International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Effect of Advertising on the Profitability of Selected Commercial Banks in Calabar, Nigeria.

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DOI: https://doi.org/10.55248/gengpi.4.723.48858

A B S T R A C T

Advertising is any form of non-personal presentation and promotion of ideas or services by an identified sponsor. The study investigated the effect of advertising on the profitability of five selected commercial banks in Calabar, Nigeria. The theory of Hierarch of effect guided the study.

A descriptive survey design with Data collected through stratified random sampling methods from 172 respondents from the five commercial banks through a structured questionnaire. Data were analysed through SPSS. V 28.1. focusing on descriptive and inferential analysis, including percentages, frequencies, correlation and regression analysis.

The result of Pearson Product-moment correlation analysis suggests that advertising has a positive and statistically significant relationship with the profitability of the banks ($r = 0.175$, **n** =0.169, p=0.001). Results of multiple linear Regressional analysis, which was employed at a 95% confidence interval, show a significant model summaries $F(1,2) = 0.936$, $p<0.459$, AdjR^2 =-0.002, R^2 change =0.28 shows that advertising has positive and statistical significance effect on the profitability of the banks ($\beta = 0.15$, $t = 1.72$, $p < 0.001$) ; (β=0.012, t = 0.111, p<0.911); customer intention to change to other banks harms profitability (β= -0.044, t =0.438, p<0.662). Control variables show no evidence of the effect of age (β =-0.08, t =-104, p =0.91) and Gender (β=0.07, t = 0.86, p =0.39) on bank profitability.

It was concluded that banks' advertising plays a significant role in determining customer awareness, patronage, and intention to remain, which collectively affect the banks' net profits. The study recommended increased advertising by the banking sector and strategic migration to online platforms especially facebook.

Keywords: Advertising, Profitability, Commercial banks, Nigeria.

Introduction

The banking scene in Nigeria between 1980-1996 changed drastically with the introduction of the structural adjustment program(SAP) in 1996. Between 1980, 1981,-1996, the condition for opening new bank accounts was stringent since the country had only a few banks. Competition between banks was zero since the central bank of Nigeria (CBN) fixed maximum and minimum leading rates (Akpan, 1996). The zero competition in the banks made the sector not to be aggressive in searching for customers. Bank officials sat waiting for customers, subjected to long hours of delay and frustrating procedures. Customers were not wooed and kept by any means.

However, with the introduction of community banking concepts with increased development of financial institutions and general liberalisation of the banking sector, specialised services were introduced by banks, which cartelised competition. Banks began to face high competition, and it became apparent that banks' profitability was a significant step towards a resilient financial system (Detragiache et al., 2018; Enria, 2021).

The traditional banking services resulted in urgent competition between commercial, merchant and community banks. The competition between streams of banks puts pressure on the need for aggressive advertising. (Riaz, Furqan and Siddique 2015).

We examine the effect advertising had on profitability in the context of awareness creation, patronage, intention to remain, and, in particular, return on investment (ROE.). Examine a complete overview of the effect of advertising on bank profitability; we first conducted a correlation analysis to establish a relationship between advertising and bank profitability Respondent's response was analysed as to whether advertising creates awareness. The computed value of the correlation coefficient was used as a decision rule if advertising positively correlates with the level of customer awareness of banks' services. Customer patronage was analysed using respondents' responses. The computed correlation coefficient and regressional coefficient were used as a decision rule.

The research bim light on the effect of advertising on the profitability of commercial banks in Calabar, Nigeria. The result will benefit banks and the general financial sector as it will create an in-depth understanding of how advertising affects commercial banks' profit in Nigeria. This study will further contribute to the literature on advertising and profitability strategies in the banking sector. Advertising aims to ensure that products are presented to customers effectively and convincingly in line with a promotional strategy.

The critical importance of advertising services in any financial sector is to meet customers' needs, influence their perception and persuade them to buy products which directly increase the organisation's profit in the long run. The general success of the sector is premised on financial stability.(Fadzland & Muzaffar 2009)

Purpose of the study

The study evaluated the effect of advertising on the profitability of selected banks in Calabar in the context of awareness creation, patronage, and intention to continue with the bank. Determine if the net profit of the banks is affected by advertising. The study brings to focus the critical importance of advertising to the financial stability of the banking sector.

