Customer Perception on Service Quality in Retail Banking in Developing Countries - A Case Study

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Abstract

The purpose of this paper is to evaluate the service quality in retail banking in the developing countries in general, and Bangladesh in particular. This is an analytical study based mainly on the primary data collected through scientifically developed questionnaire. The questionnaire has been personally administered on a sample size of 250, chosen from four banks in Bangladesh located in the northern district of Kushtia. The result indicates that customers' perception has reached on highest in the Prompt and accuracy in transactions of the bank and lowest in the service of modern equipment and décor. Due to the increasing competition in retail banking, customer service is an important part and bank must give their due attention to the customers' perception about service quality.

Keywords: Service quality, Developing country, Bank, Retail banking, Bangladesh

1. Introduction

Commercial banks—assaulted by the pressures of globalization, competition from non-banking financial institutions, and volatile market dynamics—are constantly seeking new ways to add value to their services Because financial services compete in the marketplace with generally undifferentiated products, service quality becomes a primary competitive weapon (Stafford, 1996). Currently technological changes are causing banks to rethink their strategies for services offered to both commercial and individual customers (Hossain and Shirely, 2010). Moreover, banks that excel in quality service can have a distinct marketing edge since improved levels of service quality are related to higher revenues, increased cross-sell ratios, higher customer retention (Bennett and Higgins, 1988), and expanded market share (Bowen and Hedges, 1993). Therefore, banks should focus on service quality as a core competitive strategy (Chaoprasert and Elsey, 2004).

Within this background customer satisfaction and service quality are compelling the attention of all banking institutions around the world and in recent years, academicians and practitioners give more attention in this area as it assumed that service quality is a critical measure of firm performance (Lasser et al., 2000; Yavas and Yasin, 2001; Bick et al. 2004; Andreassen and Olsen, 2008). Therefore, the objective of the paper is to test a service quality instrument by using retail banking services in the developing counting like Bangladesh as a case point.

2. Concept of service quality

As mentioned before that Service quality has been wildly used to evaluate the performance of banking services (Cowling and Newman, 1995). Moreover service quality can be defined as the difference between customers' expectations for service performance prior to the service encounter and their perceptions of the service received (Asubonteng et al., 1996). Gefan (2002) also defined service quality as the subjective comparison that customers make between the quality of the service that they want to receive and what they actually get. The banks understand that customers will be loyal if they receive greater value than from competitors (Dawes and Swailes, 1999) and on the other hand, bank can earn high profits if they are able to position themselves better than their competitors within a specific market (Davies et al., 1995). Therefore, banks need focus on service quality as a core competitive strategy (Chaoprasert and Elsey, 2004). Moreover, customers evaluate banks' performance mainly on the basis of their personal contact and interaction (Grönroos, 1990).

Many scholars agree that service quality can be decomposed into two major dimensions (Grönroos, 1983; Lehtinen and Lehtinen, 1982). The first is referred to by Zeithaml et al., 1985 as "outcome quality" and second

by Grönroos (1984) as "technical quality". However, the first dimension is concerned with what the service delivers and on the other hand, the second dimension is concerned with how the service is delivered: the process that the customer went through to get to the outcome of the service. However, service quality can be also defined as "a judgment about a service's overall excellence or superiority" (Schneider & White, 2004, p. 51).

3. Literature review

The central issues involved in meaning service quality have been well documented (Cronin and Taylor, 1992; Parasuraman, Berry, and Zeithaml, 1991b; Babakus and Boller, 1992; Carman, 1990). Of interest here are two aspects of service quality measurement; (1) the number of dimensions that constitute service quality and (2) the operationalization of the measurement. Previous researchers have been looking at the linear relationship between service quality and satisfaction judgments. In recent studies on satisfaction judgments, it has been suggested that the relationship should be in a non-linear form (Ding, 2004). According to Taylor (1997), there is evidence that suggests that evaluation of satisfaction should involve a curvilinear or higher order form as well as an interaction effect (Taylor and Baker, 1994). This has been confirmed by Oliva et al. (1992) who stated that the satisfaction function should not be in the linear form. A study by Edris (1997) on quality for business customers among Kuwaitis found that local ownership is one of the determinants for bank selection.

