**AN APPRAISAL OF THE IMPACT OF THE LIQUIDITY PROBLEM ON SELECTED COMMERCIAL BANKS IN NIGERIA**

**CHAPETR ONE**

**INTRODUCTION**

1.1        Background of the study

1.2        Statement of problem

1.3        Objective of the study

1.4        Research Hypotheses

1.5        Significance of the study

1.6        Scope and limitation of the study

1.7 Definition of terms

1.8 Organization of the study

**CHAPETR TWO**

**LITERATURE REVIEW**

**CHAPETR THREE**

3.0        Research methodology

3.1    sources of data collection

3.3        Population of the study

3.4        Sampling and sampling distribution

3.5        Validation of research instrument

3.6        Method of data analysis

**CHAPTER FOUR**

**DATA PRESENTATION AND ANALYSIS AND INTERPRETATION**

4.1 Introductions

4.2 Data analysis

**CHAPTER FIVE**

5.1 Introduction

5.2 Summary

5.3 Conclusion

5.4 Recommendation

Appendix

**Abstract**

This study is on an appraisal of the impact of the liquidity problem on selected commercial banks in Nigeria. The total population for the study is 200 staff of first bank, Enugu state. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made up accountants, human resource managers, customer care officers and marketers were used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies

 **CHAPTER ONE**

**INTRODUCTION**

* 1. **Background of the study**

As competition between businesses geared up, if becomes imperative to turn, attention to customers’ needs and wants which are naturally insatiable. The marketing concept arose to challenge all other previous concept. Orjih (1998) in his book “Seminar in Banking and finance.” Concluded that marketing concept holds the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfaction more / effectively and efficiently than its competitions. The marketing concept is of frame of mind which the market focus, customer orientation coordinated marketing and profitability. The marketing concepts starts with a well defined market, and the organization that determines who its markets will be, who he hopes to satisfy as concluded by Melver and Geoffrey (1980) in book “Marketing financial services.  By customer orientation, it implies that the customer’s need is defined from customer’s view point and not from the aspect of the company. The customers orientation seeks to crown the customers as “king” recognizing the fact that the customers is the life blood of an organization. A business man once said that “Our aim goes beyond satisfying the customers”. Coordinating marketing entails that all the various marketing function like, advertising, marketing research, sales forces and so on due properly integrated and must be well coordinated with other departments in the company. The companies are to make profit. A company will make more profit, if it satisfies its customer’s needs better than competitors. Therefore, in applying the marketing concept, companies would produce what the customers want, and by so doing, they maximize more profit.  Several authors have stated the need to adopt the marketing concept by the business entities. Kotler (1997) in his book “marketing management analysis, planning and control”. Said that most companies do not really grasp or embrace the marketing concept until they are driven to it by circumstance like, sales dechine, slow growth, changing of buying patterns by the customers, increasing competition and increase in marketing expenditure. The emergence of  banking industries and its services in Nigeria can be traced back to 100years ago. The activities of transactional corperation, the financial transactions of the colonial government the decline of the better system of trade and the increasing acceptance of British silver currency, all these required an institution in the form of a commercial banks for softy and transmission of funds, the importation and distribution of British silver coins and provision of credit to the government and trading companies who need the services of the banking industries. Banks were out to make profit interest gotten from the credits granted to these customers, without actually satisfying the customers. They never really thought of the customers as the life blood of the banking industries. In the past, banks were operating in a seller’s market which made demarketing possible, but the environment is dynamic, such that if bank are taking place in industry and commerce, only banks that are efficient and effective can satisfy customer. This in scarce and abundant economics alike the problem is not production but marketing, if only we accept the truth that mass marketing is a pre-requisite for a successful mass production. Therefore, marketing consideration can only be the most critical factor in any business planning.

* 1. **STATEMENT OF THE PROBLEM**

In banking industries, the quality of services rendered by the banks have been attracting critisms from people in all works of life. The government functionaries, businessmen, the media and the general public are all very critical of banking services. The complaint ranges from those of efficiency, favouritism, long delays in casting cheques or making withdrawals, tardiness in granting loans or credits, unfriendly attitude of bank workers. Even the government that own a sizeable proportion of shares in most banks is known to constant aceusation of banks for not identifying enough with nation’s aspiration. That is the reason why one time the general staff had a cause to appeal to banks to leave arm chair banking and adopt the marketing concept in carrying out banking activities. Most banks do not put their customers in the prime place as there are supposed to be. There is now keen competition and accurate competition means applying the marketing concepts. Now, are these critisms about banks justified, or are they just a mere rundown of banking industry because they are making profit in an era of economic slump?

* 1. **OBJECTIVE OF THE STUDY**

 From all that have been written above, it is the aim of this study to take a segment of the banking industry and study the approach of the banks to their customer.

-         To evaluate the application of the marketing concept by banks as a base for rendering services to their customers.

-         To determine the various ways of marketing of banking services by the banks to their customers.

-         To determine the effectiveness of marketing mix in the marketing of financial services.

-         To identify the problems of marketing of banking services

-         To proffer solutions to the problem of marketing of financial services.

-         To appraise marketing strategies and make recommendations that would be more effective in the marketing services.

