European Journal of Business and Management www.iiste.org
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.6, No.2, 2014

Financial sector reforms in bank regulations and supervision and its impact on service quality of Commercial Banks in Tanzania

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Abstract
This study examines critically the impact of changes in bank regulations and supervision on competitiveness among Tanzanian commercial banks in respect of service quality. It adopts qualitative method for data collection. Data were collected from bank customers and bank officials from thirty two Tanzanian commercial banks already registered by 2010 following the financial sector reforms. Self-administered questionnaires were distributed to 1600 bank customers and 160 participating bank officials. Of these, 893(60%) customers and 81(50%) bank officials responded. Collected data were subsequently analyzed using SPSS 17.0 to estimate the mean score of service quality dimensions as well as to determine the association between reforms on bank ownership and service quality dimensions. The study found that there is less positive significance relationship between reforms on bank regulations and banking competitiveness in respect to service quality though private banks were leading ahead of semi-quasi banks.
Key words: Financial Sector Reforms, Banking Competitiveness. Bank Regulations, Service Quality

INTRODUCTION

In a recent study (Yona and Inanga 2013), we examined the impact of financial sector reform in ownership and service quality among commercial banks in Tanzania. The current study is a continuation but with a focus financial sector reforms in regulations and supervision on banking competitiveness using service quality as a measures of competitiveness. The banking industry in Tanzania was virtually stagnant prior to the financial sector reforms in the 1990s. Characterized by few state - owned banks the industry was underperforming in terms of profitability and offering adequate services to the customers. Various reasons for underperformance of these banks included, among others, the lack of strong regulatory framework that could provide strong supervisions and regulation of banking activities. Tanzania like many other African country decided to undertake various financial sector reforms as it was recommended by various IMF/World bank study and Nyirabu commission (1988) study on financial sector reforms with objectives of reforming the commercial banks so as to increase competition, diversify ownership of banks and financial restructuring, reforming development finance institutions so as to expand a pool of resources available for investment, reforming other financial institutions so as to improve customer services and ensuring financial viability ,integrity and sustainability. These objectives and benefits of the financial sector reforms in Tanzania has not so much differed with those objectives and benefits which other countries in the world have experienced as identified by Bonaccorsi & Handy (2005) study.
Financial sector reforms in Tanzania covered various areas that aimed at the review of the structural, organization procedures, operational arrangements and policy issues related to financial system. Among the regulations that was the result of the reforms was the introduction of prudential regulations such as the capital requirements and liquidity requirements. Other financial sector reforms that aimed at streamlining the banking industry included the enactment of banking and financial institution Act of 1991 which led to the introduction of prudential regulations such as the capital, liquidity and licensing requirements of new banks and financial institution, liberalization and rationalization of interest rates. In 1992 Tanzania enacted the Foreign Exchange Act which led to the Liberalization of foreign exchange rates and interest rates. In 1995 the bank of Tanzania Act came in place in order to enhance supervision and regulations of banks and Microfinance Institutions.

Statement of the Problem

Financial sector reforms on banking regulations and supervision were expected to streamline banking operational performance, improve service provision and financial stability. The Bank regulations and Supervision Act of 1991 which was the result of the reforms later revised in year 2006 spelled out clearly the criteria for bank licensing and conditions necessary for fulfillment after the banks were licensed. The objectives of the Act was to ensure that there is a comprehensive regulations and supervisions of banks so as to ensure stability and soundness of financial systems that minimizes the risk of loss to depositors. We also know that there was no specific clause in the act that deals directly with how banks should offer service quality to customers, however it is prudently believed that adherence to bank regulations can help banks improve their services to customers. However, we do not have sufficient empirical evidence to show the impacts of the relationship between banking regulations and service quality of the commercial banks. The literature is full of empirical evidences that discuss about the impact of banking regulations on capital adequacy on profitability and financial stability but there is little empirical studies on impact of regulations and supervisions on service quality of the commercial banks. This limited number of studies implies that information regarding the impact of the reforms in bank regulations on service quality is still debatable. The purpose of this paper is therefore to assess the impact of the reforms on regulation of banks and supervision of banks on service quality. This at the end will contribute to the literature on impact of such reforms on service quality. The importance of studies on service quality need more attention when (I) the banking sector in Tanzania is expanding in terms of number of banks and growing number of customers (ii) inadequate literature on the study to meet the knowledge needs of the new generation of scholars. Therefore in order to fill the gap on the empirical evidences of such studies the study will provide answers to this research questions: ***To what extent financial sector reforms in bank regulations and supervision affected the banking competitiveness in respect to service quality of Tanzanian commercial banks?***

LITERATURE REVIEW

Financial Sector Reforms

Financial sector component is a key for economic growth of a country. Existence of a financial sector leads to availability of specialized financial intermediation institutions and agents. Glen (1994) argued that financial intermediation can help to motivate savers of funds to supply capital where it is needed at reduced costs to investors. According to Inanga (2005) these institutions helps to attract funds from savers of surplus funds which at the end helps to channel capital where there is deficit or shortage and where capital is needed for economic development . In support of Inanga arguments, Sunil and Bisheng (2007) in their study on bank sector competitiveness in Egypt concluded that financial sector reforms appear to have a positive and significant effect on improving competitiveness and production efficiency of the banking sector. Their findings also revealed that state owned banks are generally less competitive than private banks and foreign banks are less competitive than domestic banks. Their study also suggested with evidence that there is significant relationship between financial sector economic and productive efficiency in the short run.

