The Influence of Service Quality on Overall Customer Satisfaction and the Influence of Overall Customer Satisfaction on Customer Loyalty in Retail Banking in Bangkok

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Abstract

The main objective of this paper is to identify the critical service quality dimensions that influence overall customer satisfaction and the influence of overall customer satisfaction on customer loyalty in Retail Banking in Bangkok. SERVPERF measurement was applied to measure service quality of Retail Banking. 400 questionnaires were employed to collect data in front of five banks and a quota sampling method was used to ensure that representatives of each bank were proportionate based on the number of bank branches in Bangkok. Regression analysis was applied to test the hypotheses for this study. The results indicated that all five-service quality dimensions; tangible, reliability, responsiveness, assurance and empathy positively influence overall customer satisfaction and there was a positive influence of overall customer satisfaction on customer loyalty in Retail Banking. Implications for practice are also presented and limitations of research and recommendations for further research are also discussed in this study.

Key words: service quality, customer satisfaction, customer loyalty, customer loyalty in retail banking, customer satisfaction in retail banking, SERVQUAL, SERVPERF

Introduction

After the financial crises in Thailand in the 1990s, many businesses were struggling and several businesses were closed down. One of the businesses that received a major impact and could not deny the outcome of economic recession was the banking sector. The currency market faced disequilibrium and the amount of non- performing loan had risen. The Bank of Thailand and The Ministry of Finance cooperated to ensure the improvement and stability of the financial system of the country. Numerous policies have been implemented in order to improve the financial system of the economy.

Due to the change of the strategy that aimed to reduce financial market risk, banks have changed their strategies and shifted their direction to concentrate on Retail Banking business instead of corporate finance that helps to diversify their portfolio and decrease risk. From the shifting in the bank strategy, Retail Banking business grew rapidly. In 2004, the Bank of Thailand announced a launch of the Financial Sector Master Plan in order to support the growing Retail Banking sector and further improve the financial system (Bank of Thailand, 2014). The objective of the financial sector master plan policy was mainly focused on the efficiency, strength and access of the financial system. As a consequence of the open market policy, several foreign banks decided to open up branches across the country to support their customers. The increase in the number of branches of foreign banks in 2012 may not affect the banking market immediately. However, it has shown a higher level of competition within the market when foreign banks were moving forward to expand their business and areas to compete within the market. The Bank of Thailand highlighted that the increase of market competition was beneficial to both consumers and the financial system of the country as a whole. Customers have more selection of services and definitely the Retail Banking market grew.

Objectives of the Study

The study aims to identify the factors affecting customer satisfaction on the Retail Banking sector. The objective of the study is to identify the key dimensions of service quality that influence overall customer satisfaction in the Retail Banking sector in Bangkok. It aims to measure the overall service quality level of the Retail Banking sector in Bangkok as well as to measure the influence of overall customer satisfaction on customer loyalty in the Retail Banking sector in Bangkok.

Research Questions

The research questions are: What are the key dimensions of service quality that positively influence overall customer satisfaction in the retail-banking sector in Bangkok? How does the overall customer satisfaction influence customer loyalty in the retail-banking sector in Bangkok?

Review of Literature

Retail Banking in Thailand

According to the Bank of Thailand (2014) there are 31 commercial banks that offer retail-banking service to customers in Thailand. Retail banking service means banking service that financial institutions provide directly to the customer rather than through corporation or with other banks. Retail banking service includes savings, transactional accounts, debit cards, credit cards, personal loans and mortgages that are offered on a daily basis and none is fixed on a specific period or term. Since there is not much difference in a range of services offered by banks and due to intense competition in the market, several researchers studied and reviewed the effect of service quality on overall customer satisfaction and the effect of overall customer satisfaction on customer loyalty in Retail Banking business. Different measurement scales have been proposed and adapted to measure retail-banking services. Various dimensions have been identified as a predictor on overall customer satisfaction and customer loyalty.

Service Quality

Service has been described as a process wherein a service provider offers solutions to customers either through customer service, physical resources, and/or a system of the service provider. Parasuraman et al. (1985) mention that service has its unique features that separate them from an object. The unique features are intangibility, heterogeneity and inseparability (simultaneous production and consumption).

