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Effect of Service Quality Dimensions on Profitability of Selected Deposit Money Banks in Nigeria

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Abstract

Profitability being a critical factor in any organisation is a function of service quality, particularly in the banking sector, where competition is high. However, most banks are experiencing poor performance giving credence to inconsistent service quality practices such as: service reliability, responsiveness, assurance, empathy, and tangibles, which hinder their overall profitability. In spite of various studies on service quality and bank profitability, not much attention has been given to establishing the effect of service quality on profitability in the Nigerian banking sector. Hence, this study examined the effect of service quality dimensions on profitability of selected Deposit Money Banks (DMBs) in Lagos State, Nigeria. A survey research design was adopted. The population was 4,873 employees of eight selected deposit money banks operating in Lagos State, Nigeria. A sample size of 464 bank employees was determined using Raosoft calculator. Simple random sampling technique was adopted. A validated questionnaire was adopted for data collection. Cronbach's alpha reliability coefficients for the constructs ranged from 0.70 to 0.97. The response rate was 92.2%. Data were analyzed at 5% level of significance using the Smart partial least squares structural equation modeling (PLS-SEM) software, which allowed for the testing of path analysis and hypotheses. A confirmatory factor analysis (CFA) was employed to assess the factor loading of the variables. Findings revealed that service quality dimentions had significant effect on profitability of the selected DMBs in Lagos State, Nigeria ($Adj.R^2$ = 0.479, F^2 = 0.310, *SRMR* = 0.075, *NFI* = 0.672, $p < 0.05$). The study concluded that service quality dimensions improved the profitability of the selected deposit money banks in Lagos State, Nigeria. The study, therefore, recommended that banks should adopt a customer-centric approach by continuously improving service quality dimensions (reliability, responsiveness, assurance, empathy, and tangibles) as these have a direct impact on profitability.

Background to the Study

The performance of money deposit banks is crucial to the financial stability and economic growth of nations. Deposit money banks act as intermediaries between depositors and borrowers, facilitating the flow of funds within the economy, providing a safe place for individuals and businesses to store their money, offering credit to fuel business expansions, and supporting consumer spending through various loan products. The performance of money deposit banks is vital for maintaining public confidence, supporting financial inclusion, and fostering sustainable economic progress. However, money deposit banks still experience significant challenges of declining profitability which may be attributed to ineffective service quality dimensions such as service reliability, service responsiveness, service assurance, service empathy, and service tangibles.

The banking sector's profitability has been impacted by rising operational costs, with global non-performing loan ratios reaching 3.8% in 2023 (World Bank, 2023), while regulatory compliance costs have increased by 45% since 2020 (Deloitte, 2023). The World Banking Index indicates that 58% of banking professionals report increased work-related stress, with 64% citing concerns about job dissatisfaction (Klynveld Peat Marwick Goerdeler-KPMG, 2023). The American banking sector has experienced significant performance challenges, with profit declining from 12.3% in 2022 to 10.5% in 2023, while cost-to-income ratios increased to 61.2% (Federal Reserve, 2023). In California, banks have reported a steeper decline in profit from 11.8% to 9.7%, with non-performing loan ratios reaching 2.8% (California Bankers Association, 2023),

The United Kingdom banking sector has encountered significant performance challenges, with profit declining from 10.8% in 2022 to 9.2% in 2023, while cost-to-income ratios increased to 63.5% (Bank of England, 2023). In Scotland, banks have reported a steeper decline in ROE from 10.2% to 8.7%, with non-performing loan ratios reaching 2.9% (Scottish Financial Enterprise, 2023), while Northern Ireland banks witnessed profit declining from 9.8% to 8.5% (Northern Ireland Banking Association, 2023). The banking sectors across Asia, particularly in China and India, have faced significant operational and performance challenges in recent years. According to the Asian Development Bank (ADB, 2023), the profit level for Asian banks declined from 1.2% in 2019 to 0.9% in 2022, reflecting broader systematic pressures. Chinese banks, despite their massive scale, have experienced declining net profit margins, dropping from 2.3% in 2018 to 1.9% in 2022 (China Banking and Insurance Regulatory Commission, 2023). In India, public sector banks have struggled with high non-performing asset (NPA) ratios, averaging 7.5% in 2022, though improved from 14.6% in 2018 (Reserve Bank of India, 2023). Employee satisfaction metrics reveal concerning trends, with McKinsey's Asian Banking Survey (2023) indicating only 52% of banking employees reported high job satisfaction, significantly lower than the global average of 68%.

The African banking sector faces significant challenges that impact its performance and operational efficiency (Omofowa et al., 2021). McKinsey Banking Report (2023), indicates that African banks operate with an average profit of 54.3%, significantly higher than the global average of 44.7%. In sub-Saharan Africa specifically, non-performing loans (NPLs) have reached concerning levels, averaging 7.2% across the region. Operational limitations severely impact operational efficiency, with only 44% of the African population having access to formal banking services. According to the Central Bank of Nigeria (CBN) Financial Stability Report 2023, the sector's aggregate Non-Performing Loans (NPLs) ratio stood at 4.3%, which, although below the prudential threshold of 5%, reflects ongoing asset quality concerns. The sector's Return on Assets (ROA) averaged 1.8% in 2023, while Return on Equity (ROE) reached 15.2%, showing moderate profitability amid challenging macroeconomic conditions. Operational costs remain a significant concern, with the industry's Cost-to-Income Ratio (CIR) averaging 63.4%, substantially higher than the Sub-Saharan African average of 54.8% (Nigerian Banking Sector Report, 2023).