McKinnon & Shaw (1973) argued about the importance of financial sector reforms for economic development. Their argument suggests that where there is financial repression, there is distortion of domestic financial markets, which reduces savings and encouraging investment inefficient and unproductive activities. The financial sector reforms are likely to reduce the distortion of the local financial markets and hence lead to improved allocative efficiency and faster output growth Brownbridge and Gayi (1991) argues about importance of financial sector reforms on increasing competitiveness. Financial sector reforms through new entry of banks into the market may lead to bank competitions which at the end have impact on the quality of banking services offered to the public and lower costs of services in an attempt of banks to attract business. Gelb, Allan & Honohan (1991) argued that financial liberalization can help to reduce the pressure on banks to accommodate less credit worthy borrowers; this can lead to improvement in the quality of loan portfolio. Demirguc-Kunt and Maksimovic (1999) argue that financial sector leads to availability of finance that helps to foster economic development by widening access to external finance.

According to Ngugi & Kabubo (1998) financial sector reforms involves restructuring of the financial institutions, which promotes competition, reduces government ownership and control of the financial institutions and restructuring the ailing financial institutions in order to preserve public confidence in the banking system. They further argue that implementing several policy and institutional measures can help to develop the capital markets. Rajan & Zingales (1998) in their study while trying to establish a link between financial development and economic growth concluded that in countries with well-developed financial systems industries that require external fiancé grow faster. Martin (1999) argues that financial liberalization can stimulate competition in the banking sector through entry by private sector banks and removal of administrative constraints which leads to improvement in the quality and services offered to the public, as banks compete for business. Beck (2002) linked the financial system development and the level of international trade and conclude that a well-developed financial sector translate into a comparative advantage in the production of manufactured goods for international trade for industries that dependent on external finance. In their study Beck et al (2004) they concluded that countries with better financial systems tend to have faster economic growth compared to those with less developed financial systems. This argument is not so different from the study by Green and Murinde (2006) who concluded that financial development have a casual effect in stimulating economic and productivity growth.

In concluding the discussion on benefits of financial sector reforms it is obvious that financial sector reforms benefit the private sector, the government as well as individual citizens in the country. Key benefits are the ones resulting from competitions of banks, removal of administrative constrains that forces banks to deliver quality services to the public. Economic growth in country as the result of financial sector reforms is also obvious which is achievable through better financial systems and improved financial and capital markets.

Banking Competitiveness

The competitiveness of the banking sector falls under competitiveness of the firm. A competitive bank is defined as the bank that produces sustainable future high returns to its shareholders. However, other definition from perspectives of other groups might be different from this definition. Competitive bank by the government banker is different from customer or manager perception, Government banker define banking competitiveness as the bank that achieves maximum safety in payment system, efficiency in credit allocation and responds to monetary and fiscal policy changes while customers view a competitive bank as the one which can provide customers with highest paying deposits, lowest interest loans, cheapest and best financial services. Managers of a bank may define a competitive bank as giving high salaries and benefits and offering expanding opportunities for safe career advancement (Thomas & Chunseng, 2006). Beverly (1991) study on competitiveness of international financial institutions argued that banks and securities firms compete successfully in international markets by building on strengths which include the existence of an established customer base, technical expertise and innovative ability resulting from specialization in particular domestic market. Competiveness success depends on size of the institution and capitalization. Size of the institution helps to determine whether the bank can take advantage of economies of scale while capitalization may affect institution credit standing.

Besanko & Thankor (1992) argued about benefits of banking competitiveness as the results of relaxing the bank entry barrier which allows more banks to join the industry. In their theoretical model they concluded that relaxing bank entry barrier allows heterogeneity in products and can lead to decline in loan rates and increased deposit interest rates. The study concluded that increased interbank competition might induce banks to make more relationship loans but Stain (1997) study results showed that when there is severe competition in the financial market there are benefits in allocating capital more efficiently. Arai& Yoshino (2000) in their discussion paper on concept of competitiveness in the financial sector they explained four major broad issues that underlie competitiveness of individual financial institutions , which include efficiency, size , information technology and resources management. Each of these issues is measured by specific indices, which represent comparative advantage of the financial institutions. Hauswald & Marquez (2002) looked at financial sector competitiveness in terms of availability of better information technology. They argued that information technology may lead to improved information processing, lower costs of financial intermediation and lower costs of information. Other variables that are considered to affect bank competitiveness include financial power, market share, human capital, international exchange activities and use of technology. Mourihno & Phillips (2002) argued that one of factors that can have great influence on bank competitiveness is high emphasis on strategic planning of the banking system. Bin Wen (2004) argues about three competitiveness factors, which play a vital role in the banking sector. These are financial technology, organizational structure and human resources. While studying the four state owned banks in China he found that the core competitiveness factors of Industrial and Commercial bank of China was the provision of e-service, for the construction bank was provision of comprehensive services and for the Bank of China it was foreign exchange business. Givi, et al (2010) study in Iran revealed that financial power was the most powerfully effect on bank competitiveness.

