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## PERFORMANCE MEASUREMENT AND PROFITABILITY OF BANKS IN NIGERIA

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### ABSTRACT

*The aim of this study is to assess the effect of performance measurement on profitability of banks using key indicators. Information about the procedures required for implementation of performance measurement was provided. It employed the Likert-type questionnaire, survey research design and random sampling to obtain primary data. Financial ratios were obtained from the financial statements of banks for the period 2009 - 2015. Guaranty Trust Bank Plc, Sterling Bank Plc and United Bank for Africa were selected for the study. The data collected were analyzed using both descriptive statistics, and regression techniques. The results showed that performance measurement variables were significant in jointly explaining the variance of profitability and that quality service delivery had the highest effect on profitability of banks, employee motivation, handling of customer complaint and level of liquidity had no significant relationship with the profitability of banks. It was concluded that the trend of the labour cost to revenue ratio must be checked regularly in order to track the efficiency of labour in generating revenue each financial year. The study therefore recommends that adequate efforts should be made by banks to make the future results of cost to income ratio low. Also, customer complaints handling should be enhanced and liquidity levels should be well managed so as to boost profitability of banks.*

**Keywords: Performance Measurement; Profitability; Employee Motivation; Service Quality; Liquidity**

### INTRODUCTION

Performance is not an easy concept and that there is a clear need to study and rethink what is meant by the performance of firm and how to measure it. Meyer (2007) posits that performance has become the mantra of recent years. Many organizations say they pursue performance and strive to measure their performance, enhance performance and compensate their people for performance. Yet, at the same time, there is widespread dissatisfaction with most performance measurement system. Karr (2012) noted that banks are trying to control costs, develop closer relationship with clients and, improve product mix

and pricing choices. To this reason, offering additional services now spur banks to re-assess and enhance their means of measuring and reporting business result.

Organizations today face complex business challenges. For this reason, some economy has forced many organizations to resolve difficult decisions of achieving business results with fewer resources (Rick, 2014). In that the challenging economy necessitates that firms pay meaningful attention to performance measurement. Donovan (2005) points out that what management defined as critical success factors at the strategic level should clearly relate to the process and activity level of the firm. Effectively connecting the drivers of an organization's performance is a precondition to operational performance measurement. Achieving an effective program requires having a conceptually sound business framework that links and integrates strategy, management processes and comprehensive metrics to an effective process for continuous improvement". As intimated by Drury (2008), the balanced scorecard perspective builds a strategic focus by translating an organization's visions and strategies to operational objectives and performance measures for the distinct aspects. Meanwhile, Pollock (2007) envisaged basically that the key performance indicators (KPIs) are tools that a firm could use to define, quantify and follow up its performance through time to accomplish organization goals. As results, Managers are now setting their goals and monitor their activities to see that operations remain as planned and that variances from expected outcomes are investigated and taken care of. The aim of performance measurement is ultimately to drive future improvements in performance. Swanson (1999) conceptualised that a successful performance enhancement practice requires a systems-based method while considering drivers and outcomes; otherwise, the effort will produce a flawed picture. Siddiqui (2015) explored "the relevance of performance measurement system, in that it improves performance, as well as productivity of firms through cutting costs". Kaplan and Norton (1992) emphasized that performance measurement contributes to strategy design and implementation by showing the connection amongst goals, strategy, lag and lead indicators.

Despite the fact that performance measurement systems have been given increasing attention, researchers still debate the adoption of a structured, strategically-focused performance measurement result in improved business performance (Neely, 2005). While many have repeated that a more balanced performance system gives tangible and intangible benefits (Gubman, 1998; Hoque, 2004; Hoque & James, 2000, Martinez & Kennerly, 2005; Schiemann & Lingle, 1999; Ukko *et al.*, 2007), not all investigations report consistently positive outcomes (Ittner & Larcker, 2003; Neely, Mills, Platts, Gregory & Boume, 2004). In line with this reasons, number of researchers have researched on performance measurement but not on the Nigeria Banking industry. The study therefore bridges a gap by researching on the performance measurement on profitability of Nigeria Banking Industry.

### **Performance Measurement**

Upadhaya, Munir and Blount (2014) describe performance measurement as the practice of gathering, analyzing and reporting information concerning the performance of a person, team, firm, system or component, that it can entail learning processes/strategies within a firm or considering carefully engineering process, parameter and phenomenon to know whether output aligns with what was planned. Barnard (1962) notes performance measurement is an integral part of planning and control cycle. The practice of measuring performance is generally for process design.

