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Employee Loyalty, Customer Centricity, Loyalty and Banks Performance in Nigeria: The Service-Profit Chain Model

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Employee Loyalty, Customer Centricity, Loyalty and Banks Performance in Nigeria: The Service – Profit Chain Model

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Abstract

There has been a decline in the performance of the Nigerian banking industry in recent times. Whereas literature is replete on the macroeconomic, global and environmental factors affecting banking performance, not so much have been done in analyzing the influences of sociological, psychological and behavioral factors such as employee loyalty, customer satisfaction/loyalty and customer centricity. From the theory of consumer preference and demand dynamism, these factors could bear on financial non-inclusion, decrease in demand for banking products and ultimately, financial performance of the banking sector. This study therefore investigates the interrelation amongst employee loyalty, customer centricity, customer loyalty and financial performance of Nigeria Banks. Developing metrics of these variables in the service-profit chain model, in a survey of customers, employees and managers sampled from 120 branches of the top ten banks in Nigeria based on their assets, across the six geo-political zones and employing Generalized Method of Moments (GMM) technique of data analysis, the study finds; (1) employee loyalty enhances the implementation of customer centricity (2) Bank customer centricity enhances customer loyalty (3) Customer loyalty has positive effects on banking performance (4) Female managers enhanced profitability more than their male counterparts (5) Banks located in the southern part of the country are likely to be more profitable than those in the North. Therefore, bank managers should consciously and continuously pursue employee strategic engagements and training to becoming customer-centric for increased customer loyalty and ultimately guaranteeing enhanced performance.

Keywords: *Employee Loyalty, Customer Centricity, Loyalty, Bank Performance*

Introduction

Recent economic and political vicissitudes have bedeviled the global economy and have adversely impacted on drivers of financial systems especially the banking sector. Examples are the ongoing Russian-Ukraine war and the COVID-19 pandemic of 2020. Banking sectors in developing countries like Nigeria are worse hit by the consequent harsh economic environments these have created. Despite these unavoidable negative economic influences on bank performance, it is however worrisome to observe that psychological and sociological factors for which the banks could have control over, have also taken their negative tolls on banking performance. These factors are identified as employee disloyalty, lack of customer centricity and

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customer disloyalty. The service-profit chain model links employee satisfaction and loyalty to increased firm performance via the implementation of customer centricity and customer loyalty in organizations (Heskett, Jones, Loveman, Sasser & Schlesinger, 1994).

In Nigeria for instance, there seems to be a correlation between increasing dissatisfaction of employees and customers and banking performance. The number of bank customers' complaint increased by 25.52% between the first and second half of 2020 (Central Bank of Nigeria, 2020). Out of 107 complaints received in December 2020, only 57 (about half) were resolved. The deterioration in Customer Satisfaction Index (CSI) from 73.9% in 2018 to 72.5% in 2020 of banks in Nigeria was accompanied by declines in their respective performance metrics (KPMG, 2020 and Central Bank of Nigeria, 2020) and high levels of employee related fraud and forgeries. There was 177.10% increase in number of fraud cases from 52,754 in 2019 to 146, 183 in 2020 and 474 bank staff were involved in 2020 (Nigerian Deposit Insurance Corporation, 2020). The roles of employee loyalty, customer loyalty and customer centricity on the banking industry's performance in an era of digital technological revolution cannot be overemphasized. Cases of negative customer and employee experiences can be escalated via the social media platforms such that the reverberations therefrom can negatively affect the performance of banks (Ahmed, 2012, Chovwen, 2013 and KPMG, 2020).

Research Problem

Despite the intuitively appealing positions of the service-profit chain theory and its applicability in services-oriented organization, not so much research of the authenticity of this theory has been conducted for banks. Also, the need for the design of all-encompassing metrics of the variables in the theory that encapsulate dynamism in the evolution of human behavior is important. While Loveman (1998) opined that the link in the theory has not been thoroughly tested by utilizing data spanning the entire variables in the model, Gupta & Zeithaml (2005) noted that there is a need for more comprehensive studies of customer metrics. Walter (2018) added that researches in employee and customer motivation are outdated in the face of changing business environment. This study tackles these by applying the constructs of customer loyalty, employee loyalty, customer centricity and banks' performance developed by the study to empirically test the interrelationship among these variables in Nigeria banks.

Objective of the Study

The main objectives of this study are to develop metrics of employee loyalty, customer loyalty and customer centricity in line with the service profit chain model and use same to test the interrelationship amongst the variables in Nigerian banks.

Literature Review

Theoretical Literature Review

The Service-Profit Chain Theory

The service-profit chain theory explains the channels through which employee satisfaction and customer retention influence corporate profitability. Firstly, organizational profits and growth are roused primarily by loyal customers. Second, there is a positive relationship between loyalty and satisfaction. Third, satisfaction is mainly a product of the quality of services that the organization provides. Fourth loyal employees are productive and value-oriented. Fifth, influencers of employees' satisfaction include improved quality and value support services and policies aimed at driving customer centricity by the employees. (Abusomwan, 2018b; Emerson, 2007; Heskett, et al, 1994; Lee, Sridjar, Henderson & Palmatier, 2012 and Loveman, 1998).

