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Perception of Financial Distress and Customers' Attitude toward Banking

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Abstract

This study examined the influence of perceived financial distress and customers' attitude towards banking in Nigeria. Two hundred and one bank customers made up of 144 males and 57 females drawn from 27 banks in Lagos participated in the study. The result of the study showed that perceived financial distress and bank account customer had significant main effect on attitude towards banking. The study concluded that perceived financial distress has significant negative influence on attitude toward banking. The banks regulatory authorities and management should give attention to the publics' perception of the banking industry in the interest of the economy; as the economic health of a nation hinge on the efficiency of financial institutions.

Keywords: Financial distress, Patronage, Attitude, Banking

1. Introduction

Banking as a service industry, is fundamentally hinged on trust, sustained by attitude and managed by complex financial management skills and psychology of human relations. The more the customer trusts, the service provider as research indicates, the higher the perceive value of the relationship (Walter, Holzle, & Ritter, 2002). According to Gounaris (2005), the quality of bank service is influenced indirectly by trust. Although, trust is the cornerstone of the banking industry, the perceptual factors influence the customer's choice of bank. Moreover, for development process, banking industry is a catalytic agent (Popoola, 2000), which makes to a healthy banking system a most for a nation's growth while a near or total distress banking industry is injurious a nation. The crisis of confidence experienced by the banking industry in Nigeria has led to the liquidation of some of banks (Brownbridge, 1998). Although, there is a gradual improvement, the design of the present study is to assess the influence of perceived financial distress and customers' attitude towards banking.

The indicators most useful in foretelling banking distress ranges from declining output, an increase and then a decrease in inflation to a fall in the real effective exchange rate. To Hardy and Pazarbasioglu (1998), the primary direct indicator of banking sector soundness and the likelihood of its difficulties is the level of bank capitalization. That is, the amount by which a bank's assets exceed its liabilities. Bank distress according to (Bernanke, 1983; Calomiris & Mason, 2003) is associated not only with bank failures, but with general macroeconomic consequences resulting from the reduced supply of loans and deposits, which can amplify business cycle downturns and spread panic-induced financial distress from banks to the whole economy. In other words, deteriorating loan quality and increase in share of loans that are nonperforming are signal symptom. Similarly, Demirgüç-Kunt and Detragiache (2005) opined that the onset of a banking crisis is assumed to coincide with depositor runs leading to the closure or takeover of such banks, or/and with large-scale government intervention. In another perspective, Calomiris (2007) described bank distress from "fundamentalist" perspectives as it stresses a different direction of causality. That is, bank distress is due to a chain of causation from non-panic-related, observable, exogenous adverse changes in the economic conditions of banks, to intrinsic weakening of bank condition, ultimately leading to bank failure. According to Calomiris and Wilson (2004), fundamental losses to bank borrowers cause losses to banks, which sometimes bankrupt the banks and subsequently weakened the banks to curtail the supplies of loans and deposits as part of a rebalancing of portfolios to limit default risk in a disciplined market. In sum, no indicator, or a set of indicators, is wholly reliable as an instrument of prediction; these factors only provide a clear signal for increasing probability of near-term bank failure. This study is however interested in perceived distress as the country of study had just witnessed actual distress.

Many economies in the World had experienced large-scale bank failures due to economic conditions in the markets (Canbas, Cabuk, & Kilic, 2005) in the last three decades. In Nigeria however, the first major financial distress in the

Nigerian banking system dated back to 1930s when about 21 bank failures were recorded. While another financial crisis started in 1989 with the identification of seven distressed banks and worsened gradually until 1993 when it led to the collapse of the inter-bank market and spread to all segments of the financial system (CBN 2002). According to Ebhodaghe (1996), sixty banks were distressed between 1992 and 1995. The distressed banks accounted for a deposit base of N70.8 billion constituting 33.5 percent of the total industry deposit of N211billion. Additionally, these distressed banks accounted for N44.5 billion or 77 percent of total bad debts of N57.8 billion in the financial system. By 1994, four local banks had gone into liquidation, some others had had their licenses suspended, and then in 1995 the Central Bank of Nigeria took over the management of 13 local banks (Brownbridge, 1998).