In 1985, Parasuraman and his team conducted a focus group research to evaluate a service quality construct. They identified ten dimensions as attributes of service quality. Later on, Parasuraman et al. (1988) refined his research, the dimensions of service quality were combined from ten to only five, namely: Tangibles, Reliability, Responsiveness, Assurance and Empathy.

SERVQUAL

Parasuraman et al. (1985) developed a measurement scale to assess the customers' perceptions of service quality in both service and retail businesses. The measurement was named as SERVQUAL. It is widely accepted by several researchers and practitioners in the service industry.

Parasuraman et al. (1985) proposed in their study the conceptual framework that can be applied for service quality measurement. The result of the study showed that customers perceived that service quality is influenced by a series of distinct gaps occurring on the market's side. If the company can close four provider gaps, the customer gap will be automatically closed. Each gap is explained as follows to better understand service quality measurement.

Provider gap 1: Between customer expectations about service and the company's management understanding of those customer expectations.

Provider gap 2: Between the company's management perceptions of consumer expectations and service quality specification. Understanding customers' perceptions only are inadequate to provide high-class service quality to customers.

Provider gap 3: Between the company's service quality specification and service delivery to the customer.

Provider gap 4: Between the company's communication and what it promises to deliver to the customer and what services the company delivers to the customer.

Consumer gap 5: Between what consumers expect about service and what consumers perceive about service.

From the above research two concepts are established i. e. customer expectation and customer perception (Parasuraman et al. 1985). Customer expectation is derived from past experiences and/or reference from others and customer perception is the measurement of the real service experience. The result of performance minus expectation is known as perceived service quality. As mentioned, the confirmed five service quality dimensions identified by Parasuraman et al. (1988) are; tangibles, reliability, responsiveness, assurance and empathy.

Criticism of SERVQUAL

There are some criticisms and arguments on SERVQUAL concept. Carmen (1990) raised his question on the consistency of the five dimensions across sectional analysis and found the different result of dimensions between different service providers. Carmen (1990) highlighted that customer expectation and customer perception measurements are difficult to measure in service business and these are operational problems in measurement. Cronin and Taylor (1992) mentioned that service quality

should be measured based on the attitude level. They criticized that SERVQUAL measurement is only based on a satisfaction paradigm and does not analyze customers' attitudes.

SERVPERF

Cronin and Taylor (1992) suggested that customer attitudes should be evaluated in order to measure service quality. SERVQUAL measurement was developed to evaluate expectation and perception by performance minus expectation. Cronin and Taylor (1992) mentioned that respondents already compare performance perception with expectation before giving the score so measuring expectation is not necessary. Cronin and Taylor (1992) developed the new measurement and named it as service performance measurement known as SERVPERF. SERVPERF measurement is based on customer attitude evaluated by perceptions of the service delivery only. Cronin and Taylor (1992) proved that the performance measurement only (SERVPERF) gave better results than SERVQUAL. Brown, Churchill and Peter's study (cited in Siddiqi, 2011) also supported the finding that measuring the performance only resulted to better scores than performance-minus-expectation measurement. Consistent with SERVQUAL, Cronin and Taylor (1992) confirmed that all five-service quality dimensions: Tangibles, Responsiveness, Reliability, Assurance and Empathy were valid for service quality measurement. Furthermore, Cronin and Taylor (1992) reduced 50% of measurement scale items that were duplicated, from 44 scale items to 22 scale items.

Nevertheless, various researchers have introduced the alternative service quality measurement scale for Retail Banking. Bahia and Nantel (2000) proposed a new measurement scale for banking named Banking Service Quality (BSQ), which focused more on the marketing purpose. It consists of six service quality dimensions: effectiveness and assurance, access, price, tangibles, service portfolio and reliability. However, Sangeetha and Mahalingam (2011) argued that BSQ is only developed for specific banks to measure the uncommon problems but not specially designed to measure perceived service quality in the scope of general service of Retail Banking.

Sanheetha and Mahalingam (2011) commented that BSQ is not specially designed to measure perceived service quality in the scope of general service; BSQ is more focused on the marketing dimensions rather than general service of the Retail Banking. Thus BSQ does not fit this research study.

Aldlaigan and Buttle (2002) proposed a new banking service measurement that called SYSTRA-SQ. The scale developed from the Nordic model is the economic and social model that is used in Nordic countries and it not widely used by researchers and practitioners given that the model is specially developed from Nordic countries' factors and with different objectives. As a result, the SERVPERF instrument was applied for this study.