**1.4 RESEARCH HYPOTHESES**

For the successful completion of the study, the following research hypotheses were formulated by the researcher;

**H0:** Application of marketing concepts is not the bases for rendering    effective service to bank customers by banks.

**H1:** Application of marketing concept is the bases for rendering   effective services to bank customers by banks.

**H02:** Time Consuming is not one of the problems in the banking   services.

**H2:** Time consuming is one of the problems in the banking services

**1.5 SIGNIFICANCE OF THE STUDY**

There have been so many criticisms about the banking industry in the way they render services to their customers. They do not see their customers as the king. The researcher wants to carry out a research an what banks do and find out if they adopt the marketing concept in the conditions of the services. The researcher also want to have an empirical base either to support all the sources about the poor impression people have on the banks and to advice the banks on how to improve on their services by adopting the marketing concept. The magic formular is adopting marketing as a way of life. A business must learn to think of itself not as producing goods services, but as buying customers and doing the things which will make people we to deal with it. Do banks really know their customers, and are they foucy or love? If my findings and not valid, I would say that there are no bases for the criticisms, but that they arise because the banks are doing well; if there services are actually poor, why should they make so much profit. Are they doing this at the detriment of their customers?

**1.6 SCOPE AND LIMITATION OF THE STUDY**

The scope of this study is very wide if it has to be carried out in all commercial banks in Nigeria. The study is limited, based on the fact that there is not enough time and resources to see to the whole nation. The study is limited to Enugu and the findings may not be valid for the whole banks in Nigeria, but by and large, what happens in Banks in Enugu can be said to apply to other banks. The researcher encounters some constrain which limited the scope of the study;

 **a) AVAILABILITY OF RESEARCH MATERIAL:** The research material available to the researcher is insufficient, thereby limiting the study

**b) TIME:** The time frame allocated to the study does not enhance wider coverage as the researcher has to combine other academic activities and examinations with the study.

**c) Organizational privacy**: Limited Access to the selected auditing firm makes it difficult to get all the necessary and required information concerning the activities.

 **1.7** **DEFINITION OF TERMS**

 **Marketing:-**Marketing is a process by which the customer and the customer’s wants are clearly identified and understood and then satisfied by the benefits of the goods or services supplied by the organizations. Chartered Institute of Marketing defined marketing as the management process responsible for identifying, anticipating and satisfying consumers requirements profitability.

 **Banking:-**The banking act of 1979 and the bank other financial institutions act (BoFIA) 1991 SEC 25 defined banking as “The business of accepting deposit and collection of cheques and other instruments on behalf of customers, payment of cheques properly drawn by customers, providing finance to customers by way of overdrafts or loans, providing foreign exchange for individuals and corporate customers involved in manufacturing and providing expert financial advice to the customers generally” and other transactions as the commercial may, on the recommendation of the federal Gazette designate as banking business.

**Marketing Concept:-**The marketing concept is a management orientation which holds that the key task of the organization is to determine the needs and wants of target market and to adopt that the organization is delivering the desired satisfactions more effectively and efficiently in it’s competition.

**Products:-**a product is anything that can be afforded to a market for attention, acquisition, use, or consumption.

**Service:-**These are separately Identifiable intangible activities which provide want satisfaction when marketed to customers and or industry, users and which are not another services.

**1.8 ORGANIZATION OF THE STUDY**

This research work is organized in five chapters, for easy understanding, as follows

Chapter one is concern with the introduction, which consist of the (overview, of the study), historical background, statement of problem, objectives of the study, research hypotheses, significance of the study, scope and limitation of the study, definition of terms and historical background of the study. Chapter two highlights the theoretical framework on which the study is based, thus the review of related literature. Chapter three deals on the research design and methodology adopted in the study. Chapter four concentrate on the data collection and analysis and presentation of finding. Chapter five gives summary, conclusion, and recommendations made of the study.

**CHAPTER TWO**

**REVIEW OF RELATED LITERATURE**

**2.1 LIQUIDITY**

Liquidity as a term is usually used in many ways. Bank liquidity is how capable a bank is in retaining enough funds to meet its maturing obligations (Greuning & Bratanovic, 2004). How easily one can convert an asset into cash often describes the asset’s liquidity (Berger & Bouwman, 2008).According to Greuning & Bratanovic (2004), liquidity management mitigates two kinds of risks; the first one being that low liquidity levels will lead to attracting other sources of deposits which are expensive and will reduce profitability hence leading to insolvency. The second risk is having high levels of liquidity which will reduce return on assets and eventually lead to low profitability. Commercial banks are profitable due cheap money from their depositors. Depositors will lend the money to the bank at a low interest rate because the banks will be able to let them access the funds and transact at frequent intervals, hence protecting their liquidity position and wealth. If the banks don’t fulfil their obligation to the depositors, the depositors will take back their cheap funds and the banks’ profits will dwindle. A firm should ensure that its liquidity is enough in order to cater for its short-term requirements. Liquidity should be studied with great importance due to its influence on the daily operations of business by both internal and external analysts (Brigham & Gapenski, 1994).The overall goal in liquidity management is to get an efficient balance between profitability and liquidity (Nahum et al.,2007).