Problem statement

Nigeria's economy has been stressed due to federal government monetary and fiscal policies. The banking industry has been the most regulated sector of the economy, which has led to operators needing help to stay in business by adopting different survival strategies. Banks adopted advertising to create awareness and patronage and to attract customers. In light of the above, what, then, is the effect of advertising on the profitability of banks in Calabar, has advertising strategy by banks impacted the profitability of the various banks?

Research Question

The following research questions guided the study

a. Do customer awereness following advertising affect banks profitability?

b. Does customers patronage of banks following advertising impact the profitability of the banks?

c. Does advertising affect customers intention to continue with such banks and of what effect to banks profitability

Research Hypothesis

a. Customer awereness following Advertising has a positive relationship with banks profitability

b. Customer patronage of banks services following advertising has positive effect on banks profitability.

c. Customer intention not to change to other banks following advertising has positive effect on banks profitability

Empirical Literature Reviews

Hierarch of effect Theory

The Hierarch of effect theory, also known as the Hierarchy of effects model, is a communication theory that explains the cognitive process underlying the consumer decision-making process, which is foundational to advertising communication and framework. It suggests that consumer goes through steps in their response to the advertisement (Laridge & Steiner, 1961).

The basic concept of the theory is that consumers move through the sequential trajectory of cognitive, affective and behavioural stages in response to advertising stimuli. This is represented in a funnel shape model from awareness at the top to action at the bottom, all directed towards the product purchase. (Nawaz, Almed and Hyder 2014, Wensley 2016)

The three advertisement processes which influence customers and result in service purchases are, Awereness; this stage involves creating awareness among consumers about products, services or brands, which is achieved through advertising efforts. The second stage of the process is Knowledge; once awareness is created, consumers seek information and creatively develop Knowledge about the product or services, seeking to know about the product features, benefits and attributes of the service. The third phase, as stated by Wensley (2016), is the preference or liking phase. As the consumer gains Knowledge, they form attitudes and preferences leading to positive feelings and evaluations, influencing their future behaviour. The next phase is conviction, in which the consumer develops belief and conviction in the product and is willing to take positive action. The final phase is action, behaviour - action in which the consumer ultimately purchases the product or services. The processes are cognitive, affective and conative (Wensley, 2016; Kerin & Hartley, 2015; Wijaya, 2015). Advertising influences customers and creates steps leading to interest, desire and action (Kotler et al., 2016).

Concept of Advertising

Various scholars have argued that advertising is a critical and integral part of the policy to attract viewers' attention and elicit positive buying behaviours and customer responses (Mitchell, 1981; Terence, 2003). However, Krugman (1994) holds that advertising is a paid non-personal communication through various mass media by a business firm, non-profit organization and individuals who are identified in the message and hope to inform and persuade a particular audience. Kotler (2001) asserts that advertising is any paid form of non-personal presentation and promotion of ideas, goods or services by an identified sponsor.

Advertising informs customers of services and products with the primary intention to persuade and attract them to see the critical features, benefits, and characteristics to create a feeling for the product and finally purchase the product. (Bencollins and Okwuchukwu 2018).

In the same respect (Popescu et al., 1994) observed that advertising is "a set of actions aimed at presenting, verbal or visual, indirect message about a product, services or company by any identified supporter".

It is a communication technique that involves running a complex persuasive process that uses several specific tools, which can cause psychological pressure on the concerned public, though specific to the well-defined audience regarding products or services (Popescu, 2004).

Acar (2019) evaluated the impact of advertising on the performance of Turkey banks using the lag model and found a positive association between advertising expenditure and bank performance, specifically, an increase in" interest income", total operating income and return on assets. The author concluded that advertising expenditure should be capitalized and then amortized instead of incurred as an expense.

Harun and Hasan (2014) investigated the impact of advertising activities on the financial profitability of banks in Bangladesh. Data were collected from annual reports of 13 commercial banks and two state banks from 2012-2015. Data were analyzed using regression analysis—this result in suggesting an insignificant positive relationship between advertisement expenses and the profitability of banking. The result needed to be consistent with previous results, which show that advertising positively and significantly impacted banks' profitability.