On the other hand, a study by Athanassopoulus (1997) showed that there is no global difference between private and the government-owned banks. There are many other researchers who concluded that service quality is the antecedent to satisfaction (Ahmad and Kamal, 2002; Cronin and Taylor, 1992; Yavas et al., 1997). Hence in this research, the question of which one is the antecedent will be studied. Using service quality as the antecedent to satisfaction is more logical and that why it has been taken into consideration. This is because satisfaction is an important goal to be achieved by bank marketers and if the banks want to increase satisfaction, they can do it through service quality (Goode et al., 1996).

4. Economic environment of Bangladesh

Bangladesh is situated at the unique juxtaposition of the composite, sprawling, interlinked Ganges-Brahmaputra-Meghna (GMB) river systems, the second largest river system in the world, which drains an area of 1,086,000 square kilometers from China, Nepal, India and Bangladesh (USAID, 2011).

The population of Bangladesh is 142.3 million (census 2011 results) and it is the 8th most populous nation in the world. In 1951, the population was 44 million. It is also the most densely populated large country in the world, and it ranks 11th in population density, when very small countries and city-states are included (http://en.wikipedia.org/wiki/Bangladesh).

Because of this unique geophysical location, the country has been endowed with rich biological diversity, hosting a rich variety of species superbly evolved to populate the ecosystems of the country. However, due to the various pressures of a growing population (with an already existing base of 145 million people), development interventions, gaps in policy and legislation, and conflicting institutional mandates, 95% of Bangladesh's natural forests and 50% of its freshwater wetlands are lost or degraded (USAID, 2011).

The economy has grown 5-6% per year since 1996 despite political instability, poor infrastructure, corruption, insufficient power supplies, and slow implementation of economic reforms. Although more than half of GDP is generated through the service sector, 45% of Bangladeshis are employed in the agriculture sector, with rice as the single-most-important product. Bangladesh's growth was resilient during the 2008-09 global financial crisis and recession. Garment exports, totaling $12.3 billion in FY09 and remittances from overseas Bangladeshis totaling $9.7 billion in FY09 accounted for almost 25% of GDP (CIA World Fact Book, 2011).

Financial market in Bangladesh essentially consists of banks and non-bank financial institutions and capital market which include state owned commercial banks (SCBs), private commercial banks (PCBs), foreign commercial banks (FCBs), government owned specialized banks, non-banking financial institutions (NFIs), Investment Corporation of Bangladesh (ICB), House Building Finance Corporation 59 (HBFC), Dhaka Stock Exchange (DSE), and Chittagong Stock Exchange (CSE). Besides, a total of 44 general insurance companies (1 state-owned) and 18 life insurance companies (1 state-owned) are operating in the country (www.mof.gov.bd/en/.../11.../Chapter-5%20%20_Eng-**2010**_.pdf)

As of June, 2010 47 scheduled banks which include 4 state-owned commercial banks, 30 private commercial banks, 9 foreign-owned commercial banks, 4 government-owned specialized banks, are operating in Bangladesh through their 7,246 branches . Among those branches as many as 3,394 belong to state-owned commercial banks, 2,427 branches to local private banks, 59 branches to foreign banks and 1,366 branches to specialized banks. Moreover, there are 1 National Co-operative Bank, 1 Ansar VDP Bank, 1 Karmasangsthan Bank and 1 Grameen

Bank which are operating as the non-scheduled banks. In Bangladesh, 4,169 branches of the scheduled banks are operating in the rural area (www.mof.gov.bd/en/.../11.../Chapter-5%20%20_Eng-**2010**_.pdf).

Bangladesh Bank has been working as the central bank since the country's independence. Its prime jobs include issuing of currency, maintaining foreign exchange reserve and providing transaction facilities of all public monetary matters. To comply with international best practices and to make the bank's capital more resilient as well as to build the banking industry more risk sensitive, shock absorbent and stable, Bangladesh Bank commenced implementation of Basel-II capital adequacy framework from January 2010 as regulatory requirement for banks (www.mof.gov.bd/en/.../11.../Chapter-5%20%20_Eng-**2010**_.pdf).