 2.2 **PROFITABILITY**

Profitability shows the capability of a firm in earning income on its assets. Athanasoglou et al. (2006) indicated that a bank’s profitability is determined by factors which are, firm management decisions and other policy measures set up by the bank i.e. the level of liquidity, amount of capital and level of expenditure. Factors which are external and related to the industry are stock market development, ownership, concentration of the market and other macroeconomic factors. Return on asset and return on equity are among the most highly recommended determinants of bank efficiency and performance according to various research concerning bank profitability and efficiency performance (Erins, 2013). Bourke (1989) emphasized that external and internal factors influenced profitability of commercial banks. The internal factors are net income over the total assets, capital and reserves. Internal factors such as capital structure, deposit mobilized, staff expenditure, liquidity ratios, operating expenditure, investments, asset portfolio mix and loans influence profitability as mentioned in the various research done by Rasiah(Rasiah et al., 2010).The external factors that he mentioned are firm size, rate of interest, regulations, market growth and market share. Gul et al. (2011) mentioned inflation and GDP as external elements and capital, loans, deposits and bank size as the internal elements determining profitability of banks.

# 2.3 THE EFFECT OF LIQUIDITY ON PROFITABILITY

How a bank deals with its expense, funding of loans and making debt payments using only liquid assets, determines its level of liquidity. A bank should have a liquidity level that makes it meet emergency expenses by not selling its assets. Liquidity management is mainly regulating the level of liquidity without disrupting the profits made by the banks (Central Bank of Nigeria CBN, 2012). Profitability and liquidity are very vital in the corporate world. A sufficient level of liquidity is vital for the firm’s profitability. Hence, firms have to get the best liquidity level in order to ensure excellent returns. The essence of managing liquidity is to get an optimum level between the two variables (Raherman et al., 2017). The degree of managing liquidity will be influenced by the complexity of activities and nature of the bank as well as it characteristics and size. A risk management decisional structure, a strategy on funding and operation procedures, a list of exposures to liquidity risk and steps to be taken for planning liquidities in case of a crisis situation, have to be included in a bank policy concerning management of liquidity (Greuning & Brajovic,2004). Eljelly (2004), suggested that liquidity and profitability are excellent measures of the performance and health of all firms which are profit oriented. These two measures are vital to the stakeholders and shareholders who have everything to lose in case of bank closure. Olagunju, Adeyanju, & Oluwayinka, (2011) stated that one of the most important areas of monetary policy implementation is liquidity management while economic management, another area of monetary policy, involves advocating for consistent growth of the economy. Liquidity management is placed upon to maintain a macroeconomic stability to even out the unexpected up and downs in the liquidity growth of the banking system.

**2.4 FINANCIAL PERFORMANCE**

Bank performance is the terms used in relation to its capacity to generate sustainable profitability. For a bank to be successful in its operations, managers must weigh complex trade-offs between growths, return and risk, favouring the adoption of risk-adjusted metrics (Bassey, Tobi, Bassey and Ekwere, 2016). Bank’s performance measure can be classified into traditional, economic and market-based. For example Stern and Stewart developed a model called Economic Value Added (EVA) which takes into account the opportunity cost for stockholders to hold equity in a bank, measuring whether a company generates an economic rate of return higher than the cost of invested capital in order to increase the market value of the company (Raza, Farhan and Akram, 2011). There have been a large number of empirical studies on bank performance around the world especially commercial banks but, very little on bank performance has been done in Nigeria. From the extant literature, researchers have applied several surrogates as metric measures of financial performance of banks. Such metrics according to Buba (2010) include a combination of financial ratios analysis, benchmarking and measuring of performance against budget. Others include return on assets, returns on equity, net interest margin, and a host of others. However, the European Central Bank (ECB, 2010) cautioned that a good performance measurement framework should encompass more aspects of the performance than just profitability embedded in pure market-oriented indicators and should be less prone to the manipulation from the markets. Taken this caveat, this study employed Return on Assets (ROA) as a metric of financial performance. ROA is a key proxy measure frequently used in the literature of bank financial performance. It shows the profit earned per naira of assets and most importantly reflects the management’s ability and efficiency to utilize banks’ financial and real investment resources to generate profits (Hassan & Bashir, 2003). The ROA depends on the bank’s policy decisions as well as on uncontrollable factors relating to the economy and government regulations. Rivard and Thomas (1997) asserted that bank profitability is best measured by ROA because high equity multipliers do not distort it. Guven and Onur (2009) corroborated this view by submitting that researchers focus on and make use of ROA to measure bank profitability to guard against most of the limitations associated with the use of other accounting financial performance proxies. Studying determinants of profitability of commercial banks in Qatar, Elsayed (2013) employed ROA as a proxy measure of bank financial performance the same manner Miko (2010) did in his study of the impact of consolidation on the profitability of banks in Nigeria. Both studies measured ROA as profit before tax over the total assets. Pandey (2009) explained that the appropriate measure of profit is profit before tax because it shows earnings arising directly from the commercial operations of the business without the effect of financing. Given this backdrop, this study measured ROA as the profit before tax divided by total assets and follow Elsayed (2013) and Miko (2010) in employing ROA as a proxy measure of bank profitability.

