

## ASSESSMENT OF SERVICE QUALITY AND CUSTOMERS' SATISFACTION WITH AUDIT FIRMS IN NIGERIA: IS THERE ANY SIGNIFICANT CUSTOMER

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### ABSTRACT

The study investigates the existence of customer gaps between customers satisfaction and audit firms' service quality. KPMG which is the one of the four biggest audit firms in Nigeria is used as a case study. A survey of their clients from three different organizations' includes 76 respondents which rated the services of the audit firm using the SERVQUAL model. Summary of statistics, t test and percentages are applied in analyzing the responses of the respondents based on the five dimensions of SERVQUAL which include reliability, responsiveness, tangibility, assurance and empathy. Assessment of customer gaps existence is based on the different ratings from customers about quality of service of some professionals and audit services in Nigeria is yet to be explored by any researcher before. The information about consumer satisfaction especially customer gaps is necessary for improving the relationship between auditors and their clients. Customer gap is examined based on expectation and perception of the customers as they rate the services of the audit firm using the five dimensions. Findings from the study reveal that there exist negative customer gap in terms of reliability, responsiveness, assurance and empathy. This means that the audit firm has not performed up to the expectation of their clients in these aspects. However, positive gap is noticed in terms of tangibility, meaning that the customers are satisfied with this dimension.

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**KEYWORDS:** SERVQUAL, Customers' satisfaction, Customers' loyalty, Tangibility

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### INTRODUCTION

Service quality is the major driving force for business sustainability (Carlzon, 1987) and in today's competitive global marketplace, it is recognized that high quality service is essential for the success of the firm (Rust and Oliver, 1994). When other factors have been considered, it leads to customer loyalty (Lewis, 1994) and higher profitability (Gundersen et al., 1996).

Therefore, a key strategy for customer-focused firms is to measure and monitor customer satisfaction and service quality. In the marketing literature, service quality, customer satisfactions with audit firm are three distinctive elements that firms offering services should strive for. Customer satisfaction or dissatisfaction results from experiencing a service and comparing that experience with the kind of quality of service that was expected (Oliver, 1980). Many customer satisfaction studies have concluded that there is a significant relationship between customer satisfaction and loyalty. Hence, the primary objective of service providers and marketers is identical; i.e. to develop and provide services that satisfy customer needs and expectations. In short, in the service industry, the goal of the service marketer is to close or narrow the gap between expectations and perceptions of customers. In the context of auditing, the quality of service provided by audit

firms is a very important issue when signs of dissatisfaction with the services arise (Sutton, 1993).

In a survey by the US General Accounting Office (GAO) in September 2003, it was found that half of the public companies reporting that they were satisfied with the audit service stated that they had used the services of their current auditor for 10 years or more. GAO also found service quality to be a very important consideration for public listed companies when choosing or looking for a new audit firm to act as their auditor. Usually, when the public listed companies are satisfied with the quality of service received from a particular audit firm, there is a strong probability that they will also use the same audit firm for other non-audit services such as taxation, secretarial practice, review engagement or other related non-assurance engagement.

In addition, GAO also found a positive association between audit tenure and client satisfaction. Audit quality is important in the rendering of audit services. Prior research has examined the attributes of audit quality (Carcello et al., 1992; Sutton, 1993). However, the majority of previous research on auditing measured audit quality by the proxy of size, i.e. "big 6" and "non big 6" audit firms. Behn et al. (1997) introduced a new proxy for measuring audit quality by examining the attributes of audit quality

that will determine client satisfaction. Some of the qualities of audit services found to influence client's satisfaction were responsiveness to client's need, effectiveness and on-going interaction with the audit committee, industry expertise and the appropriate conduct of audit field work.

However, mixed feelings have continued to ensue between customers and audit firms regarding the quality of their services. According to (Parasurman, 2003 ) the best way to examine this trend is analysis of the customers perception as well as their expectation regarding the quality of service rendered by the audit firms. This according to Parasuaraman (2003) will verify if there is existence of customer gaps that will bring about policies that can reshape the relationship between audit firms and their clients.