Lebas (1995) describes performance measurement as a method through which an organization monitors its day to day activities and evaluates whether it is attaining its objectives. Poister (2003) explains that measuring of performance is meant to result in an objective, provide important information on program or business performance that can be used to strengthen management and inform decision making, achieve results and improve overall performance, and increase accountability. Hoshin (1989) notes organizational performance is a true measure of the effectiveness of a system of management. A functioning organization is one where individuals identify the key variables that should be controlled to satisfy customers and guarantee effectiveness and efficiency. Siddiqui (2015) describes the system of performance measurement as a successful approach to align activities with plans being established. Activities are directed through relevant feedback provided which allows managers employ best practices. Measuring performance leads to business success by way of providing knowledge necessary to improve productivity in an organization. Tan (2011) points out that measuring performance presents several purposes in the business organization. Performance measurement for external purposes is an extensive topic in itself. Purposes which are internal are categorized into: guiding employees as well as departments; feedback to modify outcome and regular improvement goals.

#### **The Role of Performance Measurement (PM)**

Johnson (2007) asserts that the main purpose of executing a performance measurement system is to increase the achievement of a firm so as to better serve its customers, employees, owners and stakeholders. Johnson (2007) further notes that basically, performance measurement system enables an enterprise to plan, measure, and control its performance aligning it towards predefined strategy. Atkinson and McCrindell (1997); De Toni and Tonchia (2001); as cited in Pongatichat and Johnson (2008), identify that the system offers the following benefit: (i) communicates the organization's defined strategy, (ii) builds a shared understanding, (iii) follows up the execution of strategy, (iv) links short-term activities with strategy, (v) distinguishes the connections between performance of individuals, and sub-units and the organization performance, (vi) promote integration among various organizational processes, (vii) facilitates organizational learning.

#### **Performance Measurement System**

Taticchi, Tonelli, Sameh and Botarelli (2008), in their review notes that in the 1990s, many PM systems and frameworks arose to give integrated solutions; balanced scorecard (BSC) and business excellence model (BEM) or methodologies for fixing some concerns; performance measurement questionnaire (PMQ) and consistent performance measurement system (CPMS). The balanced scorecard (BSC) framework involved some features such as financial and non-financial to give composite measures of performance. Much consideration has been given to the BSC during the last fifteen years and several industries have employed the BSC productively. The models which emerged since 2000 represent further improvement in the knowledge of the process. Kaplan and Norton (1996) noted that the BSC is more than a collection of financial and non-financial measurements. It translates the business unit's strategy into a related set of measures that describe both the long-term strategic objectives and the system for achieving and obtaining feedback on those objectives. The BSC enables managers view the organization from four important perspective such as financial, customers, internal business process and learning and growth (Kaplan and Norton (1996). The BSC allows firms follow up financial results while

simultaneously monitoring progress in molding the capabilities and obtaining the intangible assets they need for future growth.

### **Financial Perspective**

Financial performance measures indicate whether a company's strategy, implementation and executives are contributing to bottom-line improvement. Financial objectives typically relate to profitability-measured, for example, by ROCE or more recently, EVA. Other financial objectives are quick sales growth or creation of cash flow.

### **Customer Perspective**

In this aspect of BSC, managers identify the customer and market segments in which the business units compete and the required measures of the unit's performance in the segments. This perspective typically encompasses various core or generic measures of the successful outcomes from a well - formulated and implemented strategy. The core outcome measures comprise customer satisfaction, customer retention, new customer acquisition, customer profitability and market and account share in targeted segments. Customer perspective should also include defined measures of the value propositions that the business will offer to customers in targeted market segments. The customer perspective allows business unit managers to formulate the customer and market-based strategy that will bring superior future financial yields.

### **Internal Business Process Perspective**

In this perspective, executives determine the important internal processes in which the business should excel. These processes make it possible for business unit to (i) deliver the value propositions which attract and retain customers in targeted market segments and (ii) satisfy shareholder anticipations of successful financial yields. The internal- business process measures are applied to the internal process with the utmost impact on customer contentment and realizing business financial objectives.

### **Learning and Growth perspective**

This aspect of BSC, learning and growth, identifies the infrastructure that the firm needs to develop to generate long-term growth and progress. Organizational learning and growth is derived from three major sources: people, systems and business procedures. The financial, customer and internal- business processes objectives on the BSC typically discloses large gaps between the prevailing capabilities of people, systems and procedures and what is necessary to attain breakthrough performance. To bridge the gaps, organizations should invest in deskillling workers, improving information technology and systems, and aligning organizational procedures and routines. The learning and growth aspect of BSC encompasses the objectives. Measures include outcome measures, employee satisfaction, retention, training and skills. Altogether, the BSC can translate visions and strategy to objectives and measures across a balanced set of perspectives.

### **Employee Appraisal**

Every company has to make effort towards developing top achievers. When there is no effective assessment, employee may not be as productive as they should be. Potocki and Brocato (1995) asserted that an organization's success in improving performance depends largely on the abilities and motivation of its workforce. Performance appraisal is a potent instrument used by any business owner who wants to get the best of every encounter with employees. Jacobs (1980) defines performance appraisal as a methodical effort to

differentiate the more efficient workers from the less efficient workers and to differentiate among strengths and weaknesses an individual has across many job elements.