**2.5 THEORETICAL FRAMEWORK**

Below are the relevant theories to this study:

 **Shiftability Theory**

The liquidity management theory focuses on the liability side of bank balance sheet. This theory contends that supplementary liquidity could be derived from the liabilities of a bank. According to Nwankwo (1991) the theory argues that since banks can buy all the funds they need, there is no need to store liquidity on the asset side (liquidity asset) of the balance sheet. Liquidity theory has been subjected to critical review by various authors. The general consensus is that during the period of distress, a bank may find it difficult to obtain the desired liquidity since the confidence of the market may have seriously affected and credit worthiness would invariably be lacking. However, for a healthy bank, the liabilities (deposits, market funds and other creditors) constitute an important source of liquidity. This theory posits that a bank’s liquidity is maintained if it holds assets that could be shifted or sold to other lenders or investors for cash. This point of view contends that a bank’s liquidity could be enhanced if it always has assets to sell and provided the Central Bank and the discount Market stands ready to purchase the asset offered for discount. Thus this theory recognizes and contends that shiftability, marketability or transferability of a bank's assets is a basis for ensuring liquidity. This theory further contends that highly marketable security held by a bank is an excellent source of liquidity. Dodds (1982) contends that to ensure convertibility without delay and appreciable loss, such assets must meet three requisites. Liability Management Theory Liquidity management theory according to Dodds (1982) consists of the activities involved in obtaining funds from depositors and other creditors (from the market especially) and determining the appropriate mix of funds for a particularly bank. This point of view contends that liability management must seek to answer the following questions on how do we obtain funds from depositors, how do we obtain funds from other creditors?, What is the appropriate mix of the funds for any bank? Management examines the activities involved in supplementing the liquidity needs of the bank through the use of borrowed funds

**Liquidity Preference Theory**

Bibow (2005) Keynes describes liquidity preference theory saying that people value money for both "the transaction of current business and its use as a store of wealth. Thus, they will sacrifice the ability to earn interest on money that they want to spend in the present, and that they want to have it on hand as a precaution. On the other hand, when interest rates increase, they become willing to hold less money for these purposes in order to secure a profit. Elgar (1999) One needs money because one has expenditure plans to finance, or is speculating on the future path of the interest rate, or, finally, because one is uncertain about what the future may have in store so it is advisable to hold some fraction of one’s resources in the form of pure purchasing power. These motives became known as transactions-, speculative and precautionary motives to demand money. The banks‟ liquidity preference approach suggests that banks pursue active balance sheet policies instead of passively accommodating the demand for credit

2.6 **EFFECT OF LIQUIDITY ON PROFITABILITY**

Raheman and Nasr (2007) revealed a negative relationship between liquidity and profitability as well as a significant negative relationship between debts used by the firms and its profitability in a study which had average collection period, inventory turnover in days, average payment period, cash conversion cycle, current ratio, size of firm, and financial assets to total assets ratio as independent variables and net operating profit as the dependent. Benjamin and Kamalavali (2006) had current ratio, quick ratio, inventory turnover ratio, working capital turnover ratio, debtor’s turnover ratio, ratio of current asset to total asset, ratio of current asset to operating income, comprehensive liquidity index, net liquid balance independent variables while the dependent variable was return on investment (ROI) in an investigation that revealed a negative association between ROI and current ratio, cash turnover ratio, current asset to operating income and leverage. There was a positive association between ROI and quick ratio, debtor’s turnover ratio, current asset to total asset and growth rate. Konadu (2009) did a study on liquidity and profitability: empirical evidence from listed banks in Ghana. The objective of the study is to determine the liquidity trend of selected banks, to ascertain the profitability trend of the selected banks and to establish and analyze the relationship between the banks liquidity and profitability levels from 2002 to 2006. The researcher considered only banks listed on the Ghanaian stock exchange. The banks randomly selected were Standard Chartered Bank Ghana Ltd, Cal Bank Ltd and SG-SSB Ltd. The study the researcher considered current ratio, quick ratio, cash ratio, net operating cash flow ratio under liquidity ratios. Profitability ratios comprise of net profit margin, return on equity, return on assets and net asset turnover ratios. The researcher employed trend analysis to achieve the set objectives. The researcher found no positive relationship between liquidity trend and profitability. The research paper concluded that there is a negative relationship between liquidity and profitability in the Ghana banking sector. Adebayo, Nworji and David(2011) examined liquidity management and commercial banks’ profitability in Nigeria. Findings of this study indicate that there is significant relationship between liquidity and profitability. That means profitability in commercial banks is significantly influenced by liquidity and vice versa. Saleem and Rehman (2011) sought to reveal the relationship between liquidity and profitability. The main results of the study demonstrate that each ratio (variable) has a significant effect on the financial positions of enterprises with differing amounts and that along with the liquidity ratios in the first place. Profitability ratios also play an important role in the financial positions of enterprises. Agbada and Osuji(2013) examined empirically the effect of efficient liquidity management on banking performance in Nigeria. Findings from the empirical analysis were quite robust and clearly indicate that there is significant relationship between efficient liquidity management and banking performance and that efficient liquidity management enhances the soundness of bank. Al-Tamimi and Obeidien (2013) identified the most important variables which affect the Capital Adequacy of Commercial Banks of Jordan in Amman Stock Exchange for the period from 2000 –2008. The study shows that there is a statistically significant positive correlation between the degree of capital adequacy in commercial banks and the factors of liquidity risk, and the return on assets, and there is an inverse relationship not statistically significant between the degree of capital adequacy in commercial banks and factors of the capital risk, credit risk, and the rate of force- revenue. Ibe (2013) examined the effect of liquidity management on the profitability of banks in Nigeria. He found that liquidity management is indeed a critical issue in the banking sector of Nigeria. Lartey, Antwi, Boadi (2013) sought to find out the relationship between the liquidity and the profitability of banks listed on the Ghana Stock Exchange. It was found that for the period 2005-2010, both the liquidity and the profitability of the listed banks were declining. Again, it was also found that there was a very weak positive relationship between the liquidity and the profitability of the listed banks in Ghana. Moein Addin (2013) investigated the relationship between modern liquidity indices and stock return in companies listed on Tehran Stock Exchange. Results indicated that there was a positive and significant relationship between comprehensive liquidity index and stock returns while there was no significant relationship between the index of cash conversion cycle as well as net liquidity balance and sock returns. Almazari (2014) investigated the internal factors that have an effect on profitability in Saudi and Jordanian banks. He found that there is a positive correlation between profitability measured by ROA of Saudi and Jordanian banks with some liquidity indicators, as well as there is a negative correlation with other liquidity indicators between profitability measured by ROA of Saudi and Jordanian banks.

