

Impact of Service Quality on Customer Satisfaction of Public Sector Commercial Banks: A Study on Rural Economic Context

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Abstract- The products and services offered by banks are very similar. The differentiator is the level of service quality. Many studies have been conducted to explore the impact of service quality on customer satisfaction in retail banking. However; it finds fewer studies conducted to identify the impact of Human Related and Non-Human Related Factors of perceived service quality on customer satisfaction with special reference to rural economic contexts. Alongside the research context briefed, the key purpose of this study was to examine how perceived service quality factors impact on Customer Satisfaction. Data was collected through a sample of 210 respondents from Puttlam District. A deductive approach was employed to construct the conceptual framework and accordingly hypotheses were formed. Survey method was followed for the data enumeration and SPSS 20 software packages has been used for data analysis. The hypotheses were tested using Co-relations and Regression analysis. Findings revealed that the Human Related Factors of perceived service quality have a greater impact on customer satisfaction whereas Reliability and Responsiveness are the most influential factors on customer satisfaction. Managerial implications and the research propositions were suggested for the service marketing sphere at the conclusion.

Index Terms- Customer Satisfaction, Perceived Service Quality, State Commercial Banks, Rural Economy, Sri Lanka

I. INTRODUCTION

Banking sector plays a significant structural role for any given case of industry or economic growth whereas rural economies extendedly demand such institutional and structural contribution. Moreover, service sector including commercial banking institutions obviously steers the nerve point of industrial growth of any economy. During the past two decades or so, regulatory, structural and technological factors have significantly changed the banking environment. This has led to an intense competition among banking service providers. Bank management must develop customer-oriented strategies in order to compete successfully in the competitive retail banking environment. In commercial banks, customer satisfaction is regarded as the primary criterion used to assess the relationships of banks with the market (Munari, Ielasi & Bajetta, 2013). Therefore, it is important for commercial banks to ensure maximum customer satisfaction. The products and services offered by banks are very similar in the industry, but the differentiator is the level of service quality and how the customers perceive it. Perceived

service quality is the customers' overall impression of the relative inferiority or superiority of the organization and its services. Customers in the present banking environment are knowledgeable and highly demanding, due to rapidly developing information technology and advanced communication channels. The present competitive business environment facilitates customers to switch banks easily seeking better options for higher levels of satisfaction. This is a major challenge to the banks. (Silva, 2009). With the above insights on customer satisfaction, the present study is focused on the perceived service quality and customer satisfaction of the state commercial banks in the rural economic context Sri Lanka.

II. PROBLEM STATEMENT

The Services sector accounts for 56.6% of GDP reporting 5.3% growth in value added terms in 2015, in comparison to the growth reported as 5.2% in the year 2014. The robust growth of 15.8% in financial service activities, largely contributed to the Services sector growth. (Annual Report, Central Bank of Sri Lanka 2015). Further it indicates that banking sector was found to be robust during 2014 and continued to expand its asset base maintaining its lead role in the financial sector. As at end of 2014, the total banking network of 34 banks included 25 Licensed Commercial Banks (LCB), of which 12 were branches of foreign banks, and 9 Licensed Specialized Banks with a branch and other banking outlet network of 6,554 and ATM network of 2,635, in last five years. (Performance Review 2015 IBSL). Therefore, banking could be recognized as a key industry in the service sector which demarcates one of the critical financial mechanisms of the economy. However, the context has not been properly studied in terms of performance, consumer behavioral responded and competitiveness. Customers of public sector banks experienced a higher service gap compared to the private sector banks. The process efficiency and interactive service marketing are comparatively poor in public sector banks (Dissanayake & Wanninayake, 2007). Amanfi and Benjamin, (2012) said that the public-sector banks have been seen as lethargic and non-responsive to the needs of the customers. Issues such as poor working conditions, poor work ethics, outdated systems, procedures and practices among others, conspire to impact adversely on service quality delivery by public sector organizations. Therefore, Service quality particularly in the public-sector banks has become ever more important in improving customer satisfaction.

Further, Dissanayake, Wasantha&Jinadasa (2016) said that the services sector including commercial banks need to focus on non –financial perspectives in terms of service performance, consumer behavioral responses and it is an area to be examined further.

