

## **Service Quality; Service Features; and Customer Complaint Handling As the Major Drivers of Customer Satisfaction in Banking Sector of Pakistan**

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*This paper aims to identify the dimensions of customer satisfaction and retention in retail banks' settings. The key determinants were service oriented including service quality dimensions, service features, service problems, service recovery and the banking products used. The paper found that service problems and the bank's service recovery ability have a major impact on customer satisfaction and intentions to switch. The paper further examined the relationship between performance, customer satisfaction and behavioral intention, and the extent to which each is associated with actual performance, customers' attributions for problems, experience and the level of performance which customers think is possible. The results show that actual performance has both a direct and indirect effect (via perceived performance) on satisfaction. Perceived performance and satisfaction are significantly associated with customer standards of the best possible performance, and satisfaction is also associated with the customer's attribution of the cause of performance problems. While satisfaction was significantly associated with intention to re-purchase, a significant interaction was found between customer experience and satisfaction. The paper concluded that core and relational performance were important factors, but features such as convenience also contributed to customer satisfaction, as well as competitive interest rates and skilled employees. It is also concluded in line with the findings of Hart et al., (1990) that a service problem which is not resolved has a greater impact on the customer's attitude towards service provider. However, the results do not support the theories that satisfactory problem recovery leads to heightened customer satisfaction or closer "bonding" of the customer to the provider.*

### **1. Introduction**

The study is intended to identify the dimensions of customer satisfaction and retention for retail banks, and investigates the major determinants of customer satisfaction and future intentions in the retail bank sector. The major determinants identified, include service quality dimensions, service features, service problems, service recovery and products used. Finds, in particular, that service problems and the bank's service recovery ability have a major impact on customer satisfaction and intentions to switch.

This study examines the relationship between performance, customer satisfaction and behavioral intention, and the extent to which each is associated with actual performance, customers' attributions for problems, experience and

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the level of performance which customers think is possible. The results show

that actual performance has both a direct and indirect effect (via perceived performance) on satisfaction. Perceived performance and satisfaction are significantly associated with customer standards of the best possible performance, and satisfaction is also associated with the customer's attribution of the cause of performance problems. While satisfaction was significantly associated with intention to re-purchase, a significant interaction was found between customer experience and satisfaction.

This paper addresses two areas in the gaps which are being identified in the previous research. First it shows a linear relation ships between different variables and second it tries to explain the hypothesis which are tested using Analysis of Variances (ANOVAs).

Customer satisfaction has been said one of the most widely used study in marketing. Customer satisfaction, a business term, is a measure of how products and services supplied by a company meet or surpass customer expectation. It is seen as a key performance indicator within business. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. Organizations are increasingly interested in retaining existing customers while targeting non-customers; measuring customer satisfaction provides an indication of how successful the organization is at providing products and/or services to the marketplace.

Customer satisfaction is an ambiguous and abstract concept and the actual manifestation of the state of satisfaction will vary from person to person and product/service to product/service. The state of satisfaction depends on a number of both psychological and physical variables which correlate with satisfaction behaviors such as return and recommend rate. The level of satisfaction can also vary depending on other options the customer may have and other products against which the customer can compare the organization's products.

## 2. Literature Review

The previous research has tried to identify a number of variables of customer satisfaction. Because satisfaction is basically a psychological state, care should be taken in the effort of quantitative measurement, although a large quantity of research in this area has recently been developed. Work done by Berry (Bart Allen) and Brodeur between 1990 and 1998 defined ten 'Quality Values' which influence satisfaction behavior, further expanded by Berry in 2002 and

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known as the ten domains of satisfaction. These ten domains of satisfaction include: Quality, Value, Timeliness, Efficiency, Ease of Access, Environment, Inter-departmental Teamwork, Front line Service Behaviors, Commitment to the Customer and Innovation. These factors are emphasized for continuous improvement and organizational change measurement and are most often utilized to develop the architecture for satisfaction measurement as an integrated model. Work done by Parasuraman, Zeithaml and Berry (Leonard L) between 1985 and 1988 provides the basis for the measurement of customer satisfaction with a service by using the gap between the customer's expectation of performance and their perceived experience of performance. This provides the measurer with a satisfaction "gap" which is objective and quantitative in nature. Work done by Cronin and Taylor propose the "confirmation/disconfirmation" theory of combining the "gap" described by Parasuraman, Zeithaml and Berry as two different measures (perception and expectation of performance) into a single measurement of performance according to expectation. According to Garbrand, customer satisfaction equals perception of performance divided by expectation of performance.

