source: Field study, 2014

The rationale for the introduction of internet banking and the use of ATM devices were aimed at reducing congestions associated with customers presenting themselves in the banking halls for almost every banking transaction. However, table 11 reveals that 125 of the sampled customers (46.3%) still transact their banking operations inside banking halls, while 127 of the customers (47.03%) use the ATM devices and only a paltry 12 respondents (4.5%) use internet means. This is a clear indication that a large proportion of Nigerian bank customers still rely on traditional means of banking despite the availability of more convenient mode of operations.

Table 12: Customers Switch Banks

Bank switch		Frequency	Percentage
	Do not switch banks	125	46.3
	Switch banks	144	53.3
	Total valid	269	99.6
Missing	System	1	0.4
Total		270	100.0

Source: Field study, 2014

From Table 12, a total of 144 of the customers (53.3%) switched banks for one reason or the other. Some of these reasons may not be unconnected with the quality of the services rendered by the banks. However, 125 respondents (46.3%) claimed they never switched from one bank to another. Switching tendencies are quite high in the Nigerian banking industry. This may not be healthy for the industry.

Table 13: Workers are always willing to help Customers in Times of Need

Level of agreement		Frequency	Percent
	Strongly disagree	22	8.1
	Disagree	53	19.6
	Neutral	49	18.1
	Agree	114	42.2
	Strongly agree	28	10.4
	Total	266	98.5
Missing	System	4	1.5
Total		270	100.0

Source: Field study, 2014

Table 13 indicates that 142 customers (52.6%) of bank stated that bank' employees are always willing to help customers in times of need, while 102 representing 37.8% did not agree with the statement. This suggests that banks' employees are helpful to customers who solicit for the assistance of banks' employees.

Table 14: Customers' Perception of Service Quality Match with Experiences of Service Delivery

Level of agreement		Frequency	Percent
	Strongly disagree	14	5.2
	Disagree	87	32.5
	Neutral	40	14.8
	Agree	81	30.0
	Strongly agree	17	6.3
	Total	239	88.5
Missing	System	31	11.5
Total		270	100.0

Source: Field study, 2014

Table 14 depicts 101 of the respondents (37.4%) of the customers stating that their perceptions of service quality do not match with their experiences of service delivery. However, another 98 customers (36.3%) argued that their perceptions actually match with their service delivery experiences. This indicates that service perceptions and service delivery do not match. It presupposes that banks delivery of services to customers to a large extent is below the level where it could be said that it meets customers' expectations.

Table 15: Quality of Service meets Customers' Expectations

	Level of agreement	Frequency	Percentage
	Strongly disagree	39	14.4
	Disagree	89	33.0
	Neutral	39	14.4
	Agree	54	20
	Strongly agree	41	15.2
	Total valid	262	97.0
Missing	System	8	3.0
Total		270	100.0

Source: Field study, 2014

Many customers from table 15 do not subscribe to the notion that quality of banking service meets the requirements of customers as 128 respondents (47.4%) do not believe that service quality meets customers' requirements, while 95 respondents (35.2%) have a contrary view. Yet another 39 sampled customers (14.4%) are undecided. It, therefore, means that only little percentage of the sampled respondents view the quality of Nigerian banks as meeting the requirements of their customers. This leaves much to be desired on the part of bank operators.

Table 16: Bankers deliver Banking Services Professionally to Customers

	Level of agreement	Frequency	Percentage
	Strongly disagree	22	8.1
	Disagree	52	19.3
	Neutral	53	19.6
	Agree	99	36.7
	Strongly agree	39	14.4
	Total valid	265	98.1
Missing	System	5	1.9
Total		270	100.0

Source: Field study, 2014

Table 16 indicated that Nigerian bank staff demonstrate professionalism in the delivery of banking services to their customers as 138 customers (52%) opined that there is the professional delivery of banking services to bank customers. On the contrary, the remaining 74 respondents (48%) opined that this is not so. This implies that much is still expected from the operators of banks to meet an improved level of service delivery.

Table 17: Bank Workers Empathise with their Customers

Level of agreement		Frequency	Percentage
	Strongly disagree	21	7.8
	Disagree	92	34.1
	Neutral	61	22.6
	Agree	72	26.7
	Strongly agree	21	7.8
	Total valid	267	98.9
Missing	System	3	1.1
Total		270	100.0

Source: Field study, 2014

Table 17 is an indication of the lack of empathy on the part of Nigerian bank workers while serving their customers as a larger proportion of the sampled customers i.e.113 representing (41.9%) against 94 customers (34.5%) who viewed that the bank staff do not empathise with their customers. Though, a larger proportion of the sampled customers opined that bank workers are empathetic, the fact that this figure is below average is an indication of quality attention being given to bank customers.

Table 18: Workers provide Service on Time

Level of agreement		Frequency	Percentage
	Strongly disagree	22	8.1
	Disagree	57	21.1
	Neutral	41	15.2
	Agree	128	43.7
	Strongly agree	27	10.0
	Total Valid	265	98.1
Missing	System	5	1.9
Total		270	100.0

Source: Field study, 2014

From table 18, it can be deduced that 179 customers ((53.5%) receive banking services on time. This is only an average number of the sampled customers. This is an indication that service delivery on the part of the banks is not good enough and should be improved upon. This might likely be responsible for the apathy on the part of the Nigerian bank customers in frequenting banks.

Table 19: Bank Staff are Knowledgeable in Handling Complaints

Level of agreement		Frequency	Percentage
	Strongly disagree	14	5.2
	Disagree	39	14.4
	Neutral	41	15.2
	Slightly agree	58	21.5
	Agree	112	41.5
	Total valid	264	97.8
Missing	System	6	2.2
Total		270	100.0

Source: Field study, 2014

From table 19, it can be deduced that 180 customers (63%) are of the opinion that bank staff are knowledgeable enough in handling customer complaints while 53 others (19.6%) believe the Nigerian banks' staff do not possess the requisite knowledge in handling customers 'complaints. The implications are that a vast majority of the customers' complaints can be effectively handled by the staff of the banks. This means ability to promptly handle complaints when they arise

Table 20: There is Safety when making Banking Transactions

Level of agreement		Frequency	Percentage
	Strongly disagree	24	8.9
	Disagree	25	9.2
	Neutral	32	11.9
	Agree	130	48.2
	Strongly agree	54	20.0
	Total valid	265	98.1
Missing	System	5	1.9
Total		270	100.0

Source: Field study, 2014

Table 20 indicates that 184 customers (68.2%) opined that they feel safe while making banking transactions, but another 49 respondents (18.4%) opined that they do not feel safe while transacting with their banks. Absence of safety while making transactions with a bank translates into a feeling of lack of quality in banking services. To a large extent, feeling of safety has accounted for one primary rationale for selecting or being favourably disposed towards banking transactions in the Nigerian banking industry.