Loyalty-based Cycle of Growth Model

The creation of value for customers is the main factor that results in loyalty as a cause and as an effect (Reichheld, 1996). The forces of loyalty that enhance organizational development, according to the model, are customers, employees and investors. From the 'effect' angle, loyalty indicates superior value delivery while from the angle of causality, loyalty engenders a 'five-stages' chain of reactions viz; In the first stage, loyalty causes repeat sales and referrals and enables stimulation of the growth of market share and revenue by the best customers of the organization. The growth therefrom enhances the value proposition which allows for efficiency in the selection and acquisition of new customers thereby allowing the organization to channel its investible resources on the most profitable and loyal prospects and further engendering growth stimulation and sustainability. In stage two, sustainable growth from customer loyalty attracts the best and sustainable employees who have tendencies to be loyal given the superior values created by the loyal customers. This creates improved working environment and employee engagements which guarantee employee retention and the offer of quality services. Stage three holds that, loyal employees who stay longer in the organization are able to learn experientially on the job which reduces the costs and improves the quality of service. Customer value proposition and productivity are further heightened. The gains from the improved productivity propels improved compensation, benefits, training and development opportunities and the erection of customer centricity structures in the organization. In the fourth stage, customer centricity from productivity enhances cost advantage (efficiency) in the face of customer loyalty. Competitors find it difficult or impossible to beat this. Cost advantage is also increased by the increasing customer loyalty given that these customers cost the organization little or nothing to retain. These customers also refer other prospective customers at no cost whatsoever to the organization. These chains of events result in further sustainable growth trajectories and puts the organization in a good position to attracting the right investors. The final stage (stage five) holds that the stability engendered by these investors who have also become loyal will further lower the cost of capital and ensure that adequate liquidity is supplied to the organization. This further enhances the organizational value-creation potentials (Reichheld, 1996). These processes, according to the model, revolve again and again as a cycle, which is why it is described as loyalty-based cycle of growth model.

Both the Service-Profit Chain and the Loyalty-based cycle of growth model form the theoretical underpinning of this study.

Empirical Studies

Evidence abounds in literature especially in the global hospitality industry of the relationship between employee loyalty, customer loyalty and financial performance.

Edvardsson, Johnson, Gustafsson & Strandvik (2000) found a direct causation between customer loyalty and profits in data obtained from Swedish Customer Satisfaction Index (SCSI). Employing Partial Least Squares (PLS) they found that satisfaction affects profit and growth more in services than products. For profitability, they also found that the effect is significantly positive and indirect through loyalty. Emerson (2007) in studying Maine Savings, found a positive association in the employee-customer satisfaction/loyalty nexus which translate to profit through the service profit chain. Also, Ballard (2008) in examining 22 publications spanning 1973 and 2007 that emphasized ‘customer-centric business strategy’ for foundational Customer Relationship Management (CRM) and as facilitator of customer loyalty, showed evidently that a link exists between customer loyalty and the growth of an organization. It was also found that increased loyalty could be achieved by building a customer centric strategy. Hosseini & Shahmoradi

(2016) using SEM in a survey of 131 staff, assistants and managers and 386 questionnaires administered to customers of Resalat bank in Iran, found that customer loyalty positively impacts financial performance. Administering 317 surveys in a study of 100 service companies in Republic of Serbia, Bosnia and Herzegovina, Tomic, Tesic, Kuzuranovic & Tomic (2018) found that employee loyalty positively influence performance. Abusomwan (2018b), in examining managers sex, customer loyalty and profitability of Nigeria banks and employing the Generalized method of moment technique found that customer loyalty enhances profitability.

Bulgarella (2005) in an empirical review of literature on the relationship between employee satisfaction and customer satisfaction observed that satisfied employees are empowered to give proper attention and care to their customers and that the strength of employees' contribution to organization's success is hinged on delivering customer centricity at their duty posts. Xu & Goedegebuure (2005) using survey of 680 employees of 30 branches and 476 customers from 26 branches of a Chinese security firm, employing branch level data and regression analysis found that employee satisfaction directly impacted customer satisfaction and that both positively affect profitability. Ram, Bhargavi & Prabhakar (2011) in a primary study of senior employees in some retail service organization in India found that improved work environment enhanced the creation of good service climate which also impacted employee engagement and job satisfaction. Job satisfaction on the other hand influenced customer satisfaction and loyalty.

Macgillavory & Sinyan (2016) in an analysis of DHL found that customers and employee satisfaction metrics showed similar significant patterns. DHL freight developed Customer Experience Management (CEM) program aimed at cultivating customer service and loyalty. This model was aimed at employee engagement that will ultimately create customer-centricity which in turn enhances customer loyalty and profitability. They observed that the departments with high employees' dissatisfaction strongly linked with customers' dissatisfaction. The difficulties employees encountered on their jobs were similar to that experienced by the customers in transactions with the organization hence they concluded that employee satisfaction and loyalty impact customer loyalty via customer centricity implementation. By incentivization, employee engagement enhances customer centricity because the employee rather than staying for what they can get, stay for what they can give which makes them loyal.

Investigating 206 service shops in Hong Kong, and testing the relationship between the variables in the service-profit chain by utilizing the Structural Equation Model (SEM) (Yee, Yeung & Cheng, 2008) revealed service quality impacts employee satisfaction directly resulting in customer satisfaction and profits. This result was confirmed for 210 high contact service shops in Hong Kong (Yee, Yeung & Cheng, 2010).

From the review of empirical literature, (1) customer satisfaction/ loyalty could directly enhance financial performance (Abusomwan, 2018b; Hosseini & Shahmoradi, 2016, Goedegebuure, 2005 and Edvardsson, Johnson, Gustafsson & Strandvik, 2000) (2) employee satisfaction/ loyalty could directly enhance financial performance (Tomic, Tesic, Kuzuranovic & Tomic, 2018 and Goedegebuure, 2005) (3) employee satisfaction/loyalty could directly enhances customer satisfaction/loyalty (Ram, Bhargavi & Prabhakar, 2011; Goedegebuure, 2005 and Yee, Yeung & Cheng, 2008 (4) customer satisfaction, loyalty and centricity intermediates the link between employee satisfaction/loyalty and financial performance (Macgillavory & Sinyan, 2016; Henderson & Palmatier, 2012; Ballard, 2008; Emerson, 2007; Bulgarella, 2005; Lee, Sridjar, and Loveman, 1998 and Heskett, et al, 1994). It is evident from the foregoing that whereas the service profit chain model is confirmed in some services providing organization, not so much research exists in literature on the banking industry, especially in developing countries like Nigeria. Also, the methodologies employed are mostly exploratory and descriptive, which do not show causal relationships. This study fills these gaps by first developing a robust metric of the main variables in the service-profit chain model developed by Heskett et al (1994) in line with literature and testing the model using a robust Generalised Method of Moment econometric technique in the Nigerian Banking Industry.

