Impact of Banking Reforms on Service Delivery in the Nigerian Banking Sector

Helen Afang Andow
Kaduna State University, Nigeria

Abstract

The banking reforms introduced in 2005 was basically to move the Nigerian economy forward and to re-position the banking system to a sound reliable catalyst of development. These reforms became necessary owing to the decaying state of our banking operations that was characterize by low capital base, large number of small banks with relatively few branches and congested environment, poor asset quality, illiquidity, insolvency, inaccurate reporting, non-compliance with regulatory requirements et al. Nigerian banking business has gone beyond armchair banking era to highly competitive business among banks. Banking sector reforms in Nigeria was designed to promote the viability; soundness and stability of the system to enable it adequately meet the aspirations of the economy in terms of accelerated economic growth and development. The reform agenda was motivated by the need to proactively put the Nigerian banking industry on the path of global competitiveness to enable it effectively respond to the challenges of globalization. The study used primary and secondary source of data collection, questionnaire was administered to the staff of the banks to seek their opinion on the subject matter, chi square was used to measure the differences between the expected frequency and the observed frequencies and t-test was used to ascertain whether there was a significant relationship between Customers Deposit and Reforms, and relationship between banking reforms and service delivery in the Nigeria banking sector comparing the pre and post consolidation. The findings of the study revealed that there is increased in the customers deposit after banking reforms as compared with before banking reforms, it was also revealed that the performance of the bank increase in terms of profitability and service delivery. The study concluded that the performance of Nigerian banks has increased in terms of profitability; deposit from customers and these enable the bank to have the ability to grant their customers' loan which significantly increased the level of customers' satisfaction. It was recommended that the central bank of Nigeria should provide a viable and effective supervisory framework to ensure the viability and sustainability of the banking industry. The apex bank should foster an enabling environment in which the interest of all parties is protected, vis-à-vis investors, depositors, borrowers and the larger society.

Key words: Banking reforms, service delivery, pre and post banking reforms, banking sector

Introduction

The Nigerian banking sector, which plays the intermediation role between the surplus and deficit sectors of the economy, propels the development and growth of the economy. Soludo (2004), proposes the reform of the banking sector with the sole objective of moving the economy forward and to re-position the banking system to a sound and reliable catalyst of development and to compete favorably with its counterpart globally.

Prior to the 2005 banking reforms in Nigeria, congestion and long queues were the order of the day in the banks, leaving the banking hall stuffy, untidy and choking as the air conditioners are rendered ineffective. Most times, the queue extends outside the banking hall. Most of the banks have realized the negative effects of this and have worked on them by developing products and services that reduce the inflow of people into the banks, expanding the banking halls and opening up new branches all over the country. This congestion also has to do with the parking spaces of some banks prior to consolidation. Some banks' buildings were more or less cubicles or cash centers where customers cannot conveniently park their vehicles or motorcycles to walk in and do transactions, but the recapitalized banks have drastically ensured that the banking premises is such that existing and prospective customers have access to park their vehicles.

The attitude of the staff of the banks towards the customers is also an important measure of service deliverables. The fact remains that no bank can expect to meet global service delivery standard unless it has the best human capital and promotes its competent staff to pivotal positions. Staffing in most banks before the reforms was inadequate and, often times, a staff may be over-loaded with jobs meant for three staff or more. This becomes so obvious when the same staff is called upon to attend to a customer at a point of delivering a service on another product to a different customer. Closely related to the inadequate staff situation was the shortage of experienced staff as most banks preferred cheap labor in the name of "contract staff". As a result, the quality of their job output in terms of service delivery is sub-standard and customers' expectations are not met.

The banking business in Nigeria today has gone beyond armchair banking era where the customers had to look for the banker to transact business. It is now the era of highly competitive business among banks. It is against this backdrop that the study is conducted, to assess the impact of banking reforms on service delivery after the reform exercise using variables such as customers' deposits, profitability, productivity and viability of service, time taken to open accounts, speed of withdrawal and depositing money, quality and quantity of products as indicators of services measured among others.