Meanwhile, service quality aspects have been fragmented as: Human Related Factors of perceived service quality and Non-Human Related Factors of perceived service quality on customer satisfaction providing a new notion to be examined (Silva, 2009). Moreover, institutional service delivering excellence has been recognized as one of the key detriments to assist for the wholesome development where rural economies are considered as strategically a sensitive scope for the said matter (Wasantha, Ali &Goash, 2015). Further, Dissanayake, et.al. (2016) stated that the commercial banking sector need more consumer driven service improvements to enhance the overall performance including commercial banks as a postulated segment. Alongside, Sri Lankan Development Indexes show the insights of the growth of regional economies. Adding to this point, Puttlam district has been claimed as one of the less considered economic contexts in Sri Lanka (Central Bank Annual Report 2015). It has specifically referred the need of institutional and knowledge related inputs for such segments to accelerate the development phenomenon. Thus, studying how public sector commercial banks perform in such economic contexts could be an extendedly important matter to provide empirical knowledge for the needful development matters, for instance, consumer behavioral perspectives towards service related performance (Dissanayake et.al. 2016, Wasantha et.al. 2015, Dissanayake& Ismail, 2015). Therefore, examining consumer's perception towards the service quality delivered by public sector commercial bank could address to the empirical and practice-related knowledge gaps in Sri Lanka whereas special reference to rural economic sphere could provide a significant knowledge contribution in par with the notions specified in rural economic development potential (Wasantha, et.al., 2015). Accordingly, this paper has figured out its research problem as how far the perceived service quality of state commercial banks has influenced perceived customer satisfaction in the context of Puttlam district which represents critically important economic contexts in the rural segment of Sri Lanka.

Research Questions

1. How do Human-Related Factors of service quality (Reliability, Responsiveness, Assurance, and Empathy) influence on perceived customer satisfaction?
2. How do Non-Human-Related Factors (Tangibility) of service quality influence on perceived customer satisfaction?
3. How differently Human-Related Factors and Non-Human Related Factor influence on customer Satisfaction?

III. OBJECTIVES OF THE STUDY

1. To identify the impact of Human-Related service quality factors towards the perceived customer satisfaction in commercial banking sector.
2. To identify the impact of Non-Human Related service quality factors towards the perceived customer satisfaction in commercial banking sector

3. To evaluate the relationship between service quality and perceived customer satisfaction.
4. To propose recommendations to enhance perceived customer satisfaction in banking industry.

IV. LITERATURE REVIEW

Empirical studies indicated that service quality has been increasingly recognized as a critical factor in the success of any business (Parasuraman, 1988), and the banking industry in this case is not exceptional (Hossain & Leo, 2009). Service quality has been widely used to evaluate the performance of banking services (Cowling & Newman, 1995). The banks understand that customers will be loyal if they provide a greater service than their competitors (Dawes & Swailes, 1999), and on other hand, banks can only earn high profits if they are able to position themselves better than competitor within specific market (Davies, 1995). Consequently, banks need to focus on service quality as a core competitive strategy (Chaoprasert & Elsely, 2004).

V. SERVICE QUALITY

Parasuraman, Berry & Zeithaml, (1985, 1988) defines 'service quality' as the difference between customer perceptions of the current service being provided by a given organization and customer expectations of excellent service within that given industry. According to Gronroos (1982), perceived quality of a given service is the result of an evaluation process since consumers often make comparison between the services they expect with perceptions of the services that they receive. He points out; when it comes to service quality it is not the actual level of quality, but the level of quality the customer expects. Hence, service quality depends on the strategy of the organization, how it wants to be perceived. A customer's perceived service quality is very much impacted by how the customers are approached by, and treated by the banks front-line, and support-employees at different encounters with the organization. The same can be applied to the banking industry. Customers perceive services in terms of quality of the service and of the overall satisfaction with their experience. Thus, companies today recognize that they can compete more effectively by distinguishing themselves with respect to service quality and improved customer satisfaction.