Field theory provides the foundation for this study's framework. Field theory (Lewin, 1951) assumes that in any situation there are both driving and restraining forces that influence any change that may occur. The driving forces are those forces that tend to initiate a change and keep it going in terms of earnings and competition. While restraining forces are forces acting to decrease the ability to save money and keep on withdrawing his/her deposit; these lack of motivation are examples of restraining forces. However, equilibrium is reached when the sum of the driving forces equals the sum of the restraining forces. Field theory, according to Kassarjian (1973) is useful in understanding consumers' cognitions, affective reactions, and behaviours. It also helps in explaining the forces that bear upon a bank customer to go for prompt settlement of bills and service cues, as well as ability to deposit and withdraw money. According to Lewin (1946) psychological and/or physical responses ease the tensions created by the transactional forces. From a field theory perspective, financial distress may create psychological tension by blocking customer's quick settlement of bills repayment of loans. Thus, consumers' mood may colour their attitude towards banking.

Attitudes are important in a consumer environment, as research showed that attitude influence thoughts, feelings, and, most importantly, behaviour (Rose, Meuter, & Curran, 2005). Attitude towards banking could therefore be a critical factor in achieving efficiency and effectiveness in the industry. While, evaluation could initiate distortions and inaccuracies into a person's perception process (Casselden & Hampson (1990), distortions may arise from the tendency of forming relatively consistent characteristics with a few pieces of information. According to Klein and Kunda (1992), individuals that are motivated to hold a particular belief about an issue will selectively search for information that will support that belief they want to hold. It means that customers that hold negative bias about a bank are more prone to search for information to confirm their biases about such bank. Perhaps this is why banks account managers view social relationships with their customers as important in facilitating information exchange for developing and maintaining customer relationships (So and Speece, 2000). Parasuraman, Zeithaml, and Berry, (1985) also advocate that firm such as bank, should provide customers with accurate reference points, undertake research to measure customers' expectations, and consistently fulfil these gaps. Bank customers can however be grouped into personal account bank customer and corporate account bank customer. Corporate account bank customers provide the greatest profit opportunities to the bank (Tyler and Stanley, 1999; Zineldin, 1995) than personal account bank customers. However, little or no research has studied the effect of bank account customers' attitude toward banking, which this study will examine.

Financial reporting of banks had led to divergent perceptions and expectations, and had caused the banking public with dissatisfaction. This is because banks do not fully appreciate what the benefits of greater transparency could bring, as most banks current financial reporting model is inadequate for executives and investors (Timewell, 2000). For instance, in Nigeria between 1994 and 1996, when 1914 bank employees got their appointment terminated due to their involvement in fraudulent transactions; the banking publics did not know the reasons for the management decisions against the dismissed employees (NDIC (1996). Consequently, the public inferred that the high staff turnover was an indication of virus called distress. This does, emphasis the need to provide reliable information that will influence positive public perception.

A number of bank watchers are certain that the banking industry may still witness another round of avoidable distress owing to negligence in financial management prudence. This is also confirmed Sanusi's (2002) statement that earlier shortcomings that led to distress are being effectively addressed while the prevention of future reoccurrence remains a challenge to the Central Bank of Nigeria. This study thus assumes that if psychosocial factors associated with financial distress are empirically tested, their result will provide other alternative/additional information in curbing further financial distress by policy makers. This study therefore examines this influence.

Various consumer researchers had found evidence for the negative information, compared to positive information, on consumers' attitudes (e.g., Folkes & Kamins, 1999). For instance, researches in product-evaluation contexts by Folkes & Kamins, 1999 indicated that negative information lead to less favourable evaluation of targets of negative information. Similarly, study by Ahluwalia, Burnkrant, and Unnava (2000) showed that consumers resort to lack of enthusiasm, as it is easier to analyze negative information than positive information especially when there is much negative information. Equally, elaborate positive information is likely to facilitate consumers' opportunity and motivation to engage in more appraisal of that information (Bailey, 2004). Hence it is assumed that inability of customers to withdraw their money as at when due, may have an adverse impact on customers' banking attitudes.