The Relationship between Service Quality and Overall Customer Satisfaction in Retail Banking

Overall customer satisfaction in Retail Banking has been defined as a summary of overall response after experiencing banking service and when comparing with their expectation or standard before consumption. Several researchers found that banking service quality has a positive effect on overall customer satisfaction. Caruana (2002) showed that service quality is an antecedent of overall customer satisfaction. Overall customer satisfaction plays a mediating role that directly influences service loyalty. Baumann et al. (2007) supported the notion that overall satisfaction was found to be the most powerful predictor of future behavior intentions that give a positive result to the company. Ravichandran et al. (2010) pointed out that responsiveness was found to be the only predictor of overall customer satisfaction in banking service in Indian private bank. Siddiqi (2011) found that all Retail Banking service quality attributes are positively related with overall customer satisfaction. Empathy appears to be the strongest predictor of overall customer satisfaction. Assurance shows the second highest positive correlation with overall customer satisfaction and Responsiveness is the third predictor of overall customer satisfaction. Overall customer satisfaction shows a highly positive correlation with customer loyalty.

Customer Loyalty in Retail Banking

Siddiqi (2011) who studied about the Retail Banking sector in Bangladesh found that overall customer satisfaction is positively related to customer loyalty. He

highlighted that single digit improvement of overall customer satisfaction would result in a very large increase in customer loyalty. Consistent with Siddiqi (2011), Bain & Company (2012) conducted a market survey in customer loyalty in Retail Banking in Thailand and found the reason that customers would like to repeat purchase are strong customer service, great product lines, effective branch layouts and an ample supply of ATMs. ATMs and number of service branches were the main factors that have the highest effect on customer loyalty. Hafeez and Muhammad (2012) research about banking service quality in Pakistan shows that service quality and overall customer satisfaction are positively correlated with customer loyalty. Hassan et al. (2012) studied customer loyalty of Islamic Banking in the Bahawalpur region and highlighted that bank customers will less likely to switch the when customers are loyal to the organization.

The empirical studies show the importance of customer loyalty in the Retail Banking industry. An increased customer loyalty in Retail Banking means reduced costs and increased company's profit. Perceived service quality is the key factor that has a positive correlation with overall customer satisfaction and overall customer satisfaction is essential to customer loyalty (cited in Lovelock and Wirtz 2001, p. 373). From the theoretical point of view, Anderson and Mittal (2000) found that service quality has a positive effect on overall customer satisfaction and greater service quality results in a higher overall customer satisfaction level. The level of overall customer satisfaction has a positive effect on customer retention and loyalty. They suggested that the higher level of overall customer satisfaction results in greater customer loyalty.

Conceptual Framework

From critical review of literatures (Parasuraman et al., 1985, 1988; Cronin and Taylor, 1992; Caruana, 2002; Culiberg and Rojsek, 2010; Mosahab et al., 2010; Ravichandran et al. 2010; Khalid et al., 2011; Siddiqi, 2011; Hafeez et al., 2012), it is found that the service quality is the predictor of overall customer satisfaction. All five dimensions of service quality are found to be more or less drivers of overall customer satisfaction. In addition, Baumann et al. (2007) found that overall customer satisfaction is the predictor of future behavior intention. Caruana (2002), Hafeez et al. (2012) and Siddiqi (2011) found that overall customer satisfaction have the strong influence on customer loyalty.

The objective of this study is to identify the key dimensions of service quality that influence overall customer satisfaction and to explore the influence of overall customer satisfaction on customer loyalty. Figure 1 shows the conceptual framework developed for this study.
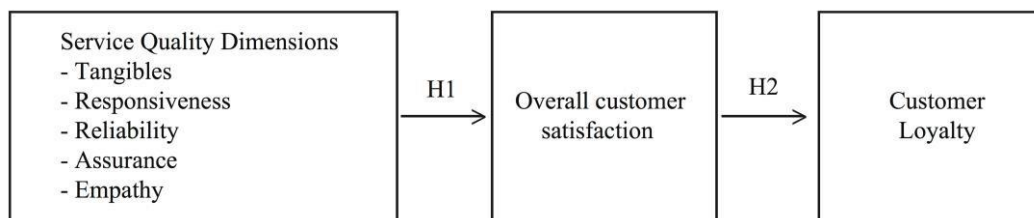

Figure 1. Conceptual Framework

From the above research model, the constructs can be hypothesized as follows:

Hypothesis 1

H_o1: Service quality dimensions (Tangibles, Reliability, Responsiveness, Assurance and Empathy) do not influence overall customer satisfaction in Retail Banking in Bangkok.