Table 21: Loyalty to a Bank is not Related to Quality of Services

Level of agreement		Frequency	Percentage
	Strongly disagree	44	16.3
	Disagree	53	19.6
	Neutral	34	12.6
	Agree	70	26
	Strongly agree	38	14.1
	Total valid	239	88.5
Missing	System	31	11.5
Total		270s	100.0

Source: Field study, 2014

From table 21, Nigerian bank customers who remain loyal to a bank do so not because such banks have been providing quality services to them as 108 customers (40.1%) of the sampled customers who have remained loyal to their banks do not think so. However, 97 customers (36.9%) believed that their loyalty to their banks is because the banks have been rendering quality banking services to them. It, therefore, entails that other considerations are responsible for loyalty and not service quality alone.

Table 22: Switching to other Banks Indicates Poor Service Quality Delivery

Level of agreement		Frequency	Percentage
	Strongly disagree	28	10.4
	Disagree	28	10.4
Valid	Neutral	20	7.4
	Agree	90	33.3
	Strongly agree	73	27.0
	Total valid	239	88.5
Missing	System	31	11.5
Total		270	100.0

Source: Field study, 2014

From table 22, the main reason for switching to other banks is primarily because of poor service delivery. This is so because 163 of the customers (60.3%), which is a large proportion opined that the rationale for such switching tendencies is poor service quality. A small proportion of the customers i.e. 56 (20.8%) however think otherwise, Thus, for banks to maintain their customers and even attract others, such banks need to be seen to be delivering quality services to their customers. This is more so since it is quite easier to maintain existing customers than find new ones.

Table 23: Service Quality and Savings Culture by Customers

Level of agreement		Frequency	Percentage
	Strongly disagree	49	18.1
	Disagree	56	20.7
Valid	Neutral	32	11.9
	Agree	69	25.5
	Strongly agree	33	12.2
	Total valid	239	88.5
Missing	System	31	11.5
Total		270	100.0

Source: Field study, 2014

Table 23 indicates that bank customers' bad attitude towards saving in the banks is because of poor service quality by Nigerian banks because only 102 of the respondents (37.8%) believe that the poor saving culture of the Nigerian banking customers do not safe in the banks due to poor bank service quality. Another 105 respondents (38.9%) think that poor saving culture is attributable to poor quality of services being rendered by the banks. The remaining 56 (20.7%) remained undecided. This probably is the rationale for not keeping money in the banks which may be responsible for the cases of money being burnt in stalls and at homes.

Table 24: Banks' staff are Consistently Courteous with their Customers

Level of agreement		Frequency	Percent
	Strongly disagree	17	6.3
	Disagree	55	20.3
	Neutral	44	16.3
	Agree	56	20.7
	Strongly agree	26	9.6
	Total	264	97.8
Missing	System	6	2.2
Total		270	100.0

Source: Field study, 2014

From table 24, a total of 85 respondents (30.3%) agreed that banks' staff consistently demonstrate courteous disposition in the delivery of banks services to customers, while 72 respondents (26.6%) did not agree with this position. From the point of view of the customers, the workers are courteous and this is an attribute of service quality. However, the proportion is relatively insignificant to conclude that courteousness of the staff can translate into improvement in quality service delivery.

4.1.2 Questionnaire Responses from Banks' Staff

Out of the three hundred and forty-four questionnaires distributed to banks' staff, a total of two hundred and seventy-three (273), representing 79.36% response rate was filled and retrieved. This shows that the response rate is adequate enough and analysis can be carried out.

Table 25: Bank Workers are not Courteous in Handling Customer Complaints

Level of agreement		Frequency	Percentage
	Strongly disagree	125	45.8
	Disagree	60	20.0
	Neutral	14	5.1
	Agree	52	19.1
	Strongly agree	19	5.1
	Total	265	97.1
Missing	System	8	2.9
Total		273	100.0

Source: Field study, 2014

From table 25, 185 of the respondents (65.8%) opined that banks' staff demonstrate courtesy in the handling of customers' complaints, while 74 (24.2%) said they are not courteous in handling customers' complaints. This means from the point of view of the banks' staff, they are being courteous in the course of handling complaints brought by customers. Therefore, tables 24 and 25, show that banks' staff are courteous as there is some level of congruence between the opinions of both customers and staff of the banks with respect to courtesy of banks' staff.

Table 26: Bank Staff are not always Ready to Respond to Customers' Requests

Level of agreement		Frequency	Percentage
	Strongly disagree	152	55.7
	Disagree	34	12.5
	Neutral	7	2.6
	Agree	22	8.1
	Strongly agree	58	21.3
	Total	264	96.7
Missing	System	9	3.3
Total		273	100.0

Source: Field study, 2014

Table 26 shows that from the perspective of the employees of the banks, 186 respondents (68,2%) did affirm that they are always ready to respond to requests made by bank customers, while 80 (29.4%) did not agree with this statement. Since a greater majority answered in the affirmative, it can be deduced that the employees are conscious of the needs of their customers and are always very ready to deliver quality services to customers because response is one of the dimensions of service quality.

Table 27: Bank Staff always Render Targeted Service Quality Levels to Customers

Level of agreement		Frequency	Percentage
	Strongly disagree	2	0.7
	Disagree	11	4.1
	Neutral	9	3.3
	Agree	170	62.2
	Strongly agree	76	27.8
	Total	268	98.2
Missing	System	5	1.8
Total		273	100.0

Source: Field study, 2014

Contrary to the result as seen in table 15, almost all the bank workers that were sampled agreed that banks always render targeted service quality levels to their customers. 246 respondents, representing ninety percent (90%) of the employees against 13, representing (4.8%) opined they render targeted service quality levels to their customers. From tables 15 and 27, opinions between customers and employees of the Nigerian banks are sharply divided as to the levels of service quality being delivered. From the perspective of services marketing, service quality has to be defined from the perspective of the customer.