Several researchers, including Ojiaku et al. (2023) and Omofowa et al. (2021), have identified critical gaps in the literature regarding the specific impact of service quality dimensions on bank performance in the Nigerian context. While international studies by Nguyen et al. (2020) and Dahal (2022) have established strong correlations between service quality and bank performance in other markets, the unique challenges of the Nigerian banking sector require targeted investigation. The Nigerian banking sector has experienced significant challenges such as declining profitability, reduced employee satisfaction, and decreased operational efficiency that have impaired its performance (Abubakar et al., 2024). According to the Nigeria Deposit Insurance Corporation (NDIC, 2024) report, fraudulent activities in banks increased by 48.3% in 2023, resulting in estimated losses of ₦9.7 billion.

The sector faces severe liquidity constraints, with the average liquidity ratio declining to 42.6% in 2023 from 45.3% in 2022, despite the regulatory minimum of 30% (Usman et al., 2023). The persistent depreciation of the Naira has further exacerbated these challenges, with banks experiencing foreign exchange-related losses of approximately ₦1.8 trillion in 2023, impacting their capital adequacy ratios and overall financial stability (CBN, 2024). Moreover, Nigerian banks continue to contend with infrastructural deficiencies, particularly in technology and digital banking platforms, leading to increased operational costs and reduced efficiency (Omofowa et al., 2021). The cost-to-income ratio of Nigerian banks averaged 63.2% in 2023, significantly higher than the African average of 54.8%. Central Bank of Nigeria (2024) report further asserts that cyber security threats have escalated, with reported incidents increasing by 56% in 2023, resulting in financial losses and eroded customer confidence. The sector also faces human capital challenges, with a high employee turnover rate of 23% in 2023, coupled with increasing operational costs due to power supply inconsistencies, which account for approximately 35% of banks' overhead costs Onyia et al. (2022). These multifaceted challenges have collectively contributed to a decline in the performance of deposit money banks across Nigerian.

Several studies have examined the effect of service quality on profitability in developed countries, highlighting the critical role of service excellence in driving financial performance in various sectors (Ahmed & Bhatti, 2019; De Leon et al., 2020; Islam et al., 2020; Mostafa, 2020; Raza et al., 2020; Wang et al., 2023). These studies have demonstrated how superior service quality leads to increased customer satisfaction, loyalty, and ultimately enhanced profitability through repeat business and positive word-of-mouth recommendations. However, there is limited research investigating the effect of service quality dimensions of reliability, responsiveness, assurance, empathy, and tangibles on profitability in developing countries particularly in the Nigerian banking industry (Abror et al., 2020; Aigie et al., 2023; Kaigama & Kachalla, 2023; Olalekan et al., 2019; Onyia et al., 2022; Osiegbu & Onuorah, 2018; Usman et al., 2023). Therefore, this study aims to fill this knowledge gap by examining the effect of service quality dimensions on the profitability of deposit money banks in Nigeria.

Nigerian deposit money banks have faced significant profitability challenges, with recent data from the Central Bank of Nigeria (CBN, 2024) showing a decline in average Return on Assets (ROA) from 2.1% in 2022 to 1.8% in 2023, while Return on Equity (ROE) decreased from 12.4% to 10.8% during the same period. The sector's profitability has been severely impacted by increasing operating costs, with the cost-to-income ratio rising to 63.2% in 2023, significantly above the African banking sector average of 54.8% (CBN, 2024). The surge in non-performing loans (NPLs) to 4.5% in 2023 has necessitated higher loan loss provisions, directly affecting profit margins. Additionally, the Nigerian banking sector recorded foreign exchange-related losses of approximately ₦1.8 trillion in 2023 due to Naira depreciation, while fraud-related losses increased by 48.3%, amounting to ₦9.7 billion (Abubakar et al., 2024). Rising inflation, which peaked at 28.92% in December 2023, has also contributed to higher operational costs, with power supply challenges alone accounting for 35% of banks' overhead costs, collectively eroding profit margins and undermining the sector's overall profitability (CBN, 2024).

Following the aforementioned, the study objective, research question, research hypothesis, literature review, method adopted, analysis and hypothesis testing as well as conclusion and recommendations all formed the structure of this study.

Objective of the Study

This study examined the effect of service quality dimensions (service reliability, service responsiveness, service assurance, service empathy, and service tangibles) on the profitability of selected deposit money banks in Nigeria. To achieve this objective, a research question and hypothesis were formulated;

Research Question

What is the effect of service quality dimensions on profitability of selected deposit money banks in Nigeria?

Research Hypothesis

Service quality dimensions have no significant effect on profitability of selected deposit money banks in Nigeria.

Literature Review

The conceptual, empirical and theoretical review of related constructs of the study dependent and independent were reviewed in this part. According to Uwabor et al. (2021), service quality is the degree to which a service meets or exceeds customer expectations, influenced by the perception of value and satisfaction the customer receives in exchange for their investment of time, money, and effort. Ojiaku et al. (2023) referred to service quality is the customer's overall impression and assessment of a service, gauging the difference between their expectations and their actual experience across interactions with the service provider. Endara et al. (2019) define service quality through key dimensions such as reliability, assurance, tangibles, empathy, and responsiveness that together shape customer perceptions of a service provider's ability to meet their needs. Service quality is an evaluation of specific, measurable attributes like speed of service, accuracy, and professionalism that directly influence customer satisfaction and loyalty within a service encounter (Ahmed & Bhatti, 2019). Service quality refers to the effectiveness of a service in fulfilling its intended functions, operationally defined by metrics such as response times, error rates, and customer complaint resolution (Sultana & Taher, 2023).

