



Services quality on customer satisfaction: Evidence from Sri Lankan retail banking industry

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Abstract

In the service industry, a long term relationship with customers is the key success factor that is enormously increasing with the service quality. The Proliferation of new channels and the high demand for differentiated products/services has presented customers with a wide choice in terms of which service to use in order to profitably interact with the bank. The purpose of this study is to present empirical evidence of services quality effect on customer satisfaction. The study measured the relationship between services quality dimensions and customer satisfaction; and ascertain whether various demographic groups report different levels of customer satisfaction with their retail banks. The survey method was used as the main research method for the study. The sample consisted of 100 private sector banks' customers drawn from three popular private sector banks. The Pierson's Correlation analysis was used to identify the relationship between services quality judgments and customer satisfaction. T-test and One-way ANOVA was used to measure the significant differences between demographic groups regarding the satisfaction levels. Further, mean and standard deviation were calculated to specify the central tendency and the dispersion of the responses. The study findings showed that services quality dimensions positively associated with customer satisfaction. As a group, private sector banking customers rated empathy and assurance aspects of services quality having the greatest impact on their satisfaction levels. The findings also confirmed that there is no significant difference in satisfaction levels among the diverse demographic groups. The study recommends the private sector banks should build services along the dimensions of services quality, so that the services generate expected satisfaction among the customers.

Keywords: services quality, customer satisfaction, Retail Banking Industry

Introduction

The service industry is highly important since most of the services are much familiar and popularized today and playing a key role in satisfying customer needs and wants. At present, customers are more diverse in terms of their needs. Clientele demands have been increasingly sophisticated as well as complicated. Moreover, this implies that quality-driven organizations were the only ones to survive. Thus, to make in the business world, companies are encouraged to integrate quality towards the satisfaction of the needs, aspirations and expectations of the customers.

Globalised competition has stressed the strategic importance of satisfaction and quality, in the battle for winning consumer preferences and maintaining sustainable competitive advantages. Because, The Higher the (perceived) service quality, the more satisfied and loyal the customers (Petruzzellis *et al.*, 2006). In particular, financial institutions (i.e. banks) realized the strategic importance of customer value and seem to be continuously seeking innovative ways to enhance

customer relationships. Customers are the major decision makers in any marketing effort. They select a service offering that adds value to them and optimizes their satisfaction. Therefore, bank managers are seeking out most influential determinants of customer satisfaction. Customers' satisfaction leads to their loyalty that helps in realizing economic success of the firm in terms of profitability, market share and return on investment (Scheuing, 1995; Reichheld, 1996).

The banking sector in Sri Lanka, which comprises Licensed Commercial Banks (LCBs) and Licensed Specialized Banks (LSBs), dominates the financial system and accounted for 57 % of the total assets of the financial system (Central Bank). Banks play a central role within the financial system, as they have the capacity to provide liquidity to the entire economy. In terms of the asset base and the magnitude of services provided, the LCBs are the single most important category of financial institution within the banking sector. The LCBs dominated the financial system with a market share of 47 % of the entire financial system's assets and 84 % of the banking sector's assets (Central Bank). Therefore, the health of the financial system depends to a large extent on the soundness of the financial institutions, particularly the LCBs. There were 22 LCBs by end 2009, operating through a network of 2,214 branches and 2,788 other service outlets. There were also 1,757 Automated Teller Machines (ATMs) as at end 2009, reflecting the high reliance on card based payment modes by the banking community. It suggests that commercial banks in Sri Lanka play a vital role and lead the financial system. Banks have to actively manage the customer's service usage in order to benefit from the different strengths of its portfolio. In doing so, it is imperative to identify the relevant factors which influence service quality and customer satisfaction particularly importance for the banks' survival. Therefore, this study intended to identify whether these commercial banks, especially private sector banks providing a quality service to satisfy their customers.