There are strong link between service quality and customer satisfaction, which is very obvious (Anderson and Sullivan, 1993). But the service quality is defined in many ways by many more researchers (Brown *et al.*, 1993 and Cronin and Taylor, 1992), very surprisingly; little research has been done for the importance of service quality dimensions in determining customer satisfaction (Fisk *et al.*, 1993).

Customer satisfaction is also related to the service offering. One of the major determinants of the bank choice is the bank location (Anderson *et al.*, 1976; Laroche and Taylor, 1988; Thwaites and Vere, 1995). 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 switching, may speak against it or may do nothing and stay calm (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. When customers complain, they give the firm a chance to rectify the problem and if the firm recovers successfully, it can increase loyalty and profits (Fornell and Wernerfelt, 1987). Thus, customer complaint handling can have an influence on customer satisfaction and retention.

### 3. Methodology

#### Hypothesis Testing

Hypothesis 1: Service Quality has a positive effect on the level of the customer satisfaction.



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**Table1: Anova showing the impact of Service Quality on the Customer Satisfaction level.**

Model		Sum of Squares	df	Mean Square	F	Remarks
1	Regression	5003.809	14	357.420	1.146	Sig
	Residual	3008.574	71	105.538		

(f=3.146, df= 14/ 71, p<0.05)

This hypothesis was put to test using analysis of variance (ANOVA). This was based on the scores obtained on items measuring the service quality and the reasons measuring the customer satisfaction. The results obtained are summarized in the following table.

The results show that the service quality has a significant impact on customer's expectation level. This hypothesis was therefore, accepted. It was interesting to note that the bank's service quality were significant contributors to customer satisfaction. The inclusion of features and benefits beyond the "traditional" service quality determinants provided a more complete and comprehensive picture of the factors that contributed to a customer's overall attitude towards the service.

Hypothesis 2: Best Service features leads to higher level of customer satisfaction.

**Table2: Anova showing the impact of new service features on overall level of customer satisfaction.**

Model		Sum of Squares	df	Mean Square	F	Remarks
1	Regression	19.519	1	19.519	1.1666	Sig
	Residual	2986.568	98	117.66		

(f=3.146, df= 14/ 71, p<0.05)

This hypothesis was put to test using analysis of variance (ANOVA). This was based on the scores obtained on items measuring the service features and the reasons measuring the customer satisfaction. The results obtained are summarized in the following table.

The results show that the service quality has a significant impact on customer's expectation level. This hypothesis was therefore, accepted. The bank's features (e.g. location), the competitiveness of the bank's interest rates, the customers' judgments about the bank employees' skills and whether the customer was a borrower were all factors that drove customer satisfaction. The results were as expected.

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Hypothesis 3: Best Customer complaints handlings will lead to higher level of customer satisfaction.

**Table2: Anova showing the impact of new service features on overall level of customer satisfaction.**

Model		Sum of Squares	df	Mean Square	F	Remarks
1	Regression	859.4	2	171.9	1.75	Sig
	Residual	1899.6	13	98.4		

(f=3.146, df= 14/ 71, p<0.05)

This hypothesis was put to test using analysis of variance (ANOVA). This was based on the scores obtained on items measuring the service features and the reasons measuring the customer satisfaction. The results obtained are summarized in the following table.

The results show that the service quality has a significant impact on customer's expectation level. This hypothesis was therefore, accepted. Customer complaints handling is not an important factor not only in banking sector but also in other service industry as well.

### 4. Conclusion and Findings

The primary objective of this study was to mainly identify the factors of customer satisfaction in retail banking. Overall, both core and relational performance were important factors as they were thought to be. Features such as convenience also mainly contributed to customer satisfaction, as did competitive interest rates and skilled employees were the important features. The results also show that a service problem which is not resolved has a greater impact on the customer's attitude towards the service provider. These results are in accordance with the importance of problem recovery in maintaining customer satisfaction (Hart *et al.*, 1990). However, the results do not support the theories that satisfactory problem recovery leads to heightened customer satisfaction or closer "bonding" of the customer to the provider. At best, satisfactory problem revival may lead and definitely leads to the same level of customer satisfaction as if a problem had not occurred. Further research is needed to determine if, and when, satisfactory problem recovery leads to "delighted" customers. Positive attitudes towards a retail bank are driven by service quality components, such as the employee-customer relationship, as well as other features/benefits of the service.

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