To achieve this aim, the study formulated three null hypotheses:

Ho: There is no significant relationship between bank reforms and service delivery in the Nigeria banking sector.

Ho_2: There is no significant relationship between customers' deposit and Nigerian banking reforms

Ho_3: There is no significant relationship between Profit after Tax as tool for service delivery and Nigerian banking reforms

The study covers a period of ten years spanning from 2004 to 2014. The paper is divided in to five sections. The first part is the introduction as seen above, second part of the paper reviews past researcher's studies and also literatures on service delivery in financial institution and also other countries experience. The third part is on methodology, the fourth and fifth gives the findings, conclusions and recommendations respectively.

Literature Review

According to Petit (1987), a service is an intangible commodity. More specifically, services are an intangible equivalent of economic goods. Service provision is often an economic activity where the buyer does not generally, except by exclusive contract, obtain exclusive ownership of the thing purchased. The benefits of such a service, if priced, are held to be self-evident in the buyer's willingness to pay for it. He further stated that by composing and orchestrating the appropriate level of resources, skill, ingenuity, and experience for effecting specific benefits for service consumers, service providers participate in an economy without the restrictions of carrying inventory (stock) or the need to concern themselves with bulky raw materials. On the other hand, their investment in expertise does require consistent service marketing and upgrading in the face of competition.

Berry (1990) opined that services can be paraphrased in terms of their generic key characteristics which are: Intangibility; Perishability; Inseparability; Simultaneity; and Variability. Each of these characteristics is retractable and their inevitable coincidence complicates the consistent service conception and makes service delivery a challenge in each and every case.

Service Delivery

According to Steve (2001), the delivery of a service typically involves six factors:

The accountable service provider and his service suppliers, equipment used to provide the service , the physical facilities, the requesting service consumer, other customers at the service delivery location, customer contact the service encounter is defined as all activities involved in the service delivery process

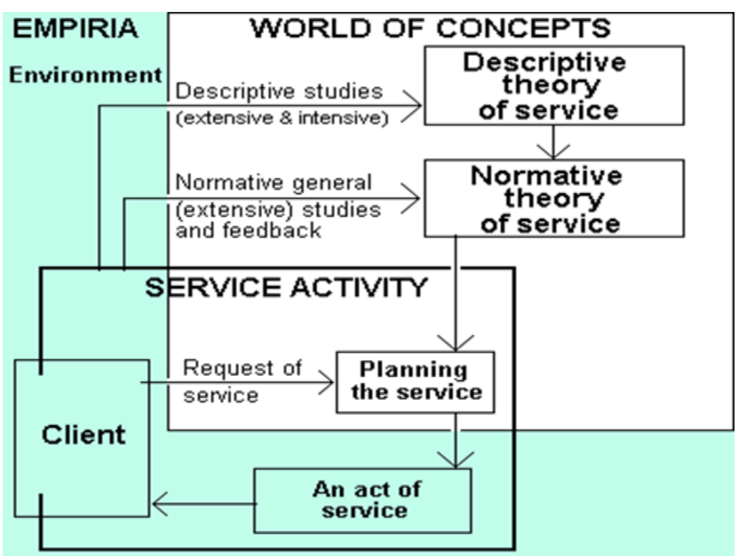

Figure 1: Theories of Services ModelsSource. (Microsoft, 1985)

Most studies of service use either one of two alternative approaches, that is, they have either descriptive or normative purpose, as can be seen in the diagram on the right. The two resulting theory paradigms differ from each other even when the object of study is the same.

Descriptive theory

Descriptive theory contains knowledge about past or present activities of producing or using a service but does not much help for modifying it to correspond better to the latest requirements. Academic or historical studies are often of this type. They are sometimes categorized in two types: extensive studies of a large number of cases, and intensive studies of one or a few cases.