 2.7 **EFFECT OF LIQUIDITY ON RETURN ON CAPITAL**

Nimer, Warrad and Omari (2013) did a study on the impact of Jordanian Banks profitability through their return on assets. Bank profitability is the ability of a bank to generate revenue in excess of cost, in relation to the bank’s capital base. This study sought to find out whether liquidity through quick ratio has significant impact on Jordanian banks profitability through return on asset (ROA).The study noted that a profitable banking sector is better able to resist negative impact and share in to the stability of the financial system. The study used the 2005- 2011 financial reports of 15 Jordanian banks listed at Amman Stock Exchange (ASE). The return on assets (ROA) compares income with total assets (equivalently, total liabilities and equity capital). The independent variable in this was the quick ratio i.e. Cash +Short-term marketable investments +Receivables divided by current liabilities. A simple regression was done to examine the study hypotheses. The study revealed that there is significant impact of independent variable quick ratio on dependent variable return on asset (ROA). That means profitability through return on assets (ROA) in Jordanian banks is significantly influenced by liquidity through quick ratio. Ibe (2013) studies the impact of liquidity management on profitability on banks in Nigeria. The work was necessitated by the need to find solution to liquidity management problem in Nigerian banking industry. Three banks were randomly selected to represent the entire banking industry in Nigeria. The proxies for liquidity management include cash and short term fund, bank balances and treasury bills and certificates, while profit after tax was the proxy for profitability. Elliot Rothenberg Stock (ERS) stationary test model was used to test the run association of the variables under study while regression analysis was used to test the hypothesis. The result of this study has shown that liquidity management is indeed a crucial problem in the Nigerian banking industry. Emami , Ahmadi and Tabari(2013) studied the effect of liquidity risk on the performance of commercial banks in Iran. This study attempts to examine the effect of liquidity risk on the performance of commercial banks using of panel data related to commercial banks of Iran during the years 2003 to 2010. In the estimated research model, two groups of bank-specific variables and macroeconomic variables are used. In this research, the performance of fifteen Iranian banks is examined during an eight-year period from 2003 to 2010 using of panel data. The required data is drawn from the studied banks and the data related to macroeconomic variables including the growth of gross domestic product, consumer price index are drawn from central bank's site in order to calculate the inflation ratio. To determine the kind of estimation method in panel data, different tests are used. To select between common effects and the fixed effects, Limner's F-test was used and to select one of the model for the fixed effects against the random effects, Haussmann test was used. The study found that liquidity risk has a significantly negative effect on both criteria of the performance i.e. return on asset and return on equity. It means that liquidity risk will cause to weaken the performance of bank. Maaka (2013) studied the relationship between liquidity risk and performance of commercial banks in Kenya. The objective of the study was to investigate liquidity risks faced by commercial banks in Kenya and establish the relationship between liquidity risk and the performance of banks in Kenya. The study adopted correlation research design where data was retrieved from the balance sheets, income statements and notes of 33 Kenyan banks during 2008-2012. Multiple regressions were applied to assess the impact of liquidity risk on banks‟ profitability. Data was collected from annual reports submitted to the NSE and Capital Markets Authority. The F- test was used to determine the significance of the regression while the coefficient of determination, R2, was used to determine how much variation in Y is explained by X. The findings of the study were that profitability of the commercial bank in Kenya is negatively affected due to increase in the liquidity gap and leverage. Kurawa and Abubakar (2014) examined the impact of liquidity on banks’ profitability in Nigeria. The systematic random sampling method was adopted to select five banks over the period 2003 – 2012. The linear regression analysis was used to reveal the absence of a significant impact between liquidity and profitability among banks in Nigeria.

