AN INVESTIGATION OF CUSTOMER SATISFACTION DETERMINANTS: AN EMPIRICAL STUDY IN JAFFNA DISTRICT PRIVATE BANKING SECTOR

SRITHARAN, V

Department of Accounting, Faculty of Management Studies and Commerce
University of Jaffna, Jaffna, Sri Lanka

RAJUMESH, S

Department of Marketing, Faculty of Management Studies and Commerce,
University of Jaffna, Jaffna, Sri Lanka

Abstract

The private banking sector in Jaffna grew rapidly speed after the post war conflict (2009). Along with its importance to the country's economy, the level of competition has also increased. Many firms are focusing their efforts on maintaining a loyal customer base. This is particularly true in the financial services sector where deregulation has created an environment that allows consumers considerable choice in satisfying their financial needs. In response, many retail banks are directing their strategies towards increasing customer satisfaction and loyalty through improved service quality. By increasing loyalty, a retail bank: reduces its servicing costs; gains knowledge of the financial affairs and needs of its customers; and has an opportunity to cross-sell existing and new products and services. Based on this background the present study is initiated to investigate the customer satisfaction determinants in private banking sector in Jaffna district of Sri Lanka.

The sample is randomly made up of 87 customers, consisting of the customers from three private banks in Jaffna district of Sri Lanka. The data have been collected by using the structured questionnaire, which consists of two parts. Part 1 contains the questions related to the socio-demographic profiles of respondents. Part 2 contains 22 statements related to service quality, service features, customer complaint handling and customer satisfaction.

The results reveal that, Service quality and Service features influence to determine Customer satisfaction of the private banks in Jaffna district. And service quality, has a greater impact on customer satisfaction. The study could be quite useful from the policy perspective in providing the guidelines to develop proper strategies.

Keywords- Service quality, Service features, Customer complaint, Customer satisfaction, Private banks.

Introduction

In an era of mature and intense competitive pressures, many firms are focusing their efforts on maintaining a loyal customer base. This is particularly true in the financial services sector where deregulation has created an environment that allows consumers considerable choice in satisfying their financial needs. In response, many retail banks are directing their strategies towards increasing customer satisfaction and loyalty through improved service quality. Retail banks are pursuing this strategy, in part, because of the difficulty in differentiating based on the service offering. Typically, customers perceive very little difference in the services offered by retail banks and any new offering is quickly matched by competitors (Coskun and Frohlich, 1992; Devlin et al., 1995).

The private banking sector in Jaffna grew rapidly speed after the millennium (2000s). Along with its importance to the country's economy, the level of competition has also increased. Also, these retail banks, like many other service providers, have discovered that increasing customer retention rates can have a substantial impact on profits. The task facing these managers is to focus on those activities that result in meeting or exceeding customer expectations. The question is: what are the major determinants of customer satisfaction? The main objective of this paper is investigate these determinants in the private retail banks in Jaffna district. To accomplish the objective, information was collected from 100 respondents who rated their financial institution on aspects of service quality, service features, customer complaint handling and customer satisfaction. The results provide insights for managers concerned with improving customer satisfaction in retail banking.

Background

The rewards to firms that establish a loyal customer base have been well documented (Armstrong and Symonds, 1991; Heskett et al., 1994; Reichheld and Sasser, 1990). In general, increased loyalty leads to lower costs of servicing the firm's customers, reduced marketing expenditures, increased business from the existing customer base and greater profits. These rewards are particularly true in the retail banking sector. By increasing loyalty, a retail bank:

· reduces its servicing costs (i.e. accounts do not have to be opened or closed, and credit ratings do not have to be established);

· gains knowledge of the financial affairs and needs of its customers (thereby allowing effective and efficient targeting); and

· has an opportunity to cross-sell existing and new products and services.

In one case, a retail bank that increased its customer retention rates by 5 per cent increased its profits by 85 per cent (Reichheld and Sasser, 1990). Improving customer

satisfaction, and thereby retention rates, can come from a variety of activities available to the firm. The existing evidence suggests that major gains in customer satisfaction are likely to come from improvements in:

- service quality;
- service features; and
- customer complaint handling.