As trust is a psychological state that makes one willingly accept situational vulnerability (Singh & Sirdeshmukh, 2000), the expectation is that loyal consumers will be relatively unaffected by temporary transactional experiences (Yi & La, 2004). That is, loyal customers (defined as long-term business transaction) will tend to maintain their positive expectations relatively longer than low-loyalty customers (short-time customer) do; thus, they are not likely to adjust expectations based on episodic factors. Trust then acts as the glue that holds the relationship together (Singh & Sirdeshmukh, 2000). Commitment is also an essential ingredient for long-term relationships (Garbarino & Johnson, 1999; Morgan & Hunt, 1994). Customers' commitment provide various benefits to a firm (Pedersen & Nysveen, 2001) such as protecting a firm under service failure, as customers are less situation-sensitive (Krishnamurti & Raj, 1991). From the above reviewed it is hypothesized that:

H1 Corporate bank account customer will have positive attitude towards banking than personal bank account customer.

H2: Long duration of bank patronage will have positive influence on attitude towards banking than short time bank patronage.

H3: High perceived financial distress will have significant negative effect on attitude towards banking.

H3: Corporate bank account customer that have high perceived financial distress and short time bank patronage will report significant negative influence on attitude towards banking than other combination of factors.

Research Methods

2.1 Participants

Out of 350 questionnaires administered in 27 banks, Two hundred and six bank customers voluntarily responded and returned their questionnaires. For this study, 201 fully completed responses were used. They comprised 144 males and 57 females with their age range from 20 years to 54 years, a mean age of 32.73 years and (SD = 6.13). Eighty-one per cent of them were individual account customers while 19 per cent were corporate account customers. Participants' duration of bank patronage ranged from 1 year to 28 years, with mean banking duration of 6.5 years.

2.2 Settings and procedures

Sample selection was restricted to Lagos, being the city with the highest concentrations of financial institutions and density of banking public. A multi-stage purposive non-probability sampling technique was used due to the practical difficulties of employing random sampling techniques in data collection. This involved chosen a willing participant, that is, if the chosen participant is unwilling to participate in the survey, the next immediate available consumer/client is approached. The selection of the bank under study was based on the use of purposive sampling technique: three branches of each of the three of oldest banks, three of older banks and the three of most recent banks respectively. All these added up to make the 27 banks selected. The self-administered questionnaire was given to each of the customers at the banks' premises within the banking opening hours of 8a.m. and 1p.m. The researcher collected the completed questionnaires between February and April 2002.

2.3 Instrument

The questionnaire consisted of two parts. The first part dealt with the socio-economic characteristics of the respondents. Each of the participants responded to questions covering gender, age, duration of bank patronage and bank account customer; these were in nominal form. The second part included the attitude measures of perceived financial distress (PFD) scale and attitude toward banking (ATB) scale, which were developed for the purpose of this study. A review of the relevant literature and the information obtained from experienced bankers at the conference of experts provided the basis for developing the item measures. Employees of six banks that came for a special training at the University of Ibadan were strategically chosen; they comprised the Head corporate planning department, Branch operations manager, Business development officer, Head treasury department, Officer in treasury department and Head internal control and audit. These experts assisted in facilitating the assessment of customers' perception from different perspectives.

The researchers constructed a 21-item PFD scale used to measure perceived financial distress. In generating this, a Likert scale question was used because it allows the respondent to indicate how closely their feelings match the statement on a rating scale. The items were scored on a 5-point Likert-type scale from 'strongly agree' to 'strongly disagree', thus these items help in generating statistical measurements of issues at stake. A pre-test of 54 items pooled from the conference of experts showed 21 useable items after subjecting them to item-total and inter-item correlation. This followed the discarding of item statements with less than $r < 0.35$ and $r < 0.20$ (Bearden, Netemyer, & Mobely, 1993; Nunnally, 1978). The summations of each the item that met the above criteria form the multiple-item scale. A pre-test of the 21 items in a pilot study showed an internal consistency reliability estimate of Cronbach $\alpha = 0.89$.