VI. PERCEIVED SERVICE QUALITY MODEL

Gronroos (2000) presented the Perceived Service Quality Model. He identified three components of service quality, namely: technical quality; functional quality; and image. Technical quality (outcome) is the quality of "what" consumer actually receives as a result of his/her interaction with the service firm. Functional dimension is "how" the manner in which the product/service is delivered to the customer. Functional quality of the process is subjective as it is based on encounters with the service provider. The third step in the above model is the Image (Corporate and/or Local). This is how customers will see the organization and its methods of operation and is a major element

of quality perception. Image is very important to service firms and this can be expected to build up mainly by technical and functional quality of service including the other factors (tradition, ideology, word of mouth, pricing and public relations). Further, if the company has a good image, minor mistakes will not change customers' perception of the company, but if the company has a bad image, mistakes will yield that customers perceive quality as bad. He suggests a company must not focus merely on one strategy and forget the other. Company should strike a balance between the two dimensions, since one cannot disregard the other, in order to increase perceived service quality. However, according to Gronroos, (2000) it is very common to have slightly more focus on functional quality by most of organizations. The present study was focused on the above model and the functional dimension of the perceived service quality of the local banking sector in the rural economic context.

VII. HOW TO MEASURE SERVICE QUALITY IN THE BANKING INDUSTRY?

One of the most useful measurements of service quality is the dimensions stated in the from the SERVQUAL model developed by Parasuraman, Berry & Zeithaml, (1988).

1. Reliability: delivering on promises

Reliability is defined as the ability to perform the promised service dependably and accurate. In the broadest sense, reliability means that the company delivers on its promises- promises about delivery, service provision, problem resolution, and pricing. Customers want to do businesses with companies that keep their promises, particularly their promises about the service out come and core service attributes.

2. Tangibles: representing the service physically

Tangibles are defined as the appearance of physical facilities, equipment, personnel and communication materials. Tangibles provide physical representations or images if the service that customer, particular new customers will use to evaluate quality.

3. Responsiveness -being willing to help

Responsiveness is the willingness to help customers and provide prompt services. This dimension emphasizes attentiveness and promptness in dealing with customer requests, questions, complaints and problems, responsiveness is communicated to customers by the length of time they have to wait for assistance, answer to questions or attention to problems, responsiveness also captures the notion of flexibility and ability to customize the service to customer needs.

4. Assurance- inspiring trust and confidence

An assurance is defined as employees' knowledge and courtesy and the ability of the firm and its employees to inspire trust and confidence. This diminution is likely to be particularly important for services that customers perceive as high risk or for services of which they feel uncertain about their ability evaluate outcomes.

5. Empathy –treating customers as individuals

Empathy is defined as the caring, individualized attention that the firm provide its customers. The essence of empathy is conveying, though personalized or customized service, customers are unique and special and that their needs are understood. Customers want to feel understood by and important to firms that provide service to them. Personal at small service firms often know customers by name and build relationships that reflect their personal knowledge of customer requirements and preferences. when such a small firm compete with larger firms, the ability to be empathic may give the small firm a clear advantage.

VIII. CUSTOMER SATISFACTION

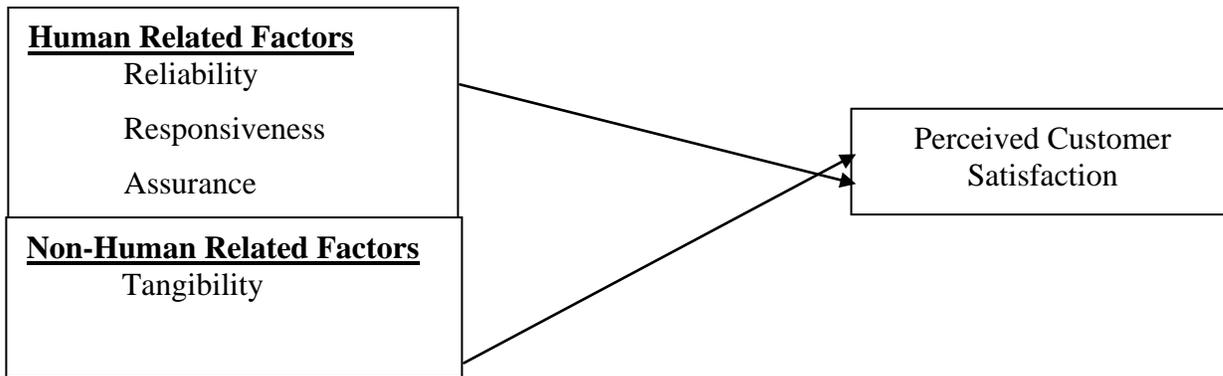
Customer satisfaction is the extent to which a product's perceived performance matches a buyer's expectations Kotler (2006). It further argues customer satisfaction depends on the product's perceived performance relative to a buyer's expectations. If the product's performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied and if performance exceeds expectations, the customer is highly satisfied or delighted. (Kotler 2006) .