Service quality

There are strong linkages between service quality dimensions (e.g. courteous service providers) and overall customer satisfaction (Anderson and Sullivan, 1993). However, there has been considerable debate as to the basic dimensions of service quality (see Brown et al., 1993 and Cronin and Taylor, 1992, for reviews), the measurement of these dimensions (Brown et al., 1993; Parasuramanet al., 1993; Smith, 1995; Teas, 1993), and the components of customer satisfaction (Hausknecht, 1990; Yi, 1990). Surprisingly, little empirical research has examined the importance of service quality dimensions in determining customer satisfaction (Fisk et al., 1993). Extensive research has been conducted on developing and measuring service quality (Brownet al., 1993; Cronin and Taylor, 1992; Parasuraman et al., 1985, 1988; Teas, 1993). A review of this literature suggests the following:

- The contention that service quality consists of five basic dimensions (Parasuraman et al., 1988) is very questionable (Brown et al., 1993; Cronin and Taylor, 1992; Teas, 1993). Instead, the number and composition of the service quality dimensions are probably dependent on the service setting (Brown et al., 1993; Carman, 1990). Empirical evidenc and theoretical arguments suggest that there may be two overriding dimensions to service quality; the core or outcome aspect (contractual) of the service, and the relational or process aspects (customer- employee relationship) of the service (Gronroos, 1985; McDougall and Levesque, 1994; Morgan and Piercy, 1992; Parasuraman et al., 1991b).

- The contention that service quality should be conceptualized and measured as a gap between expectations and performance is very questionable (Brown et al., 1993; Cronin and Taylor, 1994; Smith, 1995; Teas, 1994). The evidence suggests that service quality should be based on performance measures alone (Brown et al., 1993; Cronin and Taylor, 1994; Teas, 1994).

- Items used to measure service quality should reflect the specific service setting under investigation (Carman, 1990).

To elaborate on the two major dimensions of service quality, Parasuraman et al. (1991b) summarized the nature of the core (outcome) and relational (process) constructs:

[While] reliability is largely concerned with the service outcome, tangibles, responsiveness, assurance, and empathy are more concerned with the service process.

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Whereas customers judge the accuracy and dependability (i.e. reliability) of the delivered service, they judge the other dimensions as the service is being delivered (p. 41).

While the number of underlying dimensions has been shown to vary with the service setting, it appears reasonable to suggest that the service core and relational dimensions will emerge in nearly all cases as they form the basis for the service.

Service features

Customer satisfaction is also related to the service offering. With retail banking, the convenience and competitiveness of the provider's offerings can be expected to affect a customer's overall satisfaction and ongoing patronage. Research has shown that location is a major determinant of bank choice (Anderson et al., 1976; Laroche and Taylor, 1988; Thwaites and Vere, 1995). Underlying location are the customer benefits of convenience and accessibility which are enabling factors that make it easy for the customer to do business with the bank. The bank's ability to deliver these benefits on an ongoing basis to its existing clientele will probably impact on customer satisfaction.

Another determinant of bank choice is competitive interest rates (Laroche and Taylor, 1988). While differences in rates, either savings or borrowings, are likely to be minimal between competing banks, customers are concerned that they are getting competitive rates on savings or loans because of the impact on their financial situation. Again, customer satisfaction is likely to be influenced by the perceived competitiveness of the bank's interest rates.

Customer complaint handling

A major reason why customers switch service providers is unsatisfactory problem resolution (Hart et al., 1990). When customers face a problem, they may respond by exiting (switching to a new supplier), voicing (attempting to remedy the problem by complaining) or loyalty (staying with the supplier anticipating that "things will get better") (Hirschman, 1970). Given that customers of retail banks have relatively high switching costs, it is likely that a dissatisfying experience will evoke a passive reaction (no complaint) or a complaint. Given that the customer complains, the bank's response can lead to customer states ranging from dissatisfaction to satisfaction. In fact, anecdotal evidence suggests that when the service provider accepts responsibility and resolves the problem, the customer becomes "bonded" to the organization (Hart et al., 1990). When customers complain, they give the firm a chance to rectify the problem and, interestingly, if the firm recovers successfully, to increase loyalty and profits (Fornell and Wernerfelt, 1987). Thus, customer complaint handling can have an influence on customer satisfaction and retention.