Yilma (2019) reviewed marketing services' effect on the profitability of commercial banks in Ethiopia. Data were collected from annual reports from 2011-2017, which were analyzed using STATA software. The results suggest a positive and significant effect between income and profitability of the banks. There was no significant effect on the deposit ratio and advertising expenses on the bank's profitability.

Bencollins and Okwuchukwu (2018) investigated the effect of Radio and TV advertising on commercial bank products in Nigeria using a sample of 254 proportionally distributed bank staff. Data were analyzed with SPSS software. The result suggests that advertising had a significant positive role in influencing the attitude change, knowledge and behaviour of bank customers with increased bank income.

Chinweoke, Anetor et al (2016) scrutinised the impact of marketing services on banking performance. Data were analyzed using ordinary least square techniques and multiple regression. The result suggests that demand deposits had an insignificant impact on the profitability of Nigerian banks ($p<0.05$). Time and saving deposits significantly impacted bank profitability ($p<0.05$). The author concluded that since marketing greatly impacted profitability, banks should be encouraged to engage in relationship marketing.

Okon, Zita, Mmamel et al (2018) probed the impact of online advertising on the profitability of Ecobank Nigeria PLC. Data were collected from bank financial statements/repository documents. Analysis was done by Bametric software v. 12 using least squares and regression analysis models. The results suggest that advertisement expenditure had a positive and significant impact on the profitability of Ecobank. The author concluded that online advertising is a robust and verifiable determinant of banking sector profitability.

(Asiagwu, Emuveyan and Utalor, 2022) assessed the influence of advertisements on commercial banks' performance between 2010-2021. The study adopted descriptive statistics, ADF unit Root, co-integration test and ordinary least square (OLS) from E.V.9.0. The variables used were a log of the amount spent on advertisement while return on asset (ROA) proxy for banking sector performance as dependent variables.

Results show a positive relationship between advertisement and return on an asset by 2.346560%, the financial performance of banking sectors in Nigeria. $R^2=0.606602$, which implied that 60.66% of the total model was explained. There was a significant relationship between advertisement and return on an asset with a p-value of 0.0028 for (LOGAD), which is less than 0.05 chosen level of significance ($0.0028<0.05$). Durbin -Watson statistics of approximately 1.70 showed the presence of autocorrelation. The F-statistics of the regression output stood at 15.41957. was showing that the regression plane was statistically significant. The study concluded that advertisements greatly influenced the performance of banks in Nigeria.

In their evaluation, (Adejoke, Kosile, et al 2012) explored the effect of relationship marketing on communal bank performance in southwest Nigeria. Data were collected using multistage random sampling through an adapted questionnaire. The result showed a positive and significant relationship between marking and bank performance; the result also showed that direct marketing is an insignificant predictor of bank performance.

Hadiza (2014) examined the impact of marketing communication on the financial performance of the first bank of Nigeria plc. Data analysis and results show a positive relationship between marketing communication and financial performance measured by ROA.

In a cross-sectional study, Etuk, Amiebiet, and Emmanuel (2022) analysed 50 SMEs in major urban areas in Uyo. Data collected through structured questionnaires and analyses suggest that advertising had a significant and positive effect on the profitability of SMEs in Uyo.

Jihui Chen and Waters (2017) investigated Firm advertising efficiency on profitability; empirical results show a positive relationship between profit and level of advertising.

In Greek, Notta and Kostas(2001) using panel data from 1993-1996 in the food firm, show that advertising increases profitability significantly.

Concept of Profitability

The goal of any business is centred on profitability. With profitability, businesses, including banking businesses, will survive in the long run. Profitability is measured with an income statement which centres on the analysis of three profitability ratios such as return on asset (ROA), return on equity (ROE), and Net interest margin (NIM) (Eze, 2014, Avgeri, Dedramis and Louri 2021).

Profitability can be defined as an accounting profit or economic profit. Accounting profit provides an intermediate view of the viability of the business. In comparison, economic profit provides long - term perspective of the business (Maker, 2019). Banks' profitability represents one of the significant performance indicators, which shows how the bank has produced and sold services. Bank profitability measures institutional performance. Banks profit by generating more than their expenses; their profit comes from services fees charged from their assets. Internal and external variables usually explain variables of profitability. The internal variables are centred on management decisions affecting policy objectives such as liquidity, risk, credit risk, bank size, financial leverage and management expense. External variables are industry-related factors which include competition (Eze, 2014).