Normative Theory

Normative theory of service contains generally applicable knowledge and tools that can be used in producing the service, especially for optimizing it or planning improvements to it. Research for creating normative theory is usually extensive because it needs a large number of cases for its material.

Moreover, a third type of research can take place in connection with the "request of service" marked in the diagram. It means simply studying and planning the execution of individual tasks, for example preparing for a new type of service, or removing problems in an existing service. These case-specific or "intensive" studies seldom produce a generally applicable new theory and therefore this study adopted the request of service as seen in the diagram above.

Service Delivery in the Banking Sector

The banking sector which is a prominent and pertinent sector of the economy determines to a great extent the overall growth of the economy. Hence, the need for establishment of many commercial banks giving grounds to the competitive banking services that is available to its customers. These services could vary depending on the patronage of the customers, their level of consumption and savings. With stiffer competition among domestic and foreign banks, therefore it is important for the commercial banks in Nigeria to improve the quality of their services.

According to Turban et al. (2002), "customer service is a series of activities designed to enhance the level of customer satisfaction- that is, the feeling that a product or service has met the customer's expectation." Customer service may be provided by a person (e.g., sales and service representative), or by automated means called self-service. Customer service is normally an integral part of a company's customer value proposition. From the point of view of an overall sales process engineering effort, customer service plays an important role in an organization's ability to generate income and revenue. From that perspective, customer service should be included as part of an overall approach to systematic improvement. A customer service experience can change the entire perception a customer has of the organization.

According to Osuagwu (2002), customer service is concerned with establishing, maintaining and enhancing relationships between and/or among relevant business parties in order to achieve the objective of the relevant parties. The challenge of ethics and professionalism came into being in a bid to survive the stiff competition in the market; a number of operators had resorted to unethical and unprofessional practices. Strictly speaking, some even went into businesses that could not be classified as banking. In appreciation of the enormity of the problems caused by the failure to adhere to professional and ethical standards, the Bankers' Committee set up a sub-committee on "ethics and professionalism" to handle complaints and disputes arising from unwholesome and sharp practices, coupled with the challenge of poor corporate governance practices.

The Effect of Banking Reforms on Service Delivery

Soludo (2006) recounted the "dividends" of recapitalization and bank reforms, as the most popular reform in the thirteen-point agenda for the financial service sector. According to him, "the Nigerian banking industry is the fastest growing in Africa". Some of the already visible gains of the regulatory-induced consolidation exercise are the "emergence of 25 strong and reliable banks, the soundest the banking sector has ever been, with no unsound bank and that the 25 banks are now the size of the first and the second largest bank in South Africa combined".

Poor service delivery has been the bane of the banking industry even after the several financial reforms in the banking sub-sector. While the era of "arm chair banking" is extinct, that of "tally number and mat" is still practiced by some of the banks even after the reforms. Practices such as these have caused scholars to describe the service delivery by banks as still poor.

The regulatory authorities must beam their searchlights to the area of service delivery as much as they pay attention to the figures the banks submit to them. Otherwise customers and investors alike will continue to suffer in the hands of some of these banks that have relegated service delivery to the background.

Methodology

The paper seeks to evaluate the impact of banking reforms on service delivery in the Nigerian banking sector. The population for the study is the entire staff of GT Bank having 400 branches nationwide and its potential customers spread across the nation. For the purpose of this study, the stratified sampling technique was adopted where the banks were grouped into the six geo political zone and five staffs were selected from each of zone making a total of thirty staff members and 25 customers from each zone, thus rendering a total of one hundred and fifty customers.

The data used were obtained from several sources (primary and secondary). The primary data were obtained through a questionnaire that was administered to the customers and bank employees. For secondary data, the study used profit after tax for pre and post reform period of five years each as well as customers deposits. For the purpose of testing the hypothesis, the study adopted the use of regression, chi square and percentage table for analysis and interpretation. These combinations provide accurate and absolute measures of data collection from the respondents. It is also very simple to justify such data since it does not involve any critical and complex mathematical calculations.