The construction of a 16-itm self-report attitude toward banking (ATB) scale followed a similar method used in the construction of PFD scale. A pre-test of initial 25 items showed a reduction of items to 16 after using item-total and inter-item correlation. Item statement with less than $r < 0 .35$ and $r < 0.20$ is discarded (Bearden, et al., 1993; Nunnally, 1978). High score on ATB indicates negative attitude while low score means positive attitude. A pre-test of the 16 items in a pilot study produced a Cronbach coefficient $\alpha = 0.85$. These reliability estimates is far above Nunnally's (1978) criterion of $\alpha = 0.70$ for acceptable reliability in exploratory research.

3. Analysis Result

A 2x2x2 analysis of variance (ANOVA) was used to test the hypotheses for this study. This inferential statistics was considered more appropriate due to the research design and its data collection method. The mean scores was the dividing point for perceived financial distress into two groups. While duration of bank patronage is classified as short duration meaning those with ≤ 5 years duration of bank patronage and those with > 5 years duration of bank patronage as long duration. The mean scores for the resulting groups are presented in table 1.

=====Insert Table 1 ========

Table 1 shows mean scores on attitude towards banking for respondents low and high on perceived financial distress (48.42 versus 53.84); respondents short duration and long duration (52.15 versus 48.60); and respondents corporate bank account customer and personal bank account customer (54.38 versus 49.92).

=======Insert Table 2 =======

The mean scores on attitude towards banking for respondents on perceived financial distress ($F (1,193) = 9.34, p < 0. 01$) and bank account customer ($F (1,193) = 4.73, p < 0. 05$) show significant main effects. The mean scores for respondents on duration of bank patronage ($F (1,193) = 1.88, p > 0.05$) did not provide significant main effects (see table 2). Of all the possible interactions in the study of attitude towards banking, only three-way interaction of perceived financial distress, bank account customer and duration of bank patronage show significant effect ($F (1,193) = 4.97, P < 0. 05$) (see table 2). Table 3 shows the mean scores on attitudes towards banking for the eight combinations of respondents based on the perceived financial distress, bank account customer and duration of bank patronage.

======== Insert Table 3 ==========

====== Insert Figure 1============

Figure 1 below illustrates the pattern of the interaction effects. Personal bank account customers that perceived financial distress scored higher than other categories while those who perceived low financial distress and have long duration of bank patronage displayed a relatively positive attitude towards banking. Conversely, the corporate bank account customers that perceived high financial distress and long-term bank patronage had higher negative attitudes towards banking followed by those who perceived low financial distress and with short duration of bank patronage while those who perceived low financial distress and with long duration of bank patronage scored the least.

4. Discussion

This study set out to investigate the influence of perceived financial distress, bank account customer and duration of bank patronage on customers' attitude towards banking. The results of the analysis showed that respondents that are high on perceived financial distress scored high on attitude towards banking. This indicates that perception of financial distress by respondent is likely to negatively affect bank service patronage and may in turn affect the bank output. This finding is supported by the field theory (Lewin, 1951) perspective, which states that restraining forces act on individuals to decrease the driving forces. Although, this finding may not provide a full explanation as behavioural attitude depends on the outcome of choice (Miller & Tessa, 1989) as the overriding choice of the customers may depend on a number of external factors. However, if one discounts the external influence, then the result can be useful in the prediction of bank customers' behaviour. As Howard and Sheth (1969) observed, suitably devise attitude measures is often quite successful in predicting how people will act. It is not surprising therefore that the associated negative consequences of distress on the customers' tend to lead to negative attitude towards banking.

The findings on effect of bank account customer on attitude towards banking showed significant effect; with the corporate bank account customers scoring significantly higher on attitude towards banking than personal account bank customers. This is possibly because corporate bank account customers places higher premium on their bankers than personal bank account customers do; as maximization of profit is the driving goal of corporate bank account customers. This may have given them opportunity to analyze the financial statements of banks and their market capitalization more than personal bank account customers that may less knowledge in financial matters. As sustained and regular update of information on banking activities may result in dynamic perceptual change and consequent influence on attitude towards banking. Thus, confirming Bailey (2004) notion that elaborate information facilitate consumers' opportunity and motivation to engage in more appraisal of information. On the other hand, the personal bank account customers may not have familiarized themselves with information about banking activities, thus leading to a near static perceptual view of the bank activities if Bajah (2003) and Griswold (2000, 2002) findings that Nigerian public lack reading culture is considered.