CONCEPTUAL FRAMEWORK

Based on the theoretical literature discussed above we conceptualize the independent variable of this study as bank regulations and supervision and service quality. We conceptualize that there is relationship between reforms in banks regulations and supervision and service quality. We believe that change in bank regulations and supervisions affects service quality of both commercial banks. Therefore the Independent variable is financial sector reforms (Bank regulations and supervision) and service quality as an independent variable. The study departs from the standard SERVIQUE model (Parasaraman 1988) of service quality dimension and adopts other qualitative variables aspects for measuring service quality.

Independent variables

Financial sector reforms on banking regulation and supervision is the independent variable of this study and we discuss the literature below:

Regulations and Supervision

While modern banks are facing competitions and challenges that exposes them to risks the need for bank supervision and regulations in the modern world becomes important. Banking regulations and supervisions has a

major role in the banking industry. James et al (2002) specifically examined the regulatory restriction on bank activities, regulation on domestic and foreign bank entry as well as capital adequacy requirements in India and concluded that restricting bank was not positively associated with bank performance and stability while broadening banking activities allows banks to diversify income sources and enhancing stability. Sorenson (2003) study of banking regulation in Argentina found that bank regulations had impact on bank performance and helped to improve service quality through better communication, higher credibility and security. Better communication is key for improved service quality. Regulations by banks such the ones that force banks to publish financial statements has no direct relationship to service quality but they are seen to be one of ways that increases communication and transparency that can lead to bank efficiency and improved customer relationships. The financial sector reforms should focus on designing banking regulations that are common requirements across institutions but focus on developing broad prudential guidelines and principles that gives flexibility to banks to operate without increasing risks to customers and distorting financial stability. Aziz (2004) argued that regulations and supervision is a vital component of a well-developed financial system and therefore bank regulations and supervisions should be designed with the objective of promoting efficiency in the banking sector while allowing sufficient flexibility for banks to design their strategies and market niches. Regulations also plays major role in minimizing the entry barriers and facilitating the market entry. Banking regulations such as the ones in Tanzania prescribe minimum conditions of entry and exist into banking industry and provide minimum capital requirements for banks (BOT, 2008). These regulations are important otherwise the banking industry will not be able to manage risks and financial fragility. Banking regulation also plays major role in determining the cost of services of banks as interest are likely to be unregulated and hence create a great discrepancy from one bank to another. In conclusion of this section we argue that though in Tanzania there is no specific clauses in the Banking and Supervision Act of 2006 that stipulates how banks should provide services to customers still it assumed that adherence to prudential regulations can improve service quality and economic efficiency. Based on the literature review discussed above on the banking regulations and supervision we hypothesize the following:
Ho: 1: Change in bank regulations and supervision is significantly associated to service quality
In this research we also hypothesize the following minor hypotheses;
Ho.1a- There is significance relationship between reform on bank regulations and improved dealing with customers
Ho.1b:-There is significance relationship between reform on bank regulations and better customer services
Ho.1c: There is significance relationship between reform on bank regulations and bank offering services above minimum level
Ho: 2a: There is significance relationship between reforms on bank regulations and bank offering quality services

Dependent Variable

Service quality is considered to be the dependent variable. We never adopted the five service quality dimension of the traditional SERVIQUE model rather used other general variables as perceived by bank customers and bank officials.

Service Quality

Service quality is defined differently by scholars. Hershel et al (1994) define it as the measure of how well a delivered service matches customer's expectations. Since banks compete in market place with generally undifferentiated services and products then service quality becomes a key competitive weapon (Stafford, 1999). Service quality is defined as the kind of services offered to customer that meets the demands/needs of customers. Other definition is that service quality is that service offered to give customer satisfaction. Parasaraman et al (1988) defined service quality as the customer judgment of overall excellence about services quality. This judgment has sole foundation on the difference from what is expected from customer from the service provider and what the actual services the customer receives from it. Though majority of scholars measure quality in terms of service quality dimension in the context of this study we adopt the definition that general definition services to include the ability of banks to offer services above the minimum level (above expectations) banks' ability to improve dealing with the customers and offer better services to customers.

