

RELATIONSHIP BETWEEN SERVICE QUALITY AND PERCEIVED CUSTOMER SATISFACTION OF NATIONAL SAVINGS BANK IN WAR AFFECTED AREA OF SRI LANKA

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ABSTRACT

The objective of this study is to examine the relationship between service quality and customer satisfaction in an extreme environment. Correlation and Regression Analysis were used to assess data collected from 117 National Savings Bank customers in war affected area of Sri Lanka. Data for this study were gathered by employing well designed questionnaire addressing the SERVQUAL measurement instrument with an overall response rate of 97.5 %. Findings of the study indicated that service quality and customer satisfaction variables are positively correlated significantly, i.e. service quality- with five dimensions increase customer satisfaction also increases. Further, the findings of this study revealed that service quality has a greater impact on customer satisfaction; that is 98 % of the observed variability can be explained by this model. Analysis of the demographics variables revealed that gender; significantly contributed variations in the level of customer satisfaction. Research implication of this study is that the sample used in this study is specific in nature, it constituted of National savings bank. Thus, the results should be interpreted accordingly. On the basis of these findings, implication of the study was highlighted that nature of the relationship between service quality and customer satisfaction seems to be fairly constant across contexts.

KEYWORD: Service Quality, National Savings Bank and Customer Satisfaction.

Introduction

In Sri Lanka National Savings Bank (NSB) plays a major role in contributing much towards economic development. National Saving Bank is well performing bank in Sri Lanka. In the 2008 Annual Report of National Savings Bank it was mentioned that, The Bank's customers are the core of the institution. National savings bank in northern Region was an extreme environment, because of the domestic war situation. This study attempted to find out the relationship between service quality and customer satisfaction in such an extreme environment.

In the intense of competitive pressures, firms are focusing their maximum effort on maintaining service quality to keep customers. This is particularly true in the financial services sector. Many banks are directing their strategies towards increasing customer satisfaction and loyalty through improved service quality (Levesque and Mc Dougall, 1996). To survive in highly competitive markets, organizations need to provide goods and services that yield highly satisfied and loyal customers (Gilbert, 2000). Service quality is commonly noted as a critical prerequisite for establishing and sustaining satisfying relationship with valued customers. In this way the association between service quality and customer satisfaction has emerged as a topic of

significant and strategic concern (Bolton and Drew, 1991; Cronin and Taylor, 1992; Taylor and Barker, 1994). In general, research in this area suggests that service quality is an important indicator of customer satisfaction. (Spreng and Mackoy, 1996).

Customer satisfaction has been identified as a major determinant of customer loyalty and profitability. Also, retail banks, like many other service providers, have discovered that increasing customer retention rates can have a substantial impact on profits (Levesque and McDougall, 1996). Research in the area of service marketing has recently begun to address whether or not service quality differentially affects satisfaction depending on particular service settings and situations (Mittal and Lassar, 1998). Thus, the main purpose of this paper is to examine the relationship between service quality and customer satisfaction in an extreme environment. To accomplish this research work, information was collected from 117 National Savings Bank Customers in the Northern Region of Sri Lanka. The most prevalent and widely accepted perspective on service quality, the SERVQUAL model (Parasuraman et al., 1998) was used. Although this perspective has been repeatedly applied in the area of service marketing, this research intended to apply the SERVQUAL approach in a single service firm and single industry in an extreme environment. It would be beneficial for service managers to investigate a measure of service quality for use in particular conditions and environments or industries.

Related Literature Review

Service quality

The first attempt to describe and define service quality was the paradigm suggested by Gronroos (1983) who distinguished between technical quality (what the customer receives) and functional quality (how the service is provided). Parasuraman, Zeithaml and Berry (1985:42) extended their study and argued that to fully understand service quality, the intangible, heterogeneous and inseparable nature of services must be acknowledged and that perceived service quality can be defined as the consumers' overall impression of the relative inferiority/superiority of the organization and its services (Bitner & Hubbert, 1994) or as the customer's assessment of the overall excellence or superiority of the service (Zeithaml, 1988). In these terms, service quality means conforming to customer expectations (Lewis & Booms, 1983) and implies, from a consumer perspective, the comparison of customer expectations with customer perceptions of actual service performance (Parasuraman et al., 1985).