Research Methodology

This study adopted the method used by Abusomwan (2018b). It utilized a multivariate and causal survey design in a primary firm-level based research. Stratified sampling technique was also adopted for the sampling design in a systematic selection of banks, managers, employees and customers from Nigeria's geo-political zones. The population is comprised of managers, customers and employees of Nigeria's DMBs. The study employed the Generalised Method of Moment (GMM) technique which had been proven to be robust for endogeneity concerns inherent in primary studies.

From Nigerian Deposit Insurance Corporation (2017) report, there were five thousand, three hundred and forty-nine Nigeria banks' branches in the six zones. Samples from each zone were drawn based on the ratio of the zone's branch's population to the total number of branches.

The computation of the sample size of the number of branches chosen for this study is based on the work of Charan & Biswas (2013). The calculator is;

$$Sample\ Size = \frac{\left(Z_{1-\alpha/2}\right)^2 \rho(1-\rho)}{\delta^2} \qquad 1$$

$Z_{1-\alpha/2}$ is the standard normal variate and is set at the 5% type 1 error. ρ is the expected ratio in the population based on empirical literature, given as 0.5 while δ is the absolute required type 1 error set at the 10% level.

From the calculator, the sample size suitable at the 10% confidence level and based on the population of 5349 bank branches amounted to 94 branches. To improve the power of test statistics, one hundred and twenty branches of the top ten banks in terms of total assets, branch network and shareholders' funds were selected for the study.

The 120 branches cut across the major cities in the six geopolitical zones in Nigeria and Lagos. Lagos which is in the South-West zone was isolated for study from the zone due to its dominance in the zone in terms of the number of bank branches in the state. With 70.91% of the South-West zone's total bank branches, inclusion of Lagos state in the South West zone may lead to sampling bias. The major cities in the six geopolitical zones were selected for the study based on their relative bank population and commercial concentrations in the zone. Nigerian banks' branch concentration highly correlates with Nigerian cities that are highly commercial and populous (Oni, 2009). In North Central zone, Abuja Municipal and Okene were the cities selected for the study (representing 58.16% of the zonal branch population). Maiduguri city was selected in the North East zone with about 63 bank branches (representing 30.86% of the zone). Branches in Kaduna city and Zaria were chosen to represent North-West geopolitical zone. The cities selected for the survey in South-East zone were Onitsha in Anambra state and Aba in Abia state which represented 57.37% of bank branches in the zone. In the South South zone, banks in Benin City, Edo State and Warri in Delta state were chosen for the survey. Ibadan and Ogbomosho cities in Oyo state formed the sample of banks selected in the South West geopolitical zone. Excluding Lagos, banks in Oyo state represented about 33.18% of the banks in the zone. Banks in Lagos were also surveyed.

The formula used in computing the number of branches sampled for each zone is given as;

$$S_{zi} = \left[\frac{Branches_Z}{Branches_C} \times Sample_T \right] \quad 2$$

S_{zi} represents sample of branches selected for each zone and i represents zone i. $Branches_z$ is the number of bank branches in the zone. $Branches_C$ is the total branches in the country while $Sample_T$ is the chosen sample size. Using this formula, the number of banks sampled in each zone, for the study is; North West (12), North Central (18) and North East (6), South West (15), South East (14), South South (19) and Lagos (36) respectively.

In selecting the number of branches of the ten banks selected for the study per zone, the zonal proportion of each bank's branch concentration was calculated using the formula below;

$$B_{zi} = \left[\frac{Bank_{Zi}}{Branches_B} \times S_{Zi} \right]$$

Where B_{Zi} represents a selected bank's zonal sample size for zone i. $Bank_{zi}$ represents the number of bank branches in the zone. $Branches_B$ is the total number of branches of selected banks in the zone. S_{zi} is the number of branches already computed for the survey as in equation 2.

Firm-level sample is adopted. Structured questionnaires were administered to a manager (Operations/Service branch manager), 20 customers and 10 employees of a representative bank unit (branch) representing, 120 managers, 2400 customers and 1200 employees to elicit responses on the variables of interest. These sums up to a total data point 3720. Also, four different categories of Questionnaires were designed. Questionnaires A, administered to the managers, elicited information on the DMB unit performance. Questionnaire B and C captured DMB unit customer and employee loyalty respectively while for holistic representation of the customer centricity variable, responses on customer centricity were elicited from the managers, employees, customers and the researcher's independent assessment (Appendix A1). This was necessary given that customer centricity measures perceptions not only of customers of the bank but is also viewed from management and employees' perspectives (Galbraith, 2005 and McKinsey & Company, 2012). Also, questionnaire D was an independent assessment of the researcher with respect to factors identified in literature as determining customer centricity. These included observation of the structure of the bank, attitude of the employees, disposition of the customers and ambience of the banking environment.

The study relied on data obtained from Nigeria Banking Industry Survey, 2017 in Abusomwan (2018a).

The data

Let a representative branch unit be k such that $k \varepsilon K$. K represents the sample size of branches of Nigeria banks selected for the study. K is set at 120. Given that I customers and H employees are chosen from k, therefore, i represents a customer chosen from branch k and i assumes the values, 1, 2,…,I. Also, an employee selected from k is h such that h assumes the values, 1, 2, …, H. I and H are the sample sizes of customers and employees drawn for the study (20 and 10 respectively).