Individual's performance behaviour is positively related to his/her dedication to job and attainment of organization's objectives and goals. Reinke (2003) states that "a rudimentary assumption is that workers offer different measure of support to the firm since individual achievement varies, and that supervisors are very much capable and ready to distinguish between employees". Furthermore, for development purposes one assumes that accurate and timely feedback can change behaviour (Tziner, 1992). Fletcher (2001) explains that performance evaluation is the mechanism by which organizations try to do assessment and develop staff, thereby enhancing performance and distributing rewards. Furthermore, Portolese (2011) explains that in the classes of performance appraisals, two main aspects to appraisal methods are; firstly, the criteria; these include areas the staff are appraised on, which are linked to the employee's job description. Secondly, the grade, which is the sort of scale used to rank each criteria in a performance assessment. For examples, scale of 1-5, essay ratings or yes/no ratings tied to the rating and criteria is the weighting each item will be given. For instance, interaction with customer can be rated more than communication, subject to the job types. The types of criteria and rating methods include; graphic rating scale, essay appraisal, checklist scale, work standard appraisal, ranking method and the implementation of management by objectives (Portolese (2011)

### **Employee Motivation**

Daft and Marcic (2004) define motivation as the force either within or external to an individual that awakens the zeal and determination to pursue a certain goal. Nichols (2006), describes employees as a fulcrum — they can have great impact on sales and profitability, both positive and negative. Nasibov (2015) asserts that high production is a long — term benefit of staff motivation. A motivated employee is valued and offers substantial value to the business in sustaining and reinforcing its organization and profit growth. Mullins (2005) states "when positive motivation concept and practice are employed, output, quality and services should increase since motivation enables individuals achieve goals, gain positive viewpoint, create the power for change, build self-esteem and capability, manage their advancement and help others". Hoy and Miskel (1987) define employee motivation as the complex force, push, needs, tension states or other mechanism that starts and maintains voluntary activity directed to the accomplishment of individual goals. Nasibov, (2015) explains that an individual's motivation is influenced by biological, intellectual, social and emotional factors. Motivation is multifaceted, and that motivation of individuals offers several benefits to the corporate entity as well as to the individuals. Every manager has to execute the function of motivating individuals alongside other managerial functions. It is an integral part of management process itself. Seebach (2013) notes that improving productivity, utilization and effectiveness of your people can drive down costs, speed delivery and achievement, increase capacity and improve customer/stakeholder service. Osabiya (2015) notes that unlike physical assets, people have their own individual needs which must be met and habits which must be managed in order to contribute to organizational growth and development.

In a corporate entity employees are the most valuable assets and a very important resource of a business. From planning to implementation of rules and strategies employees are the core ingredients. High level of motivation is invaluable to workers and low

motivation influences employees negatively. Mullins (2005) cited a major international study by proud loot consulting which revealed that, the main reason for productivity deficit was low work morale. This comprises lack of positive group spirit, poor motivation, and poor sense of belonging, individuals' emotion undervalued and inadequately rewarded. Allen and Helms (2002) noted that various reward exercise can complement various generic strategies and are considerably linked to upper levels of perceived business performance. Osabiya (2015) points out that motivation is expected to have a positive influence on quality performance; individuals characterized by a high level of motivation display a greater work and life satisfaction. Motivation results in high level of resourcefulness from employees and whenever monitoring is impossible, motivation is very vital for ensuring high quality performance.

Barlow (2011) notes that labour represents most maintenance expenses and it is naturally a target for efficiency improvement. Sara et al. (2004) states "employees want to earn reasonable salaries, as money represents the most vital incentive, when speaking of its influential value". Avenir (2017) points out that labour cost is one of the main operating expenses of a business. To maximize operating performance and overall profitability, every entrepreneur or manager needs to know how to measure his or her effectiveness in employing labour to generate revenue. Misunderstanding how revenue and labour costs impact on each other may cause hindrances in an organization. Wright (2007) states, "labour cost to revenue ratio tells how efficiently an organization is employing the workers". Avenir (2017) explains that labour force efficiency goes up as the labour to revenue ratio (LRR) decreases, which is why the lower the ratio, the better it is for a business. The trend of the ratio must be checked regularly in order to track the efficiency of labour in generating revenue each financial year.

$$\text{Labour cost to revenue ratio} = \frac{\text{Labour cost}}{\text{Revenue}} \times 100$$

### **Quality Service Delivery**

Stone (1995) observes that in the present day banking environment, banks profitability levels got reduced as a result greater competition and spread reductions. Banks once relied on products to make their profit margin in a highly regulated industry, and the customers basically were on the sidelines, but today, banks are driven by customers, who demand service quality. Berry!, (1988) points out that banks pursuing optimization of profit do know now that high quality enables a bank to attract and keep customers and bad quality will cause customers to leave a bank. Bitner, (1990) describes service quality as the customer's overall impression of the relative inferiority/ superiority of an organization and its service offerings. Kotler (2000) asserts that delivering superior services has become one of the most important ways to gain superior profitability. Buzzell and Gale (1987) found out that service quality results in increased market share and repeated sales that ultimately leads to customer loyalty. Berry, (1988) explains that quality of service is vital in distinguishing rival firm in the retail sector and in banking. Lewis (1993) notes that service quality is one of the most effective means of establishing a competitive position and enhancing profitability.