The primary objective of the study is to explain the nature and degree of the relationship between services quality and satisfaction of private sector banking customers. Further, the study attempts to investigate the role of demographic factors in determining customer satisfaction.

In the service literature, strong emphasis is placed on the importance of service quality perceptions and the relationship between customer satisfaction and service quality. Service quality has been described as a form of attitude that results from the comparison of expectations with performance (Cronin and Taylor, 1992). Gronroos (1982) argued that customers, while evaluating the quality of a service, compare the service they expect with perceptions of the services they actually receive. It has been argued that the quality of service is not a one-dimensional construct. Rather, service quality incorporates various dimensions that relate to both core and augmented service offerings (Bitran and Lojo, 1993; Gronroos, 1984; Lewis, 1993). (Parasuraman et al., 1988) described five dimensions of service quality: reliability, tangibles, responsiveness, assurance and empathy. (Parasuraman et al., 1991) argued that reliability was mainly concerned with the outcome of service whereas tangibles, responsiveness, assurance and empathy were concerned with the service delivery process. The customers not only judge the accuracy and dependability (i.e. reliability) of the delivered service but they also judge the other dimensions as the service is being delivered (Parasuraman et al., 1991). Customer satisfaction can thus be based not only on the judgments of customers towards the reliability of the delivered service but also on customers' experiences with the service delivery process.

In the survey of (Thomas and Brown, 1990), it has been noted that quality, customer satisfaction, and identification of customer value were identified by their respondent companies as either important or very important. Those companies that have high quality of services as well as goods had higher market share, higher return on investment and asset turnover than companies with perceived low quality. It basically affects the competitiveness of the company, long-term profitability and "repurchase intentions" of both existing and potential customers. Because it

affects those factors, then it certainly affects customer satisfaction (Anderson and Fornell, 1994). Gronroos (1984) have emphasized the link of service quality with customer satisfaction, which is, the degree of fit between customer's expectations and perceptions of service.

Banking is one of the many service industries where customer satisfaction has been the focus of research (Holliday, 1996). This is mainly because of the fact that the banking sector is increasingly experiencing a high level of competition. This puts a tremendous amount of pressure on banks to improve their services (see for example, Levesque and McDougall, 1996; Goode and Moutinho, 1995; File and Prince, 1992). However, a similar argument can be made in connection with the banking sector in many Asian countries. For instance, the banking sector in Sri Lanka has become competitive in recent years. Customers are also increasingly becoming sophisticated as they have access to the latest forms of information technology (such as the Internet). Consequently, many financial institutions have to focus on increasing customer satisfaction through improved quality of their services.

Bank marketers' use of demographic market segmentation can result in better and more effective target marketing. With this segmentation system, a wide range of demographic characteristics are analyzed, including gender, age, income, and education.

Methodology

The survey method was used as the main research method for the study. The target population of this study includes all customers of private sector banks in Sri Lanka. Ideally, to make generalizations about such a population, one should start with a sampling frame from which a random sample would be drawn. However, due to the absence of the prospect for obtaining lists of existing customers and their contacts, a convenient sampling approach was followed as the best possible alternative. Although the sample is one of convenience, data were gathered at different locations (offices, classrooms), to reduce location biases. Since this study was focused on the banking industry in general, were careful not to collect data outside or near any bank. The sample consisted of three top rated private sector banks (Commercial Bank, Hatton National Bank, Sampath Bank) customers in the southern part of Sri Lanka. The great part of respondents from Commercial bank (40%) and remaining respondents consisted from other two selected private sector banks (Hatton National bank and Sampath bank) with a same percentage (30%).

In order to gather data for the research study, the conceptual framework in Figure 1 was used.

It was considered that the dimensions reflected in the conceptual framework are the key indicators of services quality of a bank. Thus the study assumed that these indicators would reflect the impact of services quality on the satisfaction of banking customers. Additional demographic variables such as, gender, age, education and income are used to determine the significant differences of customer satisfaction with the banks chosen for the study.