**2.8 LIQUIDITY COMPONENTS**

Liquidity consists of the Vault Cash, Balances Held With CBN, Balances Held With Other Banks in Nigeria, Balances Held With Offices & Branches outside Nigeria, Money at Call in Nigeria, Inter-bank Placement, Placement with Discount Houses, Treasury Bills, Treasury Certificates, Investment in Stabilization Securities, Bills Discounted Payable in Nigeria, Negotiable Certificates of Deposits, Bankers Acceptances and Commercial Papers, Investments in FGN Development Stock and Industrial (Other) Investments (Olagunju, et al., 2011). It is imperative for banks to have adequate and sufficient proportions of these liquid components as it helps mitigate funding risk, compensation for the non-receipt of inflow of funds if the borrower(s) fail to meet their commitments, and risk arising from calls to honour maturing obligations Nwankwo (1991). Inadequate liquidity culminates in the compulsion to liquidate assets at unfavourable prices which could instigate losses. Liquidity shortfalls also erode customers’ confidence, leading to bank runs which could expose the bank to unnecessary borrowing from the Central Bank at which eventually subjects the bank to heightened scrutiny.

**2.9 MEASUREMENT OF LIQUIDITY IN DEPOSIT MONEY BANKS**

An accurate measurement of liquidity require going beyond technical liquidity indicated by the stock flow approach to the assessment of the stock of circumstances likely to place under certain pressure that could in return affect its worth in the market place. This is to say that liquidity could be measured as a stock at a particular point in time or as a flow over time. However, due to analytical complexities, the former which constitute of loan-deposit ratio, cash reserve ratio, liquidity ratio, etc is commonly adopted. The loan/deposit ratio as a measure of liquidity compares the aggregate value of loans with the total deposit. A high ratio is indicative of liquidity contraction, while a low ratio indicates the contrary (Nwankwo, 1991). The liquidity ratio is another measure for liquidity which is computed as a proportion of banks current liabilities such as deposit liabilities, short-term interbank loans, net balance with foreign branches and free balance with the central bank. The loan to liabilities ratio is also a measure of liquidity. It is an approach that recognises that liabilities other than deposit ratio represent potential drain on bank funds (Ibe, 2013). The liquid asset ratio is another tool for measuring liquidity. It allows assets to be selected on the basis of their liquidity, notwithstanding whether they are loans or investments. Furthermore, Cash ratio is another measure of liquidity. Ibe (2013), posits that the cash ratio is particularly effective for sterilizing excess liquidity in the banking system as it can be effectively monitored by the regulating authorities. Under cash ratio, liquid assets are related directly to deposits, rather than to loans and advances that constitute the most liquid illiquid of banks assets. Emefiele (2015) asserts that the main measures of liquidity in Nigeria are the Cash Reserve Ratio (CRR), the Liquidity Ratio (LR), and the Loan-to – Deposit Ratio.

 **CHAPTER THREE**

**RESEARCH METHODOLOGY**

* 1. **Research design**

The researcher used descriptive research survey design in building up this project work the choice of this research design was considered appropriate because of its advantages of identifying attributes of a large population from a group of individuals. The design was suitable for the study as the study sought to an appraisal of the impact of the liquidity problem on selected commercial banks in Nigeria

* 1. **Sources of data collection**

Data were collected from two main sources namely:

(i)Primary source and

(ii)Secondary source

**Primary source:**

These are materials of statistical investigation which were collected by the research for a particular purpose. They can be obtained through a survey, observation questionnaire or as experiment; the researcher has adopted the questionnaire method for this study.

**Secondary source:**

These are data from textbook Journal handset etc. they arise as byproducts of the same other purposes. Example administration, various other unpublished works and write ups were also used.

* 1. **Population of the study**

Population of a study is a group of persons or aggregate items, things the researcher is interested in getting information on an appraisal of the impact of the liquidity problem on selected commercial banks in Nigeria. 200 staff of first bank, Enugu state was selected randomly by the researcher as the population of the study.

* 1. **Sample and sampling procedure**

Sample is the set people or items which constitute part of a given population sampling. Due to large size of the target population, the researcher used the Taro Yamani formula to arrive at the sample population of the study.

n= N

 1+N (e) 2

n= 200

1+200(0.05)2

= 200

1+200(0.0025)

= 200 200

1+0.5 = 1.5 = 133.

**3.5 Instrument for data collection**

The major research instrument used is the questionnaires. This was appropriately moderated. The secretaries were administered with the questionnaires to complete, with or without disclosing their identities. The questionnaire was designed to obtain sufficient and relevant information from the respondents. The primary data contained information extracted from the questionnaires in which the respondents were required to give specific answer to a question by ticking in front of an appropriate answer and administered the same on staff of the two organizations: The questionnaires contained structured questions which were divided into sections A and B.

* 1. **Validation of the research instrument**

The questionnaire used as the research instrument was subjected to face its validation. This research instrument (questionnaire) adopted was adequately checked and validated by the supervisor his contributions and corrections were included into the final draft of the research instrument used.