METHODOLOGY

The research adopted qualitative study method to collect and analyze data in order to establish the relationship between reforms in bank regulations and supervision on service quality of commercial banks in Tanzania. We collected data from bank customers and bank officials of Tanzanian Commercial banks that were existing by the end of year 2010 (Table 1) .Structured research questionnaires were adopted to both bank customers and bank officials across four regions in Tanzania, namely Mwanza, Arusha, Kilimanjaro and Dar-es-salaam where majority of customers of these banks are situated. The research questionnaires used in this study were based on 5 likert scores requiring customers and bank officials to rank their responses as 1= strongly disagree, 2= disagree, 3= Neutral, 4= Agree and 5=Strongly Agree.

Data Validity
We adopt crobanch alpha to determine the reliability of service quality and economic efficiency dimensions. The rule of thumb is that the Reliability Score (α) should be >0.5 in order to give confidence of relying on the data. If reliability Score (α) is < 0.5 we conclude that there may be variable indicators which are not reliable for measuring service quality and economic efficiency and therefore a need to conduct a factor reduction analysis. Reliability results are presented in Table 2 below. The coefficient results are 0.697 for service quality which indicates that we can rely on variables for measuring service quality.

Table 2.Reliability Scores of Service Quality and Economic Efficiency

Variable Dimension	Items	Reliability Score (α)
Service Quality	3	0.697

Source: Researcher 2014

RESEARCH FINDINGS AND RESULTS
Demographic Characteristics
Table 3 provides the demographic characteristics of responses came from customers of both private banks and semi-quasi banks. Of all customers' responses, 25% were customers from private banks and 75% from semi-Quasi banks. In terms of bank locations majority of customers were from Kilimanjaro (56%), Arusha (14%), Dar-es-salaam (19%) and Mwanza (10%). As far as gender is concerned (Figure 6.2) majority of respondents were male (61%) and female were thirty seven percent (37%). The respondent's age group (Figure 6.4) ranged from age of 18 years to sixty years (60) while majority had the age between 18 and 29 years (48%), between 30 years and 40 years 30 (30%), between 41 years and 50 years (13%),between 51 years and 60 Years (6%) and above 60 years (2%). In terms of customer length of relationship with the bank (Figure 6.5), 33.5% of the bank customers had stayed with the bank for a period between 1-3 years, 31% a period between 4-6 years, 7-10 years and 13% a period between 11-20 years. Customers level of deposits (Figure 6.6) ranged from those customers with less than Tanzanian shillings 100,000 (16.8%), Tanzanian shillings 100,000-500,000 (10%), Tanzanian Shillings 501,000-1,000,000 (10%), Tanzanian Shillings 1,000,001-999,000,000 (10%) and Tanzanian Shillings (1,000,000,000 and above (10%).Table 2 provide data on demographic characteristics of the responses from bank officials. The sample include 81 bank officials of the commercial banks in Tanzania. Male constitute 48% and female 52% of the entire sample. Majority of respondents (69%) came from private banks and 31% came from semi-quasi banks. Majority of respondents which are 56% came from Dar-es-salaam followed by Arusha 17%, Mwanza 11% and Kilimanjaro 5%. In terms of age, majority of bank officials 43% were aged between 41 and 50. The next largest group 30% is aged between 31 and 40. The next group 10% is aged between 21 and 30 and the smallest group 2% is between 18 and 29.

Descriptive statistics
We administered questionnaires to bank customers of both private and semi-quasi banks. Three questionnaires were designed to measure service quality of the commercial banks as the results of the reforms on bank regulations and supervision. The questionnaires intended to gather information on the improvement of bank dealings with customers, bank offering better services to customers and offering bank services above minimum level as the results of the reforms on bank regulations and supervisions. In order to answer the research question and understand the relationship between financial sector reforms on regulations and service quality we calculated first the mean scores and standard deviation for service quality for both banks We present the mean scores, standard deviation and P-values of bank customer responses in Table 4. Table 4 shows the descriptive statistics score for service quality as perceived by bank customers. As far as banks improvement in dealing with customers semi-quasi banks had higher mean (SD) scores as compared to private banks [(2.65(1.152) vs. 2.42(1.141), p= 0.012)] respectively. This means that majority of bank customers from semi-quasi banks disagreed that there is bank improvements in dealing with customers as the results of the reforms on bank regulations and supervision as compared to private banks customers. We found that in terms of offering better services to customers semi quasi banks had higher mean(SD)scores as compared to private banks [(2.99(1.060)

vs. 2.92 (1.1060, p=0.438)] respectively meaning that majority of customers from semi-quasi banks as compared to private banks disagreed that banks are offering better services to customers. In terms of banks offering services above minimum level, semi-quasi banks had higher mean (SD) scores as compared to private banks [(2.94(1.088) vs. 2.77(1.038), p= 0.054)] which means majority of customers from semi-quasi banks disagreed that banks are offering services above minimum level as compared to private banks customers. Generally these results indicate that private banks have much more improvement in dealing with bank customers as compared to semi quasi banks. The results also indicate that private banks do offer better services and they also offer services above minimum level as compared to semi-quasi banks.