Index of deposit money bank's performance

The performance index for bank k was derived from questionnaires A and C. The rationale for including the market facing employees' questionnaires in the determination of DMB k's financial performance was to reduce the perceptual bias that may arise from the responses of the manager alone. The market facing employees in the Nigerian banking industry are usually given targets with respect to deposits, risk asset creation and profitability (see Nigerian Deposit Insurance Corporation, 2021). Their individual performance sums up to the overall performance of the branch. They also make up the marketing team and periodically hold performance appraisal meetings to assess their individual performances and the overall performance of the branch. They therefore are aware of the performance of their respective branches.

Bank k's performance index is given as,

$$PERF_K = \frac{1}{v}\left[\frac{\sum_{i=1}^{\mu} QA_{ibk}}{\mu} + \frac{\sum_{h=1}^{m}\sum_{i=1}^{\tau} QC_{ih_ik}}{H\tau}\right] \qquad 4$$

Where, $PERF_k$ is bank k financial performance index. QA_{ibk} is the response to the i^{th} question by b (manager) of bank k in questionnaire A (the response to each question is in a scale of 1 to 5 from the lowest to the highest score), and the total number of bank's performance related questions in questionnaire *A is* represented by μ (questions 1 -12 in Table A3). QC_{ihk} represents the responses of the marketing employee h of bank k to the i^{th} question in questionnaire C. Also, τ represents the total number of questions in questionnaire C that address the corporate financial performance of bank k and H is the total number of market facing employees selected for the survey in DMB k. v is 5 representing the maximum number of options per question in the questionnaires (given that Likert scale utilized by the study has 5 alternatives).

Index of deposit money bank customer loyalty

Data from Questionnaire *B* (Appendix) were used in constructing the index of customer loyalty. From theoretical and empirical literature, factors that enhance the demand for a product or service include, service quality, financial stability of service provider, cost, technology and convenience, hedonic value, brand/image of the service provider, corporate social responsibility of the service provider, macroeconomic stability and perceived customer centricity. These factors have also been identified as those determining customer satisfaction, loyalty and retention. In arriving at the composite index, the questions in each of the sections capturing these factors, were weighted by the relative importance of these factors to the customer and the measures of customer's level of satisfaction.

Let the relative importance of each of the factors affecting customer i loyalty be w_i. Where $w_i = 1,2,\ldots,W_n$ and W_n represents the highest possible weight of the n^{th} factor in the customer survey. n is the total number of factors. The average value of customer i's response to the set of questions in Questionnaire B denoted as n representing a particular factor influencing customer loyalty in DMB k is $QB_{nik} = \frac{\sum_{n=1}^{N} QB_{ni}}{N}$. This was weighted by the relative importance of factor n given as w_n. Also, let w_nQB_{nik} be further weighted by i^{th} customer of DBM k's level of satisfaction given as $B_{1ik}B_{2ik}$ where, B_{1ik} represents the i^{th} customer's response to question 13 in Table A3 with values of 1 and 2 for 'disagree' and 'agree' respectively and B_{2ik} represents customer's response to the question 14 in Table A3 with maximum value of 2 (Disagree attracts a value of 1 while agree, 2). If $B_{1ik}B_{2ik}$ (the product of both) takes the value 1, then the customer is dissatisfied, when $B_{1ik}B_{2ik}$ takes the value, 2, the customer is satisfied and when $B_{1ik}B_{2ik}$ takes the value 4, the customer is loyal. $B_{1ik}B_{2ik}$ will be used as the second weight for DMB k customers' loyalty metric. Summing the above up for all the customers surveyed in DMB k,

$$CUSL_k = \frac{\sum_{i=1}^{n}\sum_{n=1}^{N} B_{1ik} B_{2ik}\left[w_n QB_{nik}\right]}{\sum w_n \left(vnNB_{1ik} B_{2ik}\right)} \qquad 5$$

Where, v is the number of options per question.

Index of deposit money bank employee loyalty

Data from Questionnaire *C* (See Appendix) were used in constructing the index of employee loyalty. From theoretical and empirical literature, factors that enhance the supply of service/labour include, job opportunity, job/qualification match, working environment, training and development opportunities, management behaviour, compensation and benefits, brand/image, interpersonal relationship, corporate financial stability and macroeconomic stability. These factors have also been identified as those determining employee satisfaction, loyalty and retention. In arriving at the composite index, the questions in each of the sections capturing these factors, were weighted by the relative importance of these factors to the employee and the measure of the level of satisfaction of the employee (see Macleod and Clarke, 2008).

Let the relative importance of each of the factors affecting employee h loyalty of bank k be α_i. Where α_i = 1,2,…,α_n and α_n represents the highest possible weight of factor n in the employee survey. The average value of employee *h's* response to the set of questions in Questionnaire C denoted as n representing a particular factor influencing employee loyalty in DMB k is $QC_{nhk} = \frac{\sum_{n=1}^{N} QC_{nh}}{N}$. This was weighted by the related importance of factor n given as α_n. Also, let the $\alpha_n QC_{nhk}$ be further weighted by h^{th} employee of DBM *k's* level of loyalty given as $B_{1hk}B_{2hk}$ where, B_{1hk} represents the h^{th} employee's response to question 15 in Table A3 with values of 1 and 2 for 'disagree' and 'agree' respectively and question 16 (I do not intend to leave this bank but will recommend this bank to other prospective employees, improve my quality of service to satisfy my employers and customers) with values of 1 and 2 for 'disagree' and 'agree' respectively. If $B_{1hk}B_{2hk}$ takes the value 1, then we infer that the employee is dissatisfied, when $B_{1hk}B_{2hk}$ takes the value, 2, the employee is just satisfied and if $B_{1jk}B_{2jk}$ takes the value 4, the employee is loyal. $B_{1hk}B_{2hk}$ will be used as the second weight for DMB k employees metric. Summing the above up for all the employees surveyed in DMB k,

$$EMPL_k = \frac{\sum_{h=1}^{m}\sum_{n=1}^{N} B_{1hk}B_{2hk}\left[\alpha_n QC_{nhk}\right]}{\sum \alpha_n \left(vnNB_{1hk}B_{2hk}\right)} \qquad 6$$

Where v is the number of options per question in Questionnaire C.

