

Improving Service Quality as the Strategy to Keep the Customer Satisfied: A Study in the Context of Banks in Sri Lanka

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Abstract

The purpose of this study was to evaluate the customer satisfaction of the banking sector in Sri Lanka, based on customer perception regarding service quality. This was an empirical study using mainly primary data collected through a well-structured questionnaire which has been personally administered on a sample of sixty customers from commercial banks in Sri Lanka. Results revealed that although all the independent variables are significantly correlated with customer satisfaction, the variable assurance, reliability and responsiveness are strongly correlated with customer satisfaction. The results of the multiple regression analysis revealed that 51.1% variation of the dependent variable is explained by the independent variables (service quality), which in fact, is a strong explanatory power of regression. Assurance, Reliability, Responsiveness have significant strong positive relationship between assurance and customer satisfaction. Further, it is observed that recently, bank increase the level of assurance in their service in order to retain existing customers and even attract new ones. The findings based on three different independent variables assurance, reliability and responsiveness showed that all these variables influenced consumer satisfaction in banking sector. However, result suggest that no significant relationship between tangibility and empathy on customer satisfaction. There is a positive relationship between the customer satisfaction and variables. Further studies are also discussed.

Keywords: Assurance, reliability, responsiveness, tangibility and empathy

Introduction

Customer satisfaction is one of the important tools to run a business and to achieve the mission statement. Indeed, customer satisfaction has great significance for the future of an institution and it is seen as a basis for securing market position and achieving other objectives of the institution. Therefore, achieving high levels of service is one method to keep customers both satisfied and loyal (Perng, 2007).

The success or failure of a service provider depends largely on the quality of its relationship with its customers (Panda, 2003), which helps determine customer satisfaction (Lymeropoulos et al., 2006). Almost all organizations compete based on service, to some degree. The American Management Association's most exhaustive study involved a survey of more than 3000 respondents in several countries. Seventy-eight percent of these respondents reported that the key

to competitive success was improving the quality and service they provided to customers, while 92 percent indicated that, regardless of their job description, one of their key responsibilities is to provide superior service (Greenberg, 1990).

According to Kang (2004) many service delivery errors and problems can occur and that is not beneficial for the reputation of the organization. Ha and Jang (2009) argued that service failure occurs when customer perceptions do not meet customer expectations. The problem with service failure is that it may lead to a destroyed relationship between the customer and the organization. Thus the importance of customer satisfaction in today's dynamic corporate environment is obvious as it greatly influences customer's repurchase intentions whereas dissatisfaction has been seen as a primary reason for customer's intentions to switch. Satisfied customers are most likely to share their experiences with other five or six people around them. Equally well, dissatisfied customers are more likely to tell another ten people about their unfortunate experiences with a particular organization. In order to achieve customer satisfaction, organizations must be able to build and maintain long lasting relationships with customers through satisfying various customers' needs and demands (Pizam & Ellis, 1999). Otherwise, the combined effect of negative word-of-mouth, switching and reduced consumption will affect the productivity and profitability of the bank.

Banks play an important and active role in the financial and economic development of a country. An effective banking system greatly influences the growth of a country in various sectors of the economy. Practitioners in the banking industry face a large number of complex challenges in the global marketplace. It is crucial for banks to better understand changing customer needs and adopt the latest information technology system in order to compete more effectively with global organizations (Malhotra & Mukherjee, 2004; Bedi, 2010).

Bank is a customer oriented services industry. A bank depends upon the customers for their survival in the market. The customer is the focus and customer service is the differentiating factors (Guo et al., 2008). A bank can differentiate itself from competitors by providing high quality customer service (Naeem & Saif, 2009). Efficacy of customer service is related with progressive operation. In the competitive banking industry, customer satisfaction is considered as the essence of success. Organizations operating in service industries should consider service quality a key strategic issue for the business success (Spathis et al., 2004). Those service providers who establish a high level of service quality retain a high level of customer satisfaction; they also obtained a sustainable competitive advantage. Research indicates that companies with an excellent customer service record reported a 72% increase in profit per employee, compared to similar organizations that have demonstrated poor customer service; it is also five times costlier to attract new customers than to retain existing customers (Duncan, 2004).