As far as we know literature abounds on other professions and customer satisfaction in Nigeria, but no empirical study has specifically examined the mediating effect of customer satisfaction on the relationships of service quality in the auditing context in Nigeria. Consequently, the major objective of this study is to examine such relationships from the perceptions of Nigerian public listed companies, where the audit process is undertaken by one of the big 4 audit firms KPMG. The scope of study includes three public listed companies namely, First bank PLC, Guinness Nigeria PLC and MTN Nigeria as the case study. These firms are audited by KPMG.

## LITERATURE REVIEW

### The Customer Gap

Quality service is a measure of how well the service level delivered matches customer expectations (Lewis and Boom, 1983). The central focus of the study of service quality is the customer gap, the difference between customers' expectations and perceptions of the service(s) received. Expectations are the reference point customers have before experiencing the service whereas perceptions reflect their experience of the service that they have actually received. Hence, firms will strive to close or narrow this gap, i.e. between what is expected and what is received to satisfy their customers and to build long-term relationships with them.

Quality of services offered by audit firms is best determined by the clients of the audit firms, as they would be able to give unbiased opinions on these matters. Bongsu (2004) in her studies on small medium enterprises (SME's), focused on quality of audit service and equated it with customer satisfaction. She found the SMEs were not satisfied with all five dimensions (reliability, responsiveness, assurance, empathy and tangibles) but were most dissatisfied with the reliability dimension. In addition, she also found that service quality had a

significant and positive relationship with customer loyalty.

The present study uses public listed companies in Nigeria as respondents and examines all types of services offered by audit firms including tax, secretarial and audit services. Unlike Bongsu (2004), the present study considers customer satisfaction as another variable of interest.

### Other Empirical Literature

Baker (2013) examined the service quality and customer satisfaction of the top 14 U.S. airlines between 2007 and 2011. The objectives of this study were to compare customer satisfaction and service quality with respect to airlines quality dimensions and subsequently to determine the relationships between the dimensions of service quality and passengers' satisfaction on airlines services. A critical review of the literature revealed that the airline industry has been struggling with many challenges: cutting costs, managing fluctuating demand, keeping up with tight quality requirements while trying to maintain superior services and satisfy the needs of various customer groups. Data were collected from the Department of Transportation's Air Travel Consumer Report on the following measures: percentage of on-time arrival, passengers denied boarding, mishandled baggage and customer complaints. Using a quantitative research method, Microsoft Excel version 2010 was used to analyze the data using percentages, mean and standard deviation. Results indicate that while the traditional carriers are converging toward a higher level of service quality, using the four measures, there continue to be significant variation. In this study, over a five year period 2007 to 2011, the service quality of low cost airlines was generally found to be higher than that of traditional legacy airlines. Implications related to operating costs, market share, infrastructure and customer service were evident.

Agyapong (2010) examined the relationship between service quality and customer satisfaction in the utility industry (telecom) in Ghana. The study adopted the SERVQUAL model as the main framework for analyzing service quality. Multiple regression analysis was used to examine the relationships between service quality variables and customer satisfaction. The results showed that all the service quality items were good predictors of customer satisfaction. For managers, this finding has important implications with regard to brand building strategies. Indications of a successful brand building strategy are found when companies provide quality services relative to other companies within the same industry. It is imperative for Vodafone (Ghana) and other telecom firms, therefore, to improve customer services by giving customers what they want and at the right time. Thus, identifying and satisfying

customers' needs could improve network services because what is offered can be used to separate the company's services from competitors'.

Rasil et al (2011) investigated the relationship between service quality and customers satisfaction in a technology-based university. According to them, to achieve the twin objectives of satisfaction and loyalty, service quality in the university sector needs to be evaluated from both the internal (customers) and external (service providers) perspectives. Against this background, this article reviewed issues involved in service quality in universities from the customer satisfaction and attachment points of view, taking students as primary customers, especially in technology-based universities in Nigeria. The review noted that, service quality and customer satisfaction has direct relationship, because the students' expectations of a university education are skewed towards learning experiences and individual preferences, implying students' enrolment decision depends on the service encounters relating to factors like support facilities and infrastructure, image and marketing, academic issues, administrative issues, location and access.