Alvarado, Dockett, Romano and Ferguson (2007) assert that efficiency ratio are designed to measure the firm's ability to generate revenues and control costs. Burger and



Moormann (2008) stress that in efficiency measurement, it is essential to consider several factors simultaneously in the analysis. Only this approach ensures the accurate determination of multi-dimensional character of performance within a business process. In process management, the factors, cost, quality, time and operational risks have to be balanced. These factors must not be analyzed separately from one another, but need to be considered collectively. Burrows (2009) argues that efficiency is not just about reducing cost; other business objectives, including service quality still have to be achieved to keep existing customers and revenue. Many organizations are too concerned with costs and are not aware that the real business value can be destroyed if approached purely as a cost cutting exercise. Shawk (2008) defines operational efficiency as what happens when the right combination of people, process and technology are used together to increase output and value of any business operation, while reducing the cost of routine operations to a desired level. Bratton and Garrido, (2016) explain that cost to income ratio (CIR) is the ratio which measures operating expenses as a percentage of operating income, and that it is employed to gauge efficiency and productivity for banks. Lower ratios generally indicate higher efficiency but various factors can affect the ratio, including a bank's business model and size. In Global Economy.com (2017) Bank scope provided the average value for Nigeria's bank CIR from 1996 to 2014 as 58.78 percent.

$$\text{Cost to income ratio} = \frac{\text{Operating expenses}}{\text{Operating income}} \times 100$$

### **Handling of Customer Complaints**

Customer complaint is "an expression of dissatisfaction on a consumer's behalf to a responsible party" (Landon, 1980). Kristensen et al. (1992); Zeitthami (1996); McColl-Kenedy and Scheider (2000) state "that it is well established that satisfied customers are key to long-term business success". Aker and Jacobbsons (1994); Bolton, (1998); Yeung et al., (2002) note that companies that have a more satisfied customer base also experience higher economic returns. Yi (1991); Anderson and Sullivan (1993), Boudling (1993) asserts that higher customer satisfaction leads to greater customer loyalty. Shulzhenko (2014) emphasizes the key to successfully dealing with complaints is in the right attitude towards them. In fact, customer complaints should be embraced and seen as solicited feedback which is always a valuable source of information about your business

Baran, Galka and Strur (2008) suggest that it behooves a company to recognize dissatisfied customers and try to reverse a bad situation. Albrecht and Zemke (1985); Rust, Subramanian and Wells (1992); Tax and Brown (1998) claim that previous studies have shown that when banks' customer grievances are satisfactorily addressed, a stronger relationship is formed and this leads to customer retention. Cardozo (1975) stresses that customer satisfaction can boost repeat purchase and cross purchase. Conlon and Murray (1996) state that customers who complain and receive a proper response to firm's failure services are more likely to stay. Carnegie (2014) explains that some people who complain will be difficult to please, but if your company can develop a consistent procedure employees can use for resolving complaints, you are one important step closer to assuring that you deal with the emotional and practical aspects of customer service.

Assessment for customer complaint resolution (CRR) is the percentage of customer complaints successfully resolved. This measures whether customer complaints are resolved

to the satisfaction of customers' needs. Complaint handling efficiency goes up as the complaint resolved ratio increases, which is why the higher the ratio, the better it is for a business. This is computed as given by the formula below:

$$\text{CRR} = \frac{\text{Customer complaint resolved}}{\text{Total number of complaints received}} \times 100$$

### **Level of Liquidity**

Ibe (2013) describes that bank liquidity as the ability of bank to immediately meet cash, cheques, other withdrawal obligation and legitimate new loan while keeping to prevailing reserve requirements. Agbada and Osuji (2013) note that strategic management of banks seeks to keep the bank solvent and liquid to earn good profits and remain sound. Bessis (1998) emphasizes that when evaluating a bank's performance, due consideration needs to be given to not only its profitability but also its financial condition. Thus, the management of profitability and risks are closely related, because risk taking is very vital for future profitability. Ghebreorgis and Atewebhrhan (2016) affirm that each bank makes trade-offs between the profitability level it is striving to achieve and the risks it is willing to take. Therefore, profitability measure, taken alone without a proper assessment to a bank's risk, can be misleading. Spaulding (1982) explains that the major assets of a bank are its loans to individuals, businesses and other organizations and the securities that it holds, while its major liabilities are its deposits and the money that it borrows, either from other banks or by selling commercial paper in the money market. Fuhrmann (2007) stresses that liquidity mismatch between depositors and borrowers, a significant problem throughout history, is a vital reason why banks are highly regulated and under continuous scrutiny by regulators.