Five Dimensions of the Service Quality

The results of the initial published application of the SERVQUAL instrument indicated that five dimensions of service quality emerged across a variety of services (Parasuraman et al., 1988). These dimensions include tangibles, reliability, responsiveness, assurance and empathy (Brensing and Lambert, 1990; Crompton and Mackay, 1989; Parasuraman et al., 1985, 1988, 1991). Tangibles are the physical evidence of the service (e.g. physical facilities, appearance of personnel, or tools or equipment used to provide the service), reliability involves consistency of performance and dependability (i.e. a firm performs the service right the first time and honors its promises), responsiveness concerns the willingness or readiness of employees to provide service (e.g. timeliness of service), assurance corresponds to the knowledge and courtesy of employees and their ability to inspire trust and confidence, and, finally, empathy pertains to caring, individualized attention/service that a firm provides its customers.

Definition of Customer satisfaction

Attempting to understand the nature of customer satisfaction is not easy. It is a complex concept that can mean a variety of things for different people. 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. According to Hausknecht, 1990; Heskett et al., 1994; Jones and Sasser, 1995 Three frequently used measures are overall service quality, meeting expectations and customer satisfaction. The term "satisfaction" is generally understood to be an individual's emotive or affective response, either in a positive or in a negative direction, to some experience or situation.

Relationship between service quality and customer satisfaction

Research in the area of service marketing has recently begun to address whether or not service quality differentially affect satisfaction depending on particular service setting and situations (Mittal and Lassar, 1998). This subject is continued and considerable debate in the marketing literature, the distinction and association between service quality and customer satisfaction remains at the front position of many academic and practitioner oriented research activities (e.g. Anderson and Fornell, 1994; Brown and Swartz, 1989; Spreng and Mackoy, 1996). Studies of consumer satisfaction conducted in service settings (e.g. Fornell, 1992), and generally, researchers agree that the two constructs are conceptually distinct (Bitner, 1990; Boulding et al., 1993, Oliver, 1993). Cronin and Taylor, (1992); and Spreng and MacKoy, (1996) argued and empirically supported that perceived service quality leads to customer satisfaction. Although the direction of the quality/ satisfaction relationship (i.e. quality leads to satisfaction) is fairly well understood for services, the question of whether or not (and how) this relationship varies depending on particular settings and/ or situations is not.

Research objectives

The objective of this study is to examine the relationship between service quality and customer satisfaction in an extreme environment. More specifically, an attempt was made to assess how five dimensions of service quality influence the customer satisfaction in such extreme environment in Northern Region, Sri Lanka.

Conceptualisation

For the purpose of this study, it is conceptualised that five dimensions of service quality (Tangible, Reliability, Assurance, Responsiveness and Empathy) leads to customer satisfaction so as to assess the relationship in an extreme environment.

Hypothesis for this study

To assess the relationship between service quality and perceived customer satisfaction in an extreme environment, the following hypothesis were developed

H₁: Service quality dimensions are positively correlated with perceived customer satisfaction

H₂: Service quality dimensions has an impact on perceived customer satisfaction

Research Methodology

Research Sample procedure

The National Savings Bank in Northern Region is selected for the purpose of this study. Respondents were selected from all branches in the Region. The aim of the research is to investigate the relationship between service quality and customer satisfaction in an extreme environment, thus the war affected area Northern Region was selected. The simple random sampling was the basic sampling design, which allows equal representation and selection of samples in all branches customers in the Northern Region.