H_a1: Service quality dimensions (Tangibles, Reliability, Responsiveness, Assurance and Empathy) influence overall customer satisfaction in Retail Banking in Bangkok.

Hypothesis 2

H_o2: Overall customer satisfaction does not influence customer loyalty in Retail Banking in Bangkok.

H_a2: Overall customer satisfaction influence customer loyalty in Retail Banking in Bangkok.

Table 1 shows the summary of independent and dependent variables of this research.

Table 1

Variable and Operational Definition

Variables	Operational definitions	Sources of reference
Tangibles	Physical facilities, equipment, and appearance of personnel.	Parasuraman, Zeithaml and Berry (1988)
Reliability	Willingness to help customers and provide prompt service.	Parasuraman, Zeithaml and Berry (1988)
Responsiveness	Ability to perform the promised service dependably and accurately.	Parasuraman, Zeithaml and Berry (1988)
Assurance	Knowledge and courtesy of employees and ability to inspire trust and confidence.	Parasuraman, Zeithaml and Berry (1988)
Empathy	Caring, individualized attention the firm provides its customers.	Parasuraman, Zeithaml and Berry (1988)
Overall customer satisfaction	Summary of a psychological state resulting when the emotion surrounding disconfirmed expectation is coupled with the consumer's prior feeling about the consumption experience.	Oliver, 1980
Customer loyalty	The degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition towards the provider, and considers using only this provider when a need for this service exists.	Gremler and Brown, 1996

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Methodology

The population of this research was the customers who used the Retail Banking service and held a minimum of one account with the bank. The numbers of

questionnaires that were distributed were based on the quota sampling method that proportionately shared the percentage total number of bank branches in Bangkok.

There were 79 sets of Bangkok Bank, 55 sets for Bank of Ayudhya, 84 sets for Kasikorn Bank, 80 sets for Krung Thai Bank and 102 sets for Siam Commercial Bank. All four hundred (N = 400) questionnaires data were transformed and the SPSS program was used to analyze the data. The response rate was 100% because the researcher waited to obtain the questionnaire from the respondents after with they answered all questions and the researcher also checked the questionnaires were completely answered.

Instruments

The questionnaire was adapted from the study of Cronin and Taylor (1992). It consisted of 21 scaled items adjusted to the context of Retail Banking to evaluate post purchase experience and the overall service quality level of the service. Cronbach's alpha was applied to measure the reliability level of the questionnaire. Table 2 shows the reliability testing result with all variables obtaining a Cronbach's alpha level over

0.6. A seven point Likert scale ranging from "strongly agree" (7) to "strongly disagree" (1) was used. Customer satisfaction was measured with a 3-item questionnaire taken from a measure of satisfaction developed by Oliver (1980). Customer loyalty was measured with a five-item questionnaire developed by Cronin and Taylor (1992), Caruana (2002) and Siddiqi (2011).

Table 2

Reliability level of service quality dimensions, overall customer satisfaction and Customer loyalty (N=30)

Dimensions	Question items	Cronbach's alpha
Tangibles	Q 1-4	0.819
Reliability	Q 5-8	0.823
Responsiveness	Q 9-12	0.823

Assurance	Q 13- 16	0.890
Empathy	Q 17 -21	0.839
Overall Customer Satisfaction	Q 23-25	0.895
Customer Loyalty	Q 26- 30	0.932

According to the research results, majority of the respondents were female (67%) and single (69%). Most of the respondents were at the age of 31-40 (68.8%), held Bachelor degrees (54.5%), worked in private companies (76%) and had average incomes over 60,000 baht per month (33.8%). 92.8% had saving accounts and often visited the bank 1-2 time per fortnight (43.2%).