This, therefore, means that banks have not met expected level of service quality required by the Nigerian bank customers. This has arisen because GAP 5 (a difference between perceived and expected service quality between providers and consumers of services). In this scenario, there is no match between perceived actual service quality and initial expectations.

Table 28: An improved Bank Service Quality does not mean Improved Profitability

Level of agreement		Frequency	Percentage
	Strongly disagree	32	11.9
	Disagree	56	20.8
	Neutral	34	12.6
	Agree	79	29.3
	Strongly agree	34	12.6
	Total	235	87.0
Missing	System	35	13.0
Total		270	100.0

Source: Field study, 2014

From table 28, a greater majority of the respondents i.e. 113, representing 41.9% opined that improved service quality does not necessarily translate into profitability of banks, while 88 (32.7%) think that improved service quality would translate into profitability. From this table, there is a mixture of reactions. We can deduce that more respondents' position concur with the findings of Cufe (2008), that of Williams, Ogege and Ideji (2014). It implies that having improved profits is not merely a function of improvement in the quality of banking services alone but other indices as well.

Table 29: Service Quality Management System is Capable of Monitoring Improvements in Service Quality

Level of agreement		Frequency	Percentage
	Strongly disagree	4	1.5
	Disagree	60	21.9
Valid	Neutral	16	5.9
	Agree	121	44.3
	Strongly agree	66	24.2
	Total valid	267	97.8
Missing	System	6	2.2
Total		273	100.0

Source: Field study, 2014

From table 29, majority of the respondents who sum up to 187 representing 68.5% believe that the service quality management systems being deployed in the industry has the capacity of monitoring improvements of the quality of banking services. However, another 64 respondents (23.4%) do not think the service quality monitoring system being put in place by Nigerian banks has the potential of monitoring improvements in the quality of services that the banks render to customers.

Table 30: Providing Quality Banking Service does not mean Absence of Distress in the Banking Industry

Level of agreement		Frequency	Percentage
Valid	Strongly disagree	11	4.0
	Disagree	20	7.3
	Neutral	26	9.5
	Agree	163	59.7
	Strongly agree	44	16.1
	Total valid	264	96.7
Missing	System	9	3.3
Total		273	100.0

Source: Field study, 2014

Table 30 indicates that 307 respondents (75.8%) agree that the provision of quality banking service does not translate into a situation where distress would not arise. However, 31 respondents representing 11.3% think that the provision of improved quality banking services would translate into the eradication of distress scenario in the industry.

Table 31: Investments in Self-service Technologies have led to improved Service Quality

Level of agreement		Frequency	Percentage
	Disagree	13	4.8
	Neutral	11	4.0
Valid	Agree	106	38.8
	Strongly agree	138	50.5
	Total valid	268	98.2
Missing	System	5	1.8
Total		273	100.0

Source: Field study, 2014

Table 31 indicates that when banks invest in self-service technology programmes, it would lead to having improved banking services as affirmed by 241 (89.3%) respondents, while a paltry 24 (4.8%) think otherwise. This suggests that improvement in the provision of quality banking services can be attained by investing in self-service technology programmes such as ATM devices which reduce human errors in banking operations.

Table 32: Customer Complaints Monitoring Systems have indicated reduced Complaints

Level of agreement		Frequency	Percentage
	Strongly disagree	6	2.2
	Disagree	20	7.3
Valid	Neutral	23	8.4
	Agree	167	61.2
	Strongly agree	50	18.3
	Total valid	266	97.4
Missing	System	7	2.6
Total		273	100.0

Source: Field study, 2014

From table 32, most of the respondents, i.e. 217 which translate to 79.5% opined that as a result of the deployment of customer complaints monitoring systems in the banking industry, there has been a reduced incidence of customer complaints in the industry. However, only 26 (9.5%) feel otherwise. This suggests that Nigerian banking system has in place a robust customer monitoring system in the industry.

4.2 DATA ANALYSIS

As stated earlier, The Pearson correlation test was used to test hypotheses one and two, while the regression analysis was employed to test for the significance of hypotheses three, four and five, using the probability value via the SPSS software package.

4.2.1 Test of Hypothesis I

Ho: The choice of banks by Nigerian banks' customers has no significant relationship with quality of banking services.

Table 33: Relationship between Service Quality and Choice of Banks by Customers

			Where a bank provides a variety of services to its customers, this will influence the choice of banks by customers	Services provided by Nigerian banks are virtually the same in terms of quality delivery
Spearman's rho	Where a bank provides a variety of services to its customers, this will influence the choice of banks by customers	Correlation Coefficient	1.000	.091
		Sig. (2-tailed)	.	.160
		N	242	240
	Services provided by Nigerian banks are virtually the same in terms of quality delivery	Correlation Coefficient	.091	1.000
		Sig. (2-tailed)	.160	.
		N	240	240

*. Correlation is significant at 0.05 level (2-tailed).

From the correlation table (table 33), the correlation value of 9.1% is a relationship that is very weak. The p-value of the variable is greater than the level of significance of 5% (0.16 > 0.05). This means that we uphold the null hypothesis. This implies that customers' choice of banks is not a function of service quality experiences. This is inconsistent with the findings of Turnbull and Gibbs (1989) when they sought to determine the attributes that were considered most important in the selection of a commercial bank in a sample of 388 companies from the top 1,000 companies in South Africa. In that study, quality of service ranked number one and that of Avkiran (1994) whose research work indicated that a telephone study in the Australian state of Victoria revealed poor service to the customer as the most likely reason for customers to consider moving their banking relationships.

4.2.2 Test of Hypothesis II

H_o There is no significant correlation between bank's service quality attributes and customers' repeat purchase decisions.

Table 34: Relationship between Service Quality and Repeat Purchase

			I am loyal to my bank not because the bank provides quality services to me	Banks that provide services to customers experience repeat purchase from such bank customers
Spearman's rho	I am loyal to my bank not because the bank provides quality services to me	Correlation Coefficient	1.000	.149*
		Sig. (2-tailed)	.	.022
		N	239	235
	Banks that provide services to customers experience repeat purchase from such bank customers	Correlation Coefficient	.149*	1.000
		Sig. (2-tailed)	.022	.
		N	235	237

*. Correlation is significant at the 0.05 level (2-tailed).