5. Methodology

This is a study based mainly on the primary data collected through scientifically developed questionnaire. The questionnaire has been personally administered on a sample size of 250, chosen from four banks, two from public sector and two from private sector, i.e Sonali Bank, Janata Bank (public banks) Arab Bangladesh Bank Ltd and National Bank Ltd. (private banks).

The questionnaire has been designed on the basis of the study of scholars such as Parasuraman et al. (1985), Hossain and Shirely (2010). Parasuraman et al. (1985) and Hossain and Shirely (2010) identified eleven dimensions of service quality which are reliability, responsiveness, competence, access, courtesy, communication, credibility, security, competence, understanding the customer and tangibles. Upon considering the above studies, we have constructed four dimensions (reliability, competence, tangibles and empathy) which cover the 14 parameters/scale (Table 1). The degree of perception of customers on the parameters is quantified by using a 5-point Likert scale. However, customer demographic information was included in the questionnaire.

6. Findings

6.1 Demographic profile of respondents

The questionnaire was design to seek information about the user groups' age, gender, education, and their occupation. Analysis shows that 80 per cent of the respondents are male and 20 per cent are female. The details breakdown of the demographic profile of the customers has been given in Table 2. It is known from Table 2 that 60% of the respondents are in the age group of 35 to 45 years. The next largest group of the respondents is in the age group of 25 to 35 years (25%). About 10% respondents are from the age group of below 25 years and only 5% respondents are in the age group of 45 and above. Analysis also shows that more than half of the respondents are Bachelor degree holders (60%), however, Masters holders are 10% of the total respondents followed by college degree 30%. Among the 250 respondents, the highest numbers of the respondents are in occupation of service sector (68%) followed by others (5%).

6.2 Discussion on descriptive statistics of customers' perception

The following is the discussions on each of the parameters of the customers' perception on service quality of banks.

Customer support: It is an important service that bank used to provide to the customers. Because proper support to the customer may lead to the banks to generate profit and build customers' confidence. The mean score of this parameter is 3.45 with standard deviation of .74 with Z score 0.99. The result indicates that customers' perception is positive regarding service provided by the bank in the way of customer support. However, in terms of ranking in the mean score, it stands in the position of 8th (Table 3). This is the indication of poor support provided by the bank to the customer. So, bank should pay more attention to this parameter so that perceptions of customers' get high priority. Good manners and hospitality: It is one of the parts of reliability of service quality that attracts customers of the banks' personnel manner and hospitality. This parameter is not also satisfactory as the mean and Z score is 3.25 and 0.025 respectively and holding the ranking of 13th. Therefore, banks need to improve their personnel's manner to great extent. Maintaining of customers grievances: This is an important service quality factor expected by the customer to the bank is to maintain grievances. The mean score and ranked of this parameter is 3.29 and 12th respectively. The standard deviation 0.86 and Z value is 0 (not exceeding the standard Z score table value of 1.96). It seems that customers' perception in this case is very unsatisfactory and bank should give attention to this issue. Imposing of service charges and fines: Banks has to charge various amounts to the customers' account for their services such as demand draft, money transfer, cheque book issue etc. With regard to this parameter, the mean score is the lowest (2.33) among the 14 parameters. The result indicates that the customers' perception in this case is very unsatisfactory. In other words, banks are imposing service charges and fines too much for which customers dissatisfaction are reflected in the result and bank should minimize the service charges. Prompt and accuracy in transactions: In the banking transaction, customers