Kahn and Fasil (2014) assessed the impact of service quality on customers satisfaction and loyalty in the banking sector in Pakistan. The aim of this research study was to determine the satisfaction level of banking customers regarding quality of different services provided by their bank and their loyalty with the respective bank. Service quality is studied within a spectrum of different dimensions. An effort was also made to find out which service quality dimensions may enhance customer satisfaction and customer loyalty in a better way. Respondents were chosen from a range of varying demographic features using stratified random sampling. Banks from both public and private sector were selected for sampling. Survey questionnaires were distributed among 270 customers of different banks. An 83% (225 respondents) valid response rate is yielded. Descriptive statistics, one sample t-test, correlation and regression were used to analyze the data. Findings indicated that service quality and all its dimensions have significant and positive association with customer satisfaction and customer loyalty. Banking sector is a significant sector in Pakistan's economy and has seen unprecedented growth and raging competition during the last decade. Therefore this study has been specifically conducted to look into this phenomenon and seek empirical justification in this regard by considering service quality as the main contributory factor towards customer satisfaction and customer loyalty.

Ojo (2010) assessed the relationship between service quality and customer satisfaction in the telecommunication industry in Nigeria with a focus

on Mobile Telecommunication Network (MTN) Nigeria. A total of 230 respondents participated in the study. Research questions and objectives were set, alongside the hypotheses that were formulated and tested. Descriptive statistics comprising the simple percentage and tables were used for data presentation and analysis. Regression analysis and Pearson product moment correlation coefficient were employed in testing our hypotheses. The study revealed that service quality has effect on customer satisfaction and that there is a positive relationship between service quality and customer satisfaction. The researcher concluded by recommending that organisations should focus more attention on service quality, because of its effects on customer satisfaction. To ensure that customer satisfaction level is high, organisation must first of all know the expectations of the customers and how they can meet such expectations. Customer satisfaction helps in customer loyalty and retention. It has been discovered that it costs to attract new customer than to retain existing ones. It was also recommended that organisations should welcome suggestions from customers and more programmes should be designed to measure service quality and customer satisfaction.

Arokiasammy and Abdulla (2013) examined the impact of service quality dimensions on customer satisfaction using SERVQUAL model. A total of 225 current users of a GSM provider participated in this study. Gap Analysis was used to determine the perceived and expected satisfaction level on each of the service quality dimensions and regression analysis was conducted to test the relationship between the SERVQUAL dimensions and customer satisfaction. Results indicated that all 5 service quality dimensions positively influenced customer satisfaction in terms of loyalty and attitudes. In addition, t-test results showed that there was a significant gap between the perceived satisfaction and expectation (P-E) on all of the service quality dimensions.

Ogbari and Borishade examined the strategic imperatives of total quality management and customer satisfaction in organization sustainability. According to them, the importance of Total Quality Management (TQM) in today's business environment is a *sine qua non* (an indispensable and essential action). This is due to the ever increasing tastes of customers who see service quality as a right owed them by businesses they chose to patronize. This study examined the relationship between total quality management and customer satisfaction in service industries. The aims of their study among others were to evaluate the relationship between of top management commitments and customer retentions as well as to examine the influence of organizational reputation on customer's continuous patronage. Relying solely on secondary data collected from

various archival sources, findings shows that strong relationships exists between total quality management and customer satisfaction in the achievement of organizational goals especially in the current dispensation of globalization and stiff competitions. The analyzed data also revealed that total quality management and customer satisfaction have increased steadily over a period of time in some service industries but top management still have much to do in order to entrench TQM and customer satisfaction as policies in their organizations. The authors recommended a holistic adoption of TQM and customer services tenets and its entrenchment as policies in all organizations for quality customer services and satisfactions.

Yuktanandana and Prasertsakul (2012) examined the effects of service quality and customer satisfaction on customer loyalty. In order to test and prove the conceptual framework, field research was conducted, questionnaire was designed based on existing constructs in relevant literature. The research target sample consisted of 401 Bangkok-based customers of Thailand's major mobile service providers, AIS, DTAC, and True move. Reliability tests and statistical analyses were performed to confirm the validity and reliability of the data. Besides, these tests and analyses answered the questions concerning this research. The results of the research indicated that of all factors regarding service quality dimension, only customer service factor is significant to customer satisfaction. The other factors are insignificant to the satisfaction of the customers. Meanwhile, customer satisfaction is positively significant to customer loyalty. It is considered very important for mobile service providers operating in a very competitive market such as in Thailand to learn and realize what the exact drivers of customer loyalty are. The research produced useful and beneficial findings which can be adapted by mobile service providers in an attempt to build up and develop successful and sustainable customer loyalty strategies and competitive advantages