Customers in the banking sector are in a strong bargaining position due to the significant growth of banks. Therefore, banks have to provide service carefully because of the availability of banks. Service quality has been a vital issue of discussion and research over the past three decades. Research on service quality has well established that the customer perception of the quality of a service depends on customer's pre-service expectations. Studies by Parasuraman et al. (1985). Zeithmal et al. (1990) noted that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers. Accordingly, Chang (2008)

deemed that excellent service quality is vital to business success and survival. Hence, delivering quality service to clients is a necessity for success and survival in today's competitive world (Kheng et al., 2010). Banks do business with customer's money. So, the more satisfied customers are involved in a bank's row, the more secure business and profitability. If a bank cannot provide proper customer service, then the bank would be losing its customers. The profitability would also be decreasing because of the poor customer service.

The issue of service quality is a critical one throughout service industries as business attempt to sustain their competitive advantage in the marketplace. Owing to the financial services like banks' competition in the marketplace through undifferentiated products, this highlights service quality as the basic competitive tool (Stafford, 1996). In other words, a banking organization may attract customers through the provision of high quality services. As such, structural modifications have led to banks being enabled to carry out various activities which in turn, allow them to be more competitive even against non-banking financial institutions (Angur et al., 1999). This dissatisfaction could be because of a variety of reasons. Excellent service quality is not an optional competitive strategy which may, or may not, be adopted to differentiate one bank from another: today it is essential to corporate profitability and survival. The link between service quality and customer satisfaction has been submitted to intense scrutiny by leading service quality researchers (Bitner & Hubbert, 1994; Bolton & Drew, 1994).

Review of Literature

Banking institutions across the globe have recognized the importance of customer satisfaction and of developing and maintaining enduring relationship with their customers as two crucial parameters leading to increased business profits. At the same time, several banking institutions are experiencing increasing level of retail customer dissatisfaction. Research suggests that customer dissatisfaction is still the major reason of bank customers' switch to other banks (Manrai & Manrai, 2007).

Reddy (2013) studied the banking industry like many other financial service industries is facing a rapidly changing Market, new technologies, economic uncertainties, fierce competition, and especially more Demanding customers; and the changing climate has presented an unprecedented set of Challenges. Customer service is one integral part of any facet of banking and it defines future of any banking organization. In banking sector, the whole range of activity and generation of income swivels around the customer. From a very comfortable and peaceful environment, now the Indian banking sector is characterized by stiff competition for the satisfaction of customers and profit war between different banking groups

Rasheed and Aimin (2012) stated that since late 1990's entry of foreign banks and privatized banks created an environment of competition and customer satisfaction became very important for banks in order to attract more and more customers for increasing customer base. This study results proposed more emphasis on quality of customer service and product assortment and innovation to increase the level of customer satisfaction.

Hari and Vikasjain (2012) emphasized that in recent years the banking industry has been undergoing rapid changes, reflecting a number of underlying developments, and public and

Private Sector Banks have had the distinction of being recognized as banking institutions, which provides satisfying services to its customers or account holders

Singh and Arora (2011) stated that the bank system is facing challenges with stiff competition and advancement of technology. It becomes imperative for service providers to meet or exceed the target customers' satisfaction with quality of services expected by them and this investigation was planned with the objective to assess the extent of use of services especially the IT enabled services in these banks and to analyze the constituent factors affecting customer satisfaction with the quality of services. Darrell and Westjenn (2009) revealed that many argue that the private sector is more entrepreneurial and innovative than the public sector. However, government agencies don't have customers in the traditional sense and aren't required to show a profit on their revenues.

Abdullah and Sebastian (2009) explored the relationships among service quality features (responsiveness, assurance, and empathy), perceived value and customer satisfaction. The results indicated that the interaction between perceived value and responsiveness is not significantly correlated with customer satisfaction, the interaction between perceived value and assurance also does not correlate significantly with customer satisfaction and the interaction between perceived value and empathy correlated significantly with customer satisfaction. Thus the results demonstrated that perceived value has increased the effect of empathy on customer satisfaction, but it has not increased the effect of responsiveness and assurance on customer satisfaction.