Variables used in analysis

Customer Deposit

Basically, the cash deposits of customer' pre and post the reforms era was tested in this research work to ascertain the satisfactions of customers vis–a–vis service delivery. It is expected that the inflow of customers into the bank is a function of their satisfaction, and this satisfaction can be viewed from the point of cash deposits in the Bank.

Loans Advanced to Customers

The relationship between service delivery and accessibility to credit facilities is very important. This is owing to the fact that the Nigerian economy is driven by the private sector that rely mostly on financial aid from Bank. For a Bank to effectively and efficiently deliver good services to their customers; they MUST be able to avail credit with a flexible repayment plan to their customers.

Profit after Tax

Banks are in the business of making profit to enable them to pay dividends to shareholders, salaries to staff, meet community obligations etc. However, for a Bank to ensure that this primary aim is achieved, they must develop products and services through which profits can be achieved. Hence, it is a very important indicator to measure the strength of a bank and the level of satisfaction given to their customers.

Service Delivery

The reforms agenda is expected to enhance synergy, improve efficiency, induce investor focus, trigger productivity and welfare gains, and most importantly, customers are expected to have full value for their patronage in terms of quality product, convenience, accessibility and exceptional service delivery. Hence, its measure in the successes of the banking reforms cannot be over-emphasized

Results and Discussion

The questionnaires were administered to the staff and customers of the bank in the entire geo political zone. 30 and 120 questionnaires were sent to the staff and customers of the banks respectively. A total of 130 questionnaires were properly filled in and returned by the staff and customers. The analysis of the study is based on the return questionnaire.

VARIABLES	NO. OF RESPONDENTS	PERCENTAGES (%)
1-5 years	15	12%
6 – 10 years	25	19%
11 years and above	90	69%
Total	**130**	**100**

Table 4.1.1: Length of Banking with GTB (Source: Field Survey, 2014)

The above table shows that 15 respondents' representing 12% have worked in the bank between 1- 5 years, while 25 representing 19% of the respondents have worked in the bank between 6 – 10 years while 90 respondents representing 69% have worked in the bank between 11 – 15 years. These respondents could give better information on the events or activities of the bank before and after the periods of their reforms.

VARIABLES	NO. OF RESPONDENTS	PERCENTAGES (%)
Strongly Agree	26	20%
Agree	65	50%
Undecided	26	20%
Strongly Disagree	13	10%
Total	**130**	**100**

Table 4.1.2 New developments to enhanced large customer base and increased deposits motivated banks' reforms (Source: Field Survey, 2014)

Table 4.1.2 shows that 20% of the respondents strongly agreed that new developments imposed high fixed costs; hence the need to spread these costs across a large customer base is one of the reasons for banking reforms**.** 65 respondents representing 50% agreed while 20 respondents were undecided and 10% of the respondents do strongly disagreed with the new developments.

VARIABLES	NO. OF RESPONDENTS	PERCENTAGES (%)
Strongly Agree	27	20.8%
Agree	90	69.2%
Undecided	-	-
Strongly Disagree	13	10%
Total	**130**	**100**

Table 4.1.3 Customers deposit increase in banks as a result of banking reforms (Source: Field Survey, 2014).

Table 4.1.3 shows the response of the respondents as regards to whether Customers deposit increase in banks as a result of bank reforms. 27 respondents strongly agreed with 20.8% of strongly agreed ranking and 90 respondents represented by 69.2%, while 10% strongly disagreed on the issue.

VARIABLES	NO. OF RESPONDENTS	PERCENTAGES (%)
Strongly Agree	52	40%
Agree	54	41.5%
Undecided	12	9.23%
Strongly Disagree	12	9.23%
Total	**130**	**100**

Table 4.1.4 There is a significant relationship between reforms and service delivery in the Nigeria banking sector (Source: Field Survey, 2014).