Table 4. Mean Scores and Standard Deviation-Service Quality - Customers Perception

Variable	Bank Ownership	N	Mean	Std. Deviation	P-Value
Bank Improvement dealing with customers	Private	211	2.42	1.141	0.012
	Semi Quasi	618	2.65	1.152	
Bank offering better services to customers	Private	210	2.92	1.106	0.438
	Semi Quasi	619	2.99	1.060	
Bank Offering services above minimum level	Private	210	2.77	1.038	0.054
	Semi Quasi	622	2.94	1.088	

Source: Researcher, 2014

Table 5 shows the descriptive statistics score for service quality as perceived by bank officials. As far as banks' ability to provide quality services to customers semi-quasi banks had higher mean (SD) scores as compared to private banks [(3.28(1.339) vs. 3.23(1.206), p= 0.874)] respectively. This means that majority of bank customers from semi-quasi banks disagreed that there is bank improvements in dealing with customers as the results of the reforms on bank regulations and supervision as compared to private banks customers

Table 5. Mean Scores and Standard Deviation-Service Quality – Bank Officials Perception

Variable	Bank Ownership	N	Mean	Std. Deviation	P-Value
Bank ability to provide quality services to the customers	Private	56	3.23	1.206	0.874
	Semi Quasi	25	3.28	1.339	

Source: Researcher 2014

Hypothesis Testing

The hypothesis of the study are tested by using Chi-square and Correlation Analysis. We test the hypothesis by using chi-square to understand the association between change in bank regulations and service quality. The set of variables used to test this hypothesis were scores of questionnaires on relationship between bank regulations and service quality posed to bank customers and questionnaires posed to bank officials. The main hypothesis of the study was stated as:

Ho1: 1a Change in bank regulations and supervision is significantly associated to service quality

In this research we also hypothesize the following minor hypotheses;

Ho.1a: There is significance relationship between reform on bank regulations and improved dealing with customers

Ho.1b: There is significance relationship between reform on bank regulations and better customer services

Ho.1c: There is significance relationship between reform on bank regulations and bank offering services above minimum level

Ho: 2a: There is significance relationship between reforms on bank regulations and bank offering quality services

Association Analysis

In order to understand the association financial sector reforms on bank regulations and service quality we test the research minor hypotheses between by Chi-Square as follows. The rule we adopt to accept or reject the Null

Hypothesis is: Ho: P< 0.05 Reject Null Hypothesis or Accept the Alternative hypothesis if Ho: P>0.05. We present the results of the test hereunder (Table 6[Summary of Table 6.1- 6.5]) and discuss the results below. According to Table 5 chi-square test that indicates that there is significance relationship between reforms on bank regulations and bank dealing with the bank $x^2 df = 5 = 5.653, p = 0.342$ and therefore we accept the Null Hypothesis. This shows the reforms on bank regulations has impact on service quality. The results also indicates that reforms on bank regulations and supervision is associated to banks offering better services $x^2 df = 4 = 4.410, p = 0.492$ and therefore accept the Null hypothesis as the results indicates significance relationship between reforms on bank regulations and service quality. Chi-Square results on the association between change in bank regulations and banks offering services above minimum level is positively associated to service quality $x^2 df = 5 = 5.090, p = 0.405 > 0.05$ and accept the Null Hypothesis. This means that means that there is significance association between reforms on bank ownership and service quality.

Table 6- Chi –Square Results

Hypothesis	P-Value	P-Value Results
Ho.1a: There is significance relationship between reform on bank regulations and improved dealing with customers	P=0.005	P=0.342
Ho.1b: There is significance relationship between reform on bank regulations and better customer services	P=0.005	P=0.492
Ho.1c: There is significance relationship between reform on bank regulations and bank offering services above minimum level	P= 0.005	P=0.405

Source: Researcher 2014

Table 7 shows chi-square results that shows that there is significance relationship between reforms on bank regulations and service quality of banks as perceived by bank official responses $x^2 df = 4 = 1.149, p = 0.886$

Table 7- Chi –Square Results

Hypothesis	P-Value	P-Value Results
Ho.2c: There is significance relationship between reform on bank regulations and bank offering quality services	P= 0.005	P=0.886

Source: Researcher 2014

Correlation Results

We present the correlation results between financial sector reforms in bank regulations and service quality. The r value indicates the strength and direction of the correlation. If r value gets bigger it shows that there is correlation and we reject Ho: if p<0.05 and accept Ho: if P>0.05 .The objective of performing correlation analysis was to understand the strength of the relationship between these variables. According to Table 7 there is significant positive correlation between bank regulations and service quality, the highest correlation is between bank regulations and improved dealing with customers (0.073),followed by banks offering services above minimum level (0.067) and banks offering better services to customer services (0.027). Since the correlation is positive in all service variables we generally conclude that the correlation results shows a sign of positive perceptions by both private and semi- customers on all service quality as the results of the financial sector reforms on bank regulations.

