

Customer Satisfaction Measurement For State Owned Banks In Least Developed Countries – A Case Of Bangladesh

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Customer Satisfaction has become an important dimension for performance measurement particularly for banking and finance industry. As most banks and finance organizations offer similar products and services, improving customer satisfaction and loyalty is the most important factor in maintaining as well as increasing market share for these organizations. Customer satisfaction is grossly neglected area for performance measurement in most Least Developed Countries (LDCs) including Bangladesh. Like most LDCs, Bangladesh is also facing external pressures from IMF, World Bank, ADB etc for reforming incompetent financial sector. The purpose of the paper is to identify the factors that affect and explain customer satisfactions in state-owned commercial banks (SCBs) in comparison with private banks of Bangladesh. This study has focused on how customer satisfaction indicators can direct the policy measures in shaping and reforming the currently loss staggering, bureaucratic, poor quality and corrupted state-owned banks which still controls the financial market through 3383 branches (50% of total branches of banking sector). The findings of the study are expected to guide state-owned commercial banks as well as private, foreign and Islamic banks in Bangladesh to improve their customer satisfaction.

Keywords: Service quality, Customer satisfaction, Governance, State-owned Commercial Banks, Bangladesh

1. INTRODUCTION

Customer Satisfaction (CS) has become an important measure of firm performance and hence become an important domain of interest for accounting and finance research literature. The institutional theory and stakeholder theory suggest the multidimensionality of the customer as not only an economic being but also a member of a family, community and country. Recent research in accounting advocates usage of customer satisfaction and loyalty as useful non-financial measures of firm performance resulting in good corporate governance (*Smith and Wright, 2004*).

The ability to satisfy customers is vital for a number of reasons. For example, it has been shown that dissatisfied customers tend to complain to the establishment or seek redress from them more often to relieve cognitive dissonance and failed consumption

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experiences (Oliver, 1987; Nyer, 1999). A disgruntled customer can, thus, become a saboteur, dissuading other potential customers away from a particular service provider.

The need for a competent financial sector is important to stimulate and support economic growth through efficient resource allocation. The role of the financial sector in economic growth is even greater in developing countries as their tolerable margin of error in resource allocation is small (Reaz and Arun, 2006). Customer satisfaction is grossly neglected measure of governance in most LDCs including Bangladesh. Like most developing countries financial sustainability of the state owned commercial banks (SCBs) is far more critical for Bangladesh rather than private commercial banks (PCBs) as SCBs have large rural branch networks focusing social welfare rather than profit maximizing policies (Choudhury, 2002). Among all the banks that are operating in Bangladesh, anecdotal evidence suggests that the financial sustainability of SCBs is threatened due to their poor service quality. In an ever increasing competitive market, SCBs in Bangladesh need to differentiate and improve its governance through reclaiming customer confidence and support for its own survival. A better understanding of the determinants of customer satisfaction of SCBs should help the policy makers in devising policies to improve the service quality of SCBs and thereby improve their financial sustainability. According to the former Governor of Bangladesh Bank (Central Bank of Bangladesh):

.....the nationalized commercial banks (NCBs) should undergo more reforms to upgrade service standard and attain better financial health. Appreciating high customer service standards of private commercial banks (PCB), he said good corporate governance and efficient management are the secret of PCBs' success. (*The Daily star, June 03, 2003*)

Under such circumstances this study addresses two major research objectives:

1. Identify the factors that determine service quality in the context of nationalized commercial banks of Bangladesh
2. Evaluate how key service quality dimensions relate to the important measure of governance – customer satisfaction

Our study will focus on SERVQUEL model (Parsuraman et. Al.1988) and explore the possible factors and measures of service quality for banks in the context of developing economy particularly SCBs of Bangladesh. Therefore, the study will conduct a questionnaire survey on SCB customer to identify the critical factors that define customer satisfaction for SCB and the intensity/ranking of those key variables. The questionnaire survey on customers will enable the banking sector identify and work on the issues customers considered important in a specific service encounter (transaction-specific model) i.e. what they feel banks should offer than would offer (Parsuraman et al., 1988) in SCBs of Bangladesh. The study will also explore the ranking of those issues developed from customer feedback which will enable SCBs decide on priorities in a resource constraint economy.