From table 34, the correlation value of 14.9% shows a positive relationship between service quality and repeat purchases by bank customers. The relationship, however, is a weak effect. The p-value of the variable is less than the level of significance of 5% (0.022 <0.05). This means that, there is sufficient reason to uphold the alternate hypothesis. This implies that better service quality experiences enhance repeat purchase by customers. This finding indicates that there is a correlation between bank's service quality attributes and repeat purchase decisions by bank customers.

This research finding is similar to that of Coyne (1989) when he posited that when satisfaction rose above a certain threshold, repurchase loyalty climbed rapidly. In contrast, when satisfaction fell below a different threshold, customer loyalty declined equally rapidly. Also, much research suggests that service quality is a vital antecedent to customer satisfaction (Parasuraman, Zeithaml and Berry 1985; Cronin and Taylor, 1992). There is also strong evidence to suggest that satisfaction may be vital antecedent of service quality (Bitner, Boom and Tetronssult, 1990). Regardless of whichever view is taken, the relationship between satisfaction and service quality is strong when examined from either direction. Satisfaction affects assessments of service quality and assessments of service quality affect satisfaction (McAlexander, Kaldenberg and Koening, 1994). In turn, both are vital in helping buyers develop their future purchase intentions.

Table 35: Pedroni Cointegration between Earnings and Service Quality

Alternative hypothesis: common AR coefs. (within-dimension)

			Weighted	
	Statistic	Prob.	Statistic	Prob.
Panel v-Statistic	-0.462116	0.6780	-1.228199	0.8903
Panel rho-Statistic	-0.913249	0.1806	-0.419806	0.3373
Panel PP-Statistic	-5.785492	0.0000	-1.204469	0.1142
Panel ADF-Statistic	-1.329846	0.0918	-0.745303	0.2280

Alternative hypothesis: individual AR coefs. (between-dimension)

	Statistic	Prob.
Group rho-Statistic	1.316918	0.9061
Group PP-Statistic	-4.392962	0.0000
Group ADF-Statistic	0.471063	0.6812

A Pedroni co integration test was conducted. Pedroni was used because it is suitable for panel data compared to Johansen which is more suitable for time series data. The Pedroni's tests are based on the estimated residuals from the following long run model:

$$y_{it} = \alpha_i + \sum_{j=1}^{m} \beta_{ji} x_{jit} + \varepsilon_{it} \quad \ldots \quad (10)$$

Where $\varepsilon_{it} = \rho_i \, \varepsilon_{i(t-1)} + w_{it}$ are the estimated residuals from the panel regression. The null hypothesis tested is whether ρ_i is unity or not. The seven statistics are normally distributed. The statistics can be compared to appropriate critical values, and if critical values are exceeded then the null hypothesis of no-cointegration is rejected implying that a long run relationship between the variables does exist. The results show that at least one out of the several statistics is significant and hence, indicating that there is co-integration for each of the model. With the existence of co-integration, there is need to conduct an error correction model (ECM) to determine the rate at which equilibrium occurs between the short-run and long run. The coefficient of the error-correction is also called the adjustment coefficient. In fact, it tells us how much of the adjustment to equilibrium takes place each period, or how much of the equilibrium error is corrected each period. According to Asteriou (2007), it can be explained in the following ways:

(1) If ~ 1, then nearly 100% of the adjustment takes place within the period or the adjustment is very fast.

(2) If ~ 0.5, then about 50% of the adjustment takes place each period.

(3) If ~ 0, then there seems to be no adjustment.

The ECM is important and popular for many reasons:

(1) Firstly, it is a convenient model measuring the correction from disequilibrium of the previous period which has a very good economic implication.

(2) Secondly, if we have co-integration, ECM models are formulated in terms of first difference, which typically eliminate trends from the variables involved; they resolve the problem of spurious regressions.

The Pedroni's tests indicate that there is a long-run relationship between earnings and service quality. The test for Group PP-Statistic showed that the p-value is less than the level of significance of 5%. Therefore, it rejects the null hypothesis of no cointegration and upholds the alternate of cointegration.

Table 36: Pedroni Cointegration between Deposit and Service Quality

Alternative hypothesis: common AR coefs. (within-dimension)

			Weighted	
	Statistic	Prob.	Statistic	Prob.
Panel v-Statistic	-1.614857	0.9468	-1.622771	0.9477
Panel rho-Statistic	-0.408168	0.3416	0.540596	0.7056
Panel PP-Statistic	-3.452072	0.0003	0.332706	0.6303
Panel ADF-Statistic	-0.544950	0.2929	-0.314697	0.3765

Alternative hypothesis: individual AR coefs. (between-dimension)

	Statistic	Prob.
Group rho-Statistic	2.116040	0.9828
Group PP-Statistic	-0.718524	0.2362
Group ADF-Statistic	0.713423	0.7622

The Pedroni's tests indicate that there is a long-run relationship between earnings and service quality. The test for Panel PP-Statistic showed that the p-value is less than the level of significance of 5%. Therefore, it rejects the null hypothesis of no cointegration and upholds the alternate of cointegration.

Table 37: Pedroni Cointegration between Profit and Service Quality

Alternative hypothesis: common AR coefs. (within-dimension)

			Weighted	
	Statistic	Prob.	Statistic	Prob.
Panel v-Statistic	-0.697985	0.7574	-1.409324	0.9206
Panel rho-Statistic	-0.320393	0.3743	0.172003	0.5683
Panel PP-Statistic	-3.751292	0.0001	-1.170601	0.1209
Panel ADF-Statistic	-1.620041	0.0526	-2.531229	0.0057

Alternative hypothesis: individual AR coefs. (between-dimension)

	Statistic	Prob.
Group rho-Statistic	1.687025	0.9542
Group PP-Statistic	-3.892995	0.0000
Group ADF-Statistic	-1.530224	0.0630

The Pedroni's tests indicate that there is a long-run relationship between earnings and service quality. The test for Group PP-Statistic showed that the p-value is less than the level of significance of 5%. Therefore, it rejects the null hypothesis of no cointegration and upholds the alternate of co integration.