Index of deposit money bank customer centricity

Designing a customer centric organization puts customers at the center of the process. Employees' disposition, management's orientation and policies, and even physical infrastructures and technology have bearings on customer centricity (Emerson, 2007; Ernst & Young, 2013; Galbraith, 2005; Kambiz & Yahya, 2011; Lee, et al., 2012 and McKinsey & Company, 2012). It was on this ground that the customer centric index was designed to encapsulate customers' responses, employees' responses, manager's responses and researcher's observations. Questionnaires A, B, C and D were used to elicit information on customer centricity of bank unit k (see Table A2 in Appendix). The questions were cued in line with theoretical literature on customer centricity.

In constructing the overall customer centricity index for DMB k, aggregated customer centricity responses of the sampled I customers and H employees were computed. The Manager's responses and the researcher's observation were also aggregated to the overall customer centricity metric for DMB k.

The aggregate value for the I customers' (randomly selected customers of DMB k) perception, given N number of questions relating to customer centricity in Questionnaire B (*Table A2*) is given as;

$$cusp_{ik} = \frac{\sum_{i=1}^{I}\sum_{n=1}^{N} QB_{nk}}{vnN} \qquad 7$$

Where v is the number of options per question in QB

The aggregate value for the H employees' perception given q_n number of questions relating to customer centricity in questionnaire C (*QC in Table A2*) is given as;

$$empp_{mk} = \frac{\sum_{h=1}^{H}\sum_{n=1}^{q_n} QC_{mk}}{vmq_n} \qquad 8$$

Where v is the number of options per question in QC.

The value for the managers perception of customer centricity for DMB *k* given *T* number of questions in relation to customer centricity in questionnaire *A(QA in Appendix 1)*, is given as;

$$manp_k = \frac{1}{vT}\sum_{t=1}^{T} QA_{tk} \tag{9}$$

v is the number of options per question in *QA* relating to customer centricity.

The value for the independent assessment of customer centricity of DMB *k* by the researcher is given as,

$$resp_k = \frac{1}{vR}\sum_{r=1}^{R} QD_{rk} \tag{10}$$

Where, *QD* are the questions relating to customer centricity in the researcher's independent questionnaire for DMB *k (See Table A2).*

The overall customer centricity index was computed by finding the average of the perceptions of the customers, employees, manager and researcher for DMB *k.*

The overall customer centricity index for DMB *k* is

$$CUSC_K = \frac{cusp_{nk} + empp_{mk} + manp_k + resp_k}{\sum Q} \tag{11}$$

Where *Q* represents the categories of questionnaires and in this study, *ΣQ* is 4 since there were four categories of questionnaires.

The constructs of Customer centricity, Customer Loyalty, Employee Loyalty and Financial Performance for the DMBs developed by this study are based on theoretical and empirical literature (see, Agusto & Company, 2010; Abusomwan, 2018b and 2019; Ballard, 2008; Biljana & Jusuf, 2011; Brown & Deaton, 1972; Central Bank of Nigeria, 2016; Chen, 2013; Chi & Gusoy, 2009; Delaney & Huselid, 1996; Hayes, 2013; Heskett, et al., 1994; Hetesi, 2009; Johnson, Herrman & Huber, 2006; Keiningham, Aksoy, Cooil & Andeassen, 2008; Loveman, 1998; Staw & Epstein, 2000; Walters, 2018 and Willard, 2000)

Model Specification

The model specification of this study is presented in the system of equations below;

$$PERF_t = \beta_0 + \beta_1 CUSL_t, + \beta_2 CUSC_t + \beta_3 EMPL_t + \sum_{i=1}^{m} \alpha_i Z_i + e_1$$

$$CUSL_t = \gamma_0 + \gamma_1 PERF_t, + \gamma_2 CUSC_t + \gamma_3 EMPL_t + \sum_{i=1}^{m} \mu_i \chi_i + e_2$$

$$CUSC_t = \delta_0 + \delta_1 PERF_t, + \delta_2 CUSL_t + \delta_3 EMPL_t + \sum_{i=1}^{m} \theta_i \kappa_i + e_3$$

$$EMPL_t = \phi_0 + \phi_1 PERF_t, + \phi_2 CUSL_t + \phi_3 CUSC_t + \sum_{i=1}^{m} \eta_i Y_i + e_4 \qquad 12$$

Where;

$\beta_0, \gamma_0, \delta_0, \phi_0$ are the constant terms, $\beta_0, \beta_1, \beta_2, \beta_3, \gamma_0, \gamma_1, \gamma_2, \gamma_3, \delta_0, \delta_1, \delta_2, \delta_3, \phi_0, \phi_1, \phi_2 and \phi_3$ are respective parameters and $e_1, e_2, e_3 and e_4$ are error terms. From theoretical literature, it is expected that all these parameters of interest are positive. $\sum_{i=1}^{m} \alpha_i Z_i$, $\sum_{i=1}^{m} \mu_i \chi_i$, $\sum_{i=1}^{m} \theta_i \kappa_i$ and $\sum_{i=1}^{m} \eta_i Y_i$ are operators of control variables that represent other variables and their respective coefficients that affect financial performance, customer loyalty, customer centricity and employee loyalty respectively. They include Corporate Social Responsibility (CSR), Manager's Educational Qualification (MANEDU), Bank brand (BRAND), Technology (TECH), Macroeconomic Stability (STABILITY), Manager's Sex (MANSEX), Service Quality (SERQ), Cost of services (COST), Number of ATMs in bank premises (ATM), Management Behavior (MANBEH), Security (SECURITY) and Employee Training (EMPLTRAIN).