Cash based economy is not without cost to banks, government and individuals. High cash usage results in high cost of processing borne by every entity across the value chain. For instance, the cost of printing new notes is said to cost a huge amount yearly. Generally, cost of cash in Nigeria's financial system is great and increasing (Central Bank of Nigeria, 2011; Nweke, 2012). Cashless policy is a policy established in the year 2012 by the Central Bank of Nigeria to curb excesses in the handling of cash in Nigeria. It prescribed a cash handling charges on daily withdrawal above Five Hundred Thousand Naira (N500, 000.00) for individuals and Three Million Naira for Corporate Bodies (N3, 000,000.00) (Emefiele, 2015). Taiwo, Oluwafemi, Evawere and Agwu (2016) state in their empirical findings that "banks activities and their income structure are continuously being influenced positively by the introduction of cashless policy.

### **Financial Performance Indicator for Measuring the Profitability of Bank**

Lesakova (2007) states that "profitability ratios reveal the company's ability to earn sufficient profit and return on investment". The ratios indicate good financial condition and how successfully the organization manages its assets.

### **Return on Asset (ROA) Ratio**



Helfert (2001) states that certain authors recommend calculating ROA as the ratio of the Net profit (NP) of an organization to the average total assets of the last two accounting years.

$$ROA = \frac{NP}{ATA} \times 100 \quad (1)$$

The average total assets (ATA) is calculated by the following formula

$$ATA = \frac{TA_1 + TA_0}{2} \quad (2)$$

Where TA is total assets at the end of the current financial year (for which ROA is calculated) and TA represents value of the assets at the end of the previous year.

#### **Return on Equity (ROE) Ratio**

Helfert (2001); Brealey and Myers (2003); Ross and Jaffe (2002) suggest calculating ROE by dividing the net result by the average equity of an organization:

$$ROE = \frac{NP}{AE} \times 100 \quad (1)$$

Where AE is the simple arithmetic average of equity of the company for the last two financial years, respectively.

$$AE = \frac{E_1 + E_2}{2} \quad (2)$$

Regardless of the approach used to calculate equity, we have to state that this indicator is a relevant measure of management efficiency in dealing with shareholders capital.

#### **Financial Performance Indicators for Measuring Efficiency of Bank**

Bon and Veen (2007) describe efficiency as a measure of whether the right amount of resources has been used to deliver a process, service or activity. An efficient process achieved its objectives with the smallest; amount of time, money, number of people or other resources. Efficiency measurement is one aspect of firms performance. Mester (2003) states efficiency is measured in relation to an objective. It can be measured in relation to maximization of output and of profits, or minimization of costs.

Wright (2007) points out that investors, owners and managers often review and assess internal numbers to determine how well an organization is performing. Comparing one set of numbers to another yields ratios that provide valuable insight.

#### **Labour Cost to Revenue Ratio (LRR)**

Avenir (2017) argued that LCR is the financial analysis tool that compares the amount of money an organization spends on its workers to the quantity of money it makes in net sales. The formula is:

$$\text{LRR} = \frac{\text{Labour cost}}{\text{Revenue}} \times 100$$

#### **Revenue Per Employee Ratio (RER)**

Wright (2007) explains that businesses calculate RER by dividing total revenue by total number of employees. Through employing RER, an organization can ascertain efficiency and use the outcome for modifications to operations. High RER shows that an organization has found other methods to obtain additional sales from each staff. Increased efficiency means lower relative labour costs, increased margins and bigger profits. The formula is thus stated:

$$\text{RER} = \frac{\text{Total revenue}}{\text{Total number of employees}} \times 100$$

#### **Cost to Income Ratio (CIR)**

Bratton and Garrido (2016) asserts that CIR which measures operating expenses as a percentage of operating income is used to gauge efficiency and productivity for banks.

$$\text{CIR} = \frac{\text{Operating expenses}}{\text{Operating income}} \times 100$$

#### **Complaint Resolved Ratio (CRR)**

BPIR.com (2002) provides assessment for CRR as the percentage of customer complaints successfully resolved.

$$\text{CRR} = \frac{\text{Customer complaint resolved}}{\text{Total number of complaints received}} \times 100$$

#### **Financial Performance Indicators for Measuring Liquidity**

Lee (2006) stresses that liquidity ratios measure the ability of an organization to meet its mature financial obligations and recurring operating expenses.

#### **Loan to Deposit Ratio (LDR)**

Dufera (2010) asserts that LDR is the most essential ratio to measure the liquidity condition of bank. Emefiele (2015) notes that the measure is based on the fact that loans and advances are the illiquid of a banks earning assets, such that a high LDR shows low liquidity position and conversely. LDR is calculated as follows:

$$\text{LDR} = \frac{\text{Total loans and advances}}{\text{Total deposit}} \times 100$$

Hempel et al (1994) notes that high liquidity ratio indicates a less risky and less profitable bank.