Service quality is the totality of a customer's service experience, considering emotional, sensory, and functional aspects (Li et al., 2021). Service quality is measured by the results or outcomes that customers receive relative to their expectations and the effort they expend (Raza et al., 2020). Service quality is defined by the provider's responsiveness and agility in adapting to customer needs and feedback promptly (Dahal, 2022). Service quality is the degree to which the specific functionalities or features of a service satisfy customer requirements (Ogbeide et al., 2023). Hariawan et al. (2021) defined service quality as the ability of a service to adapt and respond to the unique needs and preferences of individual customers. In view of the above opinions in literature, the researchers define service quality as the degree to which a service meets or exceeds customer expectations, influenced by the perception of value and satisfaction the customer receives in exchange for their investment of time, money, and effort. This study measured service quality by reliability, responsiveness, assurance, empathy, and tangibles. These variables are discussed below.

Service Reliability

According to Olalekan et al. (2019), reliability is the consistency and dependability of a system, process, or individual to perform its intended function over time. Tien and Huong (2023) referred to reliability as the degree to which an outcome or service meets the expectations set by the user or customer without failure. Reliability refers to the degree to which a system or individual can be trusted to perform its intended task accurately and consistently (Ali et al., 2021). Reliability is the level of trust placed in an entity's ability to fulfill its responsibilities without deviation or error (Karmacharya, 2022). According to Anyadighibe et al. (2022), reliability is the high level of confidence that users or customers have in the performance of a system or service. Seenivasan (2021) referred to reliability as the sustained ability of a product or service to perform its intended function without interruption. Reliability is the degree to which repeated measurements yield consistent, dependable results (Anh, 2022). Reliability is the stability of a process to produce uniform results under identical conditions. Reliability is the durability of the product in maintaining its function over repeated or prolonged use (De-Leon et al., 2020). Reliability is the extent to which a person can be depended upon to perform tasks with precision and responsibility (Shahabuddin et al., 2024).

Anh (2022) and Yoeung et al. (2023) emphasize that high levels of service reliability can lead to increased customer satisfaction, loyalty, and positive word-of-mouth. Akanbi et al. (2021) and Nautwima and Asa (2022) suggest that reliable services can also enhance an organization's reputation, competitive advantage, and ability to attract new customers. Hariawan et al. (2021) and Patel et al. (2024) state that reliable services can improve employee morale, reduce operational costs, and free up resources for innovation and strategic initiatives. Based on the various definitions in the literature above, the researchers define service reliability as the consistent and dependable delivery of a service, where customers can expect the service to be performed accurately, on time, and with minimal disruptions or failures.

Service Responsiveness

According to Sutrisno and Lazuardy (2024), responsiveness is the willingness and ability to react or reply to stimuli, needs, or changes in a timely manner. Febriend and Qastharin (2024) referred to responsiveness as the speed and efficiency with which a person or system addresses the needs or requests of others. Responsiveness is the degree to which a service provider prioritizes and responds promptly to customer requests and concerns (Nwagwu et al., 2023). Responsiveness is the capacity to adapt and respond flexibly to different situations or environmental changes as they arise (Zhou et al., 2021). Responsiveness is the commitment to providing prompt feedback to stakeholders, demonstrating attentiveness and respect (Joseph et al., 2020). Responsiveness is the willingness to take immediate action when a problem or request is identified (Rido et al., 2023). Responsiveness is the quality of swiftly attending to customer needs to enhance satisfaction and build trust (Gonu et al., 2023).

Responsiveness is the ability to quickly adapt information or solutions based on customer feedback (Subiyantoro, 2021). Responsiveness is the skill of prioritizing and addressing urgent needs over less immediate concerns (Khan et al., 2023). Responsiveness is the speed with which adjustments are made in response to changing conditions or feedback (Do et al., 2021). Nemneichong and Robita (2022) referred to responsiveness as the ability of a business or system to adapt rapidly to changes in market demand or competition. Responsiveness is the state of being instantly available to handle requests, inquiries, or emergencies as they arise (Susanto et al., 2023). Responsiveness is the flexibility to provide tailored solutions promptly to meet unique or changing demands (Hoang, 2018). Responsiveness is the reliable provision of quick responses every time a similar need or request arises (Redda & Van Deventer, 2023). In view of the various definitions in literature, the researchers define service responsiveness as the ability of an organization to promptly and effectively address customer inquiries, concerns, and needs, demonstrating flexibility and a customer-centric approach.

Service Assurance

Assurance is a guarantee that the quality of a product or service will meet or exceed expectations (Wang et al., 2023). Assurance is the process of reducing uncertainty by confirming the reliability or validity of an outcome (Dahal, 2022). Assurance is the confidence in the safety of a system, environment, or process (Tam et al., 2021). Assurance is the credibility demonstrated by an individual or organization to foster trust (Fida et al., 2020). Assurance is the promise that a service, product, or process will perform consistently over time (Ojiaku et al., 2023).