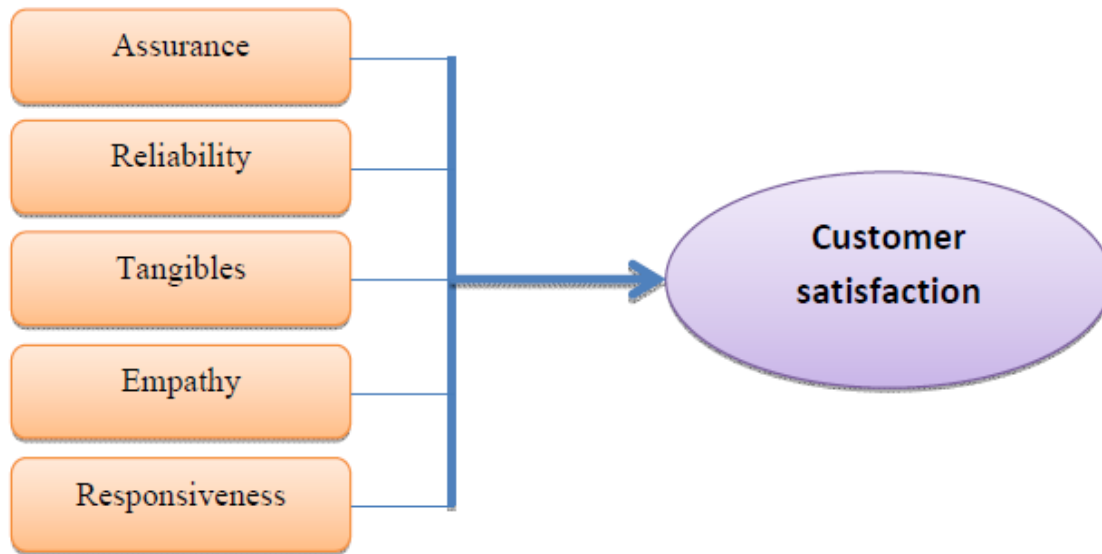
Rashid and Shahabuddin (2004) stated that banking activities are aimed at serving the customers in various areas and thus performance of a bank depends upon the level of its customers' satisfaction. Many areas of customer services have been identified that are manifested with problems, which cause customer dissatisfaction. One of the problematic areas is long queue that causes delays in getting services from banks and lack of quick disposal, absence of service providers at point of sale, etc. have major impact on the long queue. The attitude and mood of the service providers the ways of providing information and accountability towards the customers are accuracy, full services offering, consistency of the services, etc. are also found to be equally important to the customers and as such this study suggests that the aspect needs to be improved. As service organizations, banks should have efficient complaint handling system. But neither private nor government banks have this system which needs to be established on an urgent basis to uphold the service quality of banking sectors. On the basis of the above problem statement this study has an objective of identifying the relationship between service quality and customer satisfaction.

Methodology

This study examines the impact of service quality dimensions which are tangibles, reliability, responsiveness, assurance, empathy are stated as independent variables and customer satisfaction is dependent variable. These relationships are based on many previous studies (Nvaratnaseelan & Elangkumaran, 2014; Snehalkumar & Mistry, 2013; Rashed & Tabassum, 2014; Ghalip, 2014; Jane, Many & Agbor, 2011; Aborampah, 2010).

Independent Variables

Dependent Variable



Data was obtained banks for this study from a simple random sample of bank customers in the public and private without limited to specific area, or specific branch. Sixty questionnaires are issued to collect data for different types of customers and various branches. The questionnaire is designed with thirty questions and it has three sections, section A, B, and C. Section A consists of questions about the demographic characteristics of the respondents. The section B gathers information about service quality which has five dimensions, assurance (AS), reliability (RE), tangibles (TA), empathy (EM) and responsiveness (RS). The last section is reserved to collect the information related to customer satisfaction (CS). All the questions except section A were measured using likert scale.

