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## The Outcome of Perceived Service Quality Analysis on Customer Satisfaction in Retail Banking: A Case Study of Buffalo City in Eastern Cape, South Africa

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**KEYWORDS** Tangibility. Reliability. Relationship. Perception. Expectation

**ABSTRACT** The study examined the two dimensions to service quality perception and satisfaction of bank customers' in retail banking. Random sampling was used for the selection of respondents from three major shopping complexes that had enough concentration of bank customers. A representative sample size of 182 respondents were selected for the study with a response rate of 98.9 percent. The data was analysed by applying the Statistical Package for Social Science (SPSS) software. Findings revealed a significant relationship between "tangibility" and client satisfaction ( $p\text{-value} = 0.008 < 0.05$ ), and at the percent level of significance ( $t = 3.375$ ,  $df = 179$ ,  $p\text{-value} = 0.008$ ). The clients' "reliability" service quality mean expectations score was 3.55, and the service quality perceptions score for reliability was only 3.40. The study concluded that the use of customer satisfaction survey and the offering of genuine services will trigger optimism and prompt loyalty of customers to stay and reduce incidence of switching from one bank to another.

### INTRODUCTION

Financial institutions all over the World are burdened with enormous competition and are inhibited by inadequate avenues for profitability; premised on the fact that virtually all retail banks compete for the same customers (Mokhlis 2009). The problem of clientele retention has been exacerbated by the quest for proximity, funds safety, expediency, service charges, staff courtesy and goodwill (Chigambi and Fatoki 2011). Other possible reasons for poor customer retention as adduced by Brink and Berndt (2004) included bank responsiveness, assurance, physical appearance, as well as empathy and reliability. It is apparent that the possibility of bank customers switching from one bank to the other

is eminent when the above services are absent or inadequate (Mokhlis 2009). Thus financial institutions that must stay ahead of competition must regularly conduct clients' satisfaction survey to determine the areas in which they are lacking and benchmark with their competitors to ensure that they provide satisfactory services that are at par with others. According to Levesque and McDougall (1996), retail bank customers that are displeased with the quality of service they receive, may be unwilling to recommend friends to join the particular bank and may even instigate others to switch banks. With respect to the provision of satisfactory services in the retail banking sector, Hallowell (1996) noted that increased customers satisfaction will increase return on investment and profit. It bears noting that clients' satisfaction is not only important for customers' retention but also crucial for the survival and uninterrupted profitability. There are a total of thirty five financial institutions operational in South Africa made up of twenty local and fifteen foreign (Okeahalam 2001). The dominant financial institution includes the Standard Bank, Ned bank, First National Bank and Amalgamated Banks of South Africa (ABSA).

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According to Singh (2004) and Ganesh (2012) the prominent banks in South Africa offers identical and duplicated products or services, namely: savings and cheque accounts; credit cards; fixed deposits; small-business banking and others. These banks are left with the option of creating only an impeccable niche to stay on providing acceptable products and services to its clientele. Appannan et al. (2013) posited that quality products and services generally influences the degree of customers' satisfaction in retail banking. This finding is also supported by Donnelly et al. (2006) who found that the level of quality services given by retail banks has a tremendous influence on customers' loyalty. Client service satisfaction as explained by Kotler (2006) is the degree to which a product or service performance agrees or concur with customers' expectation on the long run. The derived satisfaction is dependent on the resemblance between services rendered in comparison to the expected services outcome. It follows that client satisfaction and service quality are both judgement made by individual customers in comparing what they actually get to what they expected. However, the similarity in products and services offerings amongst banks makes it almost impossible to determine the reasons why bank customers switch from one bank to another. The rationale for the study is to add to the knowledge and information currently available to financial institutions to be abreast with the factors that allow for client satisfaction and loyalty. In addition, recognising client service quality perceptions and expectations, retails banks can consider the evaluation, modification of their available product-offering and services to be in consonant with the perceptions and preferences of clients. The study also took cognizance of the fact that little have been documented about service quality and customer satisfaction in the Buffalo City, Eastern Cape. The study was also intended to provide the retail banking sector and decision-makers with information about quality service and client satisfaction. Within the present discourse, the recapitalised banking sectors should focus on the provision of service identity that will promote goodwill. It is against this backdrop that the study attempts to address the question of which service quality factor gives the needed satisfaction in retail banking.

### **Objectives of the Study**

The study examine the two approaches to service quality perception of bank customers. The objectives are highlighted as follows:

- (1) To examine whether there are any significant relationship between tangibility and client satisfaction
- (2) To determine if there are relationship between reliability and client satisfaction in retail banking.