Methodology

The research design used for this study was a survey method. This method aligned with research objective and instrument which was structured questionnaire for primary data and secondary data from banks' annual reports and account books.

Population of study

The study population consisted of managerial, supervisory and junior staff of selected banks and their customers.

Sample Size

The sample size was selected using simple random sampling techniques with the formula for cross-sectional studies (Kerlinger, 1986, Etuk,2001)

$$N = \underline{(Z\alpha)^2} \quad \frac{P\mathbf{q}^{8}}{d2}$$

Were $Z\alpha$ is standard regular deviate =1.9

P is the proportion of inpatients assessing healthcare service, which is put at 50%

d is precision for the study =5%

q=1-P(50%)

N=175 is rounded up to a 180 count for a possible non-response rate of 5%.

Study Instrument

Primary data were collected using questionnaires developed for the study. The first part elicited information on demographic characteristics, Age, literacy level, and number of years with the bank. The second section adapted to draw information on major variables, advertising, awareness, patronage, intention to remain with the bank and profitability. The the questions were coded to represent, Strongly Agree[SA]=5; Agree[A]=4; Neutral [N]=3; Disagree [DA]=2; Strongly Disagree [SD]=1.

Table 1: Computation of Reliability of Questionnaire Using Cronbach Alpha

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.873	.900	28

Reliability. The internal reliability of the instrument items was assessed with Cronbach Alpha using SPSS software based on standardised items. For items on the questionnaire to be accepted, the coefficient value should indicate above (0.7) degree of consistency. [Table 1] The high value indicated stability (0.75-0.809) (Hair et al., 2006; Cronbach, 1951). All items in this study were above 0.75.

External Validity

The target population was customers of selected commercial banks in Calabar. The respondent was guided while responding to the questionnaire, and the questions were straightforward to avoid complexity and ambiguity.

Internal validity

To ensure solid internal validity, we adopted appropriate statistical analytical tools. Data were analysed using frequency, percentages, mean scores, standard deviation, correlation and multiple regression.

Construct validity

To ensure validity was strong, the instrument had questions centred on the significant variables of research interest. The constructs were formulated to answer research questions.

Statistical Analysis and Discussion

Demographic statistics

A total of 180 questionnaires were distributed to commercial banks at Calabar Road. One hundred seventy-two were collected back. 8 (4%) of the questionnaire needed to be correctly filled; it was therefore not included, allowing 172 to be analysed.

Table 2. Gender of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	85	49.4	49.4	49.4
	female	87	50.6	50.6	100.0
	Total	172	100.0	100.0	

Out of 172 respondents 87 (50.6%) are female and 85(49.4) are male .

Table 3. Age distribution of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-25 years	35	20.3	20.3	20.3
	26-35 years	56	32.6	32.6	52.9
	36-45	47	27.3	27.3	80.2
	46-55	19	11.0	11.0	91.3
	56-above	15	8.7	8.7	100.0
	Total	172	100.0	100.0	

The age distribution of respondent from [Table 3] shows that (22.6%) of respondents are within age group of 26-35years, (27.3%), followed by age group 18-25 years (20.3%) and those of 46-55years (11.0%). Finally 56- Above years which constituted (8.7%) of the respondents.

Table 4. Literacy Levels of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	FSLC	9	5.2	5.2	5.2
	WASC/GCE	49	28.5	28.5	33.7
	OND	67	39.0	39.0	72.7
	HND	33	19.2	19.2	91.9
	Degree/Masters/PhD	14	8.1	8.1	100.0
	Total	172	100.0	100.0	

On educational qualification of respondents [Table 4] reveald that 67 (39.0%) are OND Deploma holders, 40 (28.3%) of customers are WASC/GCE holders while 33 (19.2%) are HND holders. This is followed by 14 (8.1%) who are holders of Degree/Master/Phd. Only 9 (5.2%) respectively hold FSLC. This indicates that majory of customer interviewed hold OND Certificate.