Ahmad et al. (2021) defined assurance as the reassurance given to customers about the reliability and trustworthiness of a service. Assurance is the process of validating that expectations and standards will be met (Kankam, 2023). Nguyen and Nguyen (2021) referred to assurance as the confidence based on evidence or proven performance. Assurance is the process of taking measures to mitigate risks, ensuring dependable outcomes (Samuel et al., 2023). According to Agrawal et al. (2022), assurance is the dependability of standards that uphold quality across various conditions. Assurance involves taking actions to reduce risks within operations, providing confidence in outcomes (Jasin & Firmansyah, 2023). Nautwima and Asa (2022) referred to assurance as the verification that quality standards have been met consistently. Assurance is the confidence that a particular outcome is predictable and aligned with expectations (Tam, 2023). Assurance is the commitment to protecting customer interests by ensuring the quality and reliability of a service (Garba et al., 2023). Assurance is the consistency of a product's performance, inspiring confidence over time (Patel et al., 2024). From literature reviewed, the researchers define service assurance as the ability of an organization to instill confidence and trust in customers through the competence, professionalism, and reliability of its services and personnel.

Service Empathy

According to Alam et al. (2022), empathy is the capacity to understand and share the feelings and perspectives of another person. Rijal (2024) referred to empathy as the emotional connection that allows one person to experience the emotions of another. Empathy is the ability to comprehend and relate to the emotions felt by others (Anyadighibe et al., 2022). Empathy is the awareness of others' experiences, needs, and challenges (Sasono et al., 2021). Empathy is the act of putting oneself in another's position to understand their thoughts and feelings (Aripin et al., 2023). Paul and Sharmila (2021) defined empathy as the identification with another person's emotional state or situation. Empathy is the ability to feel what others are feeling, creating a deep sense of connection (Ali et al., 2021). Empathy is the skill of understanding people's experiences on an emotional level (Seenivasan, 2021). Empathy is a compassionate awareness that allows one to recognize and validate the emotions of others (Ghimire & Agarwal, 2024). Onyia et al. (2022) defined empathy as the intuition to recognize and interpret the emotions of those around us. Empathy is the resonance with another's feelings, enabling one to feel a reflection of their emotions (De-Leon et al., 2020).

Ositadimma and Okeke (2019) and Rijal (2024) caution that an excessive focus on empathy can sometimes lead to inconsistent service delivery, the potential for bias or favoritism, and the neglect of other important service attributes, such as efficiency and reliability. Aigie et al. (2023) and Nwagwu et al. (2023) note that a highly empathetic approach may also contribute to increased operational costs, the misallocation of resources, and the risk of employee burnout. Tijjani et al. (2023) and Anyadighibe et al. (2022) further suggest that an over-emphasis on empathy can result in the dilution of organizational objectives and the inability to maintain a balanced, sustainable service strategy. Given the various definitions in literature, the researchers define service empathy as the ability of an organization and its employees to understand, acknowledge, and respond to the unique needs, feelings, and perspectives of each customer, demonstrating a genuine concern for their well-being.

Service Tangibles

According to Do et al. (2021), tangibles can be defined as physical elements that are perceived through the senses, providing material proof or representation. Tangibles are the physical evidence of a service, process, or commitment (Lim et al., 2023). Tangibles are concrete manifestations that represent the quality or presence of a service or product (Subiyantoro, 2021). Tangibles are visible indicators that reflect the quality or reliability of a service or organization (Goyit & Nmadu, 2020). Tangibles are material items that help represent abstract concepts, like brand quality or service standards (Sheikh et al., 2021). Khatoon et al. (2020) referred to tangibles as the physical aspects of a service that contribute to the overall customer experience. Tangibles are quality cues that customers perceive through visual, tactile, or other sensory feedback (Tohid et al., 2021). Tangibles are elements that provide evidence of the quality or reliability of an organization (Fauzi et al., 2021). Tangibles are physical indicators that contribute to a customer's perception of a service or product's value (Redda & Van Deventer, 2023). Tangibles encompass the physical environment where a service is provided, such as furniture, lighting, and layout (Hoang, 2018).

According to Khalil et al. (2020) and Seenivasan (2021), the key characteristics of service tangibles include the physical facilities, equipment, and appearance of personnel that customers experience during the service encounter. Kemkamma and Gladson-Nwoka (2023) and Paul and Sharmila (2021) further highlight that service tangibles are influenced by factors such as the organization's branding, the cleanliness and organization of the physical environment, and the professional attire and grooming of employees. In view of the various definitions in literature, the researchers in this study define service tangibles as the physical elements and visual cues that customers experience during a service encounter, including the appearance of the physical facilities, equipment, personnel, and communication materials.

Profitability

According to Tien and Huong (2023), profitability is the capacity of a business to generate earnings beyond its costs over time. Fitrio et al. (2023) referred to profitability as the ability of a company to produce income from its operations. Profitability is the financial success of a business, indicated by its revenue exceeding its expenses (Usman et al., 2023). Profitability is the sustainability of a company's revenue generation relative to its costs (Jayasree, 2021). Profitability is the surplus generated when revenue exceeds total costs and expenses (Sasono et al., 2021). Profitability is the net gain achieved by a company after accounting for all its expenses (Ghimire & Agarwal, 2024). Profitability is an indicator of a company's financial health and stability (Tien et al., 2021). Profitability is the extent to which income exceeds the costs incurred in business operations (Olalekan et al., 2019). Profitability is a measure of a company's potential to earn revenue consistently over time (Anh, 2022). Profitability is the return achieved on resources invested in a business (Mohamed & Ishar, 2021).