Table 1: Variable Definitions

Variable Notation	Variable	Description
SERQ	Service Quality	The quality of services, assurance, staff friendliness, reliability and empathy of the bank
PERF	Bank's Performance	The bank's assets and profits
COST	Cost of Services	bank's products and services pricing
TECH	Technology & Convenience	How adequate and efficient the banks products, Automated Teller Machines and other electronic banking channels that enhances transactions with the bank
BRAND	Bank's Brand & Image	The view of the general public with respect to trust, reputation and integrity of the bank
STABILITY	Macroeconomic Stability	Price stability of goods and services and output
CUSC	Customer Centricity	The design of products and services strictly in line with customers' needs
CSR	Corporate Social Responsibility	Control variable that measures the extent to which the bank's presence is felt in the community with respect to community developments
SECURITY	Security	Control variable that measures perception about the security of funds, life and properties with the bank
HED	Hedonic value	Control variables that measures feelings of joy, pleasure in doing business with the bank
MATCH	Job-Qualification match	How well job matches skills and qualification of employees
ENVIRONMENT	Working Environment	Describes the working conditions with respect to safety and health standard, operational standards, physical ambience, availability of work tools and feelings of job security
EMPLTRAIN	Training & Development Opportunities	Frequency and adequacy of trainings
BENEFITS	Compensation and Benefits	Employees' pay and other financial rewards
OPPORTUNITY	Job Opportunity	Level of opportunity given to prospective employees who are competent and qualified to work
MANBEH	Management Behaviour	Sensitivity of management to the needs of their employees
RELATIONSHIP	Interpersonal Relationship	Relationship among the employees, their supervisors and management
SW	South-West Bank	The bank is in the South-West Geopolitical zone of Nigeria
NE	North-East Bank	The bank is in the North-East Geopolitical zone of Nigeria
MANSEX	Bank Manager's Sex	The sex of the Bank manager
ATM	ATMs	Number of ATMs in premises
MANEDU	Manager's educational qualification	Highest educational qualification of managers

Data Analysis and Interpretation of Findings

Responses from the field survey

Table 2 shows the number of responses received from bank managers, employees and customers across the six geopolitical zones and Lagos. A total of 120, 1060 and 2120 questionnaires were administered to the managers, employees and customers of banks across the six geopolitical zones and Lagos respectively. 106 questionnaires, representing 88.33% of those administered to the managers were returned. The employees and customers returned 699 and 1709 questionnaires representing 65.94% and 80.61% response rates respectively. The overall response rate of 76.18% of all the questionnaires administered reflects an impressive response from the field survey.

Table 2: Responses from the field survey

	Managers			Employees			Customers		
Geo-Political Zone	Number Served	Survey Returned	Response rate (%)	Number Served	Survey Returned	Response rate (%)	Number Served	Survey Returned	Response rate (%)
Lagos	33	27	81.82	270	168	62.22	540	438	81.11
South East	14	14	100	140	83	59.29	280	220	78.57
South South	19	19	100	190	162	85.26	380	356	93.68
South West	15	11	73.33	110	52	47.27	220	119	54.09
North Central	18	16	88.89	160	150	93.75	320	320	100
North East	9	9	100	90	31	34.44	180	109	60.56
North West	12	10	83.33	100	53	53	200	147	73.5
Total	120	106	88.33	1060	699	65.94	2120	1709	80.61

Correlation analysis of the main variables employed in the study

In *Table 3*, a correlation analysis of variables employed in the model is conducted. There is a positive correlation of the variables in relation to financial performance. Customer centricity has the strongest correlation with performance with coefficient of 0.252. Customer loyalty's coefficient of 0.097 falls below employee loyalty (with coefficient of 0.123) in relations to performance. The correlation results also reveal that with a coefficient of 0.735, customer centricity had the strongest positive association with customer loyalty. Customer loyalty also correlates strongly with macroeconomic stability, brand and employee loyalty with correlation coefficients of 0.623, 0.566 and 0.282 respectively. A somewhat weak but positive correlation however exists between financial performance, manager's sex and customer loyalty. Employee loyalty correlates positively with brand, macroeconomic stability, financial performance and manager's sex with coefficients of 0.163, 0.216, 0.123 and 0.109 respectively.

Table 3: Correlation Analysis of the variables

Variables	Financial Performance	Employee loyalty	Customer loyalty	Customer centricity	Brand	Manager's sex	Macroeconomic stability
Financial Perf.	1.000						
Employee loyalty	0.123	1.000					
Customer loyalty	0.097	0.282	1.000				
Customer centricity	0.252	0.213	0.735	1.000			
Brand	0.168	0.163	0.566	0.396	1.000		
Manager's sex	0.186	0.109	0.030	0.062	-0.154	1.000	
Macroeconomic stab.	0.122	0.216	0.623	0.687	0.163	0.134	1.000

Relationship between customer loyalty, employee loyalty, customer centricity and financial performance in Nigeria banks: Testing the Service-Profit chain model

Table 4 shows the regression results of the models. The table reflects the system of equations with Financial Performance, Customer Loyalty, Customer Centricity and Employees Loyalty as endogenous variables.