Sample profile

Total of 125 questionnaires were distributed among customers of National Savings Banks in Northern Region. Out of 125 questionnaires, 120 questionnaires are completed and returned. In the end, 117 (63 males, 54 females) questionnaires of the 125 were analyzed and an overall response rate is 96 % (120/125).

Table 1: Response rate of respondents

	Number of Customers	Percentage of Customers
1.Questionnaires distributed	125	100 %
2.Questionnaires returned	120	96 %
3.Questionnaires suitable for analysis	117	97.5 %
4.Questionnaires not suitable for analysis	03	2.5 %

Data Collection Procedure

Especially primary data is used for the present study. Data was collected through the questionnaire as stated previously and distributed among the seven National Savings Bank branches in Northern Region. The all questionnaires were distributed to customers in their branches. Instructions on how to fill the questionnaire well presented at the front of the questionnaire to avoid complexities. Confidentiality of information assured to the respondents.

Measures and Questionnaire

Data was gathered through a well-designed questionnaire that consists of a variety of measures covered by open and closed questions. This would include four sections, section A, concerned for service quality (SERVQUAL- Model) and section B, concerned variables on Customer Satisfaction, scale and section C, concerned for demographic variables (personal details) were included in the questionnaire.

Service Quality Scale:

Service quality was operationalized according to the SERVQUAL model. The scale has 22 items and requests respondents (customers), to assess their satisfaction level with various aspects of service quality they receive from bank using a five-point scale, 1 = Strongly disagree to 5 = Strongly agree. An example of service quality items are “Excellent bank will have modern looking equipment”; “Excellent bank promise to do something by a certain time”; Employees in excellent bank giving prompt service to customers”; “Excellent bank will give customers individual attention”.

Perceived Customer Satisfaction Scale:

Three items were used to measure customer satisfaction towards the service provider. These measures have frequently been used in both academic and practitioner studies of customer satisfaction (Yi, 1990; Brown et al., 1993; Heskett et al., 1994; Jones and Sasser, 1995). The scale has 3 items and requests respondents (customers), to assess their satisfaction with various aspects of their satisfaction using a five-point scale, 1 = Strongly disagree to 5 = Strongly agree. An example of customer satisfaction items are “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”

Demographic data:

The section on demographic data developed for this study, completed by all participants. This section requested participants to answer questions regarding their, Gender, marital status, age, educational level, income level, and work experience.

Data Analysis

Data analysis consisted of two major components. The first part of the analysis presents the background information of the research sample and the second one identifies the relationships conceptualized in the study.

Table 2: Scale Reliability for Items

Variables	Items	Cronbach's Alpha for test 2
Tangibility	4	.69
Reliability	5	.86
Responsiveness	4	.68
Assurance	4	.89
Empathy	5	.86
Perceived Customer Satisfaction	3	.72

Generally it is said that the reliability of the instrument should be high (e.g. above .80 or at least marginally acceptable (above .60) when selecting the instrument (Gliner & Morgan, 2000, p.313, as cited in Tharmaseelan, 2005). In the above table, in many cases, the reliability coefficient was relatively high (above .80) and acceptable range (above .68) the questionnaire was taken as an acceptable instrument to be administered.

Table 3: Descriptive Statistics of variables

	N	Minimum	Maximum	Mean	Std. Deviation
Tangibility	117	3.00	5.00	4.44	.523
Reliability	117	2.20	5.00	4.22	.668
Responsiveness	117	2.25	5.00	4.11	.661
Assurance	117	1.25	5.00	3.75	.726
Empathy	117	2.40	5.00	3.92	.600
Perceived Customer Satisfaction	117	2.20	5.00	3.89	.554
Valid N (listwise)	117				

The above table (3) shows descriptive statistics of related variables. All items were scaled ranged from 1 to 5, according to the mean values for each variable it was concluded that all variables were scored above 3.7 averagely.

Correlation analysis was performed to find out the relationship between variables. Service quality dimensions and customer satisfaction .Table 4 provides the results that shows the correlation magnitude values between the variables.