Table 5. Test of Research Hypotheses one

Customer awereness following Advertising has a positive relationship with banks profitability

Correlations

Control Variables			Adevertisng_on_Customer_Awereness	Profitability_of_bank	Thebank provide quality services
-none-[a]	Adevertisng_on_Customer_Awereness	Correlation	1.000	.168	.317
		Significance (2-tailed)	.	.028	<.001
		df	0	170	170
	Profitability_of_bank	Correlation	.168	1.000	.006
		Significance (2-tailed)	.028	.	.941
		df	170	0	170
	Thebank provide quality services	Correlation	.317	.006	1.000
		Significance (2-tailed)	<.001	.941	.
		df	170	170	0
Thebank provide quality services	Adevertisng_on_Customer_Awereness	Correlation	1.000	.175	
		Significance (2-tailed)	.	.022	
		df	0	169	
	Profitability_of_bank	Correlation	.175	1.000	
		Significance (2-tailed)	.022	.	
		df	169	0	

a. Cells contain zero-order (Pearson) correlations.

The relationship between customer awareness following advertisements and banks' profitability was explored using the Pearson product-moment correlation coefficient. There was a positive correlation between the two variables ($r = 0.175$, $n = 0.169$, $\boldsymbol{p} = 0.001$), with increased advertisement awareness significantly related to higher bank profitability. The results are summarised in [Table 5]. Overall there was a weak positive correlation between advertisement awareness and banks' profitability. An increase in advertisement awareness was correlated with bank profitability. An inspection of Zero-order correlation ($r = 0.168$) suggests that controlling for bank quality services had little effect on the strength of the relationship.

Table 6 . Test of Reseach Hypotheses Two

Customer patronage of banks services following advertising has positive effect on banks profitability.

Correlations

Control Variables			Banks_Profitability_Following_Advertisment	Advertising_on_Customers_Patronage	Thebank provide quality services
-none-[a]	Banks_Profitability_Following_Advertisment	Correlation	1.000	.632	.589
		Significance (2-tailed)	.	<.001	<.001
		df	0	168	168
	Advertising_on_Customers_Patronage	Correlation	.632	1.000	.696
		Significance (2-tailed)	<.001	.	<.001
		df	168	0	168
	Thebank provide quality services	Correlation	.589	.696	1.000
		Significance (2-tailed)	<.001	<.001	.
		df	168	168	0
Thebank provide quality services	Banks_Profitability_Following_Advertisment	Correlation	1.000	.382	
		Significance (2-tailed)	.	<.001	
		df	0	167	
	Advertising_on_Customers_Patronage	Correlation	.382	1.000	
		Significance (2-tailed)	<.001	.	
		df	167	0	

a. Cells contain zero-order (Pearson) correlations.

The relationship between customer patronage following advertisements and banks' profitability was also explored using the Pearson product-moment correlation coefficient. The two variables had a moderate positive correlation ($r = 0.382$, $n = 0.167$, $\boldsymbol{p} < 0.001$), with increased customer patronage following advertisements significantly related to higher bank profitability. Overall there was a reasonably strong positive association between the variables. An inspection of zero-order correlation ($r = 0.632$) suggests that controlling for bank quality services had little effect on the strength of the association between the two variables. Results are summarised in [Table 6].

Table 7. Test of Research Hypotheses Three.

Customer intention not to change to other banks following advertising has positive effect on banks profitability

Correlations

Control Variables			Banks_Profitability_Following_Advertisment	continue_with_bank_intentions	Thebank provide quality services
-none-[a]	Banks_Profitability_Following_Advertisment	Correlation	1.000	1.000	.591
		Significance (2-tailed)	.	<.001	<.001
		df	0	169	169
	continue_with_bank_intentions	Correlation	1.000	1.000	.591
		Significance (2-tailed)	<.001	.	<.001
		df	169	0	169
	Thebank provide quality services	Correlation	.591	.591	1.000
		Significance (2-tailed)	<.001	<.001	.
		df	169	169	0
Thebank provide quality services	Banks_Profitability_Following_Advertisment	Correlation	1.000	1.000	
		Significance (2-tailed)	.	<.001	
		df	0	168	
	continue_with_bank_intentions	Correlation	1.000	1.000	
		Significance (2-tailed)	<.001	.	
		df	168	0	

a. Cells contain zero-order (Pearson) correlations.