Islam et al. (2020) defined profitability as the income left after deducting all business-related expenses. Profitability is the ability of a business to sustain its earnings over the long term (Paul & Sharmila, 2021). Karmacharya (2022) referred to profitability as the efficiency of generating revenue compared to the costs incurred. Profitability is the amount of revenue that remains after covering all cash outflows (Onyia et al., 2022). Profitability is a positive financial outcome resulting from successful business operations (Alam et al., 2022). Profitability is the measurable extent to which income is generated from business activities (Kemkamma & Gladson-Nwoka, 2023). Profitability is the effectiveness with which a business utilizes resources to generate income (Nayanajith et al., 2019). Profitability is the degree to which a business creates wealth for its owners or shareholders (Haron et al., 2020). Ambarita et al. (2021) defined profitability as the return earned from the sales of products or services. Saraswati (2022) and Rajasulochana (2022) emphasize that high levels of bank profitability enable financial institutions to build strong capital buffers, withstand economic downturns, and invest in innovation and technology. Susanto et al. (2023) and Al-Shorman et al. (2022) suggest that profitable banks can offer more competitive products and services, attract and retain talented employees, and provide better returns to shareholders. Beanning (2024) states that profitability also allows banks to expand their customer base and market share. Based on the various definitions in literature, the researchers define profitability as the ability of a bank to generate and maintain a surplus of income over expenses, thereby creating value for its stakeholders.

Service Quality and Profitability

Several studies have examined the effect of service quality on organizational profitability. The study of Ghimire and Agarwal (2024) revealed that superior service quality significantly enhances customer satisfaction, leading to increased profitability. Endara et al. (2019) found that service quality dimensions have a substantial positive impact on financial performance metrics. Similarly, Sutrisno and Lazuardy (2024) and Shahabuddin et al. (2024) both indicated that service quality exerts a significant and positive influence on profitability ratios. Febriend and Qastharin (2024) and Pratama et al. (2024) corroborated these findings, noting that service quality has a positive and significant impact on maintaining profitable customer relationships.

Supporting these positive relationships, Tresnadi et al. (2024) reported that service quality dimensions positively affect profitability measures. Ifedi et al. (2024) also found a significant positive effect, while Gonu et al. (2023) showed that service quality positively influences return on investment. Aripin et al. (2023) and Samuel et al. (2023) discovered that the significant effect of service quality on profitability is consistent across different industries. Susanto et al. (2023) and Bintoro et al. (2023) demonstrated that enhanced service quality leads to improved financial performance. Tam (2023) and Khan et al. (2024) found that service quality initiatives significantly boost profit margins.

SERVQUAL Model Theory

The SERVQUAL model theory was founded by several proponents, such as Parasuraman, Valarie Zeithaml, and Leonard Berry in 1985. SERVQUAL model assumes that customer expectations are not static but change over time based on various factors like previous experiences, competitor offerings, and cultural influences. Service providers must continually adapt to meet these evolving expectations (Berry, 1985). The model assumes that comparing customer expectations to their actual perceptions will reveal service quality deficiencies that the provider can address (Zeithaml, 1985).

SERVQUAL model further assumes that the gap between expectations and perceptions exists in all service industries and can be similarly measured, regardless of the type of service being assessed (Parasuraman, 1985). Supporters of SERVQUAL model play a significant role in advancing the understanding and application of SERVQUAL model in organizational contexts. Jasneet et al. (2022) emphasized SERVQUAL's applicability and versatility, reaffirming that the model provides valuable insights into customer expectations versus perceptions and is adaptable to diverse service sectors. Sultana and Taher (2023) highlighted SERVQUAL's adaptability across service industries, affirming that the model effectively captures key elements of customer satisfaction through a gap analysis approach. Ifedi et al. (2024) argued that SERVQUAL is effective in identifying service areas that need improvement to positively influence customer loyalty and behavioral outcomes, further supporting the model's relevance to business performance. Abubakar et al. (2024) emphasized that SERVQUAL's five dimensions remain relevant and that its adaptability makes it particularly valuable for cross-cultural service quality assessment. Critics (Islam et al., 2020; Jayasree, 2021; Karmacharya, 2022; Fitrio et al., 2023; Ositadimma & Okeke, 2019; Pratama et al., 2024; Redda & Van Deventer, 2023) argued that SERVQUAL's gap-based approach was unnecessary and suggested that service quality could be measured by perceptions alone, without comparing them to expectations. Teeroovengadum (2022) reported a negative influence, Raza et al. (2020) argued that SERVQUAL's use of expectations as a benchmark might be biased, as customer expectations could be influenced by unrealistic factors.