Service Quality, Customer Satisfaction, Customer Loyalty

In terms of service quality dimension, assurance had the highest mean score (mean 5.92), followed by the empathy (mean=5.71), responsiveness (mean= 5.70), tangible (mean= 5.70) and reliability dimensions had the lowest mean score (mean=5.67). Customer Satisfaction and Customer Loyalty, satisfaction and customer loyalty had the mean score of 5.79, and 5.83 respectively. The results are presented in

Results

Demographics

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Customer Satisfaction and Customer Loyalty, satisfaction and customer loyalty had the mean score of 5.79, and 5.83 respectively. The results are presented in Table 3.

Table 3

Mean evaluation of all five dimensions of service quality

Service quality (Average)	Mean	Service quality level	Standard deviation
Assurance	5.92	Agree	0.796
Empathy	5.71	Agree	0.861
Responsiveness	5.70	Agree	0.748
Tangibles	5.70	Agree	0.824
Reliability	5.67	Agree	0.774
Overall service quality	5.79	Very good	0.715
Customer satisfaction	5.79	Satisfied	0.778
Customer loyalty	5.83	Likely loyal	0.790

The first hypotheses H1 stated that service quality dimension (Tangibles, Reliability, Responsiveness, Assurance and Empathy) influenced overall customer satisfaction in retail banking in Bangkok which was observed to be true as the multiple regression analysis depicted that the combination of all service quality dimensions influenced overall customer satisfaction with a strength of 62 percent ($R^2 =.$ 620, adjusted $R^2 =.$ 615, $F (5, 394) = 128.612$, $p <. 000$) as shown in Table 4.

However, the result from coefficient table showed the influences of five independent variables individually (not in combination) on the overall customer satisfaction. Empathy, Reliability and Responsiveness significantly influenced overall customer satisfaction at Sig =0.009. Tangibles significantly influenced overall customer satisfaction at Sig = 0.004, while Assurance did not significantly influence overall customer satisfaction at Sig = 0.94.

The beta values were the weight associated with the regression equation. According to the beta weight, the regression equation was as follows: The prediction of the overall customer satisfaction from service quality dimensions of retail banking service in Bangkok = 0.151, tangibles+0.258, Reliability +0.216, Responsiveness +0.100 .Assurance + 0.281. Empathy + 0.043. Based on the Coefficients table, the influence of five variables individually on overall customer satisfaction are as follows: Empathy was the strongest factor that influenced overall customer satisfaction of retail banking in Bangkok (Beta = 0.281), followed by Reliability (Beta= 0.258), Responsiveness (Beta = 0.216) and Tangibles (Beta = 0.151). Assurance had the least weight (Beta=0.100) of all five variables.

Table 4

Multiple regression analysis results: Model Summary

Model	R	R square	Adjusted R Square
1	0.787a	. 620	. 615

a. *Predictors: (Constant), Empathy, Reliability, Tangibles, Responsiveness, and Assurance*

Multiple regression analysis results: ANOVAb

Model	Sum of squares	df	Mean square	F	Sig.
1.Regression	124.359	5	24.872	128.61	0.000a
Residual	76.194	394	. 193	2	

a. *Predictors: (Constant), Empathy, Reliability, Tangibles, Responsiveness, Assurance*

b. *Dependent Variable: Customer Satisfaction*

Multiple regression analysis results: Coefficients

Model	Unstandardized Coefficients (Beta)	Standardized Coefficients (Beta)	t	Sig.
Constant	0.043		. 183	. 855
Tangibles	. 151	. 141	2.926	. 004
Reliability	. 258	. 228	5.012	. 000
Responsiveness	. 216	. 185	3.519	. 000
Assurance	. 100	. 098	1.676	. 094
Empathy	. 281	. 266	4.724	. 000

a. *Dependent Variable: Customer Satisfaction*

Customer Loyalty

Second hypotheses H2 states that overall customer satisfaction influences customer loyalty in retail banking in Bangkok. This was also found to be true through regression analysis as satisfaction influence customer loyalty. Shows in Table 5 the strength of 62 percent (R^2 =. 620, Adjusted R^2=. 608), F (1, 398) = 616.606, p=. 000).

Table 5

Regression analysis result: Model Summary

Model	R	R square	Adjusted R Square
1	0.780a	. 620	. 608

a. *Predictors: (Constant), Customer Satisfaction Regression analysis result: ANOVA^b*

Model	Sum of squares	df	Mean square	F	Sig.
2. Regression	119.480	1	119.480	616.606	0.000a
Residual	77.120	398	. 194		
Total	196.600	399			

a. *Predictors: (Constant), Customer Satisfaction*

b. *Dependent Variable: Customer Loyalty*

Discussion

The results from hypothesis testing showed that all the dependent variables: Tangibles, Reliability, Responsiveness and Empathy except Assurance significantly influenced overall customer satisfaction.