Situational factors

In the retail banking sector, customers who use particular products (e.g. loans or mortgages) may focus on service features, such as competitive interest rates, more than customers who do not hold these products. Thus, the determinants of customer satisfaction towards the service provider may vary depending on customer or segment characteristics. We did not study about this in our study.

Customer satisfaction

While customer retention is the goal of the service provider, surrogate measures are typically used owing to the constraints involved in longitudinal studies. These measures relate to attitudes or future intentions towards the service provider. There is sufficient evidence to suggest that customer satisfaction can and should be viewed as an attitude (Yi, 1990). For example, in retail banking there is an ongoing relationship between the service provider and the customer. Here, customer satisfaction is based on an evaluation of multiple interactions. For this investigation, satisfaction is considered as a composite of overall customer attitudes towards the service provider that incorporates a number of measures. Three frequently used measures are overall service quality, meeting expectations and customer satisfaction (Hausknecht, 1990; Heskett et al., 1994; Jones and Sasser, 1995). Also, typical measures of future intentions are recommending the service to a friend and propensity to switch (Heskett et al., 1994). While there are some problems with using either customer satisfaction or future intention measures to capture future behaviour, the inclusion of multiple measures reduces the problems.

Summary

In summary, the plan is to investigate the role of service quality, service features, customer complaint handling on customer satisfaction with their main financial institution. The results should provide retail bank managers with a better understanding of the drivers of customer satisfaction in this service setting. The next section details the methodology of the study, followed by the results.

Methodology

The major goal of this study was to investigate the drivers of customer satisfaction in retail banking. To begin, an inventory of service quality items was identified. Prior research on SERVQUAL (Carman, 1990; Cronin and Taylor, 1992; Parasuraman et al., 1988, 1991a) provided items to measure the core and relational dimensions of service quality (Table I). In addition, two items were selected to measure the tangible dimension and, another potential driver of customer satisfaction (Parasuraman et al., 1988).

Also, the bank marketing literature provided items on service features (LeBlanc and Nguygen, 1988; Lewis, 1991; Teas and Wong, 1991). These items might be considered as enabling features, related to convenience and accessibility, which contribute to service

quality by making the service easier or more comfortable for the customer. Enabling features include convenience, as measured by branch locations and automatic teller machines, the clarity of bank statements and communications, range of services and accessibility as defined by the bank's internal and external physical layout. The common aspect of these items is that they enable customers to conduct their business with the service provider more readily and easily. Consequently, these items may contribute to the overall value of a customer's experience with the service provider.

An item was also added on the perceived competitiveness of the bank's interest rates.

The service marketing literature has concentrated on items measuring service quality to determine customer satisfaction (Parasuraman et al., 1991b). Missing in this discussion is the role that the firm's pricing policies play in the customer's evaluation of the financial institution. Because customers switch brands or banks in reaction to pricing policies (part of the service offering), they may perceive this feature as part of customer satisfaction. For this reason, the item was included in the questionnaire.

Information on Customer complaint handling (on significant service problems) was obtained by asking respondents: If they had encountered a problem with their main financial institution and had they complained in the past six months; they should answer to the customer complaint handling items.

In total, 19 items were selected to measure service quality, service features and Customer complaint handling. Respondents were asked to identify their main financial institution and then to evaluate this institution on the 19 items (Table I). All items were measured on five-point Likert scales from 1(Strongly disagree) to 5 (Strongly agree).

Three items were used to measure customer satisfaction towards the service provider (Table 1). These measures have frequently been used in both academic and practitioner studies of customer satisfaction (Brown et al., 1993; Hausknecht, 1990; Heskett et al., 1994; Jones and Sasser, 1995; Yi, 1990).

The questionnaire was pre-tested and, based on the debriefing of the pre-test respondents; minor changes were made to improve the clarity and visual layout of the questionnaire.