seek to prompt service and accuracy of in transactions. The mean score is 4.02 and the position is ranked at 1st. It is understand that customers' perception in this case better than customer support, good manner and hospitality, maintaining of customer grievances and imposing of service charge. Safety of customers' investment: The service quality is also depending on how safe is customers' investment. The mean score (3.92) and rank (2nd) of this parameter does indicate that customers are satisfied as other parameters. Keep confidentiality of account and transaction: This is an important parameter and customers want their account and transaction to be kept confidential. The mean score is 3.77 and ranked 4th with standard deviation is almost 0.90. The result indicates that customers have moderate confidence in this service. Reputation of the bank: Every bank wants to run their business with good reputation. In this case, customers perception is good as mean score is 3.82 and ranked 3rd with standard deviation of 0.89. Infrastructure facilities like parking, ATM etc: There are some preconditions in order to run business like financial institutions, have to provide infrastructural facilities to the customers. The perceptions of the customer in this are moderate (3.56) and ranked 6th. It does mean banks are providing such facilities to the. Banking Network: It is another important aspect of service quality of banking companies. In this case, customer perception is good as mean score is 3.35 and ranked 10th. Modern equipment and décor: In the modern age, business premise should have high standard of decoration of the bank and nice environment. The mean score (3.15) and rank (14th) does not imply that customers' perception is high than other parameters like goodwill, banks network etc. Easy to operating account: It is one of the issue that customers' can operate their account smoothly. The perception of the customers to this service is not good as its mean score is 3.37 and standard deviation is 0.82. Convenience business hour: Banks are operating their business within a time framework as well as they have to provide extra timing for which customers can do business in comfortable time. For example, some banks offers banking hour at evening. The study revealed that the perception in this case is not satisfactory compared to other services offered by banks. The mean score is (3.48) and ranked (7th) support this statement. Providing prompt information to customers: Bank services like prompt communicating to the customer is vital. Customers are dealing the business transaction with safely and confidently with the banks. In this case, if the banks provide right information to the right customers promptly which create public confidence, and thus help customers to take right decision in right time. In this case, the mean score is 3.64 and ranked 5th which is understand as moderate service proving by the banks.

7. Conclusion

As per this study, both public sector and private sector banks appear to be providing services to the satisfaction of customers. The study indicates that customers' perception vary according to the nature of service. Measuring customer satisfaction with surveys or focus groups gives direction to the banks for efforts and valuable inputs for improvement. In this case, the highest customers' perceptions reach in Prompt and accuracy in transactions followed by Safety of customers' investments and keep confidentiality of account and transactions. The banks need to consider the weak areas in order to meet customer requirement. The study has limitations in terms of sample size and if more respondents could be included might be changed in terms of satisfaction ranking.

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Table 1. List of 14-item service quality included in questionnaire

Service quality dimensions	14-item scale/parameters
Reliability	1. Customer support 2. Good manners and hospitality 3. Maintaining of customer grievances 4. Imposing of service charge
Competence	5. Safety of customers' investment 6. keep confidentiality of account and transactions 7. Various kinds of service offered 8. Reputation of the bank
Tangibles	9. Infrastructure facilities like parking, ATM etc 10. Banking Network 11. Modern equipment and décor
Empathy	12. Easy to operating account 13. Convenience business hour 14. Providing prompt information to customers

Table 2. Demographic profile of the customers

Demographics	%	Demographics	%	Demographics	%	Demographics	%
1. Gender:		2. Age:		3. Education:		4. Occupation:	
Male: 200	80%	Below 25 yrs	10%	College level	30%	Service 50	68%
Female: 50	20%	25-35 yrs	25%	Bachelor	60%	Students 30	5%
		35-45 yrs	60%	Masters	10%	Accountant 20	12%
		45 above	5%			Academicians 06	5%
						Others 14	10%

Table 3. Descriptive statistics of customer perception responses

No.	Parameters	Mean	Std Dev	'Z' test
1	Modern equipment and décore	3.15 [14]	.9911	8.1813
2	Good manners and hospitality	3.25 [13]	.7085	0.0255
3	Maintaining of customer grievances	3.29 [12]	.8665	0.000
4	Imposing of service charge	2.33 [11]	.3358	0
5	Infrastructure facilities like parking, ATM etc.	3.56 [6]	.8193	0.8135
6	Convenience business hour	3.48 [7]	.7507	0.7750
7	Keep confidentiality of account and transactions	3.77 [4]	.9011	0.9913
8	Reputation of the bank	3.82 [3]	.8929	0.998
9	Prompt and accuracy in transactions	4.02 [1]	.9117	0.999
10	Customer support	3.45 [8]	.7427	0.775
11	Easy to operating account	3.37 [9]	.8213	0.371
12	Safety of customers' investments	3.98 [2]	.8449	0.999
13	Providing prompt information to customers	3.64 [5]	.8811	0.975
14	Banking Network	3.35 [10]	.7705	0.874

Note: [ ] indicates the rank of mean score

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