## **METHODOLOGY**

### **Research Design**

The researchers adopted the quantitative approach to investigate the two dimensions of service quality perception and their relationship with client satisfaction. The primary reason for adopting this method is because the study adhere to a similar research method used by other researchers and that of Blanchard and Galloway (1994) who identified some important service quality in retail banking. The quantitative method is also cost effective and takes into cognizance the broad perception of the target population. In order to measure service quality dimension in the area of tangibility and reliability as reflected in the objective, the study then adopted the SERQUAL model. This model was developed by Parasuraman et al. (1985) which had been universally considered the best all-inclusive model used to measure service quality. The SERQUAL model initially propounded a list of ten determinants of service quality: which was later streamlined to five dimensions. For the purpose of this paper, two dimensions were considered as follows: tangibility – this encompasses physical facilities, working tools and equipment, and personal disposition or outlook of personnel. Reliability - capacity to carry out the pledged services unfailingly and correctly. Clientele anticipation and perceptions are evaluated using the SERVQUAL approach which captures the gaps between customers' projected satisfaction and experiences.

### **Sample and Sampling Method**

A representative sample size of 182 respondents were selected for the study. One hundred and eighty questionnaires were completed and

the response rate achieved were 98.9 percent. Random sampling was used for the selection of respondents from three major shopping complexes that had enough concentration of bank customers. Structured and semi-structured questionnaires were distributed and respondents were also engaged with follow-up questions to close gap that may have been created from the structured questionnaires. However, secondary data were also used in this study to ensure relevance and accuracy.

### Data Analysis

The data that was gathered in this study were carefully screened for possible errors and clarity. The data was analysed by applying the Statistical Package for Social Science (SPSS) software to determine whether significant relationship exist between tangibility and client satisfaction; and also determine whether there is a relationship between reliability and client satisfaction. The mean, median and percentages were also calculated to explain the demographic attributes of the respondents.

## RESULTS

Findings reveal that in Table 1, there is a significant relationship between “tangibility” and client satisfaction ( $p\text{-value} = 0.008 < 0.05$ ), and at the 5 percent level of significance ( $t = 3.375$ ,  $df = 179$ ,  $p\text{-value} = 0.008$ ) as shown in Table 2. Therefore, the secondary hypothesis is reject-

ed. Any additional “tangible” element added to service rendered by retail banks, will positively promote client satisfaction. Table 1 results also reveal a high average mean score for the scale of Tangibility measurement. This indicates that clients perceive these service items as efficient measures of Tangibility of quality services that impact on client satisfaction in the retail banking sector. From the given service items to measure tangibility expectations, clients place a high priority on up-to-date equipment, on appealing physical facilities, on proficient employees that have a sympathetic ear and a good understanding of complaints handling. The mean values in each of the service items indicate that clients strongly feel that Retail banks have modern and adequate facilities to render satisfactory banking services at all times.

Among the tangibility perceptions and expectations that banks are sympathetic when clients have financial challenges, indicate that the use of modern and adequate facilities by banks reduce client challenges and have increased bank efficacy through facilities like ATMs and client care policies. The average total mean is also high, indicating that clients agree that the Tangibility of retail banks is adequate, modern, up to date and very appealing. Regardless of the means of the tangibility expectations and perceptions, the mean score for Tangibility expectations was found to be higher than that of the Tangibility perceptions for each of the service items considered.

**Table 1: Tangibility as a client satisfaction factor**

Items	Tangibility expectation		Items	Tangibility perception	
	Mean	STD		Mean	Gap diff
The bank should have up-to-date equipment	3.64	0.43	The bank has up-to-date equipment	3.23	-0.41
The physical facilities should be visually appealing (ATMs, bank branch, tellers, vaults).	3.55	0.47	The physical facilities are visually appealing (ATMs, bank branch, tellers, vaults).	3.10	-0.45
The bank's employees should be formally dressed	3.21	0.33	The bank's employees are formally dressed.	3.03	-0.18
When I have financial challenges, the bank should be sympathetic (understanding and reassuring comforting).	3.01	0.39	When I have financial challenges, the bank is sympathetic (understanding and reassuring (comforting)).	2.89	-0.12
Average total	3.35	0.405	Average Total	3.06	-1.16

Table 3 presents the result of the Reliability dimension that were measured. The mean scores for both expectations and perceptions indicate that the services of retail banks were perceived by respondents as reliable. The bank delivers according to promise and keeps accurate records of client finances and investments. Irrespective of the effects of load shedding or power outage, the banks deliver financial services punctually and reliably and also, efficiently safeguard clients' deposits. The measurement of the reliability item: 'the bank keeps its records accurately' rendered a mean reliability perception score of 3.21. This score is indicative that retail banks keep efficient records of clients' transactions and provide accurate bank statements and interest calculations for accurate documentation. Table 3 also indicated that, while the clients' reliability service quality expectations score was 3.55, the service quality perceptions score for reliability rendered by banks was only 3.40. This renders a service gap of -0.15 that fell short of the expectations of bank clients. In other words, the perceived reliability service quality delivery

was unsatisfactory compared to the reliability service quality expectations of clients in terms of the service quality dimension on reliability. This finding is in total agreement with Lasser et al. (2000) who stated that the increasing rate of technology growth has elevated the expectations of clients from their service providers, thereby affecting the perceptions of service quality.