From the table, the coefficients of determination for the four equations in the models are 0.124, 0.284, 0.629 and 0.264 respectively. 62.9% of the systematic variation in the Customer Centricity equation is explained by the model representing a goodness of fit of the model. The coefficients of determination though relatively low in the other models are still accommodative given that the research utilized primary data.

The choice of GMM technique was conditional on the probable presence of endogeneity in a model and the benefits of instrumental variables. Evidently, the J-stat with probabilities 0.619, 0.856, 0.947 and 0.505 for all the equations enables the rejection of the null hypothesis of weak instrumental variables. To further buttress the robustness of the instruments, the Stock-Yugo values of the models are all greater than their respective Cragg-Donald F-statistics at the 5% significance levels.

The main variables of interest Customer Centricity (CUSC), Customer Loyalty (CUSL) and Employee Loyalty (EMPL) significantly and positively impacted on the performance of Nigeria banks.

Table 4: Empirical Results

Variables	**Financial Performance**		**Customer Loyalty**		**Customer Centricity**		**Employee Loyalty**	
Other Variables	Coeff.	Prob.	Coeff.	Prob.	Coeff.	Prob.	Coeff.	Prob.
C	-1.067	0.312	-1.136	0.016**	0.619	0.031**	-0.973	0.034**
PERF			0.241	0.000***	0.084	0.029**	0.285	0.000***
CUSL	0.892	0.002***			0.433	0.000***	0.68	0.000***
CUSC	1.243	0.003***	0.483	0.016**			-0.763	0.000***
EMPL	0.076	0.035**	0.045	0.089*	0.046	0.092*		
CSR(Z6)	0.189	0.043**	0.089	0.073*	0.154	0.005***	0.275	0.000***
MANEDU(Z11)	-0.200	0.011***	-0.115	0.002***	0.074	0.014**		
BRAND(Z4)	0.339	0.154	0.156	0.107			-0.287	0.002***
TECH(Z8)	0.240	0.335	0.489	0.000***				
STABILITY(Z15)	0.294	0.057*	0.351	0.011**				
MANSEX(Z3)	0.586	0.005***					-0.185	0.092***
NC	0.337	0.014**			-0.099	0.015**		
NE	-0.306	0.068*	-0.196	0.081*				
SW			-0.171	0.019**	0.058	0.207		
NW							-0.313	0.000***
SERQ(Z7)			0.288	0.000***	-0.168	0.000***		
COST(Z9)			-0.269	0.068*	0.329	0.000***		
ATMS(Z5)			-0.1	0.000***			0.116	0.000***
MANBEH(Z13)					0.088	0.062*	0.614	0.000***
SECURITY(Z10)							0.062	0.000***
EMPLTRAIN(Z12)							0.196	0.040**
Diagnostics								
R-Squared	0.124		0.284		0.629		0.264	
D.W Stat	1.988		2.14		1.857		2.137	
J-Stat	15.623		10.203		10.234		17.26	
Prob(J-stat)	0.619		0.856		0.947		0.505	
Stock-Yugo value	19.77**		16.45**		20.60**		15.43**	
Cragg-Donald F- Stat	0.845		0.573		2.096		0.36	

Note: *, **, *** represent 10%, 5% and 1% level of significance respectively.

From *Table 4*, with coefficient of 0.892 and probability of 0.002, it is evident that that customer loyalty significantly affects the bank performance in Nigeria at the 1% level of significance. Customer centricity is also found to be a significant determinant of performance of Nigerian banks. With coefficient and probability of 1.243 and 0.003 respectively, at the 1% significance level.

The results also confirm that employee loyalty affects performance positively. From *Table 4*, EMPL has a coefficient of 0.076 with probability, 0.035. This implies that at the 5% significance level, the hypothesis that employees' loyalty causes a positive change in the financial performance of Nigerian banks cannot be rejected.

A mention of the impact and importance of some of the control variables in the model is deemed necessary here. Surprisingly, it seems that the higher the bank managers educational qualifications, the lesser their impact on the performance of their banks. Bank manager's educational qualifications had respective coefficient and probabilities of -0.200 and 0.011% and is was found to determine their bank's performance negatively at the 1% level of significance. This may be probably due to the inefficiencies that result from work time spent in acquiring higher education and not necessarily the higher education gotten. Sex of managers appears to determine bank performance in Nigeria. Employment of an additional female manager enhances performance of Nigeria banks at least by an additional half at the 1% significance level. This is evident with a coefficient and probability of 0.586 and 0.005 of manager's sex respectively. Banks in the north central geopolitical zone are significantly profitable while banks in North east zone are significantly but not profitable with coefficients of -0.337 and -0.306 respectively. The negative profitability of banks in the extreme northern part of the country may be as a result of the insurgencies and religious influences in the region. The low level of education with its attendant impediments to E-services marketing may be impeding banking efficiency and profitability in the zone.

Analyzing the interrelationship among the variables, the study finds bank's financial performance, customer centricity, employee loyalty and customer loyalty to be interrelated. Financial performance, customer centricity and employee loyalty affect customer loyalty. Employee loyalty, customer centricity and customer loyalty determine performance at the 5%, 1% and 1% respectively and customer loyalty, customer centricity and financial performance enhance employee loyalty at the 1% level of significance.

The more profitable a bank is, the more capable it is to establish customer centricity around customer services touch points. With a coefficient of 0.084 and corresponding probability of 0.029 financial performance positively explains customer centricity at 5% level of significance. From the result, it is easier for banks to build customer centricity structures around loyal customers. This is evident with customer loyalty coefficient of 0.433 and probability of 0.000. In line with expectation, employee loyalty was found to significantly explain customer centricity. This implies that loyal employees would be willing to implement customer centric structures designed by the management of the banks.