Table 4.1.4 above shows that 52 respondents representing 40% strongly agreed that there is significant relationship between reforms and service delivery in the Nigeria banking sector, 54 respondents agreed, 12 respondents were undecided and strongly disagreed respectively. This means that there is significant relationship between consolidation and service delivery in the Nigeria banking sector.

VARIABLES	NO. OF RESPONDENTS	PERCENTAGES (%)
Strongly Agree	51	39.2%
Agree	63	48.4%
Undecided	3	2.3%
Strongly Disagree	13	10%
Total	**130**	**100**

Table 4.1.5 ATM and internet banking is the most preferred service delivery channel and customers service in banks (Source: Field Survey, 2014)

The table above shows that 51 respondents strongly agreed, 63 respondents agreed and 3 respondents were undecided while 13 of the respondents strongly disagreed. This means that customers preferred ATM and internet banking service delivery.

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VARIABLES	NO. OF RESPONDENTS	PERCENTAGES (%)
Strongly Agree	26	20%
Agree	91	70%
Undecided	-	-
Strongly Disagree	13	10%
Total	**130**	**100**

Table 4.1.6 Customers deposit increase in banks as a result of reforms (Source: Field Survey, 2014)

Table 4.1.6 shows that 26 respondents strongly agreed that customers deposits has increased in banks as a result of the reforms, 91 respondents representing 70% agreed and 13 respondents representing 10% strongly disagreed.

There is no significant relationship between banking reforms and service delivery in the Nigeria banking sector.

Variables measurement:

Level of significance (α) = 0.05 (5%)

Degree of Freedom (df) = (r – 1) (c – 1)

Where: r = number of row,

C = number of column

1 is constant

Variable	SA	A	U	D	TOTAL
There is improvement in the services of GTB before and after reforms.	38	61	21	10	130
Bank reforms has significant impact on loan advanced to customers in Guaranty Trust Bank Nigeria Plc.	45	75	3	10	130
Total	**83**	**136**	**24**	**20**	**260**

Table 4.1.7 Contingency table showing observed frequency (Source: Author's computation)

$$\text{Expected Frequency} = \frac{\text{Column Total x Row Total}}{\text{Grand Total}}$$

Number of row = 2

Number of column = 4

df = (r – 1) (c – 1)

= (2 – 1) (4 – 1)

= 1 x 3 = 3

Combine with level of significance (5%) on chi-square table $\chi 2$ = 7.81473

Step 3: Decision Rule – Accept the Null hypothesis (Ho) if $\chi 2$ computed is less than table value 9.488 and reject Hi, otherwise, reject Ho and accept Hi.

Step 4: Test Statistics ($\chi 2$)

$$\chi 2 = \sum \frac{(O - E)^2}{E}$$

O	**E**	**O – E**	**$(O – E)^2$**	**$\frac{(O – E)^2}{E}$**
38	41.5	-3.5	12.25	0.295181
45	41.5	3.5	12.25	0.295181
61	68	-7	49	0.720588
75	68	7	49	0.720588
21	12	9	81	6.75
3	12	-9	81	6.75
10	10	0	0	0
10	10	0	0	0
Table 4.1.8: Computed Value for Chi Square Source: Author's computation				**$\chi2$ = 15.53154**

From the above table the calculated $\chi 2$ is **15.53** while the $\chi 2$ critical table value is **7.82**. **Decision**: Since the calculated value of chi-square **15.53** is greater than the table value **7.82**, the null hypothesis Ho will be rejected and Ha accepted, that there is significant relationship between reforms and service delivery in the Nigeria banking sector.