Aycak et al (2011) examined the effects of service quality on customer satisfaction and loyalty in Marmara University Hospital. The study employed six dimensions of service quality scale that is developed by Carman (2000) and Kara et al. (2005) to better understand the factors underlying healthcare customers' perceptions of service quality. These dimensions investigated are namely tangibility, reliability, responsiveness, assurance, courtesy and empathy. Sampling has been conducted at the Marmara University Hospital between June 1st and July 15th 2007. Purposive convenient sampling has been employed to 183 inpatients. Through a 5 point Likert-type scale, healthcare customers' expectations of a perfect service provider has been compared with the practices Marmara University Hospital to

determine if there are any gaps. Quality of the Marmara University Hospital's healthcare services has been analyzed together with its effects on customer satisfaction and customer loyalty through a regression analysis.

## **METHODOLOGY**

This study is ex-post factor in nature. Furthermore, the study set out to examine the existence of customer gaps in the relationship between service quality and customers' satisfaction by auditing firms. However, basically primary sources of data will be explored.

### **Instrumentation for the Study**

Questionnaires are used to collect responses from relevant workers in organizations patronizing the auditing firms selected for the study. The questionnaires are developed by the researcher based on ideas about the services rendered by auditing firms. The questionnaire used for the study consists of five component parts. SERVQUAL model is used to measure the desired (perceived) and adequate (expected) service levels of audit firms due to its high reliability and validity in previous studies.

Research instrument design is based on the five dimensions of service quality and the 22 service items of the SERVQUAL model. Some modifications were made to the items in order to suit the context of audit firms. The questionnaire was divided into three sections: part one contained items on demographic details of respondents and organizational profiles, part two comprised the modified standard SERVQUAL questions that examined each of the audit service elements and tried to measure the service dimensions within each element of EXPECTATION and PERCEPTION, this enabled us to estimate the customer gap which is the difference between the responses in terms of expectation and perception.

### **Instrument Scoring Scale**

To capture audit service quality, we adopt the seven-point Likert scale (1-strongly disagree to 5-strongly agree) perspective questions from Parasuraman et al. (1988). The questions were then divided into client perception and expectation. Client expectation refers to services that the client feels the audit firm should offer, while client perception is related to the performance of the audit firm in delivering its services. Details of items in all the dimensions are shown in the Appendix.

### **Validity and Reliability**

The authors adopt a method of checking the validity, reliability and consistency of the instrument through Cronbach's a scores for each dimension SERVQUAL (Spreng and Mackoy, 1996). To further check the consistency of responses we include a few extra

questions to respondents which deem essential for the study. Apart from the use of correlation coefficient, the author used a technique of putting in two roughly equivalent or closely related questions but well separated in the questionnaire. With this, it will be possible to measure the consistency of answers. The authors will also adopt the split ballot technique by constructing two parallel forms of questionnaires that will be used with equivalent samples of our population. The two forms will have some of their questions in common, but certain other questions will be worded in different ways in order that the effects of the differences may be measured. At the end of this exercise, the authors will be able to reexamine and revise some of the questions and their sequence drawing from the results of our technique above as well as outside criticisms.

### Pre-Testing of the Questionnaire

Pre-test was carried out to see how the questionnaire would work out and whether changes will be necessary before the commencement of full-scale study. The respondents/households to be used for the pre-test exercise are similar in grade and characteristics to those that would be eventually sampled in the final study.

### Population Studied and Sampling Technique

The population studied is relevant staff of three organizations that are audited by KPMG. A total number of thirty respondents are targeted from each of the organizations. The three organizations' are quoted firms and are from different subsectors.

- (1) Financial sector
  - (i) First Bank Nigeria PLC
- (2) Industrial Goods Sector
  - (i) Guinness Nigeria PLC
- (3) Telecommunication
  - (i) MTN Nigeria

### Sample Selection

Since it is not possible to cover all the staff in the 3 organization, the famous Yamane technique sample selection techniques was be adopted by the study. The calculation of the sample size was done as follows:

$$n = \frac{N}{1+N(e)^2} \quad (3.1)$$

Where n = the sample size

N = the population size

e = acceptable sampling error

\* 95% confidence interval is assumed (p=0.5)

Based on this, a total of thirty respondents were targeted in each of the three organizations, thus making our total sampling ninety.