### Cash Deposit Ratio (CDR)

Dufera (2010) states that cash in the bank vault is the most liquid asset of a bank. Therefore, a higher CDR depicts a relatively more liquid bank than that which has low cost to deposit ratio".

Depositors' confidence in bank is greater at a high CDR. CDR is computed as:

$$\text{CDR} = \frac{\text{Cash}}{\text{Deposit}} \times 100$$

### Demerits of Financial Ratio

Peavier (2017) points out that financial analysis is one of the most popular used methods of analysis for companies', mainly small firms. Ratio analysis presents information on trends within companies; known as trend or time- series analysis, and trends within the industry, known as industry or cross- sectional analysis. There are other techniques used to assess the financial condition of business apart from ratio analysis, such as common size financial statement analysis. These techniques make up for the demerits of ratio analysis below:

- i. Benchmark to industry leaders' ratios, not industry averages: Benchmark your firms financial ratios to those of superior organizations in your industry and you will shoot for a higher goal.
- ii. Companies' balance sheet is distorted by inflation: Distortions may exist when comparing ratios computed from balance sheets affected by inflation.
- iii. Ratio analysis just presents figures, not causation factors: Ratios are useless when not compared with trend data or industry data.
- iv. Diverse divisions may be compared with various industry averages: Big firms may comprise various divisions manufacturing various products or offering diverse services. For ratio analysis to be useful, various industry averages may be employed for each division.
- v. Companies may alter their financial Statements: If financial statements are not good enough and an organization wants better figures in their annual report, the firm may employ window dressing to make alterations in the financial statements.

### Goal Setting Theory

In 1960, Locke propounded the Goal setting theory of motivation. Locke (1960) explained that Goal setting theory is vitally connected to performance of task and that specific challenging goals with required feedback provide contribution towards higher and better task performance. Goals affect behavior, direct actions and challenging goals mobilize energy, leading to persistent increase in effort and motivation of individuals in building

strategies in order to perform at the required goal levels. Lastly, success in attaining the goal may lead to satisfaction and further motivation, while failure to attain the goal may lead to frustration and lower motivation. Hoy and Miskel (2005) emphasize that the intention to achieve a goal is the main motivating force of work behaviour.

Locke and Latham (1990) put forth four conditions that must be met for goal setting to lead to enhanced performance. Firstly, goals must be specific; secondly, goals must be challenging; thirdly, goals must be attainable; finally, individuals must be committed to the goals. When goals are accepted, it indicates that individuals have the intent of exhibiting the behavior required for its implementation. Muchnisky (1983) recommends that for goals to have positive influence on performance, two conditions must be met. Firstly, the individual must know the goal and what must be achieved. Secondly, the individual must accept the goal as something he wants to work for.

### **Motivation-Hygiene Theory (Two-Factor or Dual-Factor Theory)**

Herzberg (1959) asserts that some factors in the workplace cause job satisfaction, while a different group of factors cause dissatisfaction. Thus job satisfaction and job dissatisfaction are not on a continuum with one increasing as the other is diminishing, but are independent phenomena. This theory suggests that to improve job attitudes and productivity, administrators must pay attention to both sets of characteristics and not have the assumption that an increase in satisfaction leads to decrease in dissatisfaction.

Herzberg (1959) points out that individual are not content with the satisfaction of lower-order needs at work; for example the needs associated with minimum salary levels and good work conditions. Rather, individuals seek to gratify higher-level psychological needs which include achievements, recognition, responsibility, advancement and the nature of work.

Hackman and Oldham (1976) explain that two-factor theory distinguishes between motivators and hygiene factors. Motivators give positive satisfaction. They arise from intrinsic conditions of the job itself, such as recognition for one's achievement or personal growth.

Hygiene factors do not give positive satisfaction or lead to higher motivation, though dissatisfaction results from their absence. Hygiene factors are for maintenance. These are extrinsic to work itself and include aspects such as company policies, supervisory practices or wages/salary.

The relevance of these theories to the study is that they direct focus to important factors which are vital to business performance. They also provide meaningful contributions that will aid managers put in place conditions and processes that will enable workers perform optimally.

### **Empirical Evidence**

Gunasekaranb (2004) noted that in recent years, organizational performance measurement structure and factors have received considerable focus from researchers and practitioners. Taticchi *et al.* (2010) pointed out that measurement has been known as a vital element to enhance business performance. Neely *et al.*, (1995) noted that for the past three decades, several literatures on measurement of performance and management exist. Researchers and practitioners initially focused on business performance, definition for measurement, measures and measurement system. Kaplan and Norton, 1995 noted that

later studies were about developing comprehensive frameworks and models for measurement.

Franco-Santos, Lucianetti and Boume (2012) carried out a study on contemporary performance measurement systems. The features of seventy-six selected studies were extracted to organize the findings and build conceptual framework for the study. This framework categorized the contemporary performance measurement system consequences into three groups: consequences for people's behavior, consequences for organizational capabilities and consequences for performance. Mixed methods of survey, interviews experiments and case/field study were used in the study.