Oliver (1997) defines customer satisfaction as the customers' evaluation of a product in terms of whether that product has achieved their needs and expectations. If it fails to do so, dissatisfaction would occur. Satisfaction commonly has thresholds at a lower level (under fulfillment) and at an upper level (over-fulfillment). A consumer's satisfaction may drop if he "gets too much of a good thing". People focus upon the lower threshold and neglect the potential for an upper threshold. Outcomes of satisfaction feelings may involve intent to repurchase, word-of-mouth and complaints.

IX. RELATIONSHIP BETWEEN SERVICE QUALITY & CUSTOMER SATISFACTION

The relationship between service quality and customer satisfaction has received considerable academic attention in the past few years. Kirti Dutta & Anil Dutta, (2009) observed that Customer expectations are higher than perceptions and this gap varies across the banking sector with tangibility having the highest impact on overall customer satisfaction. Dharmalingam, Ramesh & Kannan, (2011) stated that all the service quality attributes are positively correlated with customer satisfaction. Prof Gopalkrishnan, et al, (2011) determined that Service quality and customer satisfaction had a direct positive effect on customer's retention intentions out of which customer satisfaction is a stronger predictor for retention. (Jackie & Tam, 2004) found that customer with higher perceptions of the value of the service results in turn with greater satisfaction. Montes, Mar & Fernandez, (2003) found that customers' perceptions, attitudes and intentions are being affected by employees' experiences and attitudes who are the internal customers of the organization. In line with the foresaid literature the following conceptual framework has been developed in association of the model developed by Zeithaml & Bitner 2003.

X. CONCEPTUAL FRAMEWORK



- H1: Human Related service quality factors & perceived customer satisfaction are significantly correlated.
- H2: Non- Human Related service quality& perceived customer satisfaction are significantly correlated.
- H3: Overall service quality and perceived customer satisfaction are significantly correlated.

XI. METHODOLOGY

DATA COLLECTION

Primary data was collected by distributing a detailed questionnaire for 210 respondents who are the customers of state commercial banks in Puttalam district. Personal interviews were used to fill the questionnaires. The questionnaire comprised of 32 close ended questions. All close ended constructs used in this study were measured by various items on five-point Likert-type scales ranging from 1 (strongly disagree) to 5 (strongly agree) to measure the relationship between service quality and customer satisfaction. Secondary data was collected from secondary sources such as previous researches, Journal articles and websites which are related to service quality and customer satisfaction.

were used as descriptive statistics whereas co-relations and coefficient techniques were used as inferential statistics. The researcher used SPSS-20 version software package to analyze data. As per the inferential statistical tools, the researcher used Pearson Correlation technique and Regression analysis in order to test the hypothesis and evaluate the relationships in between service quality and customer satisfaction. For the purpose of presentation of findings, researcher has used Histograms in order to provide a clear presentation of analyzed data.

RELIABILITY TESTING

A reliability test (Cronbach's alpha) was conducted to assess the internal consistency of each construct. According to the values in the table, all variables are adequate and reliable.

XII. DATA ANALYSIS PROCEDURE

Descriptive and Inferential statistical methods were utilized to analyze the data. Charts, percentages, Mean St. Deviation

Table 1 Reliability Testing

Variable	Cronbach's alpha	Number of items
Reliability	.792	5
Responsiveness	.799	5
Empathy	.746	5
Assurance	.886	5
Tangibility	.723	5
Perceived customer satisfaction	.731	5

(Source: Analyzed Research Data)

Analysis & Discussions
Correlation Analysis

The Pearson's Correlation Coefficient was computed for the purpose of determining the relationship between Service quality and customer satisfaction in state commercial banks of Puttalam District, Sri Lanka.