Lack of significant duration of bank patronage on customers' attitude towards banking may be because the customers' priority for bank patronage is to derive satisfactory service through regular banks' fulfilment of the contractual obligations and not to sustain long-term relationship. This confirms Fiske and Taylor's (1991) explanation that perceivers try to arrive at meaningful impression of whole attitude towards banking rather than just absorb new information separately. In other words, duration of bank patronage singly is not enough to create a meaningful influence on attitude towards banking. This finding also contradicts the notions of situational vulnerability, as there was no significant difference between long and short time bank patronage (Singh & Sirdeshmukh, 2000; Yi & La, 2004). It also means that commitment, which is essential for long-term relationship, is lacking (Garbarino & Johnson, 1999; Morgan & Hunt, 1994).

The interaction between perceived financial distress, bank account customers, and duration of bank patronage showed significant effect on attitude towards banking. While, there were no significant effect between the pairs of the two-way interactions (bank account customer by duration of bank patronage; bank account customer by perceived financial distress; and duration of bank patronage by perceived bank distress). Supporting this is Anderson (1965) proposition that the final impression of an attitude object is the average of the different impressions received on the object. The influence of perceived financial distress as demonstrated in this study may help in explains why some banks may lose their customers even when the actual factor that precipitate distress has not been present.

One implication of this finding is that bank managements need to work towards eliminating cues that customers interpret as signs of managerial apathy. As Parasuraman, et al. (1985) advocated, banks should provide customers with accurate reference points and undertake research to measure customers' expectations. As information from the banking, industries can help customers set reasonable expectations and reduce tension by providing a basis for reappraisal (Kassarjian, 1973). Importantly, banks' welfare must be given prime attention by bank management. In addition to physical growth and financial profit, customers need trust and confidence to also boost positive influence of their attitude toward banking as any misrepresentation of banks' state of health could lead to adverse effects. Bank practitioners should endeavour to create an inviting atmosphere for their customers; as a combination of factors affect attitude toward banking.

5. Conclusion

Although this study has far reaching implications for the banking industry in particular and Nigerian economy as a whole, its findings are however not conclusive. The results undoubtedly serve as providing enriched insight into customers' attitude towards banking. Notwithstanding, there are some inherent limitations. First, the relatively small sample size and the use of only participants from Lagos, the commercial capital of Nigeria may limit the general applicability of the findings. Second, the research design was ex-post facto, which means that subjects' financial distress experience had occurred. Perhaps the responses would have been different if the participants have never witness financial distress. Finally, companies also have reputations which they have built over time which could be good or bad, and they could influence how customers perceive an event such as a distress. It is possible that customers could perceive firms with good reputations differently, as compared to firms with poor reputations, when these companies are involved in non-fulfilment. Future studies should control for some these limitations.

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Table 1. Attitudes toward banking mean scores of respondents on perceived financial distress, duration of bank patronage and bank account customers

VARIABLE	No.	Mean
Perceived Financial Distress: Low	121	48.42
High	80	53.84
Duration of bank patronage: Short	124	52.15
Long	77	48.60
Bank account customers: Corporate	39	54.38
Individual	162	49.92

Table 2. Summary table showing the effects of perceived financial distress, bank account customers and duration of bank patronage on attitudes toward banking

Variable	SS	DF	Ms	F
PFD	1441.21	1	1441.21	9.34**
Customers	729.00	1	729.00	4.73*
Duration	289.36	1	289.36	1.88
PFD by Customers	1.40	1	1.395	0.01
PFD by Duration	27.33	1	27.331	0.18
Customers by Duration	206.95	1	206.949	1.34
PFD by Customers by Duration	767.07	1	767.069	4.97*
Residual	29776.14	193	154.281	
Total	33471.8	200	167.359	

Note: PFD = Perceived financial distress; Type = Bank account customers; Duration = Duration of bank patronage; ** = $p < 0.01$; * = $p < 0.05$.

Table 3. Attitudes towards banking mean scores on 3-way interaction combination between perceived financial distress, bank account customers and duration of bank patronage

	Low PFD		High PFD	
	Short Duration	Long Duration	Short Duration	Long Duration
Corporate bank account customers	57.50	44.00	55.14	59.86
Personal bank account customers	47.53	47.11	54.44	50.93

Note: PFD = Perceived financial distress; Duration = Duration of bank patronage.