Table 38: Error Correction Model between Earnings and Service Quality

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(SERV_QUAL)	18.87757	3.184932	5.927149	0.0000
ECM-1	-1.055333	0.127184	8.297688	0.0000
C	-4.80E+09	6.23E+09	-0.769511	0.4448

			-
R-squared	0.645025	Mean dependent var	2.78E+09
Adjusted R-squared	0.632570	S.D. dependent var	7.92E+10
S.E. of regression	4.80E+10	Akaike info criterion	52.07584
Sum squared resid	1.31E+23	Schwarz criterion	52.18056
Log likelihood	-1559.275	Hannan-Quinn criter.	52.11680
F-statistic	51.78737	Durbin-Watson stat	1.453719
Prob(F-statistic)	0.000000		

The Error Correction Model parameter (ECM) must be negative, less than unity and significant. The ECM is an error correction term that guides the variables of the models to restore back equilibrium, and validates that there exist a long run equilibrium relationship among the variables. Thus, the value of the error correction is 105.5%, meaning that the equilibrium is corrected (or adjusts to) its previous dis-equilibrium period at speeds of 105.5% and has a fast adjustment speed.

Table 39: Error Correction Model between Deposits and Service Quality

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(SERV_QUAL)	216.5193	142.7109	1.517188	0.1347
ECM-1	-0.914380	0.141424	6.465508	0.0000
C	-5.35E+10	2.74E+11	-0.195157	0.8460

Effects Specification

	S.D.	Rho
Cross-section random	0.000000	0.0000
Idiosyncratic random	2.12E+12	1.0000

Weighted Statistics

R-squared	0.449592	Mean dependent var	-1.62E+10
Adjusted R-squared	0.430279	S.D. dependent var	2.66E+12
S.E. of regression	2.01E+12	Sum squared resid	2.30E+26
F-statistic	23.27977	Durbin-Watson stat	2.443309
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.449592	Mean dependent var	-1.62E+10
Sum squared resid	2.30E+26	Durbin-Watson stat	2.443309

The Error Correction Model parameter (ECM) is negative, less than unity as expected and significant. The value of the ECM approximately gave 91.4%, meaning that the deposit and service quality corrects (or adjusts to) its previous dis-equilibrium period at a fast speed of 91.4% yearly.

Table 40: Error Correction Model between Profits and Service Quality

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(SERV_QUAL)	5.316611	1.239793	4.288305	0.0001
ECM-1	-0.940607	0.149991	6.271088	0.0000
C	-1.18E+09	2.42E+09	-0.490118	0.6264

Effects Specification

Cross-section fixed (dummy variables)

-

R-squared	0.542276	Mean dependent var	5.36E+08
Adjusted R-squared	0.412920	S.D. dependent var	2.43E+10
S.E. of regression	1.86E+10	Akaike info criterion	50.33235
Sum squared resid	1.59E+22	Schwarz criterion	50.82103
Log likelihood	-1495.971	Hannan-Quinn criter.	50.52350
F-statistic	4.192102	Durbin-Watson stat	1.445419
Prob(F-statistic)	0.000145		

The Error Correction Model parameter (ECM) is negative, less than unity as expected and significant. The value of the ECM approximately gave 94.1%, meaning that the deposit and service quality corrects (or adjusts to) its previous dis-equilibrium period at a fast speed of 94.1% yearly.

Table 41: Hausman Test for Service Quality and Earnings

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	17.232754	1	0.0000

** WARNING: estimated cross-section random effects variance is zero.

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
SERV_QUAL	14.749149	25.782173	7.063735	0.0000

The Hausman specification test is the conventional test of whether the fixed or random effects model should be used. The question is whether there is significant correlation between the unobserved unit of observation specific random effects and the regressors. If no such correlation exists, then the Random Effects Model (REM) may be more appropriate. But when such a correlation exists, the Fixed Effects Model (FEM) would be more suitable because the REM model would be inconsistently estimated. The result from Hausman test shows that the P-value is less than the level of significance of 5%. Therefore, the fixed effect is used for analysis.

Table 42: Hausman Test for Service Quality and Deposit

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.546236	1	0.0597

** WARNING: estimated cross-section random effects variance is zero.

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
SERV_QUAL	95.148940	275.360294	9157.917179	0.0597

The result from Hausman test shows that the P-value is less than the level of significance of 10%. Therefore, the fixed effect is used for analysis.

Table 43: Hausman Test for Service Quality and Profit

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.586826	1	0.0020

** WARNING: estimated cross-section random effects variance is zero.

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
SERV_QUAL	2.913557	5.492595	0.693810	0.0020

The result from Hausman test shows that the P-value is less than the level of significance of 5%. Therefore, the fixed effect is used for analysis.

Table 44: Fixed Effect Estimation for Service Quality and Earnings

Dependent Variable: EARNINGS

Method: Panel Least Squares

Date: 12/22/14 Time: 11:38

Sample: 2006 2013

Periods included: 8

Cross-sections included: 12

Total panel (unbalanced) observations: 77

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SERV_QUAL	14.74915	3.973067	3.712283	0.0004
C	3.21E+10	7.40E+09	4.340980	0.0001

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.610424	Mean dependent var	4.97E+10
Adjusted R-squared	0.537379	S.D. dependent var	7.32E+10
S.E. of regression	4.98E+10	Akaike info criterion	52.25221
Sum squared resid	1.59E+23	Schwarz criterion	52.64791
Log likelihood	-1998.710	Hannan-Quinn criter.	52.41049
F-statistic	8.356775	Durbin-Watson stat	2.151239
Prob(F-statistic)	0.000000		

$EARN_{it}$= 3.21E+10 + 14.74915$SERV_QUAL_{it}$

The estimated coefficient for the explanatory variable was obtained using the fixed effect regression Model. The model indicates a positive and significant relationship between investment in service quality and volume of earnings in banks. The R-square shows a value of 0.61 for the relationship between the dependent and the independent variable indicating that there is strong effect between the dependent and independent variables with a 61 % variation. Also, the result revealed the absence of autocorrelation since the Durbin-Watson value is 2.15 approximately to 2.