Table 8 -Pearson Correlation Matrix of Explanatory Variables

Variable	Bank Regulations	Improved dealing with customers	better services to customer services	Services above minimum level
The bank has improved its dealing with customers	.073*	1		
The bank offers better services to customer services	.027	.474**	1	
The bank offers Services above minimum level	.067	.357**	.410**	1

Source: Researcher 2014

Cross Tabulation Results

The cross tabulation results (Table 9) support hypothesis one (Ho: 1a) as it shows that high percentage of customers from private banks (64%) and semi-quasi banks (57%) disagreed that banks has improved their dealings with bank customers following financial sector reforms on bank regulations and supervision.. Overall private banks are ahead because of low scores of disagreement (22%) against 27% of the semi-quasi banks which shows that private banks are ahead of semi-quasi banks. The cross tabulation results also confirms hypothesis two (Ho: 1b) as it shows that high percentage of customers from private banks (35%) and semi-quasi banks (33%) disagreed that banks are offering better services following financial sector reforms on bank regulations and supervision. The difference between the two banks is insignificant which means that there is no major differences between private banks and semi-quasi banks in offering better services. The results further confirm hypothesis three (Ho: 1c) as it shows that it shows that high percentage of customers from private banks (42%) and semi-quasi banks (36%) disagreed that banks are offering services above minimum level. These results confirm that private banks are ahead in offering services above minimum level.

Table 9– Cross Tabulation –Service Quality Variables

	Private				Semi-Quasi			
	Disagree	Neutral	Agree	Total	Disagree	Neutral	Agree	Total
Dimensions	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)	Total
Bank improved dealing with customers	135(64)	29(14)	47(22)	211(100)	350(57)	102(17)	166(27)	618(100)
Banks offering better services	73(35)	70(33)	67(32)	210(100)	205(33)	220(36)	194(31)	619(100)
Banks offering service above minimum level	89(42)	69(33)	52(25)	210(100)	225(36)	212(34)	183(30)	620(100)

Source: Researcher 2014

The cross tabulation results (Table 10) as perceived by bank officials support hypothesis two (Ho:2a) as it shows that high percentage of customers from private banks (52%) and semi-quasi banks (52%) agree that banks are offering quality services following financial sector reforms on bank regulations and supervision..

Table 10 Cross Tabulation-Service Quality –Bank Official Perception

	Private				Semi-Quasi			
	Disagree	Neutral	Agree	Total	Disagree	Neutral	Agree	Total
Dimensions	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)	Total
Bank offering quality services	20(36)	9(16)	29(52)	56(100)	8(32)	4(16)	13(52)	25(100)

Source: Researcher 2014

DISCUSSION

The finding of the study shows that the reforms on bank regulations and supervision had significant impact on quality of services as perceived by both bank customers and bank officials. Of course we know already that the regulations given to banks were not directly involved with giving directives on how banks should provide services to customers but it is obvious that observance and adherence to regulations can help banks to involve them indirectly in offering better services to customers. The perceptions by both customers and bank official was not based on analysis of service quality variables as par standard variables of SERVIQUE model, by Parasaraman et al (1988) but used other variables on perceived quality including the customer perception on improved bank dealing with customers, offering better services and bank offering services above minimum. All these variables indicated significant relationship between reforms on bank regulations and service quality.

However, the results show that semi-quasi banks are not highly impacted by these reforms as compared to private banks. The higher mean scores in variables by semi- quasi bank as compared to private banks show that semi-quasi banks service quality were less impacted by reforms in bank regulations and supervisions.

Conclusion and policy implication

This study examined the relationship between financial sector reforms on bank regulation supervisions and banking competitiveness in terms of service quality. The study did not adopt the service quality model by Parasaraman et al 1988) to measure service quality rather adopted other variables parameters to measures service quality of commercial banks. By using likert scale questionnaire's on service quality dimensions the study found that there is significance relationship between reform on bank regulations and service quality supported by improved dealing with customers, bank offering better customer services and banks offering services above minimum level . This shows that overall there is a competitiveness between commercial banks in terms of offering services resulting from reforms in banking regulations and services. Finally we found that financial sector reforms on bank regulations and supervision did not address directly the involvement of banks with customers on how they should be involved directly with customers services and these issues are left in the hands of the bank themselves,. However we can conclude that regulations and supervision of banks had indirect positive effect on banks improvement in services provisions. This research had limitations as the study shows the perceived service quality of customers of four cities only namely Arusha, Kilimanjaro, Mwanza and Dar-es-salaam. The total estimated population of bank customers in Tanzania is about four million people who are scattered in twenty nine regions. This shows that the sample of respondents from only urban areas and ignoring the rural areas is very small hence that further research based on a larger sample might reveal different results. The inadequate literature on financial sector reforms on bank regulations and its impact to service quality posed a major challenge in trying to obtain benchmarking across countries.