Table 4: Pearson Correlations

Service Quality	Tangibility	Reliability	Responsiveness	Assurance	Empathy
Tangibility					
Reliability	.57(**)				
Responsiveness	.54(**)	.73(**)			
Assurance	.34(**)	.55(**)	.51(**)		
Empathy	.51(**)	.64(**)	.53(**)	.51(**)	
Customer Satisfaction	.53(**)	.74(**)	.70(**)	.84(**)	.85(**)

** Correlation is significant at the 0.01 level (2-tailed). N- 117

The correlation matrix of both independent and dependent variables is provided in the above table (4). As seen in the above table (4), the correlations between service quality dimensions and the customer satisfaction are reasonably strong and significantly correlated positively. This simply means that the more the customers are satisfied with the service quality the more they are perceived to satisfy. Thus the hypothesis H_1 is accepted.

The Regression Analysis Results

Multiple regression analysis was performed to identify the predictors of perceived customer satisfaction as hypothesized in the model.

Table 5: 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	.98(a)	.97	.975	.08734	.976	913.934	5	111	.000

a Predictors: (Constant), Empathy Tangibility, Assurance, Responsiveness and Reliability

Association between dependent and independent variable can be found by using coefficient of determination (R^2). The service quality dimensions (Empathy Tangibility, Assurance, Responsiveness and Reliability) in the above model revealed the ability to predict Customer satisfaction ($R^2 = 0.98$). According to the above table (4), R^2 value of 0.98 in the National Saving Banks denote that 98. % of the observed variability in customer satisfaction can be explained by the independent variables namely Service quality. The remaining 2% are not explained which means that the remaining 2% of the variance in Customer satisfaction is related to other variables which are not depicted in the model.

Table 6: Predictors to perceived Customer satisfaction

Model	Un-standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1 (Constant)	.011	.074	Beta	.147	.883
Tangibility	.003	.020	.003	.167	.868
Reliability	.020	.021	.024	.971	.334
Responsiveness	.144	.019	.172	7.67	.000
Assurance	.374	.014	.489	26.60	.000
Empathy	.455	.019	.493	24.28	.000

In the above model, t values are significant for two independent variables in National Saving Bank. t values for service quality dimensions- responsiveness, assurance, and empathy are

significant at 0.001 levels. The, Service quality dimensions have a positive coefficient which means that customer satisfaction increases with increasing Service quality dimensions. Of the five dimensions of the service quality, responsiveness, assurance, and empathy are the more predictors to the variation in perceived customer satisfaction than tangibility and reliability in National Saving Bank.

Hence the hypothesis: Service quality dimensions have an impact on perceived customer satisfaction is partially (responsiveness, assurance, and empathy) accepted in National Serving Bank.

Results and Discussions

Findings of the study consistent with the previous studies (Oliver, 1993; Cronin and Taylor, 1992; and Spreng and MacKoy, 1996; and Parasuraman et al., 1988) that the these studies argued and empirically supported that perceived service quality leads to customer satisfaction.

Managerial Implication of this study

This study provides managers with useful implication of service quality, perceived customer satisfaction with those who experience low level of customer satisfaction and loyalty. The nature of the relationship between service quality and customer satisfaction seems to be fairly constant across contexts. Organizations in many areas of the world should be able to use a common metric for monitoring customer satisfaction. They should be able to compare service quality and perceived customer satisfaction relationship in various locations, because the existing relationship between these constructs are same even in the extreme context. Thus it enables researchers to compare relationship in various locations.

Conclusion

The purpose of this paper was to identify the relationship between service quality and perceived customer satisfaction in an extreme environment. The findings of this study reveled that service quality dimensions are positively correlated with perceived customer satisfaction. The results also show that responsiveness, assurance, and empathy are significantly contributed variations in perceived customer satisfaction. These results confirm the important of the service quality for managing customer satisfaction in banks. Managers should consider the value or contribution to customer satisfaction of the each dimensions of total service offering and allocate resources accordingly.

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