4.2.3 Test of Hypothesis III

H_o There is no significant relationship between investments in service quality and earnings of banks in Nigeria. From the result of the test of hypothesis III, the P-value of the independent variable is 0.0004 while the level of significance is 0.05. Since the p-value is less than the level of significance, the null hypothesis is rejected. Therefore, the conclusion is that there is a significant relationship between earnings and investment in service quality of banks in Nigeria.

The result is inconsistent with Lynn (2002) in his study, Turnover's Relationships with Sales, Tips and Service across Restaurants in a Chain. This study found that turnover declined among high volume restaurants but not among low volume restaurants. Interestingly, the opposite pattern was observed for the effects of tip percentages on turnover – turnover declined as tip percentages increased among low volume restaurants but not among high volume restaurants. Since server income increases with both sales and tip percentages, this conflicting pattern of results is puzzling. Perhaps servers in high volume restaurants focus on sales as the major determinant of their tip incomes while servers in low volume restaurants focus on tip percentages as the major determinant of their tip incomes.

Table 45: Fixed Effect Estimation for Service Quality and Deposit

Dependent Variable: DEPOSIT

Method: Panel EGLS (Cross-section random effects)

Date: 12/22/14 Time: 11:59

Sample: 2006 2013

Periods included: 8

Cross-sections included: 12

Total panel (unbalanced) observations: 77

Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SERV_QUAL	275.3603	106.3353	2.589547	0.0115
C	1.96E+11	2.41E+11	0.814068	0.4182

Effects Specification

	S.D.	Rho
Cross-section random	0.000000	0.0000
Idiosyncratic random	1.79E+12	1.0000

Weighted Statistics

R-squared	0.084553	Mean dependent var	5.25E+11
Adjusted R-squared	0.072347	S.D. dependent var	1.83E+12
S.E. of regression	1.76E+12	Sum squared resid	2.33E+26
F-statistic	6.927189	Durbin-Watson stat	2.085033
Prob(F-statistic)	0.010301		

Unweighted Statistics

R-squared	0.084553	Mean dependent var	5.25E+11
Sum squared resid	2.33E+26	Durbin-Watson stat	2.085033

$\mathbf{DEP_{it}}$= 1.96E+11 + 275.3603$\mathbf{SERV_QUAL_{it}}$

The estimated coefficient for the explanatory variable was obtained using the fixed effect regression Model. The model indicates a positive and significant relationship between investment in service quality and volume of earnings in banks. The R-square shows a value of 0.084 for the relationship between the dependent and the independent variable indicating that there is weak effect between the dependent and independent variables with a 8.4 % variation. There is no autocorrelation problem as the Durbin-Watson value is approximately to 2.

4.2.4 Test of Hypothesis IV

$\mathbf{H_o}$ There is no significant relationship between investment in service quality and deposits of banks.

From the result, the P-value of the independent variable is 0.0115 while the level of significance is 0.05. Since the p-value is less than the level of significance, the null hypothesis is rejected. Therefore, the conclusion is that there is a significant relationship between investment in service quality and deposits of banks.

Table 46: Fixed Effect Estimation for Service Quality and Profit

Dependent Variable: PROFIT

Method: Panel Least Squares

Date: 12/22/14 Time: 11:51

Sample: 2006 2013

Periods included: 8

Cross-sections included: 12

Total panel (unbalanced) observations: 77

Period SUR (PCSE) standard errors, & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SERV_QUAL	2.913557	2.060987	1.413671	0.1623
C	7.48E+09	2.66E+09	2.816184	0.0065

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.447021	Mean dependent var	1.10E+10
Adjusted R-squared	0.343338	S.D. dependent var	1.93E+10
S.E. of regression	1.56E+10	Akaike info criterion	49.93168
Sum squared resid	1.56E+22	Schwarz criterion	50.32738
Log likelihood	-1909.370	Hannan-Quinn criter.	50.08996
F-statistic	4.311403	Durbin-Watson stat	2.266597
Prob(F-statistic)	0.000055		

$\mathbf{PROF_{it}}$= 7.48E+09 + 2.913557$\mathbf{SERV_QUAL_{it}}$

The model indicates positive and insignificant relationship between profitability and investments in service quality. The R-square shows a value of 0.447 for the relationship between the dependent and the independent variable indicating a low substantial contribution to the dependent variable. The Durbin Watson value is approximately to 2 which indicate no autocorrelation problem.

4.2.5 Test of Hypothesis V

$\mathbf{H_o}$ There is no significant relationship between investments in service quality and the profitability of banks in Nigeria. From the table, the P-value of the independent variable is 0.1623 while the level of significance is 0.05. Here, the p-value is greater than the level of significance; there is sufficient reason to reject the alternate hypothesis.

Therefore, the conclusion is that there is no significant relationship between investments in banks' service quality programmes and the profitability of banks in Nigeria. This finding is the aggregate for the fourteen banks selected over the period of the study. A study of the individual banks may not necessarily produce the same result. This result is in conformity with the findings of Willams, Ogege and Ideji (2014) in which they found an inverse relationship between banks' customers services and profitability; Cuffe (2008), that certain Nigerian banks that were not much conscious of quality improvement programmes and adjudged as using lowest quality operations declared huge annual profits; IMF (2009) which indicated that bank profits in Sub-Saharan Africa compared to other regions are high, as well as the findings of Grandzol, & Gershon (1997); Ittner, Larcker, & Meyer (2003). This is an indication that there is an absence of a clear positive relationship between profits and investment in service quality.

However, the result is inconsistent with Khan, & Fasih (2014), (Becser, 2007) as well as the findings of Fitzsimmons and Fitzsimmons (2004); ISO Survey (2005); EuroStat

(2007) and Palánkai (2007) where they all affirmed that there is positive relationship between performance (profitability) and investment in service quality. Also the findings of researchers such as, Hsu and Udo (2006,), Cronin, Brady, and Hult (2000); Dabholkar, Shepherd, and Thorpe (2000); Olorunniwo indicated that higher service quality results in a higher performance of the organization. Therefore, the conclusion on the relationship between service quality and this variable is mixed.

4.3 DISCUSSION OF FINDINGS

This section presents the results of the research and the discussion of the results of the tests of the hypotheses.

