

SERVICE QUALITY PERCEPTIONS AND CUSTOMER SATISFACTION IN NEPALESE BANKING SECTOR

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ABSTRACT

The purpose of the present study is to find out bank customers' perception about service quality and customer satisfaction and also to investigate the association and relationship between service quality and customer satisfaction. Samples of 300 customers from six banks located in Kathmandu were included in the analyses. Service quality was measured using SERVPERF approach. The questionnaire included 27 questions relating to the five dimensions of service quality viz. reliability, assurance, tangibility, empathy and responsiveness. Customer satisfaction was measured using a single item scale. A strong correlation was found between service quality dimensions and customer satisfaction. Regression analysis revealed reliability, tangibility, empathy and responsiveness as statistically significant predictors of customer satisfaction.

Keywords: *bank customers' perception, service quality, customer satisfaction.*

Introduction:

Understanding customer satisfaction is considered to be one of the core concepts of marketing. Thus knowing how a customer perceives a product and evaluates its quality is crucial for marketers. Banks being services require an added impetus in marketing. Unlike products services are high in experience and credence quality. That is services are evaluated after they are consumed and sometimes even after consumption the customer finds it difficult to evaluate it. Though measuring services are difficult but researchers have developed specific scales for measuring service quality. One such widely used scale is SERVQUAL. This scale is based on the theory of expectancy disconfirmation paradigm.

The developers of this scale stated that customers evaluate services based on expectations and experiences (perceptions). The customers have some expectations about a service in consideration which is compared with their experiences (perceptions). The difference between perception and expectation is assumed to be an indicator of service quality. This scale had been criticized. Researches contended that rather than measuring perceptions and expectations and then finding the difference it would be more easy

and simple to let the customers themselves directly rate the quality of services. This way the number of questions could be reduced. Some researcher argued that whenever a question about expectation and perception was asked simultaneously respondents are likely to raise expectations in comparison to perception. Thus another scale that shared service quality dimensions with SERVQUAL was developed by (Cronin and Taylor, 1994). This new scale was called SERVPERF. This scale considered services as performances which may be directly measured.

Measuring service quality has implications for marketing managers. A much better situation would occur if service quality is related to customer satisfaction. Researchers have delved into this issue. Some concluding strong relationship, some partial while others establishing the two as different constructs (D Iacobucci, KA Grayson, 1994)

Literature Review:

Service Quality:

One of earliest contributors to the concept of service quality was Gronroos (1984) who considered service quality comprising of technical quality, functional quality and corporate image of the organization. He

defined technical quality as what consumer actually receives as a result of his/her interaction with the service firm and is important to him/her and to his/her evaluation of the quality of service. Functional quality dealt with the how part i.e. how a customer gets the technical outcome. The first two components technical and functional quality along with word of mouth publicity, pricing and public relations were supposed to build the third component which was said image. Functional quality was a very important dimension. He concluded these quality dimensions were interrelated.

In another research A. Parasuraman, Valarie A. Zeithaml and Leonard L. Berry, 1985 identified ten dimensions that customers use to form expectations and perceptions about a service. The research also pin pointed four discrepancies or gaps on service provider's side that might affect the customer expectations and perceptions. The researchers later on in the year 1988 developed a scale popularly called SERVQUAL to measure service quality. This scale reduced the number of dimensions from ten to 5 dimensions viz. tangibles, reliability, responsiveness, assurance and empathy. Thus service quality was hypothesized on the basis of gap between customer expectation and customer perceptions.

However Cronin and Taylor (1992) in their research concluded that measurement of service quality through SERVQUAL were based on a flawed paradigm. The researchers found that measurement of service quality based on expectation (what the customers should expect) inconsistent with Woodroof, Cadote and Jenkins who suggested that expectations be based on experience norms – what customers should expect from a service provider given their experience with that specific type of service provider. Thus they suggested that expectation component of the SERVQUAL be dropped and only perception component or performance need to be measured. The service quality should be measured as an attitude. This reduced the original scale from 44 to 22 questions thereby increasing efficiency. The authors also concluded that SERVPERF performed better than SERVQUAL in construct validity.

A comparative study by researchers (Sanjay K Jain and Garima Gupta, 2004) has highlighted some points of differences between the two scales. SERVPERF is considered to be better than SERVQUAL in measuring psychometric properties while SERVQUAL is a better diagnostic tool.

Customer Satisfaction:

In their research LL Olsen, MD Johnson, 2003 the authors presented the concept of customer satisfaction based on previous researchers in the following manner. There are two general conceptualizations of satisfaction namely, transaction-specific satisfaction and cumulative satisfaction [Cronin and Taylor, 1992;

Boshoff and Gray, 2004]. Transaction-specific satisfaction is defined as a customer's evaluation of his or her experience with and reactions to a particular product transaction, episode, or service encounter. Cumulative satisfaction is defined as a customer's overall evaluation of a product or service provider to date (Johnson, Anderson, and Fornell 1995; Johnson and Fornell, 1991).