Table 2 Correlation of Independent variables and dependent variable

Variables	Pearson correlation	Significance (2-tailed)
Human Related Factors	.320**	.000
Non- Human	.282**	.000

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

(Source: Analyzed Research data)

The results indicate that the Human Related Factors correlates positively with customer satisfaction ($r = .320$, $p < 0.01$ positive figure) in state commercial banks of Puttalam District, Sri Lanka, since P value is 0.000 reporting less than 0.05, it could conclude that there is a statistical significance relationship between two variables. Therefore, the hypothesis (H_1) can be accepted. Non- Human Related Factors correlates positively with customer satisfaction ($r = .282$, $p < 0.01$ positive figure) in state commercial banks of Puttalam District, Sri Lanka. Further P value is less than 0.005 the relationship could be recognized as significant. Therefore, the hypothesis (H_2) can be accepted.

Table 3 Individual independent variables vs. dependent variable

Variables	Pearson correlation	Significance (2-tailed)
Reliability	.309**	.000
Responsiveness	.284**	.000
Assurance	.206*	.000

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

(Source: Analyzed Research data)

According to the above table it can be concluded that all the individual variables of Human Related Factors have a significant relationship ($P < 0.05$) towards customer satisfaction, whereas Reliability and Responsiveness have the greater impact on customer satisfaction than of Assurance.

Regression Analysis

The Regression Analysis was conducted for the purposes of further determining the relationship between service quality and customer satisfaction in state commercial banks in Puttalam District, Sri Lanka.

Table 4 Regression of Service Quality and Customer Satisfaction

R	R Square	Adjusted Square	R	Std. Error
.351 ^a	.123	.115		.65485

Predictors: (Constant), service quality

(Source: Analyzed Research data)

Table 5: Regression, B, and T- value of service quality and customer satisfaction

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.828	.587		3.112	.002
Service Quality	.613	.163	.351	3.772	.000

Dependent Variable: Customer Satisfaction

(Source: Research data)

The R is the correlation between two variables. However, the value of R square which indicates that the service quality only has 11.5% of variation in Customer satisfaction whilst rest of 88.5% of variation in customer satisfaction are explained by other factors which are not studied, because they are beyond the scope of study. According to coefficient table, constant value is 1.828 saying when service quality is zero, still Customer satisfaction has a value of 1.828 in statistical terms. In line with the said statistical results, when service quality increases by one unit, the customer satisfaction will increase by 0.351. According to B coefficient table, this is a sign of positive moderate relationship since it is between + 0.3 - + 0.7. Finally, since P value is 0.000 reporting less than 0.05, it could conclude that there is a statistical significance relationship between two variables and therefore hypothesis (H_3) is accepted.

XIII. CONCLUSION

The above study revealed that the human related factors of service quality (reliability, responsiveness, assurance and empathy), have a greater impact on customer satisfaction than that of the non-human related factors of perceived service quality (tangibles) on Customer Satisfaction. It was further established that Reliability and Responsiveness are the most influential determinants on customer satisfaction in retail banking. According to the Regression analysis, customer satisfaction is influenced by service quality by 35.1% (.351*100). Finally, service quality influences to customer satisfaction. So, finally it could conclude that service quality has an impact on customer satisfaction.

XIV. RECOMMENDATIONS

Based on above study, the following recommendations are made to the Banking Sector. To enhance customer satisfaction in retail banking high managerial attention should be focused on improving human related factors of perceived service quality.

Moreover, reliability & responsiveness variables foresaid, human related factors, should be focused as the most influential factor to determine customer satisfaction.

XV. SUGGESTIONS FOR FURTHER RESEARCHES

In addition to functional dimension, there are two other dimensions in service quality: (i) Technical and (ii) Image quality, which influence customer satisfaction. Therefore, banks should encourage further study to investigate the influence of Technical and Image dimensions on customer satisfaction in retail banking. Moreover, service sector of Sri Lanka needs more attention in researching consumer behavioral perspectives, perceived brand evaluations and brand relationship behaviors in relation to marketing stimulus (Dissanayake, 2015; Dissanayake & Ismail, 2015). In line with the said, research propositions are suggested to examine how service related innovations and value additions contribute to customer satisfactions and other forms of extended brand relationship behaviors. Further, human related service value additions resulted through brand citizenship behaviors (BCB) could be examined to investigate how BCB could influence to perceived customer satisfactions and brand evaluation perspectives including brand attitude, brand trust and brand love as some of the contexts within it.

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