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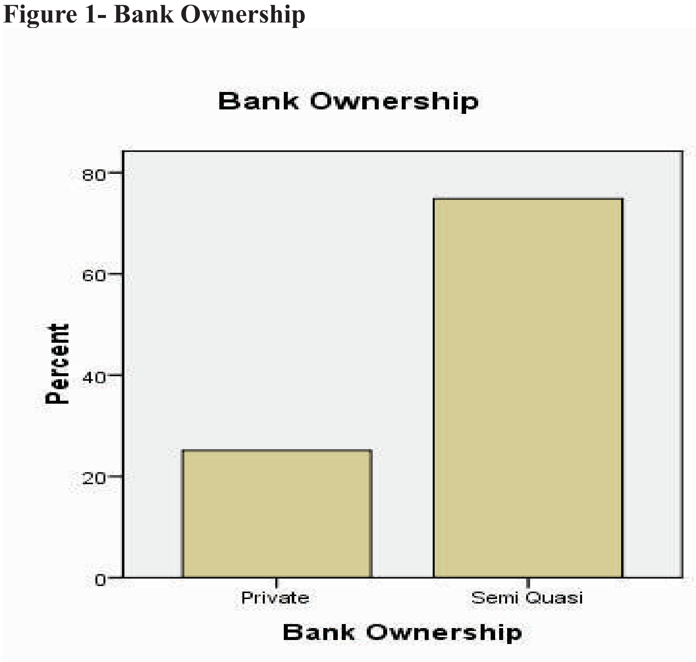
APPENDICES

Figure 1- Bank Ownership



European Journal of Business and Management
ISSN 2222-1905 (Paper) ISSN 2222-2839 (Online)
Vol.6, No.2, 2014