Methodology

This study adopted a positivist research philosophy, which emphasized the application of natural science methods to investigate social phenomena, particularly the relationship between service quality and deposit money banks' performance. This study adopted a survey research design which examined the effect of service quality on deposit money banks' performance. According to Khan et al. (2024) and Sudirjo et al. (2024), survey research design provides a systematic approach for collecting quantitative data about service quality dimensions and their impact on bank performance metrics. The population was 4,873 employees of eight selected deposit money banks operating in Lagos State, Nigeria. A sample size of 464 bank employees was determined using Raosoft calculator. Simple random sampling technique was adopted. A validated questionnaire was adopted for data collection. Cronbach's alpha reliability coefficients for the constructs ranged from 0.70 to 0.97. The response rate was 92.2%. Data were analyzed at 5% level of significance using the Smart partial least squares structural equation modeling (PLS-SEM) software, which allowed for the testing of path analysis and hypotheses. A confirmatory factor analysis (CFA) was employed to assess the factor loading of the variables.

Analysis

Restatement of Research Objective and Research Question

Objective: examined the effect of service quality dimensions on profitability of selected deposit money banks in Nigeria.

Research question one: What is the effect of service quality dimensions on profitability of selected deposit money banks in Nigeria?

The objective examined the effect of service quality dimensions (service reliability, service responsiveness, service assurance, service empathy, and service tangibles) on profitability of selected deposit money banks in Nigeria. On a six-point Likert type, where 6 = very high, 5 = high, 4 = moderately high, 3 = moderately low, 2 = low, and 1 = very low, the respondents were requested to rate their perception of various items about service quality dimensions and profitability of selected deposit money banks in Nigeria. These points formed the weights for calculating the score for each item. Descriptive statistics percentages, mean and standard deviation were used to analyze the data. The results of descriptive analysis of service quality dimensions were presented in various tables which due to limited pages could not be displayed here.

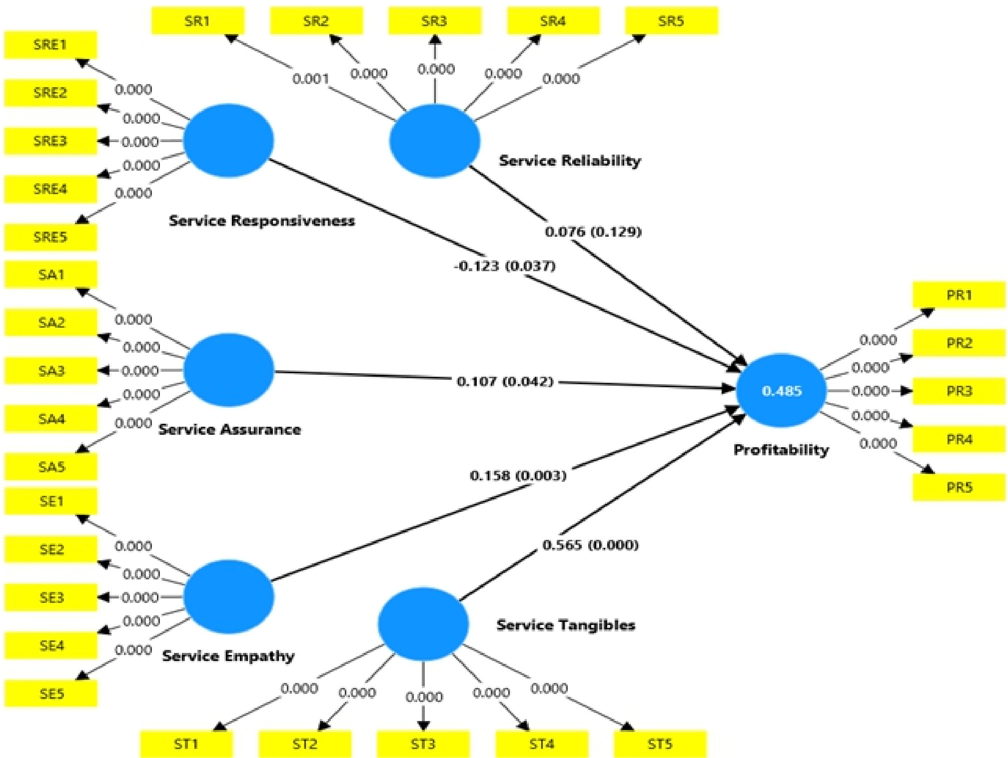
Restatement of Hypothesis

H_0: Service quality dimensions have no significant effect on profitability

Hypothesis one was tested using Partial Least Squares Structural Equation Modelling (PLS-SEM) implemented in SmartPLS. The hypothesis result of the effect of the independent variable (service quality dimensions of service reliability, service responsiveness, service assurance, service empathy, and service tangibles) and dependent variable (profitability) is presented in figure 1 the bootstrapping outcome and descriptive tables 1ai-.1av with the values of the path coefficients, standard error, R-squared, Adjusted R-squared, T statistics, p-values, effect sizes and decision taken on this hypothesis.

Figure 1 displays the outcomes of the bootstrapping procedure, illustrating the obtained results and their implications for the structural model analysis for objective one which examined the effect of service quality dimensions (service reliability, service responsiveness, service assurance, service empathy, and service tangibles) on profitability.

Figure 1*:* Bootstrapping Outcome for service quality dimensions and profitability



Source: Authors' Data, via Smart PLS .1 (2025)

The bootstrapping outcome illustrates the impact of service quality dimensions of service reliability, responsiveness, assurance, empathy, and tangibles on profitability. The path coefficients and p-values indicate the strength and significance of these relationships. Notably, service tangibles have the strongest positive effect on profitability (β = 0.565, p = 0.000), suggesting that physical aspects of service delivery, such as facilities, equipment, and employee appearance, significantly enhance profitability. Service assurance also shows a positive and significant effect (β = 0.107, p = 0.042), highlighting the importance of trust and confidence in service delivery. Service empathy follows closely (β = 0.158, p = 0.003), indicating that personalized service and individual attention positively influence profitability. However, service responsiveness shows a negative but significant effect (β = -0.123, p = 0.037), implying that delayed or ineffective responses may reduce profitability. Lastly, service reliability has a weak and statistically insignificant impact (β = 0.076, p = 0.129), suggesting that consistent performance alone may not directly drive profitability.