In order to estimate the internal reliability, this study has performed Cronbach’s Alpha test of reliability. Applying this test specifies whether the items pertaining to each dimension are internally consistent and whether they can be used to measure the same construct or dimension of service quality. According to Nunnally (1978) Cronbach’s alpha should be 0.70 or above. But, some of studies 0.60 also considered acceptable (Gerrard, et al, 2006). Results of the analysis shown the alpha value for tangible is 0.71, reliability is 0.68, responsiveness is 0.81, assurance is 0.75, empathy is 0.92 and satisfaction is 0.91. In this study, the value of alphas is more than 0.7 and one dimension is nearest to 0.7 or above 0.6. It can be concluded that the measures used in this study are valid and highly reliable.

To know further detail about relationship between factor and there correlation, factor analysis was performed using SPSS software and found that KMO (Kaiser-Meyer-Olkin Measure of Sampling Adequacy) test, adequacy value must be more than 0.50, and Bartlett's Test of Sphericity, with a p value less than 0.001. Since the satisfaction variables were large in number and were inter-related, factor analysis was done to extract the factors affecting the satisfaction of clients. Principle component analysis with Varimax the rotation method was employed. As per the Kaiser (1960) criterion, only factors with Eigen values greater than one were retained. Five factors in the initial solution have Eigen values greater than one. Together, they accounted for almost 70 percent of the variability in the original variables, which can be regarded as well

beyond sufficient. After extracting the Eigen values, rotation of principal components was done through varimax rotation. After the number of extracted factors was decided upon, the next step was to interpret the factors by identifying which factors were associated with the original variables.

In order to test the relationship between independent variables and the dependent variable, correlations and multiple regression analysis are carried out. Results of the correlations among variables are presented in the Table 2.

Table 2: Results of the Correlations among studied Variables

	AS	RE	TA	EM	RS	SF
AS	1					
RE	.290	1				
TA	.466**	.352**	1			
EM	.201	.236	.190	1		
RS	.319*	.216	.279	.452**	1	
SF	.425**	.305*	.238	.203	.368**	1

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

According to the correlation results, all the independent variables are significantly correlated with customer satisfaction. The variable assurance, reliability and responsiveness are highly correlated with customer satisfaction.

Table 3: Results of Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-1.545	5.531		1.000	.000
AS	.122	.158	.083	.771	.044
RE	.149	.163	-.095	.913	.045
TA	.065	.155	.048	.420	.076
EM	.919	.138	.720	6.670	.070
RS	.003	.097	.003	.028	.008
R	0.715				
R square	0.511				
Adjusted R square	0.466				
F	11.301				0.000

Numbers of Observation = 60

Durbin Watson = 2.073

a. Dependent Variable: SF

The results of the multiple regression analysis are presented in Table 3. From the Table 3, it has been seen that R value is 0.715. Therefore, R value (0.71) for the overall service quality dimension namely tangibles, reliability, responsiveness, assurance and empathy suggested that there is a strong effect of these five independent variables on customer satisfaction. From the Table 3, it can also be observed that the coefficient of determination, R-square value is 0.51, which represents that 51.1% variation of the dependent variable (average customer satisfaction) is due to the independent variables (service quality), which in fact, is a strong explanatory power of regression.

In the Table 3 unstandardized coefficients indicated how much the dependent variable varies with an independent variable, when all other independent variables are held constant. The beta coefficients indicated that how and to what extent SERVQUAL dimensions such as assurance, reliability, tangibility, empathy and responsiveness influence customer's satisfaction of a bank. As Table 3 shows, only responsiveness had a significant effect on customer satisfaction (p -value < 0.01). The F value is significant, and is significant as the level of significance is less than 5% ($p < 0.05$). This indicates that the overall model was a reasonable fit and there was a statistically significant association between service quality dimension and customer satisfaction. The value of Durbin Watson 2.073 which is around two reveals there is no autocorrelation between variables. Hence it can be concluded that service quality dimension has a significant impact on customer satisfaction of the banking sector.

Assurance, which is the feeling of customers of safety, has a significant strong positive relationship between assurance and customer satisfaction. Because in recent years, banks increase the level of assurance in their service in order to retain existing customers and even attract new ones.