4.3.1 Hypothesis I

This hypothesis was set out to determine the relationship between service quality and choice of banks by Nigerian bank customers. That is, to examine any linkage between the choice of a bank or its services and the quality that the bank provides to its customers in the industry. The findings from this study indicate that the choice of banks by Nigerian bank customers is not a function of service quality experiences. This indicates that bank selection is not significantly influenced by the quality of services that customers receive. From Table 31, it can be deduced that a Nigerian bank customer does not have a flair for quality bank services.

Competition among service providers is increasing and it extends across borders and continents due to globalisation. To be able to achieve repeat purchase by customers in the increasing competitive banking business, service providers ought to organise their operations according to the needs expressed (or in several cases even not expressed) by their customers. They ought to provide services and products to meet or even exceed customers' expectations. This implies they should aim at quality. This does not only apply to bank service providers but to all and sundry in the service sector - to

organisations providing social services (for example, educational or medical services), to personal services (hairdressers, for instance), to production services (for example, financial services), to distributive services. In the service sector, reactions related to quality appear very quickly as a result of the close connection to customers, which affects organizations even more strongly due to the strong competition. Therefore, improvement in quality is the prerequisite for survival and of profiting from competitive advantages.

4.3.2 Hypothesis II

The objective of the second hypothesis is to assess the relationship between service quality and customers' repeat purchase decisions. The result from Table 31 also showed that there is a positive relationship between service quality and repeat purchase because bank service attributes and repeat purchase are positively correlated (14.9%). This means that for Nigerian banks to maintain the customers there should be a deliberate attempt at providing quality services to bank customers so as to remain relevant in the banking business.

This implies that banks may concentrate on service quality programmes that can increase customer satisfaction and loyalty so as to improve core competences and business performance because with commonly undifferentiated products, pursuing a superior service quality strategy could be quite challenging as customers may have differential attributes. Thus, the ability of a banking institution to provide excellent service quality may be a critical business requirement and a competitive weapon which is essential to corporate survival and financial performance and not just a corporate offering.

4.3.3 Hypothesis III

Hypothesis three was set out to examine the relationship between the volume of bank deposits and investments in service quality programmes. From our analysis using the Pedroni cointegration test, the result showed that there is a positive but insignificant relationship between volume of deposits and investment in service quality by banks. Consequently, the alternate hypothesis was upheld.

This implies that an increase or a decrease in the volume of bank deposits has some degree of relationship with the level of investments in service quality by Nigerian banks. Thus, where banks invest in quality programmes, it is expected that this would lead to improvements in the volume of deposits that would accrue to the banks. It becomes expedient on the management of banks to seek and deploy appropriate service quality programmes so as to have enlarged deposits.

4.3.4 Hypothesis IV

The aim of stating hypothesis four is to examine the effect of investments in service quality on the volume of earnings of Nigerian banks. From Table 35**,** there was a positive but insignificant relationship between investments in service quality programmes and the volume of earnings of Nigerian banks. Thus, we upheld the alternate hypothesis. This means that there is a significant relationship between investments in service quality and earnings of Nigerian banks.

The analysis of question nine (9) of the customers' questionnaire, showed that assurance and location ranked first and second respectively (25.4% and 19.5%) as reasons for customers banking with their respective banks. Therefore, the high volume of earnings in the banking industry despite the prevalence of poor service quality could be traced to this fact. Besides, from table 22, 68.2% of the respondents opined they feel safe when making banking transactions with their banks. Thus, the feeling of safety as opposed to

service quality was considered more paramount in this context. To a large extent, it could be inferred that these factors contributed to the increased earnings in the banking sector despite the absence of the delivery of quality services by Nigerian banks.

4.3.5 Hypothesis V

The objective of this hypothesis was to examine the relationship between investments in service quality and the profitability of Nigerian banks. This finding indicates no significant linkage between investment in service quality and the profitability of banks in Nigeria. The null hypothesis is upheld. This is in conformity with IMF report about Sub-Saharan African countries (2009) which showed that profits are higher compared to other regions and the findings of Cufe (2008) when he discovered that Nigerian banks which employ poor service quality programmes declare huge annual profits.

An absence of a clear strong relationship between service quality improvements and profitability in the Nigerian banking sector is an indication that banks are not really showing improvements in the provision of quality banking services that would draw the attention of customers to their banks. This probably is responsible for the lack of apathy in the utilization of banking services by customers and the frequent cases of loss of huge sum of money at home and business premises to natural disasters such as fire.

Ability of the banks to make profits despite the absence of quality services in the banking industry portents serious danger for the industry. Banks may care less about service quality or quality programmes in the industry since there is no clear relationship between service quality and performance of the operators of the banking institutions. This scenario makes it expedient for the regulatory agencies to take proactive measures to curb the situation where banks use this to their advantage. This is highly needed to ensure customers have value for their money.

The results of a great number of researchers affirm that profitability and investments in service quality are positively related. This is evidenced by the findings of (Becser, 2007), those of Fitzsimmons and Fitzsimmons (2004); ISO Survey (2005); EuroStat (2007) and Palánkai (2007) where they all affirmed that there is positive relationship between performance (profitability) and investment in service quality. Also, the findings of Guru, Stauton and Balalashanmugam (2001) also show that efficient management is among the most important factors that explain high bank profitability.

There is no connection between quality and performance of Nigerian banks. Other researchers (Buzzel and Gale, (1987); Fornell, (1992); Ittner and Larcker, (1998)**,** Cronin, Brady, and Hult (2000); Dabholkar, Shepherd, and Thorpe (2000); Olorunniwo, Hsu and Udo (2006,) indicated that higher service quality results in a higher performance of the organization. Thus, there is the need to unravel this difference.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter consists of the summary, conclusions reached, recommendations made and suggestions that will help in further research in the area under study.

5.1 SUMMARY OF FINDINGS

This research empirically tested the effect of investments in service quality programmes on earnings, deposits and profitability. The research findings are summarised as follows:

1. That customers' choice of banks is not a function of service quality experiences;
2. There is a correlation between bank's service quality attributes and repeat purchase decisions by bank customers;
3. There is a significant relationship between earnings and investment in service quality of banks in Nigeria;
4. There is a significant relationship between investment in service quality and deposits of banks; but
5. There is no significant relationship between investments in banks' service quality programmes and the profitability of banks in Nigeria.
6. Most of the customers (81.5%) had transactions with the banks at an interval of not more than four times in a month with 53.3% of them switching between banks for one reason or the other. A large proportion of the respondents (60.3%) opine that the rationale for such switching tendencies is as a result of poor service quality.
7. Deductions also indicate that many customers do not subscribe to the notion that quality of banking service meets the requirements of customers, as 47.7% believe that service quality meets requirements while 35.2% have a contrary view.