Relating Service quality, Customer satisfaction and Customer loyalty:

Cronin and Taylor (1992) undertook an empirical test of the reciprocity between satisfaction and quality across several service industries. Using structural equation modelling, they found that service quality can be seen as a determinant of satisfaction which in turn influences purchase intentions.

Ahmad Jamal, Kamal Naser, (2002) found that both core and relational dimensions of service quality were linked to customer satisfaction.

Nasserzadeh et al (2008) conducted research on bank customer satisfaction using Fuzzy Cognitive Map (FCM) and concluded service quality and service features to have strong impact on satisfying the customers.

Barbara Culiberg, Iča Rojšek (2010) study on identifying service quality dimensions in retail banking found that Assurance and empathy, Reliability and responsiveness, Access and tangibles - all four dimensions of service quality as well as service range offered were good predictors of customer satisfaction.

Most of the researchers found that service quality is the antecedent of customer satisfaction (Bedi, 2010; Kassim and Abdullah, 2010; Naeem and Saif, 2009; Parasuraman et al., 1988). Quality customer service and satisfaction are recognized as the most important factors for bank customer acquisition and retention (Armstrong and Seng, 2000; Lassar et al., 2000).

Francis Buttle (1996), Ndubisi (2005), Gee et al.(2008) and Pfeifer (2005) pointed out that the retaining current customers is far less costly than acquiring new customers through marketing activities. Several researchers including Tariq and Moussaoui (2009) and Ehigie (2006) found that loyalty is a direct outcome of customer satisfaction. A study by LL Kheng, O Mahamad, T Ramayah (2010) showed that improvement in service quality can enhance customer loyalty. The service quality dimensions that play a significant role in customer loyalty are reliability, empathy, and assurance.

Generally speaking, if the customers are satisfied with the provided goods or services, the probability that they use the services again increases (East, 1997). Also, satisfied customers will most probably talk enthusiastically about their buying or the use of a particular service; this will lead to positive advertising (File and Prince, 1992; Richens, 1983). The significance of satisfying and keeping a customer in

establishing strategies for a market and customer oriented organization cannot be ignored (Kohli and Jaworski, 1990).

Research Methodology:

Objectives:

1. To measure perceptions of customers regarding overall service quality of banks in Nepal with headquartered in Kathmandu.
2. To measure cumulative customer satisfaction of the bank customers.
3. To ascertain whether there is any correlation between service quality and customer satisfaction.
4. To deduce the predictability of service quality dimensions on overall customer satisfaction.

Hypothesis:

The following hypotheses were developed after the review of available literature:

H1: Service quality and customer satisfaction are uncorrelated constructs.

H2: Customer satisfaction is not directly attributable by service quality.

Instrument:

We have used the approach of SERVPERF scale which is to measure service quality as an attitude. Based on available literature (Cronin and Taylor 1992; Zeithaml et al. 1988) a questionnaire consisting of 5 dimensions and 27 questions was developed to measure customer perception about service quality of banks. Customer satisfaction was measured by single item. Both the constructs were measured on a five point likert scale.

Study Population:

The population included all the customers of all the banks which are headquartered in Kathmandu.

Sample:

The study was based in Kathmandu, the Capital of Nepal. There are a total of 18 banks which are headquartered in Kathmandu. Out of a total of 18 banks 15 are private banks and 3 are public sector banks. Multi stage sampling was used to select the sample. In the first stage six banks were selected based on quota sampling-5 private banks and 1 public sector bank was selected. In the second stage from each selected bank 50 customers were sampled on the basis of convenience sampling. Thus the sample size included 300 bank customers.

Data collection:

Data was collected in the month of August 2015 by personally visiting the bank premises and getting the self-administered questionnaire filled by the respondents.

Analyses:

The service quality scale was checked for reliability by calculating the value of Cronbach’s alpha.

The scale values of individual dimensions reliability, tangibility, empathy, assurance, responsiveness were calculated by averaging.

The sample’s demography was presented by frequency table and charts.

Correlation coefficient was calculated between overall customer satisfaction and service quality dimensions.

Next five variables representing service quality dimensions were regressed on customer satisfaction.

In the regression model the five quality dimensions – reliability, assurance, tangibility, empathy and responsiveness acted as the independent variables and customer satisfaction as the dependent variable.