As shown in Table 4, empathy was the strongest factor that influenced overall customer satisfaction of Retail Banking in Bangkok (Beta = 0.281), followed by Reliability (Beta= 0.258), Responsiveness (Beta = 0.216) and Tangibles (Beta = 0.151). Assurance had the least weight (Beta = 0.100) among all five variables. This finding is consistent result from empirical such as Parasuraman et al. (1985; 1988), Cronin and Taylor (1992), Siddiqi (2011), Culiberg and Rojsek (2012).

The discussion of each service quality dimensions arranged in ascending the strength order of the predictor that influence on overall customer satisfaction is as follows:

Empathy was the strongest predictor of service quality dimensions that significantly influenced overall customer satisfaction. The expression "bank counter has operating hours convenient to all its customers" received the highest performance score, followed by "bank has employees who give you personal attention", "bank gives you individual attention" and "the employees of bank understand your specific need". The lowest performance score factor was the item "bank has your best interest at heart". Therefore we suggest that retail banks should increase their employee's ability to convey empathy and to acknowledge customer concern.

Reliability significantly influenced overall customer satisfaction. The item "bank insists on error free records" received the highest performance score, followed by "when you have a problem, the bank shows a sincere interest in solving it", "bank provided its services at the time it promises to do so". The lowest performance variable was "when the bank promised to do something by a certain time, it does so". Therefore we suggest that retail banks should setup standard service timing as the guideline for each transaction.

Responsiveness significantly influences overall customer satisfaction. The statement "employees in the bank are always willing to help you" received the highest performance score, followed by "employees in the bank are never too busy to respond your request", and "employees in the bank give prompt service". The lowest performance factor was for the item "employees in the bank tell you exactly when service will be performed". Therefore we suggest that, retail bank employees should continue acknowledge customer's requests and offer help to the customers at all time. Retail banks should improve communication with their customer. Employees in the bank should inform the time frame of the service to the customer.

Tangible significantly influenced overall customer satisfaction. The respondents agreed to most service quality variables of the tangible dimension. However the respondents least agreed to the item "bank has modern looking equipment received the lowest mean score. Therefore we suggest retail banks should improve the appearance, function, and instruction on the use of the equipment provided.

Assurance as a predictor in the service quality dimension significantly influenced overall customer satisfaction. The item "employees in the bank area are consistently courteous with you" received the highest service quality performance score among other Assurance factors, followed by the item "you feel safe in your transactions with the bank", "employees in the bank have knowledge to answer your questions". The lowest factor is "the behavior of employees in the bank instills confidence in you". Therefore, retail banks should set the standard of employee's behaviors, monitor and reinforce consistency of preferred behaviors.

Customer Satisfaction Positively Influenced Customer Loyalty

Overall customer satisfaction showed a positive result in influencing customer loyalty. These research findings are consistent with the research of Caruana (2000), Baumann et al. (2006), Tantakasem and Lee (2008), Siddiqi (2011), Hafeez et al. (2012) and Hassen et al. (2012). The factor of "the customer intention to continue doing business with the bank" received the highest mean score among other factors, followed by "the customer would say positive things about their bank to other people", "encourage their friends and relatives to do business with their bank", "the customer would consider their bank as their primary bank when comparing other banks", and "the customer has strong preference to the bank", respectively. When customers said positive things and encouraged other friends and family members to use the bank service, the customers helped to promote the bank without cost. All of this support from the customers would help retail banks to reduce their operating cost on customer turnovers.

Conclusions and Recommendations

All five -service quality dimensions: Empathy, Reliability, Responsiveness, Tangibles and Assurance were found to positively influence overall customer satisfaction. This research also found that the overall customer satisfaction positively influenced on customer loyalty. The associations among perceived service quality, satisfaction, and customer loyalty can be used to develop customer relation policies which will help the organization in developing their position in the market. Other researchers could use this research as a guideline to further study about a retail banking in order to increase overall customer satisfaction that would lead to build customer

loyalty with the bank. It is recommended for further study to target perception of the different types of account owners due to the different frequency of usage and their need of services.

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