Related to CPM system influence on people's behavior. Malina and Selto (2001) contend that the CPM stimulates motivation when there are two conditions. Firstly, the CPM system must be an effective management control device, including performance measures and targets that are controllable, challenging but attainable and linked to meaningful rewards. Secondly, the CPM system must be supported by an effective communication mechanism which encourages feedback, dialogue and participation. In summary, evidence gathered indicated that it is as much the process of building and using the CPM system, as it is the resultant performance measures that bring about motivational benefits. To promote motivation the CPM system should be developed and used in a way that improves employees' participation, psychological empowerment and goal commitment (through increased perceptions of self-- efficacy and goal attractiveness).

Bisbe and Otley (2004) found that iterative use of CPM systems favour innovation only in organizations with low levels of innovation, whilst it militates against innovation in organizations with high levels of innovation. On organizational learning, the studies of Johnson et al., (2002), Godener and Soderquist (2004), Ahn (2001) and Chenhall (2005) suggest that when the focus of CPM systems is on action and improvement rather than on reporting and control, these systems are effective mechanisms for facilitating organizational learning that supports growth and development at all levels. Based on the insights from the above studies and more, it can be argued that the appropriate balance between diagnostic and interactive uses of CPM systems can encourage the utilization and development of strategic firm capabilities such as organizational learning, entrepreneurship and market orientation. The impact of CPM on innovation remains unclear, necessitating further research.

CPM has been found to have impact on performance at all levels of the firm. The growing consensus in the literature seems to be that CPM systems do enhance organizational performance. Evidence indicates that it is the way these systems are designed, developed and more importantly used that results in performance improvements (Braam and Nijssen 2004; Griffith and Neely, 2009; Ittner and Larcker, 1997; Henri, 2006)

In the study, titled "towards a definition of business performance system", Franco-Santos, Kennerly, Micherli, Mason, Marr, Gray, Neely and Martinez (2007) reviewed the performance measurement literature with a systematic method with the purpose of finding out various definition of performance measurement system. In analyzing the key features of business performance measurement (BPM) system, seventeen definitions found in the literature were content analyzed. This finding indicated that the majority of researchers in this field do not explicitly define what they are referring to when they use the phrase "business performance system". Hult, Ketchen, Griffith, Chabowski, Hamman, Dykes, Pollitte

and Cavusgil (2008) in the study titled "An assessment of the measurement of performance in international business research" assessed the measurement of performance in ninety six articles published in some journals between 1995 and 2005. The finding showed that most studies do not measure performance in a way that will capture the multifaceted nature of the construct. They however, offer suggestion for improving future practice.

## **METHODOLOGY**

This research study examines the impact of performance measurement on profitability of banks in Nigeria. The study employed primary and secondary data from the three selected banks; Guaranty trust bank, Sterling bank plc and United Bank of Africa (UBA). The sample for the primary data was obtained using stratified sampling technique. Financial ratios were computed from the data obtained from the financial statements of banks. These ratios were used as financial proxies for employee motivation, quality service delivery, handling of customer complaint, level of liquidity and profitability as determinants of profitability. The study involved the use of descriptive statistics, and regression techniques. These statistical tools were used to make meaning out of the primary and secondary data generated, test of hypotheses and observe the extent of impact of the independent variables on profitability.

## **FINDINGS**

Employee motivation shows a positive relationship with profitability in both primary and secondary data analysis ( $B = .395$ ,  $P < 0.01$ ) and ( $B = 0.83$ ,  $P < 0.05$ ) respectively. This result indicates that employees were not utilized efficiently and that any increase in profitability will not be as a result of employee efficiency but the impact of other factors such as: increase in funding, payment on bad debts from previous years. Avenir (2017) explained that labour force efficiency goes up as the labour revenue ratio decreases, which is why the lower the ratio, the better it is for a business.

It was found from the results that quality of service delivery had the greatest impact on profitability and ( $B = 0.83$ ,  $P < 0.05$ ) result. The regression analysis on the secondary data showed that the quality of service delivery had an inverse relationship with profitability. Garrido (2016) explained that lower ratios generally indicate high efficiency but a number of factors can affect the ratio, including the bank's business model and size. The correlation result also shows negative relationship between quality service delivery and profitability.

In the analysis of the secondary data, handling of customer complaints showed positive relationship with profitability and a level of significance  $p = .586$ , which shows no statistical significance at ( $p = .586 > 0.05$ ) in regression analysis. This result is assessed as having a moderately significant relationship with profitability. Data from the financial statements of banks were non-existent from the year 2009 to three-quarter of 2011. This reflects on the results. In spite of the effect of the non-existing figures, the regression analysis on the secondary data showed a result of positive relationship between handling of customer complaints and profitability. Also, the data from 2011-2015 show high figures for financial ratios, which is an indication that the number of complaints successfully resolved over this period were high. Thus, this would have had statistical significance on profitability all things being equal.