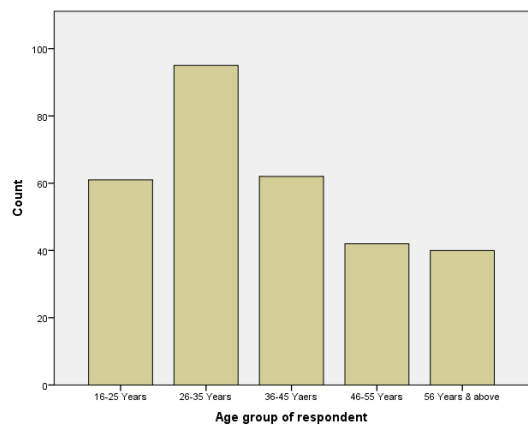
Findings:

SPSS was used to code and analyse the responses.

Reliability measurement:

	Service Quality dimension	Cranach’s Alpha	Number of Items
1.	Reliability	0.827	8
2.	Assurance	0.709	6
3.	Tangibility	0.797	6
4.	Empathy	0.871	3
5.	Responsiveness	0.720	4

George and Mallery (2003) provided the following rules of thumb for measure of reliability: If the alpha value > .9 – Excellent, > .8 – Good, > .7 – Acceptable, > .6 – Questionable, > .5 – Poor and < .5 – Unacceptable. Robert A. Peterson (1994) based on Meta-analysis of Cranach’s alpha reported alpha coefficients ranged from .70 for values and beliefs to .82 for job satisfaction. Our analyses show fairly good values of alpha thus it can be said the internal consistency of the scale is good in case of reliability and empathy scales and acceptable in case of assurance, tangibility and responsiveness scales.



Demographic Profile of the Sample

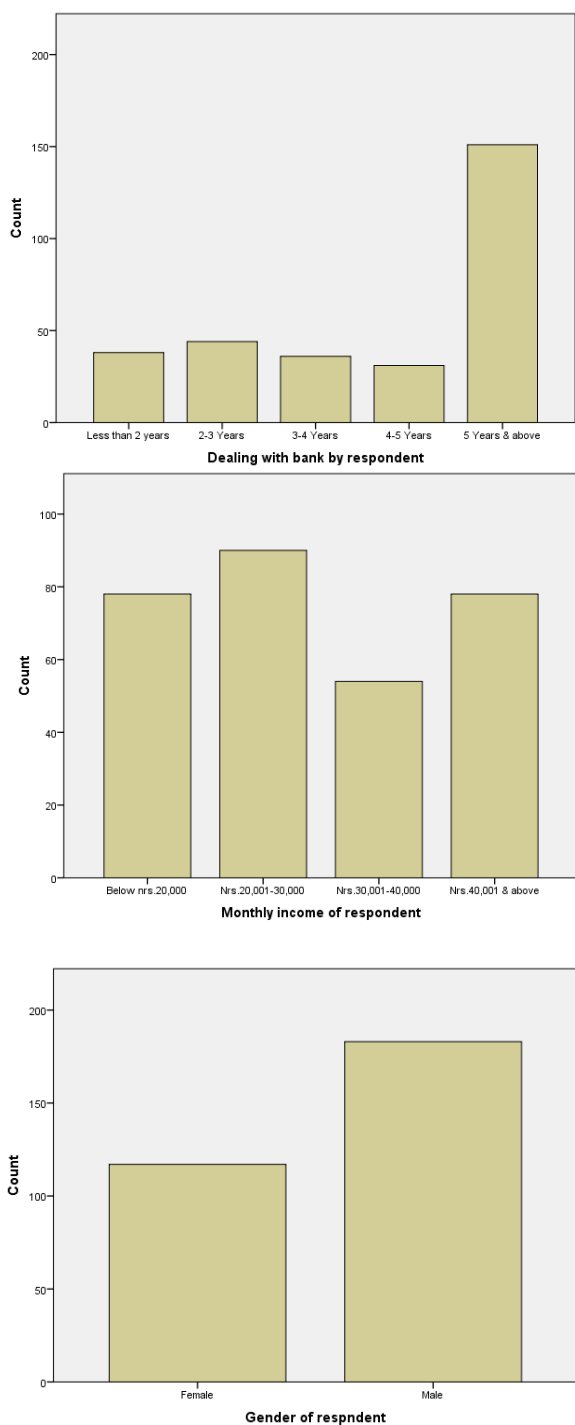


Figure 1: Bar graphs depicting the frequency of age group, monthly income, gender and dealing with bank of the sample respondents.

From the analyses of sample it can be concluded that more than 65% are graduates or above. The largest chunk in the age group comprises respondents in the age bracket of 26-35 years. In case of the monthly income category the largest category of the sample comprises monthly income in the range of 20,000-30,000 NRS (Nepal rupees)

.Gender wise 183 males comprised the sample in comparison to 117 females.