A questionnaire was developed for the survey and it consisted of two parts. The first part of the questionnaire solicited information about the demographic characteristics of the respondents to identify the role of demographic factors in determining customer satisfaction. The second part uncovers the services quality and customer satisfaction of private sector banking services. The second part of the questionnaire was developed the method adopted by using Parasuraman *et al.* (1988), SERVQUAL: a multiple-item scale for measuring consumer perceptions of service quality. The researchers decided to select only 15 attributes out of the 21 identified attributes and would like to note this as a limitation of the study. Further three attributes were identified related to service satisfaction was taken from the scale developed by Oliver (1997).

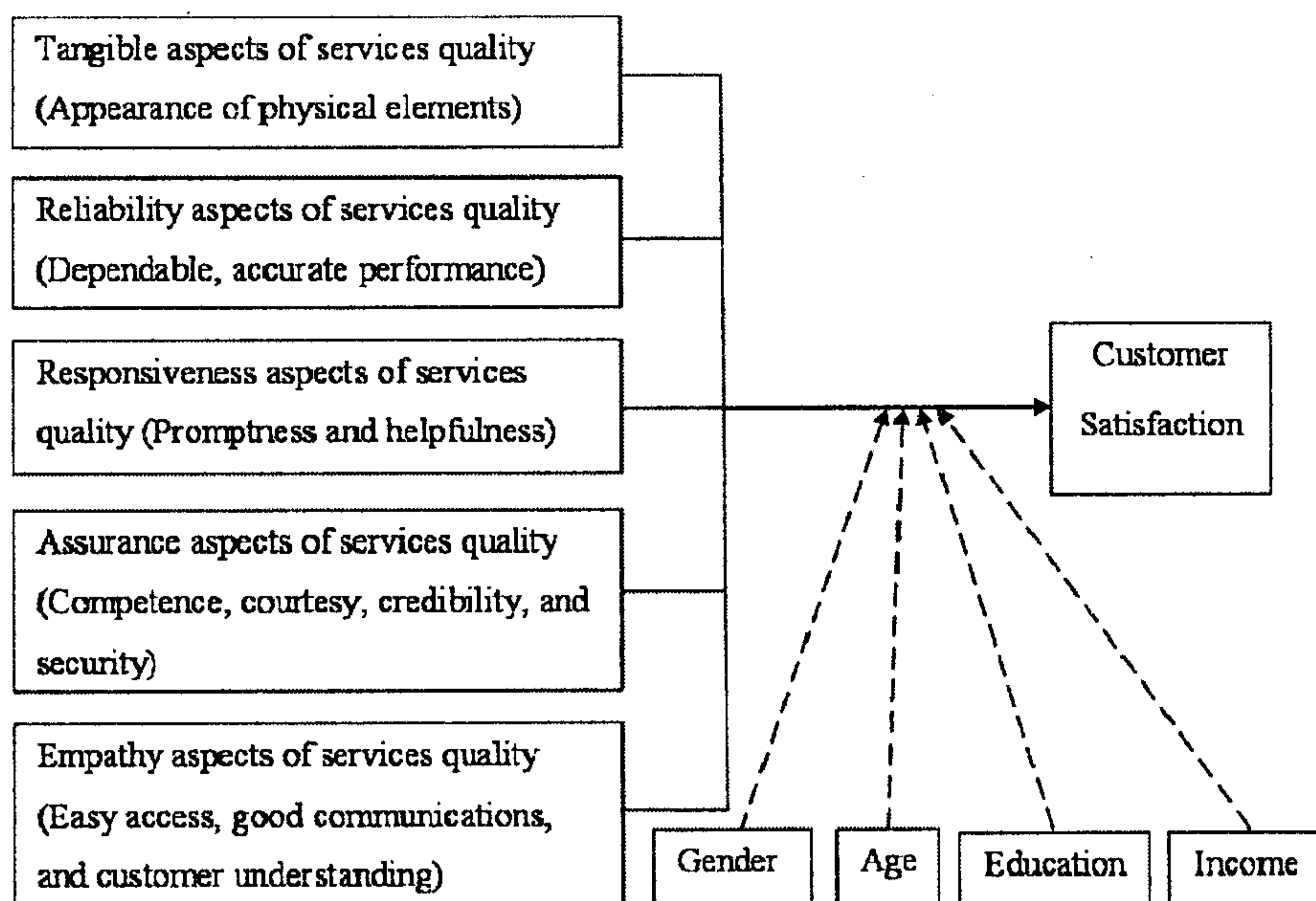


Figure 01: Conceptual framework

Operationalization

Table 01 depicts the operationalization of variables.

Table 1: Operationalization of variables

Tangibles	Bank provides services using modern-looking equipments.
	Physical facilities at bank are being visually appealing.
	Employees at bank are neat in appearance.
Reliability	Bank insists on error-free records.
	Bank performs the service right the first time.
	Bank provides services at the time promise to do so.
Responsiveness	Bank pays a sincere attention on customer problems.
	Bank employees are always willing to help customers.
	Bank employees are never too busy to respond customer requests.
Assurance	Bank employees have the knowledge to answer customer questions.
	Customers feel safe in their transactions with the bank.
	The behavior of bank employees are instills confidence.
Empathy	Bank employees clearly understand their customers' specific needs.
	Bank operating hours are convenient to all their customers.
	Bank employees communicating with customers in an understandable manner.
Customer Satisfaction	Customers are satisfied with the physical setting of the bank.
	Customers are satisfied with the banking skills, courtesy and friendliness of bank employees.
	As a whole Customers are satisfied with the service of the bank.

Source: Services Quality: Adapted from Parasuraman et al. (1988), *SERVQUAL: A multiple-item scale for measuring consumer perceptions of service quality*, *Journal of Retailing* 64, 12-40.