The analyses on the primary and secondary data show that level of liquidity has positive and ( $B = 0.54$ ,  $P < 0.01$ ), and ( $B = .001$ ,  $P < 0.05$ ) relationship with profitability at no level of statistical significance and ( $.140 > 0.05$ ) & ( $.998 > 0.05$ ) respectively. The primary



data is contradictory to the rule the higher the liquidity position of a bank, the less risky is the bank, which translates into low profitability (Emefiele, 2015), thus this shows a negative relationship. Ross, Westerfield and Jaffe (2005) explained that holding high level of liquidity with low returns in banks is one of the factors that affect bank profitability adversely. Kamau, (2009) noted that when banks' hold high liquidity they do so at the opportunity cost of some investment, which could generate high returns. The secondary data showed that level of liquidity has a weak and lowest positive relationship with profitability. This result confirms the explanation; banks with low loan to deposit are considered to have excessive liquidity, potentially lower profits, and hence less risk as compared to the bank with high loan to deposit (Dufera, 2010). Thus, this shows a positive relationship between liquidity (loan to deposit ratio) and profitability.

### **CONCLUSION AND RECOMMENDATIONS**

The primary data result on employee motivation showed positive and significant relationship with profitability of banks, while the secondary data indicated positive but no significant relationship with profitability. The trend of the labour cost to revenue ratio must be checked regularly in order to track the efficiency of labour in generating revenue each financial year.

The results obtained from the regression analyses showed low positive effect and no significance on profitability. Liquidity management should be enhanced so as to maintain the level of liquidity that will help boost profitability. Strategic bank management which aims at keeping the bank solvent, liquid and sound is required. The result obtained from the secondary data may be as a result of banks not creating sufficient interest bearing assets and not earning enough to remain in business.

It is rather difficult to operate a system that is perfect in the world of events. Therefore, recommendations of this study will be based on the aspects of performance measurement that needs to be emphasized and/or difficult to assess or manage. Having reviewed literatures and drawn all analysis, recommendations were put forward. These will not only be of relevance to banks but also benefit other organizations with similar problems. The importance of performance measurement in the management of an organization cannot be undermined. The recommendations are presented below:

- i. Quality service delivery has the greatest impact on profitability of banks. Hence quality service delivery should be enhanced for the successful operation of banks through considering several factors simultaneously; efficiency in utilizing employees, maintenance of high standards, process monitoring and minimization of wait time.
- ii. The performance measurement system must be tied to the strategic visions, goals and objectives of the firm. Also, organizations should employ key performance indicators that are meaningful and echo organizations objectives, in order to achieve business success.
- iii. The result on the secondary data showed that employees were not utilized efficiently, for this reason; it recommend that employees should be well equipped to carry out the operational activities of the organization, performance measure should be discussed with employees and methods of evaluating employee performance should be clearly defined.

- iv. Banks should employ financial and non-financial key performance indicator as a balanced set of measures. And to reflect the causal link inherent in the model of a firm, performance measures must always be reported collectively not singly.
- v. Firms should not simply copy measures used by others, the choice of measures must be linked to factors such as corporate, value drivers, organizational objectives and competitive environment of the organization. Gap analysis should be done regularly to assess performance in organizations as an aid to align current measures with company's strategies and value drivers.
- vi. When business environment is changing, a performance measurement system should provide for the continual re- assessment of strategies and planning targets, so that targets can be altered as necessary to meet the changing circumstances. Performance measurement should be relevant and dynamic.
- vii. Performance measures that are chosen should measure; effectiveness of processes, products and services in meeting customer need and efficiency in the use of resources and banks should always quantify key performance indicators used to measure their performance in order to determine whether they are successful or not.

### **Managerial and Academic Implications**

The results of the study present several implications to practitioners and academia. The study provides in-depth knowledge and understanding of procedures required to establish effective performance measures that are aligned to the strategies, goals and objectives of an organization. Guiding principles for effective performance measurement framework were identified

- i. The study has established an enhanced model of performance measurement through employee's motivation, quality service delivery, handling customer's complaints, level of liquidity and their effect on the profitability of banks.
- ii. This research work conducted on performance measurement on profitability of banks presents result which different organizations, departments and employees can compare their performance with, in order to establish the extent of their competitiveness and profitability.
- iii. In the research, the use of combination of qualitative and quantitative techniques provides insights and understanding of the possibility. The study presented this approach that will help managers and researchers obtain more meaningful results as both qualitative and quantitative measures complement each other.
- iv. The different performance perspectives and variables of the model were further defined by using financial ratios as proxies for the variables. This further refines the perspectives of the balanced scorecard model after which the conceptual model for this study was tailored.
- v. The study provides a guide that can be tailored to fulfill unique measurement needs of various companies. This guide is suggestive of an aid which provides organizations with operational performance measures aligned to strategic goals and objectives.

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