Service Quality Dimensions:

Scale values of service quality dimensions:

The mean scores of the five dimensions of service quality are presented in the table below.

Table 1: Average scores of the service quality dimensions

	Service Quality dimension	Mean	Median
1.	Reliability	3.7204	3.7500
2.	Assurance	3.7295	3.6667
3.	Tangibility	3.4928	3.5000
4.	Empathy	3.6967	4.0000
5.	Responsiveness	3.7250	3.7500

From the above table it can be seen that all the dimensions of service quality score fairly high. Thus it can be said that the perception of the customers of banks in Nepal about service quality is good.

Customer Satisfaction:

Table 2: Frequency of satisfaction level scores

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	8	2.7	2.7	2.7
	Undecided	98	32.7	32.7	35.3
	Agree	176	58.7	58.7	94.0
	Strongly agree	18	6.0	6.0	100.0
	Total	300	100.0	100.0	

Table 3: Satisfaction level statistics

N	Valid	300
	Missing	0
Median		4.00
Mode		4

Customer satisfaction was measured on a single item scale on a 5 point scale. The statistic show a median and mode value of 4 indicating a good amount of satisfaction with the banking services.

Correlation between service quality dimensions and customer satisfaction:

Table 4: Pearson correlation between customer satisfaction and service quality dimensions

		Satisfaction level
Satisfaction level	Pearson Correlation	1
	Sig. (2-tailed)	
	N	300
ReliabilityVal	Pearson Correlation	.707**
	Sig. (2-tailed)	.000
	N	300
AssuranceVal	Pearson Correlation	.712**
	Sig. (2-tailed)	.000
	N	300
TangibilityVal	Pearson Correlation	.731**
	Sig. (2-tailed)	.000
	N	300
Empathy_Val	Pearson Correlation	.779**
	Sig. (2-tailed)	.000
	N	300
ResponsivenessVal	Pearson Correlation	.705**
	Sig. (2-tailed)	.000
	N	300

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

All the 5 dimensions of service quality show a strong correlation with the satisfaction level.

Regression Analysis:

Model Summary:

From the model summary below it may be concluded that the predictor variables – reliability, assurance, tangibility, empathy are able to explain more than eighty percent of the variability in customer satisfaction.

	Multiple R	R Square	Adjusted R Square	Apparent Prediction Error
Standardized Data	.902	.813	.808	.187

Dependent Variable: Satisfaction level

Predictors: Reliability Val Assurance Val Tangibility Val Empathy Val Responsiveness Val

The *F*-ratio in the ANOVA table below tests whether the overall regression model is a good fit for the data. The table shows that the independent variables statistically significantly predict the dependent variable, $F(5, 294) = 260.787, p < .0005$. Thus the regression model is a good fit of the data.

ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	95.702	5	19.140	260.787	.000 ^b
Residual	21.578	294	.073		
Total	117.280	299			

a. Dependent Variable: Satisfaction level

b. Predictors: (Constant), Responsiveness Val, Reliability Val, Tangibility Val, Empathy Val, Assurance Val

Statistical significance of the independent variables: Estimated Coefficients:

Regression model tested found that out of the five independent variables four were statistically significant. Thus Reliability, Tangibility, Empathy and Responsiveness can be said to be good predictors of customer satisfaction.

Conclusion:

The present study was an attempt to understand the bank customer perceptions of service quality and satisfaction in Nepal. The customers rated the service quality fairly good; this is something the banks in Nepal would be happy to know. From the findings we can conclude that both the null hypotheses of the study have been rejected. A strong correlation was found between service quality dimensions – reliability, assurance, tangibles, empathy and responsiveness and customer satisfaction. Our second hypothesis was also rejected and the study found four service quality dimensions - reliability, tangibles, empathy and responsiveness to be statistically significant predictors of customer satisfaction. Thus it can be said that the service quality dimensions and customer satisfaction are related constructs, and service quality is an antecedent to customer satisfaction. Regarding bank service quality many studies have been conducted in developed nations but a few studies have been undertaken in the less developed nations like Nepal. Therefore we hope that the findings of the study gain significance because of the context and would contribute academicians and banks likewise.

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Coefficients^a:

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations		
	B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part
(Constant)	-.032	.119		-.269	.788	-.266	.202			
1 Reliability Val	.299	.036	.290	8.415	.000	.229	.369	.707	.441	.211
Assurance Val	.070	.046	.060	1.509	.132	-.021	.161	.712	.088	.038
Tangibility Val	.261	.029	.303	9.020	.000	.204	.319	.731	.466	.226
Empathy Val	.233	.031	.294	7.533	.000	.172	.294	.779	.402	.188
ResponsivenessVal	.150	.032	.167	4.728	.000	.088	.213	.705	.266	.118

a. Dependent Variable: Satisfaction level