2. LITERATURE REVIEW

Banker et al. (2000) identified the relationships between customer satisfaction and governance indicator like firm performance. They have established that investment in customer relationships provides the basis for developing strategies for creating customer value, and that such strategies provide the foundation for sustainable competitive advantage leading to solid financial performance. *Liang et al. (2009)* have successfully tested the relationship between CS and loyalty which leads to higher financial performance measured as customer retention and cross-buying. *Reicheld and Sasser (1990)* argued that loyal and satisfied customers are less likely to switch to other providers and their retention requires less ongoing relationship effort to retain.

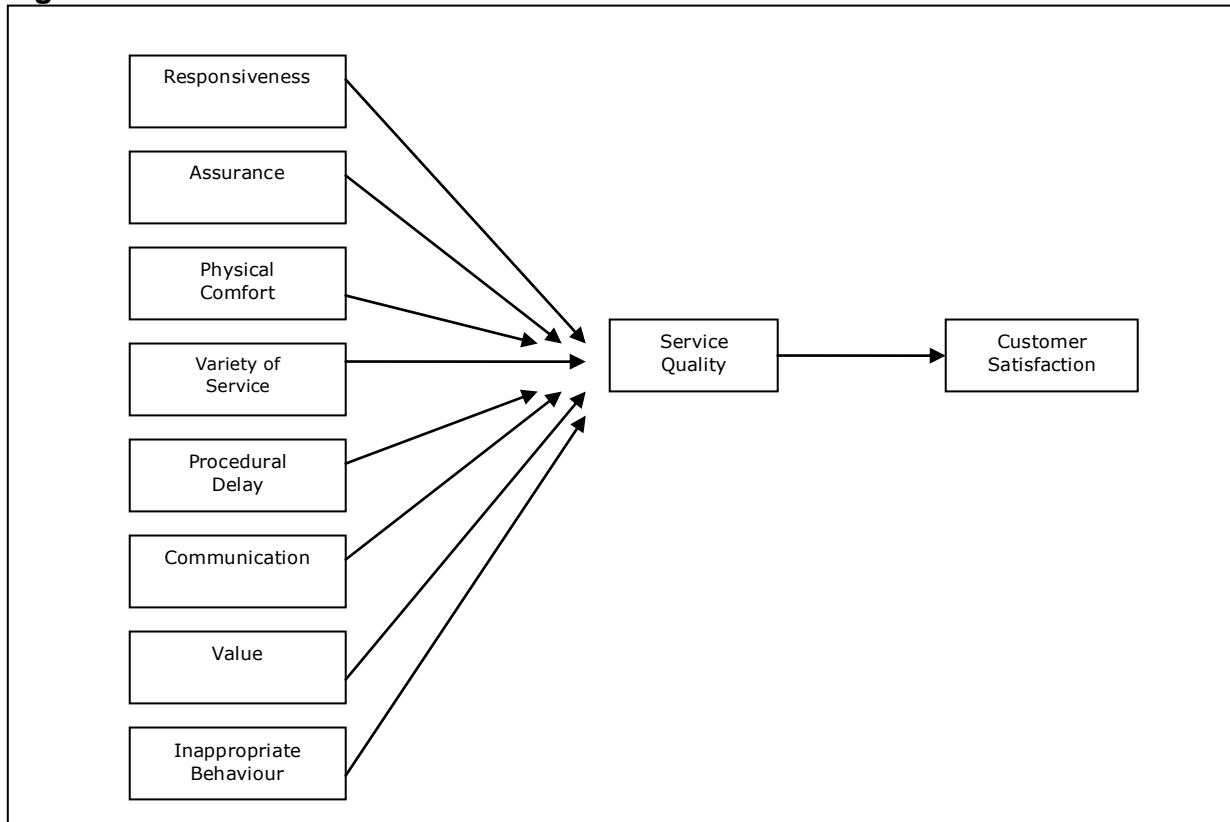
Dutta and Kirti (2009) explored the gap between customer expectations and perceptions of service quality factors across public, private and foreign banks in India based on SERVEQUEL model. According to the findings of the paper- tangibles, assurance, empathy and reliability dimensions explain customer satisfaction in Indian banks. *Reaz and Arun (2006)* conducted a descriptive study on the state of Corporate Governance for banking sector which highlighted the underperforming public banking sector of Bangladesh and recommended reform in governance. The prescriptions of donor agencies like World Bank, IMF, and ADB etc are also centered around the notions of reforming the state owned banks and capital market, improving service quality & performance and good governance, as closure of them would cost more in terms of public welfare (*Zafarullah, H; Huque, A, 2001*). *Andaleeb et al.[2000 (a), 2000 (b), 2001, 2007]* has broadly explored the issues relating service quality and patient satisfaction in public, and private hospitals in Bangladesh. The findings of those papers shaped the SERVQUEL model through combining and including cultural variables in the scale for measuring satisfaction for service sector in Bangladesh.