Table 4.1.9 Customers' Deposit

Pre – Banking Reforms	**Post Banking Reforms**
24,138,561	294,501
31,372,594	362,936
51,067,765	470,606
74,222,497	683,081
95,563,587	761,195
276,365,004	**2,572,319**

Table 4.1.10 Hypothesis Test (CD): Independent Groups (t-test, pooled variance)

CD PRE	CD POST	
55,273,000.80	514,463.80	Mean
29,751,813.13	201,603.48	std. dev.
5	5	N

8	
54,758,537.000	difference (CD PRE - CD POST)
442,605,514,178,965.000	pooled variance
21,038,191.799	pooled std. dev.
13,305,720.787	standard error of difference
0	hypothesized difference
4.12	T
.0034	p-value (two-tailed)
24,075,489.868	confidence interval 95.% lower
85,441,584.132	confidence interval 95.% upper
30,683,047.132	margin of error

Interpretation of Results

From our analysis, it can be seen that deposit from customers before and after, that in the column labeled Sig. (2-tailed) our p-value is less than our alpha value of 0.05 which means that there is a significance difference in the deposit by customers before and after reforms at the $p<0.05$ significance level. The mean was 55273000.8 at pre- reforms and 514463.80 at post-reforms. Therefore, we can conclude that there is significant difference in Deposit from Customers of GTBank in pre and post reforms period.

Test of Hypothesis

Ho_2: There is no significant relationship between Profit after Tax as a tool for service delivery and Reforms in Guaranty Trust Bank Nigeria Plc.

Pre – Reforms '000	Post – Reforms '000
5,330,796	7,906,000
4,056,557	5,331,000
3,211,439	28,073.250
3,081,268	28,063,080
1,503,694	39,320,660
17,183,754	**108,693,980**

Table 4.1.11: Profit after Tax

Table 4.1.12 Hypothesis Test (PAT): Independent Groups (t-test, pooled variance)

PAT PRE	PAT POST	
3,436,750.80	21,738.7966	Mean
1,404,048.52	14,575.7129	std. dev.
5	5	N

8	Df
3,415,012.00340	difference (PAT PRE - PAT POST)
985,782,346,396.71800	pooled variance
992,865.72425	pooled std. dev.
627,943.41987	standard error of difference
0	hypothesized difference
5.44	T
.0006	p-value (two-tailed)

Results

While for profit after tax by GT Bank, our analysis shows that there is a significant difference in the profit after tax, since we have a p-value of 0.006 which is less than our alpha value of $p<0.05$. We got a mean score of 3436750.8 for profit after tax of GT Bank during the pre-reforms; while for the post-reforms our mean is 21738.8. This confirms that there is significant difference in profit after tax of GT Bank before and after the reforms era.

Conclusion and Recommendations

There is no doubt that the banking sector reforms programme is the right step to take by the CBN as it is capable of prompting healthy competition among banks and aiding banks to become more creative and innovative. It also has the potential to accelerate the rate of economic growth and development of the country. However, to ensure that the synergy it promises is fully harnessed, and to mitigate post-consolidation conflicts, adequate steps should be taken to train and retrain the staff of all the banks that have scaled the capitalization huddle, while the regulatory environment should be tightened to close all potential loopholes that may result from an the company growth in the industry. Based on the findings, the study concludes that banking reforms have an impact on service delivery of the banking sector in the area of increased in customers deposit and profits of the banks are enhanced as well.

The importance of customer service is becoming a vital business issue, as organizations have become sensitive to the benefits of customer service and customer satisfaction. The CBN should provide the enabling supervisory environment to ensure the viability of the envisaged banking industry. The apex bank should foster on environment in which the interest of all parties is protected, vis-à-vis investors, depositors, borrowers and the larger society. Specifically, the CBN has to be disciplined and committed to its agenda for improving the industry. As such, the necessary internal machinery for effective supervision of the industry must be put in place. The current CBN change program, tagged eagles is designed to deliver this.

Also, banks are also expected to imbibe best practice corporate governance, improve in self-regular, enhance the capital base, institute IT driven culture, and seek to be more competitive in today's globalizing world. There is still the need to set up Asset Management Company (AMC) as soon as possible in order to reduce the risk exposure to banks

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