Table 1a: Goodness of Fit of service quality dimensions (service reliability, service responsiveness, service assurance, service empathy, and service tangibles) on profitability

Goodness of Fit	
	Estimated Model
SRMR	0.075
d_ULS	1.973
d_G	0.905
Chi-Square	839.866
NFI	0.672

Source: Researchers' Field Survey Results (2025)

The Goodness of Fit (GoF) indicators in the structural model assess how well the service quality dimensions of service reliability, service responsiveness, service assurance, service empathy, and service tangibles explain profitability. The Standardized Root Mean Square Residual (SRMR) value is 0.075, which is below the 0.08 threshold, suggesting a good model fit. This means the model's residuals are relatively small, indicating that the observed and predicted values are closely aligned. The d_ULS (Unweighted Least Squares Discrepancy) and d_G (Geodesic Discrepancy) values are 1.973 and 0.905, respectively. While these values don't have strict cut-off points, lower values typically imply a better fit, showing that the model's parameters are well-calibrated.

The Chi-Square value is 839.866, which reflects the discrepancy between the observed and expected covariance matrices. While a lower Chi-Square value is desirable, in large samples, Chi-Square tends to be significant regardless of model fit, so it must be interpreted alongside other indices. Lastly, the Normed Fit Index (NFI) is 0.672, indicating an acceptable fit, though slightly below the 0.9 benchmark for a "good" fit. This suggests the model explains a reasonable portion of the variance in profitability but may still benefit from refinement. Overall, these GoF indices indicate that the model moderately fits the data, implying that the service quality dimensions have a meaningful, though not flawless, influence on the profitability of the selected deposit money banks. The path analysis that examines the effect of latent variables and observed variables, as well as the direct and indirect effects among these variables, is presented in Table 4.3.1b indicating a summary of the path result obtained using SmartPLS on the effect of service quality dimensions (service reliability, service responsiveness, service assurance, service empathy, and service tangibles) on profitability.

Table 1b: Summary of path analysis results for the effect of service quality dimensions on profitability of selected deposit money banks in Nigeria

N	Model	*B*	*T*	*P*	*f²*	*R*	*R²*	*Adjusted R²*	*Q²*
422	Service Assurance -> Profitability	0.107	2.038	0.042	0.011	0.694	0.485	0.479	0.460
	Service Empathy -> Profitability	0.158	2.942	0.003	0.023				
	Service Reliability -> Profitability	0.076	1.518	0.129	0.007				
	Service Responsiveness -> Profitability	-0.123	2.086	0.037	0.013				
	Service Tangibles -> Profitability	0.565	7.116	0.000	0.310				

Source: Authors' computation, 2025 underlying data from Field Survey

Table 1b shows the summary of the path analysis results for the effect of service quality on profitability of selected deposit money banks in Nigeria. The result showed that service assurance (β = 0.107, t = 2.038 p<0.05), service empathy (β = 0.158, t = 2.942, p<0.05), and service tangibles (β = 0.565, t = 2.086, p<0.05), have positive and significant effect profitability of selected deposit money banks in Nigeria. Service responsiveness (β = -0.123, t = 2.086, p<0.05), showed a negative significant effect on profitability, while service reliability (β = 0.076, t = 1.518, p>0.05) showed positive but insignificant effect on profitability. This implies that, service assurance, service empathy, and service tangibles are important factors in the workplace which in turn yields an increase in profitability.

The R value of 0.694 supports this result and it indicates that service quality dimensions have a moderate positive relationship with profitability of selected deposit money banks in Nigeria. The coefficient of multiple determination $Adj\ R^2$ = 0.479 indicates that about 47.93% variation that occurs in the profitability of the selected deposit money banks can be accounted for by the dimensions of service quality while the remaining 52.1% changes that occur were accounted for by other variables not captured in the model. The predictive and prescriptive multiple regression models are thus expressed:

PFT = 0.107SA + 0.158SE + 0.076SRel - 0.123SRes + 0.565ST +U_i---Eqn(i) (Predictive Model)
PFT = 0.107SA + 0.158SE + 0.565ST + U_i -------- Eqn(ii) (Prescriptive Model)

Where:

PFT = Profitability
SA = Service Assurance
SE = Service Empathy
SRel = Service Reliability
SRes = Service Responsiveness
ST = Service Tangibles