Customer Satisfaction: Adapted from Oliver, R.L. (1997), *Satisfaction: A Behavioral Perspective on the Consumer*, New York: McGraw-Hill.

Data analysis of this study aims to identify the nature and extent of the influence of services quality on customer satisfaction of banks. The Pierson’s Correlation analysis was used to identify the relationship between services quality judgments and customer satisfaction. T-test and One-way ANOVA (Analysis of Variance) was used to measure the significant differences between demographic groups regarding the satisfaction. In addition to the above measurements, mean and standard deviation were calculated to specify the central tendency and the dispersion of the responses.

Results and Discussion

Data gathered from the survey was analyzed to determine the impact of services quality on customer satisfaction. There, the correlation between each of the services quality dimensions and customer satisfaction was calculated and their degree of relationship and the significant relationships were identified. In addition to that differences in customer satisfaction among various demographic groups were identified.

The internal consistency of the study constructs were measured based on the Cronbach’s Alpha. Cronbach’s Alpha for each dimension is > 0.6 and it reflects a higher level of internal consistency of the attribute measures of services quality and customer satisfaction. Overall Cronbach’s Alpha also was reported > 0.6 (0.897), showing that instruments are sufficiently reliable.

Relationship between overall services quality and customer satisfaction

A correlation analysis of all the independent variables (Parasuraman *et al.*’s five service quality dimensions) and the dependent variable (satisfaction) revealed a statistically significant coefficient correlation of 0.709, indicating a relatively strong positive relationship between the dependent and independent variables. In other words, customers who positively perceive the dimension of the services quality provided by a specific service provider are likely to feel satisfied with the service provider. According to Table 02, the descriptive statistics for the measurement of customer satisfaction (M= 5.2800, SD = 0.9305) and overall service quality (M= 5.1480, SD = 0.7322) shows that customers would like to receive a level of service close to their desired expectations.