Reliability concerns the accuracy and timeliness of the service. According to the responses by the participants, reliability has a positive relationship with customer satisfaction. Banks increase the service quality based on the customer's needs. Perhaps due to the increased popularity of phone and internet banking, which gives customers an alternative to face-to-face customer service, the 24/7 nature of internet and phone banking means that retail banks can reduce their operational costs by not having to extend branch hours and employ extra staff. Customers now place higher demands on the reliability of machines than on humans when dealing with banks.

However, results suggest that no significant relationship exists between empathy and customer satisfaction. Although most customers would enjoy using new bank facilities, a number of customers prefer face-to-face service. Tangibles include the facilities of banks, equipment and representatives. It has a positive relationship with customer satisfaction but it is not significant. Therefore, banks should moderate the facilities more and more to attain significance. Responsiveness is how timely a bank reacts to its customers' needs. In this study, responsiveness has a relationship with customer satisfaction at a significant level. This result indicates that customers prefer to deal with machines rather than humans. Machines generally have shorter response times and can be improved upon constantly, whereas human responsiveness can be affected by human emotion.

Conclusion and Findings

As service organizations, banks should have efficient complaint handling system. But neither private nor government banks have this system which needs to be established on an urgent basis to uphold the service quality of banking sectors. On the basis of the research problem statement this study had an objective of identifying the relationship between service quality and customer satisfaction

This study examined the impact of service quality dimensions that are tangibles, reliability, responsiveness, assurance, empathy are stated as independent variables and customer satisfaction is dependent variable. According to the correlation results, all the independent variables are significantly correlated with customer satisfaction. The variable assurance, reliability and responsiveness are highly correlated with customer satisfaction.

The results of the multiple regression analysis suggested that there is a strong effect of all five independent variables on customer satisfaction. From the findings, it can also be observed that the coefficient of determination, R- square value is 0.51, which representing that 51.1% variation of the dependent variable (average customer satisfaction) is due to the independent variables (service quality), which in fact, is a strong explanatory power of regression.

The results suggest that banks should increase the level of assurance in their service in order to retain existing customers and even attract new ones. In terms of reliability concerns the accuracy and timeliness of the service. However, customers now place higher demands on the reliability of machines than on humans when dealing with banks. The dimension of empathy the result suggest that no significant relationship between empathy and customer satisfaction. Although most customers would enjoy using new bank facilities, a number of customers prefer face-to – face service. Tangibles have positive relationship with customer satisfaction, but no significant effect on it. Therefore, bank should moderate the facilities more and more to attain significant. Responsiveness has relationship with customer satisfaction. Because this result indicates that customers prefer to deal with machines rather than humans. Machines generally have shorter response times and can be improved upon constantly, whereas human responsiveness, can effected by human emotion.

Recommendations

A list of recommendations can be made based on the findings of this study. Since bank is a service oriented organization, providing continuous training to the employees on issues like courtesy, etiquette and communication skills while dealing with customers is of immense importance. Since bank is a customer oriented organization, hiring potential human resource is a must. And for this reason, the bank should hire self-motivated, enthusiastic employees who will like to deal with customer and will try to solve customer complaints and other issues in an effective manner. Only then the bank can render superior customer services and enjoy the benefit in the long run.

The bank can set itself as a market leader in customer service by going beyond the conventional way of dealing with customers, such as, having customized working hour for every client, delivering and accepting payment as per the convenience of the customer in times of difficulty of the customer, which hardly other competitors provide. This will help the bank to retain the

existing customer very well. In order to retain the existing customers and to improve service quality, the bank should continuously maintain error-free transactions, since bank accounts and figures are very sensitive for each and every customer.

The management needs to improve quality services so as to satisfy customer's needs. The bank needs to pay much attention on the customer complaints in order to satisfy the customer's expectation. Individual attention should be given to customers in order to better understand their needs and better satisfy them. The management of the bank should regularly run research activities in order to keep a regular track of customer satisfaction level. Regular research should also be conducted to find out customer expectations about various service aspects. As customer expectations and satisfaction are not static figures, regular research at sufficient intervals should be conducted.

This study indicates that customer satisfaction vary according to the nature of service. Therefore, conducting further studies on this topic will be very helpful to fulfill customer satisfaction through the sound full banking system.

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