8. Nigerian bank customers who remain loyal to a bank do so not necessarily because the banks have been providing quality services to such customers, as 52.7% of the sampled customers who have remained loyal to their banks do not think so. It therefore, entails that other considerations are responsible for loyalty and not service quality. Similarly, 41.9% of the respondents said that improved bank service quality leads to improved profitability, while 46.6% think otherwise.

5.2 CONCLUSION

The study set to evaluate the relationship between investments in service quality programmes and bank earnings, deposits and profitability. The literature reviewed showed mixed relationships between investments in service quality and profitability. Both primary and secondary data were sourced and analysed and from the tests of hypotheses and the findings obtained, the following conclusions were made: that choice of banks by customers is not a function of service quality experiences that customers encounter while making banking transactions.

From the findings, there exists a correlation between bank's service quality attributes and repeat purchase decisions by bank customers. This entails that where a bank customer received favourable and beneficial services, such a customer is prone to making repeat purchases. The analyses of the secondary data indicate there is a significant relationship between earnings and investments in service quality of banks in Nigeria; a significant relationship between investments in service quality and deposits of banks but no significant relationship between investments in banks' service quality and the profitability of banks.

5.3 RECOMMENDATIONS

Based on the research findings the following recommendations are made:

1. The fact that Nigerian bank customers rarely make frequent banking transactions requires that a deliberate effort by practitioners and regulating agencies need to be embarked upon to sensitise the teeming Nigerian populace on the need to patronise banks. Bank executives can achieve this sentisisation by targeting community and opinion leaders on the potentials of patronising the financial institutions and the benefits therefrom, such as qualifying for loan facilities
2. It was revealed that customers switched banks at certain intervals and one reason given is that the banks provide poor services to customers. This scenario emanated from the fact that customer' requirements or expectations were rarely met by banks. Consequently, the challenge is that regulatory agencies and operators alike should ensure that adequate monitoring systems that ensure efficiency and effectiveness in service delivery are institutionalised and made operational in order to ensure that customers are motivated and encouraged to patronize banks. Also, a penalty be meted on those financial institutions that default in meeting standard service quality measures.
3. Since loyalty by bank customers does not necessarily mean that such customers experience qualitative services, emphasis should be intensified on improving the quality of services being currently rendered. This is premised on the fact that more customers will like to be loyal if the quality of bank services are improved and delivered to such customers. Adequate monitoring systems by banks be institutionalised so as to tract bank customers who are responsive and efficient with a view to increasing the tempo of meeting customers' service expectations.
4. Since the research findings indicate a positive relationship between service quality and choice of banks, repeat purchase, investments in service quality and earnings as well as deposits, it is imperative that operators in the industry pursue with all

sense of vigour investments in service quality programmes so as not only to maintain the tempo but exceed and excite their customers.

5. The mere fact that this research could not establish any strong relationship between investments in service quality and profitability of banks entails that the profit margins banks in Nigeria make on the aggregate has no bearing with investments in service quality programmes. Therefore, there is the need to evaluate those service quality attributes that contribute to customer satisfaction and loyalty so as to explore the possibility of investing in such service quality programmes which can have the potential for impacting on profits of banks since customer satisfaction results into service quality.

5.4 SUGGESTION FOR FURTHER RESEARCH

The banking industry plays a crucial role in the development of an economy, thus exploring the various aspects of the industry and its contribution to national development can never be exhaustive. It is in this regard that further research into a comparison as to the performance of each of the banks in terms of provision of service quality in the areas of internet banking, efficiency of ATMs, resolution of complaints, monitoring of complaints, and deployment of quality service programmes relative to deposits, earnings and profitability over a given time rather than an aggregation is suggested.

It was observed that many of the banks' expenditure on service improvement programmes occurred towards the latter years of this research work. Thus it will be appropriate to investigate the relationship between such investments and the financial performance of the banks from the period this study stopped. This is so because such impact could be felt after longer period and probably not immediately.

5.5 CONTRIBUTION TO KNOWLEDGE

A major finding of this study indicates that profitability and investments in service quality are not correlated. From the, the tests of hypotheses, there were obvious indications of poor service quality in the banking sector, however, the analysis of question nine (9) of the customers' questionnaire, showed that assurance and location ranked first and second respectively (25.4% and 19.5%) as reasons for customers banking with their respective banks. From table 21, 68.2% of the respondents opined they feel safe when making banking transactions with their banks

Therefore, the high volume of earnings in the banking industry despite the prevalence of poor service quality could not be traced to the delivery of quality banking services by the banks but could be as a result of factors such as assurance, safety and location. To a large extent, it could be inferred that these factors contributed to the increased deposits, earnings and profitability in the banking sector despite the absence of the delivery of quality services by Nigerian banks. This entails that a positive relationship between investments in service quality and profitability does not exist in the Nigerian banking industry. This implies that the huge declaration of profits by Nigerian banks does not mean such banks have been deploying quality programmes in the management of banking institutions.

The fact that most customers' choice of banks is not as a result of quality of services is an indication that Nigerian bank customers are not expressive to quality issues or are not positively disposed to quality services. This probably explains the apathy demonstrated by Nigerian business operators who keep sums of money in market stalls and homes. It could be inferred too that it is the dearth of quality bank services that probably has weakened positive disposition of the customers. This to an extent means that

such banks would have attracted and made much more profits if they were determined to providing quality services to their teeming customers.

The finding of this research suggests that regulatory agencies in the banking industry need to device appropriate measures that would create the enabling environment that encourages banks to provide quality services to the large Nigerian populace. The quest for an urgent regulatory framework is to avoid instances where the operators in the banking industry rely on the absence of a clear relationship between service quality and profitability to the disadvantage of the customers. More so, the fact that competition among service providers is increasing and it extends across borders and continents due to globalisation entails that the banking institutions need not bask in the euphoria that profits are realised despite the absence of a clear relationship between investments in service quality and profitability.

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