Figure 2- Customers Location

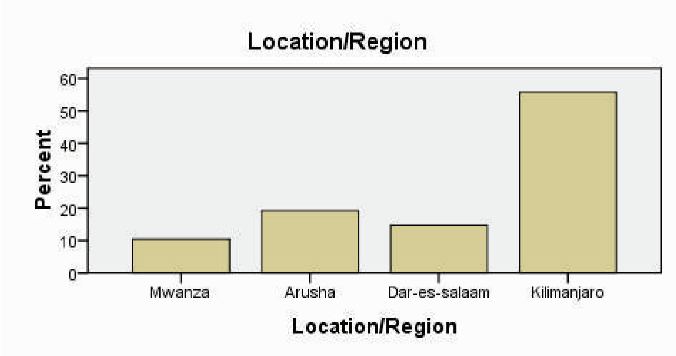


Figure 3- Gender of Customers

Figure 4- Age of Customers

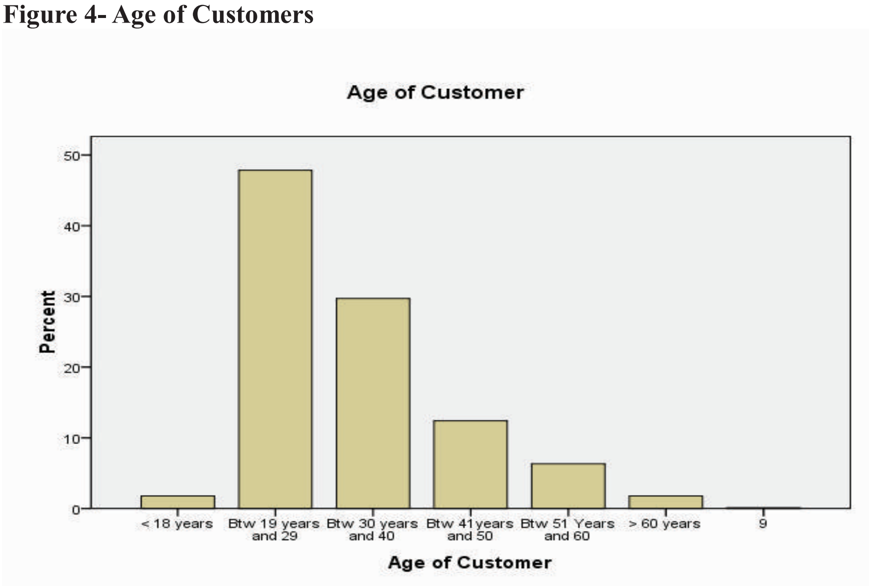


Figure 5- Banking Period

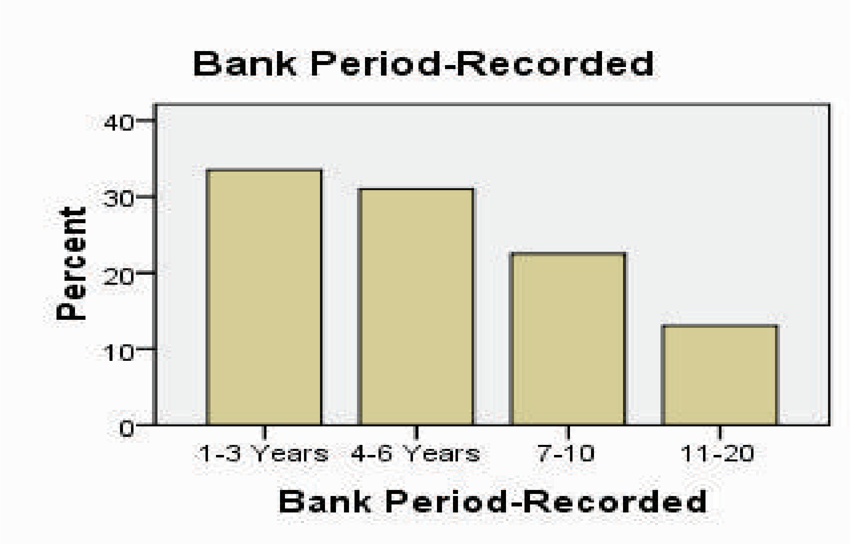


Figure 6- Level of Deposits

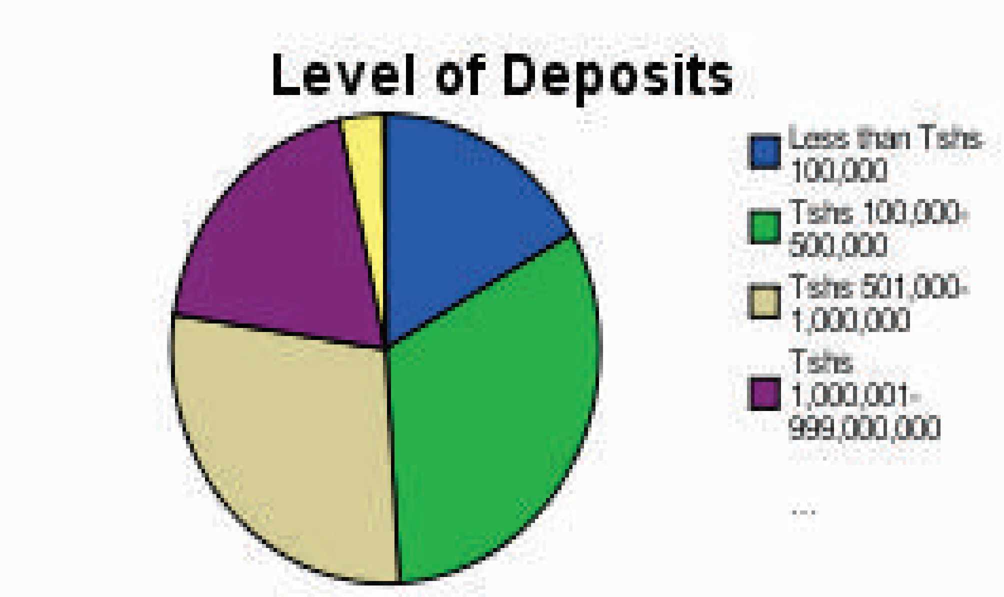


Table 1 List of Tanzania Commercial Banks in Year 2010

Access Bank	Bank of India	DCB- Bank	International Commercial Bank
Akiba Commercial Bank	Barclays Bank	Diamond Trust Bank	Kenya Commercial Bank
Azania Bank	CF Union Bank	Exim Bank	National Bank of Commerce
Bank ABC	Citibank	ECO Bank	National Microfinance Bank
Bank M	Continental Bank	FBME Bank	Mkombozi Commercial Bank
Bank of Africa	Commercial Bank of Africa	Habib African Bank	Savings and Finnce Bank
Bank of Baroda	CRDB Bank	United Bank of Africa	
Savings and Finance	Commercial Bank	Mwanga Commercial Bank	

Table 3- Demographic characteristics-Bank Officials

	Bank Officials	
Variable	**Frequency**	**Percent**
Ownership		
Private	56	69%
Semi-Quasi	25	31%
	81	**100%**
Location		
Mwanza	9	11%
Arusha	14	17%
Dar-es-salaam	54	67%
Kilimanjaro	4	5%
Total	**81**	**100%**
Position		
Chief Finance Officer	1	1%
Human Resources Manager	1	1%
Information System Manager	5	6%
Customer Relationship Manager	10	12%
Marketing Manager	5	6%
Branch Manager	5	6%
Finance Officer	14	17%
Bank Officers	40	49%
Total	**81**	**100%**
Sex		
Male	38	47%
Female	43	53%
Total	**81**	**100**
Age		
18-30	4	4%
21-30	12	12%
31-40	24	24%
41-50	35	35%
51 -60	3	3%
60 and ABOVE	2	2%

Source: Researcher 2013