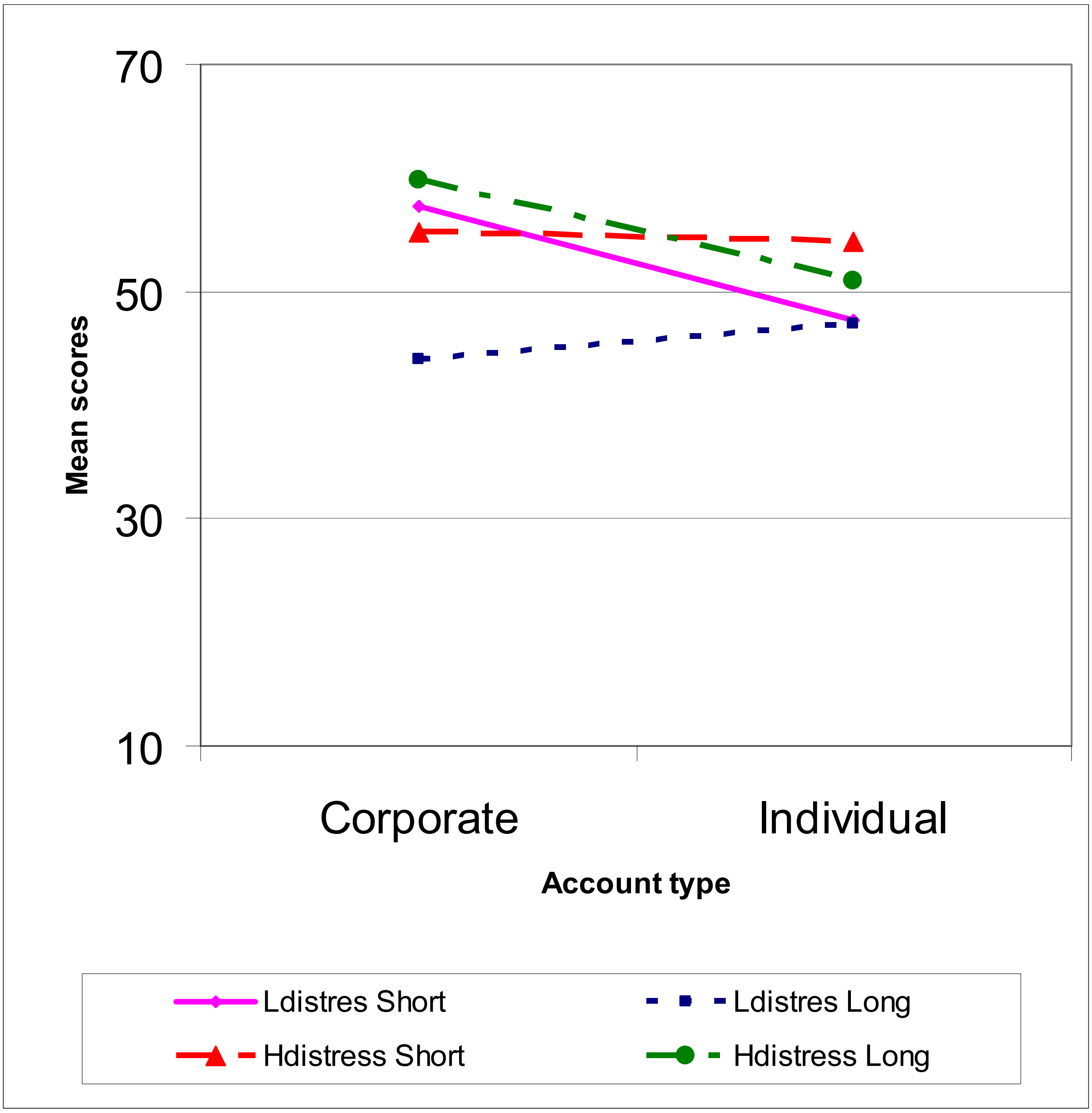

Figure 1. A 3-way interaction of perceived financial distress, bank account customers and duration of bank patronage