### Methods to be used in Processing and Analyzing Data

However, for clarity sake, the method of data analysis adopted to be able to achieve the objectives of the study is discussed here. The major objective of the study is to examine the existence of customer gaps in the service quality of the audit firms and their clients' satisfaction.

Basically, percentages and tabular presentations are used to group the responses of the respondents based on perception and expectation. Also the Significance of each response is tested using the famous t test.

### RESULTS AND DISCUSSIONS

The SERVQUAL scores on each of the five dimensions are all negative, suggesting that there exists a gap between the respondents' expectations of what the services of an audit firm should be and their perceptions of the service quality actually offered by audit firms. The results of service quality serve as benchmark to the management regarding the importance of the audit service quality dimensions that influence quality perceptions of customers.

Table 4.1 presents the relative importance of the SERVQUAL dimensions to the companies based on the mean scores of their expectations. The reliability dimension mean score of 6.70 was ranked the most important dimension, a result similar to findings of Bongsu (2004). This was followed by the assurance dimension at 6.50. The least important dimension was tangibles with a mean score of 5.5. The results are consistent with the findings by Parasuraman et al. (1991) in their studies on other service firm.

The difference of SERVQUAL gap paired t-test was used to compare the means of expectations and perceptions for the SERVQUAL dimensions. These service quality gaps could be calculated by subtracting respondents' expectations from their perceptions (P-E). A negative service quality gap indicates respondents' expectations are greater than their perceptions while a positive service quality gap indicates respondents' perceptions exceed their expectations.

Table 4.1 Mean scores of expectations and perceptions and their relative importance

Dimensions	Perception(P)	Expectation(E)	Means Ranking)
Tangible	3	5	5.5
Reliability	2	1	6.70
Responsiveness	4	3	5.9
Assurance	1	2	6.50
Empathy	5	4	6.1

Source: Authors Computation

Table 4.2 presents the results. As can be seen in Table 4.2, the overall SERVQUAL score for the audit firms rated by public listed companies was

0.69. The negative value indicates that the performance of the audit firms was not meeting the expectations of the public listed companies. The results in the table further indicate that the empathy dimension has the greatest service gap of 21.9, followed by the reliability dimension. The smallest service gap was the responsiveness dimension..

Table 4.2 Comparison of mean results of SERVQUAL gaps

Dimensions	Perception(P)	Expectation(E)	t value
Tangible	3	5	0.705*
Reliability	2	1	-0.427*
Responsiveness	4	3	-21.153
Assurance	1	2	-0.248*
Empathy	5	4	-5.346*

Source: Authors computation

\*Significance at 0.05

However, the positive service gap score for the tangibles dimension suggest that audit firms met the expectations of the public listed companies on this dimension. The negative sign of the t-values for all variables except tangibles indicate expectations to be higher than perceptions, i.e. respondents' dissatisfaction on all the four dimensions except tangibles. Hence, the hypotheses is that there is no significant difference between customer expectations and their perceptions on the tangibility dimension is accepted.

## CONCLUSIONS AND RECOMMENDATIONS

Some germane findings have been made in this study. These findings lead to some important conclusions that can shed more light on the relationship existing between service quality of audit firms and their clients in Nigeria

The major objective of this study is to examine the existence of customer gaps between the expectation and perception of audit firms service quality and the satisfaction derived from their services by their clients. Findings from the study have shown that there exist customers' gaps and this is very evident in four out of the five dimensions of the SERVQUAL used as a basis for assessing service quality of the audit firm. The dimensions where customer gaps are evident are reliability, assurance, responsiveness and empathy. Tangibility is the only dimension where positive customers' gap is noted. The implication of the negative customer gaps noted in the entire four dimensions is that there is significant difference between the perception and expectation of the customers in rating the service of the audit firm with respect to the four dimensions. It can be concluded therefore from the findings that the customers are expecting more from the audit firms in terms of reliability, responsiveness, assurance and empathy. While they seems to be pleased with tangibility. The existence of negative customer gap in terms of responsiveness, reliability, assurance and empathy is

an indication that the audit firms needs to improve on these yardsticks for measuring service quality. Consequently, the audits firms are advised to pay more attention to these items with cautions not to allow it militate against rendering prudent audit services.

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