Table 1: The measures used

Components	Items of measure
Sevice quality	**Core** · When my bank promises to do something by a certain time, it does so · My bank performs the service right the first time

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	· My bank provides its services at the time it promises to do so · My bank performs the service accurately · My bank tells you exactly when services will be performed **Relational** · Employees in my bank have the required skills and knowledge to perform the service · Employees in my bank are always willing to help · Employees in my bank are consistently courteous · My bank gives me individual attention · Employees of my bank understand my specific needs **Tangibles** · My bank's physical facilities are visually appealing · My bank's employees are neat in appearance
Service features	**Enabling** · My bank offers a complete range of services · My bank has convenient branch locations · My bank provides easily understood statements · It is very easy to get in and out of my bank quickly **Competitive** · My bank offers competitive interest rates
Customer complaint handling	**Customer complaint handling** If you had encountered a problem with your main financial institution and had you complained in the past six months mark the following two questions. · When I have problems, my bank is sympathetic and reassuring. · if you had complained, how satisfied were you with the bank's response
Customer satisfaction	**Customer satisfaction** · Considering everything, I am extremely satisfied with my bank · My bank always meets my expectations · The overall quality of the services provided by my bank is excellent

Data collection and Sampling

Primary and secondary data were used for the study .Primary data were collected through the questionnaire and secondary data gathered from Journals, books, magazines, etc. The primary data were gathered from Customers of private bank of Jaffna district. Researcher reached these customers individually and they were asked to take questionnaire, complete it and return it by hand (at the time). Randomly, one hundred questionnaires were distributed among the Customers of private bank of Jaffna and only 87 were properly fulfilled by the respondents and consented for the study (87%).

By way of summary(The demographic profile), the sample was 62 per cent male, had a mean age in the 35-49 range, with average income in the Rs.10,000-20000 range., and 57 per cent had completed school level education.

Figure 1: The hypothesized relationships
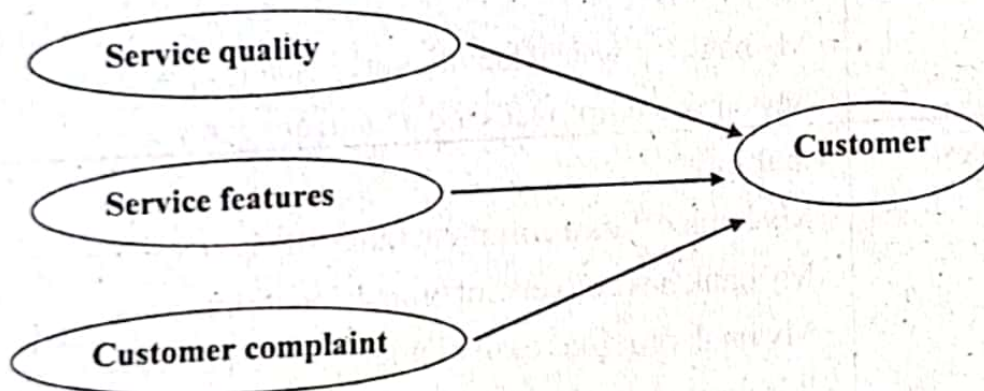
Hypotheses

The following hypotheses were taken for the study

1. Service quality, service features, and customer complaint handling are positively correlated with customer satisfaction

2. Service quality, service features, and customer complaint handling have a certain impact on customer satisfaction

Internal reliability

To assess the internal reliability of the instrument used to test the variables in the theoretical model depicted in Figure 1. This was done by calculating Cronbach's Alpha coefficients using the computer programme SPSS 13.0.

Table 2: Cronbach's Alpha

Cronbach's Alpha	Cronbach's Alpha Based on standardized items	No of items
.757	.747	4

Tables 2 show that all of the instruments used returned initial Cronbach's Alpha coefficients above the 0.7 threshold recommended by Nunnally (1978) and Peterson (1994). Thus confirm the reliability, the discriminant and the construct validity of the instruments used to measure the independent variables used in the subsequent multiple regression analyses.