The predictive model shows that of all the variables service assurance, service empathy, and service tangibles are positive and significant so the management of the company cannot downplay these variables that is why they were included in the prescriptive model. The results of the multiple regression analysis as seen in the prescriptive model indicate that when all other variables of service quality (service assurance, service empathy, and service tangibles) are improved by one unit, profitability would also increase by 0.107, 0.158, and 0.565 respectively and vice-versa. This implies that an increase in service assurance, service empathy, and service tangibles would lead to an increase in profitability of the deposit money banks in Nigeria. The effect size (f^2) of the dimensions of service quality, show that service empathy, and service tangibles have weak and moderate effect size respectively while service assurance, service responsiveness, and service reliability have very tiny effect size. This is according to Cohen (1988), f^2 value of 0.02, 0.15, and 0.35 for significant exogenous indicates weak, moderate and strong effects, respectively. This shows that service quality dimensions jointly (f^2 = 0.0728) provide a weak explanation of the variance in profitability of the selected deposit money banks in Nigeria. The result suggests that such deposit money banks should pay more attention towards developing the dimensions of the service quality to improve their profitability. This is supported by the Stone-Gleisser Q^2 value of 0.460 obtained from the model that indicate a strong predictive relevance of the model. In line with the threshold for Q^2 values which are 0.02, 0.15, and 0.35 representing weak, medium, and strong predictive relevance respectively (Hair et al., 2019). Hence, the model specified is significant, and has a relevant and sufficiently large predictive quality. Therefore, the null hypothesis (H01) which states that service quality dimensions have no significant effect on profitability of selected deposit money banks in Nigeria was rejected.

Discussion

The results of Partial Least Squares Structural Equation Modeling (PLS-SEM) path analysis for hypothesis on the effect of service quality dimensions (service reliability, service responsiveness, service assurance, service empathy, and service tangibles) on profitability of the selected deposit money banks in Nigeria revealed that service quality dimensions of service reliability, service responsiveness, service assurance, service empathy, and service tangibles have significant effect on profitability of the selected deposit money banks in Nigeria.

Empirically, the findings of this research affirm extant studies such Ghimire and Agarwal (2024) that revealed that superior service quality significantly enhanced customer satisfaction, leading to increased profitability. Endara et al. (2019) found that service quality dimensions have a substantial positive impact on financial performance metrics. Similarly, Sutrisno and Lazuardy (2024) and Shahabuddin et al. (2024) both indicated that service quality exerts a significant and positive influence on profitability ratios. Febriend and Qastharin (2024) and Pratama et al. (2024) corroborated these findings, noting that service quality has a positive and significant impact on maintaining profitable customer relationships.

Further supporting these positive relationships, Tresnadi et al. (2024) reported that service quality dimensions positively affect profitability measures. Ifedi et al. (2024) also found a significant positive effect, while Gonu et al. (2023) showed that service quality positively influences return on investment. Aripin et al. (2023) and Samuel et al. (2023) discovered that the significant effect of service quality on profitability is consistent across different industries. Susanto et al. (2023) and Bintoro et al. (2023) demonstrated that enhanced service quality leads to improved financial performance. Tam (2023) and Khan et al. (2024) found that service quality initiatives significantly boost profit margins.

Conversely, some studies have reported negative or insignificant effects of service quality on profitability. Tien et al. (2023) indicated that service quality improvements have an insignificant influence on profit margins. Al-Refaei et al. (2023) found that service quality investments could negatively impact short-term profitability. Similarly, Teeroovengadum (2022) reported a negative influence, while Saraswati (2022) noted an insignificant effect. Rajasulochana (2022) revealed that service quality improvements might not always translate into higher profits, and Al-Shorman et al. (2022) discovered an insignificant impact on financial performance.

Theoretically, these research findings fell in line with the SERVQUAL Model support the variables of service quality, service reliability, service responsiveness, service assurance, service empathy, service tangibles and profitability. The SERVQUAL Model provide complementary theoretical lenses to interpret the findings of the study on the effect of service quality dimensions on profitability in Nigerian deposit money banks. The SERVQUAL Model, which emphasizes five key dimensions of service quality (reliability, responsiveness, assurance, empathy, and tangibles) aligns closely with the study's findings. The results indicate that all five dimensions significantly influence profitability, underscoring the importance of delivering consistent, responsive, and empathetic services, as well as maintaining tangible elements that enhance customer experience. This supports the SERVQUAL assertion that superior service quality drives banks profitability, which in turn positively impacts financial performance. The significant effect of these dimensions on profitability highlights the critical role of service quality as a competitive differentiator in the banking sector.The study's findings reinforce the importance of aligning operational excellence with strategic resource management, offering valuable insights for bank managers seeking to enhance profitability through service quality improvements.

Conclusion and Recommendations

The study concluded that service quality dimensions significantly enhanced the profitability of selected deposit money banks in Lagos State, Nigeria. The findings highlighted that key service quality dimensions (reliability, responsiveness, assurance, empathy, and tangibles) serve as critical drivers of bank performance. This empirical evidence reinforced the theoretical foundations of the SERVQUAL Model demonstrating that a bank's ability to deliver high-quality services directly impacts its operational success and competitive positioning.

Furthermore, the study underscores that while service quality dimensions collectively enhance bank profitability, each sub-dimension plays a distinct role in shaping customer perceptions and loyalty. This suggests that banks aiming to navigate current and future challenges must continuously invest in service quality improvements. Firms that prioritize reliable, responsive, and empathetic service delivery, coupled with tangible indicators of quality, are better positioned to achieve long-term growth and stability.

Recommendations

From the findings of this study, the researchers made the following recommendations to the relevant stakeholders:

i. Banks should adopt a customer-centric approach by continuously improving service quality dimensions (reliability, responsiveness, assurance, empathy, and tangibles) as these have a direct impact on profitability.
ii. Management should invest in customer feedback systems, employee training, and quality assurance processes to enhance service delivery and drive financial performance.

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