* 1. **Method of data analysis**

The data collected was not an end in itself but it served as a means to an end. The end being the use of the required data to understand the various situations it is with a view to making valuable recommendations and contributions. To this end, the data collected has to be analysis for any meaningful interpretation to come out with some results. It is for this reason that the following methods were adopted in the research project for the analysis of the data collected. For a comprehensive analysis of data collected, emphasis was laid on the use of absolute numbers frequencies of responses and percentages. Answers to the research questions were provided through the comparison of the percentage of workers response to each statement in the questionnaire related to any specified question being considered.

Frequency in this study refers to the arrangement of responses in order of magnitude or occurrence while percentage refers to the arrangements of the responses in order of their proportion. The simple percentage method is believed to be straight forward easy to interpret and understand method.

The researcher therefore chooses the simple percentage as the method to use.

The formula for percentage is shown as.

% = f/N x 100/1

Where f = frequency of respondents response

N = Total Number of response of the sample

100 = Consistency in the percentage of respondents for each item

Contained in questions

**CHAPTER FOUR**

**PRESENTATION ANALYSIS INTERPRETATION OF DATA**

**4.1 Introduction**

Efforts will be made at this stage to present, analyze and interpret the data collected during the field survey. This presentation will be based on the responses from the completed questionnaires. The result of this exercise will be summarized in tabular forms for easy references and analysis. It will also show answers to questions relating to the research questions for this research study. The researcher employed simple percentage in the analysis.

**DATA ANALYSIS**

The data collected from the respondents were analyzed in tabular form with simple percentage for easy understanding.

A total of 133(one hundred and thirty three) questionnaires were distributed and 133 questionnaires were returned.

Question 1

Gender distribution of the respondents.

TABLE I

|  |
| --- |
| **Gender distribution of the respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 77 | 57.9 | 57.9 | 57.9 |
| Female | 56 | 42.1 | 42.1 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

From the above table it shows that 57.9% of the respondents were male while 42.1% of the respondents were female.

Question 2

The positions held by respondents

TABLE II

|  |
| --- |
| **The positions held by respondents** |
| Response | Frequency | Percent | Valid Percent | Cumulative Percent |
| **Valid** | Accountants  | 37 | 27.8 | 27.8 | 27.8 |
| HRMs | 50 | 37.6 | 37.6 | 65.4 |
| Customer care officers | 23 | 17.3 | 17.3 | 82.7 |
| Marketers  | 23 | 17.3 | 17.3 | 100.0 |
| Total | 133 | 100.0 | 100.0 |  |

 The above tables shown that 37 respondents which represents27.8% of the respondents are accountants 50 respondents which represents 37.6 % are human resources managers 23 respondents which represents 17.3% of the respondents are customer care officers, while 23 respondents which represent 17.3% of the respondents are marketers

**TEST OF HYPOTHESES**

Excess cash liquidity does not have a significant impact on the profitability of Nigeria banks.

 **Table III**

|  |
| --- |
| **Excess cash liquidity does not have a significant impact on the profitability of Nigeria banks .** |
| Response  | Observed N | Expected N | Residual |
| Agreed | 40 | 33.3 | 6.8 |
| strongly agreed | 50 | 33.3 | 16.8 |
| Disagreed | 26 | 33.3 | -7.3 |
| strongly disagreed | 17 | 33.3 | -16.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | Excess cash liquidity does not have a significant impact on the profitability of Nigeria banks  |
| Chi-Square | 19.331a |
| Df | 3 |
| Asymp. Sig. | .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 33.3. |

Decision rule:

There researcher therefore reject the null hypothesis that Excess cash liquidity does not have a significant impact on the profitability of Nigeria banks as the calculated value of 19.331 is greater than the critical value of 7.82

Therefore the alternate hypothesis is accepted that state Excess cash liquidity have a significant impact on the profitability of Nigeria banks

**TEST OF HYPOTHESIS TWO**

Time Consuming is not one of the problems in the banking   services

Table V

|  |
| --- |
| **Time Consuming is not one of the problems in the banking   services** |
| Response  | Observed N | Expected N | Residual |
| Yes | 73 | 44.3 | 28.7 |
| No | 33 | 44.3 | -11.3 |
| Undecided | 27 | 44.3 | -17.3 |
| Total | 133 |  |  |

|  |
| --- |
| **Test Statistics** |
|  | Time Consuming is not one of the problems in the banking   services  |
| Chi-Square | 28.211a |
| Df | 2 |
| Asymp. Sig. |  .000 |
| a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 44.3. |

Decision rule:

There researcher therefore reject the null hypothesis that state Time Consuming is not one of the problems in the banking   servicesas the calculated value of 28.211 is greater than the critical value of 5.99

Therefore the alternate hypothesis is accepted that state that Time Consuming is one of the problems in the banking   services

**CHAPTER FIVE**

**SUMMARY, CONCLUSION AND RECOMMENDATION**

**5.1 Introduction**

It is important to ascertain that the objective of this study was to ascertain an appraisal of the impact of the liquidity problem on selected commercial banks in Nigeria

In the preceding chapter, the relevant data collected for this study were presented, critically analyzed and appropriate interpretation given. In this chapter, certain recommendations made which in the opinion of the researcher will be of benefits in addressing the challenges of the liquidity problem on selected commercial banks in Nigeria