It seems that the employees of Nigerian banks do not find it pleasurable implementing customer centricity. Customer centricity with a coefficient of -0.763 had a negative effect on employee loyalty. This could be as a result of the efforts needed on the part of bank employees in implementing customer centricity. Employees who are not loyal may see the implementation of customer centricity as burdensome. They may have to be incentivized to become loyal so as to effectively implement customer centricity.

From the analyses presented above, the hypothesis that no interrelationship exists among employee loyalty, customer centricity, customer loyalty, and financial performance of Nigeria banks is rejected, validating the service-profit chain model in Nigeria banking industry. The robustness of this assertion is further shown by the Granger Causality test in *Table 4*.

From the Granger causality tests result presented in *Table 5*, causality flows from customer loyalty through employee loyalty to financial performance. The channel therefore is; employee loyalty leads to successful implementation of customer centricity; customer centricity leads to customer loyalty and ultimately increases the performance of Nigeria banks. This is in line with the works of Heskett, et al. (1994), Reichheld (1996) and Yee, et al. (2010).

Table 5: Pairwise Granger Causality test results

Null Hypothesis	F-Statistics	Prob.
Employee loyalty does not Granger Cause financial performance	3.432	0.036
Financial performance does not Granger Cause Employee loyalty	0.354	0.703

Customer loyalty does not Granger Cause Financial performance	3.277	0.049
Financial performance does not Granger Cause Customer loyalty	0.442	0.644
Customer Centricity does not Granger Cause Financial performance	0.700	0.499
Financial performance does not Granger Cause Customer Centricity	2.365	0.099
Customer loyalty does not Granger Cause Employee loyalty	0.861	0.426
Employee loyalty does not Granger Cause Customer loyalty	2.571	0.082
Customer Centricity does not Granger Cause Employee loyalty	0.180	0.836
Employee loyalty does not Granger Cause Customer Centricity	2.629	0.077
Customer Centricity does not Granger Cause Customer loyalty	2.162	0.086
Customer loyalty does not G ranger Cause Customer Centricity	0.060	0.942

Source: Authors' computation

Conclusions and Recommendations

This study investigated the interaction amongst employee loyalty, customer centricity, customer loyalty and performance of Nigeria Banks. It developed and employed robust metrics of the variables and utilized the GMM estimation technique to test the model in the Nigerian banking industry. It was found that employee loyalty, customer centricity and customer loyalty significantly impact performance of banks in Nigeria. Causality was found to flow from employee loyalty to financial performance through customer loyalty achieved by the implementation of customer centricity in Nigeria banks.

This study brought to the fore the multi-dimensional relationships and seemingly complexity of the causality among employee loyalty, customer centricity, customer loyalty and banks' performance. This complexity has implications for policy formulation in relation to any of the factors simultaneously. For instance, pricing policies aimed at increasing profitability of banks may undermine customer loyalty and ultimately, future profitability of the bank. Also, cost-cutting policies aimed at massive retrenchment of bank employees may result in loss of experienced workforce which may have future recruitment and training cost implications and affect future growth of the bank. Therefore, a holistic approach to analyzing these relationships is necessary whenever a need arises to make policies relating to any of the factors.

Bank policy makers and stakeholders should acknowledge the roles employee loyalty, customer centricity and customer loyalty play in the determination of profitability of banks. Undermining these roles may invariably undermine the financial performance of the banks. This acknowledgement should engender a shift from not just relationship management but customer (both internal and external) experience management (answering the question, what do customers think?). In implementing experience management, the identification of customer's needs should be based on their behaviors, values and financial potentials to the bank. There should be flexibility and dynamism in designing product and services. Standardization of the sales process and freeing up the managers of banks to concentrate on implementing experience management should also be considered. From the field survey, it was observed that emphasis of managers is primarily on new prospects (getting new accounts), whereas some costless existing accounts are not valued. Even the new accounts they run after are not followed up to maturity leading to 'Last-In-First Out' customer attrition. Cost of prospecting for new customers if channeled to existing customers may be more efficient as these customers who become loyal with positive words of mouth could be the best marketers for the banks.

Banks should put in place mechanisms to constantly check the levels of their employee loyalty, customer centricity and customer loyalty. These should form metrics for assessing banks. Given the interrelationship found among these variables, knowing their values periodically may help to predict profitability. This is very important in making policy decision concerning customer centricity, customer loyalty, employee loyalty and financial performance. To achieve this, banks could employ the services of independent auditors of customer loyalty, employee loyalty and customer centricity metrics for banks periodically (on a bi-monthly, monthly and quarterly basis). This will enable the banks keep track of these indices and proactively take measures to check negative influencers of financial performance.

In implementing customer centricity models which usually has cost implications, it is advised that banks should know their customers. They should do this by creating explicit and constantly updated customer database. This database should tie customer survey information to customer behavioral information. This information will guide relevant bank executives on customer specifications so as to effectively segment customers with similar characteristics into clusters. Unique values and sales propositions should be provided for each segment taking into consideration geo-demographic characteristics like age, sex and geo-political zone. In Nigeria for instance, sex and zone of customers matter to customer centricity and loyalty.

From the results, females are more likely to be loyal than males, Northern banks are less likely to use e-channels of banking and are less profitable, older customers are less likely to churn. The customer database should also provide trackers of customer financial potentials. It would be efforts in futility to chase customers expensively because they offer profits now but will no longer be profitable in the future. A bank therefore should identify profitably loyal customers and specifically design customer centricity structures that will meet the specific needs of these customers. This will enhance profitability of banks.

Finally, the government through the apex regulatory financial institution (CBN) by prudential monetary policy should ensure stability of prices and by the creation of enabling environment should enhance private sector led growth in order to guarantee sustained customer loyalty, engender profitability of banks and further maximize the contributions of the banking industry to economic growth.

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