## DISCUSSION

Findings indicated that "tangibility" of corporations' services has increased dramatically across all service delivery. This observation may be ascribed to the fact that banks are competing for clients; the focus on tangibility service items can thus be expected to be higher. The results for this study, however, show that for tangibility and client perceptions fall short of client expectations. This could be attributed to the fact that respondents have higher expectations on tangibles due to increasing levels of technology and competitive actions, thereby, resulting in banks to underscore in terms of client perceptions on

**Table 2: Regression results showing the relationship between tangibility and reliability (SERVQUAL approach) and client satisfaction**

Dimensions	Unstandardized coefficient		Standardised coefficients		
	B	Std. error	Beta	T	Sig.
Constant	8.077	.505		16.003	.000
Tangibility	-.030	.079	-.030	-3.375	.008
Reliability	.197	.074	.208	2.665	.008

**Table 3: Reliability as a client satisfaction factor**

Items	Tangibility expectation		Items	Tangibility perception	
	Mean	STD		Mean	Gap diff
The bank meets its promises to do deliver services at an agreed time.	4.53	0.387	The bank meets its promises to do deliver services at an agreed time.	3.20	-0.33
The bank keeps its records accurately.	3.40	.0432	The bank keeps its records accurately.	3.21	-0.19
The bank informs clients exactly when services will be performed.	.37	0.432	The bank informs clients exactly when 3 services will be performed.	3.21	-0.16
Apart from load shedding, the bank delivers financial services punctually.	3.35	0.482	Apart from load shedding, the bank delivers financial services punctually.	3.38	+0.03
The bank is dependable / reliable to safeguard my deposits	3.58	0.355	The bank is dependable / reliable to safeguard my deposits	3.43	-0.15
Average total	3.55	0.42	Average total	3.40	-0.80



tangibles. Findings from this study shows that quality performance is based on the services received or experienced by a client. In this study, perceptions of clients pertaining to the two dimensions were measured to assess the service quality delivery of the retail banks, hence the performance of the banks and client satisfaction. Noticeably, the two service quality dimensions applied, had a mean score beyond 3.0 out of a maximum of 5, indicating a superior performance relative to the scale of measurement. Looking at the individual factors assessing reliability, the highest mean score was 3.40 representing the factor: *"The bank is dependable / reliable to safeguard clients' deposits"* and the least mean score was 3.06 representing the factor: *"The bank meets its promises to deliver services at an agreed time"*. The four factors used to measure tangibility all gave an average score more than 3.0 and it is also on the high side of the scale of measurement. However, the item: *"The bank has up-to-date equipment"* gave the highest average score of 3.23 while the least average score 2.89 was obtained by the item: *"When I have financial challenges, the bank is sympathetic (understanding) and reassuring (comforting)"*. This is indicative that retail banks are not providing for financial challenges and this may force clients to patronise cash loan providers. This findings lead credence to Kumar et al. (2009) who found that client service departments of banks should receive on-going training and retraining to improve their competency in service delivery in the area of tangibility and reliability. The researchers state further that on-the-job training is not enough; and it has to be supported by training in soft skills, for instance, handling client objections, service recovery, and effective communication skills. By comparing the two average scores, it was established that *Reliability* stood out as the highest ranked SERVQUAL dimension of retail banks.

### CONCLUSION

The study examined the two approaches to service quality perception of bank customers in the areas of tangibility and reliability, and client satisfaction. Findings reveal that the Tangibility of retail banks were adequate, modern, up to date and very attractive. Notwithstanding of the recorded averages of the tangibility expectations and perceptions; the average score for Tangibil-

ity expectations was found to be higher than that of the Tangibility perceptions for each of the service items considered. In contrast the perceived reliability service quality delivery was unsatisfactory compared to the reliability service quality expectations of clients in terms of the service quality dimension on reliability. Since the findings also reveal that the contribution of tangibility and reliability to satisfaction is minor, it bears noting that the physical qualities of a bank do not automatically determine the quality of services rendered and, per se, do not necessarily lead to client satisfaction. From the given service items to measure tangibility expectations, clients place a high priority on up-to-date equipment, on appealing physical facilities, on proficient employees that have a sympathetic ear and a good understanding of complaints handling. The mean values in each of the service items indicate that clients strongly feel that retail banks have modern and adequate facilities to render satisfactory banking services at all times.

### RECOMMENDATIONS

The recommendations were based on the results and conclusion as highlighted in this study. The researcher recommend that there should be a systematic assessment of customers' satisfaction on services rendered by bank. Such regular assessment will definitely allow banks to be abreast about service areas that has been ignored, so as to adjust and upgrade in line with customers' needs. The findings of this study extrapolated an existing gap between customer expectations and perception about services given by banks. It follows that customer expectations grossly exceeds their perceptions. It bear noting that retail banks should consider repacking of services and products to meet the ever-changing desire of customers. The application and use of customer satisfaction survey coupled with the readiness of retail banks to offer genuine services will trigger optimism and prompt loyalty of customers to stay and reduce incidence of switching from one bank to another. However, in order to improve on the tangibility and reliability dimension, it is recommended that bank management should embark on regular refresher courses for staff members to equip them to render desired services to customers. The dynamic nature of the society call for continuous appraisal of services rendered by financial institutions to its customers'.

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