 **5.2 Summary**

This study was on an appraisal of the impact of the liquidity problem on selected commercial banks in Nigeria. six objectives were raised which included: To evaluate the application of the marketing concept by banks as a base for rendering services to their customers, to determine the various ways of marketing of banking services by the banks to their customers, to determine the effectiveness of marketing mix in the marketing of financial services, to identify the problems of marketing of banking service, to proffer solutions to the problem of marketing of financial services, to appraise marketing strategies and make recommendations that would be more effective in the marketing services. In line with these objectives, two research hypotheses were formulated and two null hypotheses were posited. The total population for the study is 200 staff of first bank, Enugu state. The researcher used questionnaires as the instrument for the data collection. Descriptive Survey research design was adopted for this study. A total of 133 respondents made up accountants, human resource managers, customer care officers and marketers were used for the study. The data collected were presented in tables and analyzed using simple percentages and frequencies

**5.3 Conclusion**

This research study underpins or supports with evidence the fact that there exist a strong positive relationship between efficient liquidity management and banking performance in terms of Profitability and Return on Capital Employed (ROCE). Therefore the need for efficient liquidity management in the banking industry cannot be over emphasized particularly for reasons of maximizing profit levels and concurrently remaining liquid. For the banking industry in Nigeria, there is the need to emphasize ‘the need to remain liquid’. The study buttresses the fact that efficient liquidity management can significantly influence returns on capital employed by a bank and as well impact positively on the bank’s profitability and thus its stability. The high number of illiquid banks in the Nigerian banking industry as seen in recent times appears to attest to the fact that most bank management in Nigeria do not either place emphasis on strategic liquidity management or are deficient in it. Even though they may be efficient, most businesses in the Nigerian economy are transacted purely on cash basis such that managing liquidity effectively becomes cumbersome. Effective liquidity management creates good public confidence in the financial system of a country and good public confidence prevents a ‘run’ on the banking system and consequently on the liquidity state of banks. Since economic laws and variables from this study and other related researches have attested to the fact that there is correlation between efficient liquidity management and banking performance, the poor liquidity state of Nigerian banks could be hinged on management. Therefore, there is the need to formulate policies that will enhance effective liquidity management in the banking industry in Nigeria and the public usage of cash.

 **5.4 Recommendation**

Below are the recommendations of the study:

1. The need to replace being practiced in the advance economies of the world. Investing on human capital may be beyond just employees but also frequently creating an interactive forum where bank clients could be sensitize on a variety of activities they indulge in that are capable of hindering effective liquidity management.

2. The need to invest on human capital by banks as it offers the highest returns in terms of increasing performance and it also enhances the level of competence of the employee.

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**QUESTIONNAIRE**

**INSTRUCTION**

Please tick or fill in where necessary as the case may be.

Section A

1. Gender of respondent

A male { }

B female { }

1. Age distribution of respondents
2. 15-20 { }
3. 21-30 { }
4. 31-40 { }
5. 41-50 { }
6. 51 and above { }
7. Marital status of respondents?
8. married [ ]
9. single [ ]
10. divorce [ ]
11. Educational qualification off respondents
12. SSCE/OND { }
13. HND/BSC { }
14. PGD/MSC { }
15. PHD { }

Others……………………………….

1. How long have you been in first bank
2. 0-2 years { }
3. 3-5 years { }
4. 6-11 years { }
5. 11 years and above……….
6. Position held by the respondent in first bank
7. Accountant { }
8. HRM { }
9. Customer care officer { }
10. Marketer { }
11. How long have you been in first bank
12. 0-2 years { }
13. 3-5 years { }
14. 6-11 years { }
15. 11 years and above……….

SECTION B

1. Excess cash liquidity does not have a significant impact on the profitability of Nigeria banks?
2. Agrees { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. Shortage in cash liquidity does not have a significant impact on the profitability of Nigerian banks?

(a) Agrees { }

(b) Strongly agreed { }

(c) Disagreed { }

(d) Strongly disagreed { }

1. Loans and advances do not have significant impact on the profitability of Nigerian banks.
2. Agreed { }
3. Strongly agreed { }
4. Disagreed { }
5. Strongly disagreed { }
6. loans and advances affect the profitability of Nigerian banks
7. Agreed { }
8. Strongly agreed { }
9. Disagreed { }
10. Strongly disagreed { }
11. excess cash liquidity affect the profitability of Nigerian banks
12. Agreed { }
13. Strongly agreed { }
14. Disagreed { }
15. Strongly disagreed { }
16. There is nothing like liquidity
17. Agreed { }
18. Strongly agreed { }
19. Disagreed { }
20. Strongly disagreed { }
21. First bank is the best in Nigeria?
22. Agreed { }
23. Strongly agreed { }
24. Disagreed { }
25. Strongly disagreed { }
26. Measurement of Liquidity in Deposit Money Banks
27. Agreed { }
28. Strongly agreed { }
29. Disagreed { }
30. Strongly disagreed { }
31. Staff of first bank are active
32. Agreed { }
33. Strongly agreed { }
34. Disagreed { }
35. Strongly disagreed { }