Table 02: Relationship between overall services quality and customer satisfaction

	Mean	SD	r-value	P-value
Overall services quality	5.1480	0.7322	0.709	0.000
Customer satisfaction	5.2800	0.9305		

Correlation is significant at 0.01 levels (2-tailed)

Source: Survey Data, 2010

Relationship between services quality dimensions and customer satisfaction

As predicted in Table 03 each of the five dimensions was revealed to have statistically significant positive correlations with customer satisfaction. These dimensions were (from the highest to lowest): (1) Empathy, (2) Assurance, (3) Reliability, (4) Responsiveness, and (5) Tangibles. Unlike results from the (Lassar *et al.*, 2000), study about the private banking sector of Sri Lanka, reliability was not found to be the most important dimension for customer satisfaction for the

Southern province population. The most significant correlation was between customer satisfaction and empathy, resulting in a score of 0.620. Assurance had the second most significant correlation with satisfaction at 0.593. These results show that Southern Province customers expect their financial institutions to be both empathy and assurance when offering services, indicating that they must provide services with easy access, good communications, and customer understanding and in a competent, courteous, credible and secure manner to satisfy their customers. Reliability and Responsiveness aspects of services quality revealed a coefficient of correlation 0.540 and 0.502 respectively. Tangible aspects of services quality had relatively weak positive correlation (0.385) with customer satisfaction. Since reliability, responsiveness, assurance and empathy aspects of services quality shows a relatively strong positive relationship and tangible aspects of service quality shows a relatively weak positive relationship with customer satisfaction.

Table 03: Correlations of services quality dimensions with customer satisfaction

Service Quality Dimension	Correlations with Satisfaction at 0.01 levels	P-value
Tangibles	0.385**	0.000
Reliability	0.540**	0.000
Responsiveness	0.502**	0.000
Assurance	0.593**	0.000
Empathy	0.620**	0.000

Source: Survey Data, 2010

Significant differences in customer satisfaction between demographic groups

The role of demographic factors in determining customer satisfaction, the independent sample samples t-test” and one-way ANOVA test were used to identify the significant differences between demographic groups. As predicted by Table 04, Findings indicated that all of the demographic factors gender, age, education, and income levels were not shown a significant differences regarding customer satisfaction. Since significant level is ($p > 0.05$) for all the demographic groups at 0.01 level. In other words, according to findings, satisfaction of different clusters of customers does not seem to differ significantly across gender, age, education or income levels.

Table 04: Differences between demographic groups with customer satisfaction

Demographic Factor	T-value	F-value	DF	P-value
Gender	1.733		98	0.086
Age group		1.099	4	0.361
Education level		0.563	3	0.641
Monthly Income level		2.256	3	0.087

Source: Survey Data, 2010

Conclusion

Results of the study provide important insights for the retail banks to understand the impact that services quality has on customer satisfaction. First, research confirmed that, as a group, Parasuraman’s the five dimensions of service quality are important to Southern province customers’ satisfaction with their retail banks. Second, each of dimensions (tangibles, reliability,

responsiveness, assurance, and empathy) demonstrate statistically significant positive correlations with satisfaction, and empathy aspects of services quality is determine as the most impacted determinant of Southern province private sector banks customers satisfaction, which provides bank executives with valuable information they can use to target employee training and service enhancements. Retail banks that maximize service performance in these five areas should experience greater customer satisfaction across the Southern province marketplace than competitors with weaker quality levels in these areas. Third, the results showed no significant difference in satisfaction levels among the region's different demographic groups.

The study finally reflects that the management should carefully construct a service along the dimensions of services quality, so that the service generates expected satisfaction among the customers. There, the present study provides the empirical evidences on the nature of relationship between services quality and customer satisfaction. Therefore study recommends that identifying and establishing of quality management programs, planning and implementing services marketing programs, and all other aspects related to the quality management should be implemented with a careful understanding on the services quality and its impact on the customer satisfaction.

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