Results and Discussion

Multiple regressions is used as a descriptive tool in three types of situations, Firstly, it is used to develop a self-weighting estimating equation with which to predict values for a dependent variable from the values for several independent or predictor variables. Secondly, a descriptive application of multiple regression calls for controlling of confounding variables to better evaluate the contribution of the variables concerned. Thirdly multiple regression analysis is used to test and explain causal theories (Cooper & Schindler, 2001). R^2 is the measure of proportion of the variance of dependent variable about its mean that is explained by the independent, or predictor, variables (Hair et al., 1998). Simply stated, it demonstrates the variability in dependent variable explained by the variance in independent variables (Norusis, 2002).

Correlation analysis was performed to find out the relationship between variables. Service quality, service features, and customer complaint handling and customer satisfaction. Table 3 provides the results that shows the correlation values between the variables. Service quality and Service features are positively correlated with Customer satisfaction. Those values are 0.872 and 0.781 respectively which is significant at 0.01 levels. Customer complaint handling is not correlated with Customer satisfaction.

Tables 3: Correlation values

		Customer satisfaction	Customer complaint handling	Service quality	Service features
Customer satisfaction	Pearson Correlation	1	-.131	.872(**)	.781(**)
	Sig. (2-tailed)		.225	.000	.000
	N	87	87	87	87
Customer complaint handling	Pearson Correlation	-.131	1	.193	.010
	Sig. (2-tailed)	.225		.073	.925
	N	87	87	87	87
Service quality	Pearson Correlation	.872(**)	.193	1	.820(**)
	Sig. (2-tailed)	.000	.073		.000
	N	87	87	87	87

Service features	Pearson Correlation	.781(**)	.010	.820(**)	1
	Sig. (2-tailed)	.000	.925	.000	
	N	87	87	87	87

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

Table 3 indicates that although Service quality and Service features are significantly correlated with Customer satisfaction at 0.01 significance levels .in private banks of Jaffna district. Hence, out of these three determinants Service quality and Service features influence to determine Customer satisfaction of the private banks in Jaffna district.

Then a multiple regression analysis was performed to investigate the predictors of Customer satisfaction as hypothesized in the model. A step wise variable selection was used in the regression analysis and Table 4 provides the summary measure of the model.

Table 4: Summary multiple regression analysis

	R	R square	Adjusted R square	Std.Error of the Est.
Model 1	.925ª	.855	.850	4.569

a. Predictors: (constant), Service features, Customer complaint handling, Service features

The specification of the three variables (Service features, Customer complaint handling, and Service features) in the above model revealed the ability to predict Customer satisfaction $(R^2 = 0.855)$.In this model and R^2 value of 0.855 in the private banks denote that 85.5% of the observed variability in Customer satisfaction can be explained by the differences in three independent variables namely Service quality, Customer complaint handling, and Service features. The remaining 14.5% are not explained which means that the remaining 14.5% of the variance in Customer satisfaction is related to other variables which are not depicted in the model.

In this model, the value of an adjusted R^2 is 0.850, slightly less than the value of R^2.This variance is highly significant. It explains the most possible combination of predictor variables that could contribute to the relationship with.the dependent variable, the variance explained 85.5% in this context, it should be noted that there may be number of variables that can have an impact on Customer satisfaction that need to be studied.

Table 5: R² -Coefficients

Mode	Unstandardized Coefficients		standardized Coefficients	t	Sig.
	â	Std. Error	Beta		
Constant		8.031	7.219	1.112	.269
complaint handling	-.466	.068	-.301	-6.807	.000
Service Quality	1.301	.115	.874	11.338	.000
Service features	.088	.098	.068	.896	.373

a. Dependent variable: customer satisfaction

In the above model, t values are significant for two independent variables in private banks. t values for both the complaint handling, and Service quality are significant at 0.001 levels. Service quality has a positive coefficient which means that customer satisfaction increases with increasing Service quality. Complaint handling has a negative coefficient, which means that customer satisfaction decreases with increasing complaint handling in private banks.

Hence the hypothesis: service quality, service features, and customer complaint handling have a certain impact on customer satisfaction is partially (complaint handling and Service quality) accepted in private bank.

Conclusion

The results from the operational hypotheses indicate that, Service quality and Service features influence to determine Customer satisfaction of the private banks in Jaffna district. And service quality, has a significant relationship with customer satisfaction which means, as the service quality increase increases customer satisfaction in private banks.

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