The relationship between customers' continued intentions to bank and bank profitability was also explored using the Pearson product-moment correlation coefficient. The two variables had a weak positive correlation ($r = 0.1$, $\mathbf{n} = 0.168$, $p < 0.001$). Results are presented in [Table 7]. Overall there was a positive marginal correlation between not intending to change banks and profitability. An increase in customers remains correlated with bank profitability. Zero-order inspection correlation ($r = 1.00$) suggests that the controlling variable has little effect on the strength of the relationship.

Regressional Analysis

Multiple linear regression was employed at a 95% confidence interval to analyse the hypotheses. The analysis show a significant model summaries $F(1,2)= 0.936$, $p < 0.459$ AdJ $R^2 = -0.002$, R^2 change $=0.28$.

The analysis shows that customer awareness following advertising positively affected banks' profitability ($\beta=0.15$, $t = 1.72$, $p < 0.001$). Hence Hypothesis One is accepted.

The analysis shows that customer patronage following advertising positively affected banks' profitability ($\beta = 0.0012$, $t = 0.111$, $p < 0.911$). Hence Hypothesis two is accepted.

The result also shows a positive effect for customers' intention not to change to other banks (β -0.044, $t = -0.438$, $p<0.662$). They are indicating that Hypotheses Three is accepted. Regarding the control variables, the result shows that we do not have evidence of the effect of Age ($\beta=-0.08$, $t=-104$, $p = 0.91$ and Gender ($\beta = 0.07$, $t=0.86$, $p = 0.39$) on profitability .

Table 8. Multiple Regressional Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change
1	.167[a]	.028	-.002	5.710	.028	.936	5	164	.459

a. Predictors: (Constant), Age_distribution_of_Respondents, Adevertisng_on_Customer_Awereness, Gender_of_Respondents, continue_with_bank_intentions, Advertising_on_Customers_Patronage

Table 9 Multiple Regressional Coefficien

Coefficients [a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	95.0% Confidence Interval for B Lower Bound	95.0% Confidence Interval for B Upper Bound	Collinearity Statistics Tolerance	Collinearity Statistics VIF
1	(Constant)	23.631	4.182		5.651	<.001	15.374	31.889		
	Adevertisng on Customer Awereness	.188	.109	.149	1.724	.087	-.027	.403	.790	1.266

Advertising on Customers Patronage	.015	.138	.012	.111	.911	-.258	.288	.516	1.938
Continue with bank intentions	-.054	.123	-.044	-.438	.662	-.296	.189	.582	1.718
Gender of Respondents	.770	.897	.068	.858	.392	-1.002	2.542	.954	1.049
Age distribution of Respondents	-.040	.382	-.008	-.104	.917	-.794	.714	.931	1.074

a. Dependent Variable: Profitability_of_bank

Discussion

The results of the regressional analysis of the three leading advertising variables (β=0.15, t =1.72, ***p*** <0.001); (β =0.0012, t =0.111, ***p*** <0.911) ; (β-0.044,t =0.438, ***p***<0.662) revealed that advertising had a positive effect on the profitability of commercial banks.

The result is consistent with studies in Turkey, for example (Acar, 2019), which found that advertising impacts the performance and profitability of Turkish banks. Similarly, (Yilma, 2019) observed a positive relationship between advertising and commercial banks' profitability in Ethiopia. Furthermore, in Greek, using panel data (Notta & Kosta, 2001) concluded that advertising significantly increases firms' profitability. In Nigeria, the results are consistent with (Chinweoke, Anetor et al. 2016), whose results show that marketing services (advertising) impacted bank profitability. The results also align with (Okon, Zita et al. 2018), who investigated the impact of online advertising on the profitability of Ecobank and found a positive relationship with the bank profitability and (Asiagwu et al., 2022), who noted a positive relationship between advertisement and return on banks investment (ROE).

Conclusion

The study examined the effect of advertising on the profitability of commercial banks in Calabar. Data and information collected and analysed in the course of the investigation shows significant and statistical relationship and effect between customers awereness, petronage, and intention to remain following advertising and profitability of the banks.

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