The assessment of customer satisfaction for banking sector poses few challenges particularly in developing countries like Bangladesh. The most critical challenge is- What criteria should be used for satisfaction measurement? Studies in developing world have shown a clear link between customer satisfaction and service quality (*Rao et al. 2006; Zineldin 2006*). Among few models used in similar research in developed countries the SERVQUAL (*Parasuraman et al., 1985; 1988; 1991*) framework (a method to assess customer satisfaction for service industries) has been considered as prominent in explaining customer satisfaction.

In our empirical study on CS in SCBs we modified the SERVQUAL model based on the secondary research, qualitative interviews, and focus group discussions to accurately describe factors determining service quality in banking sector in the context of Bangladesh. We identified eight dimensions which were modelled with overall satisfaction as the dependent variable. As a performance measure, satisfaction is considered an important outcome of customer care in SCBs.

Based on our secondary research and group discussions, our proposed SQ model in this study is as follows:

Figure 1



The basic model tested in our study therefore is-

$$\text{Satisfaction} = a + b_1 * \text{responsiveness} + b_2 * \text{assurance} + b_3 * \text{physical comfort} + b_4 * \text{variety of service} - b_5 * \text{procedural delays} + b_6 * \text{communication} - b_7 * \text{costs} - b_8 * \text{inappropriate behaviour} + \text{error}$$

3. DATA AND METHODOLOGY

Secondary Research

Secondary research was first conducted to find the studies on service quality in local and foreign journals. The lack of indigenous literature led to our derivation of preliminary insights from models developed in developed countries and application of customized SQ model in other sectors. These models were instrumental in guiding the qualitative interviews with experts and recipients of bank services in Bangladesh; and the key service issues were derived from their inputs.

Questionnaire design

A preliminary version of the questionnaire was developed in English based on secondary research and focus group discussions. Each items was rated on a seven-point Likert scale anchored at the numeral 1 with the verbal statement 'Strongly Disagree' and the numeral 7 with the verbal statement 'Strongly Agree'. The

questionnaire was pre-tested and refined until it was at appropriate wording and captured the desired constructs.

Data Collection and Sampling Plan

The study was conducted in two phases. Because of resource and time constraints and the exploratory nature of this investigation, only 100 interviews in the first phase and 240 interviews in the second phase were planned from Dhaka city. A complete list of the branches of NCBs operating in Dhaka has been collected.

In the first phase, five branches of each of the four SCB have been selected randomly. From each branch, five respondents have been selected systematically. In the second phase, ten branches of each of the four SCB have been selected randomly. From each branch, six respondents have been selected systematically. Every third customer has been chosen as respondent in both phases.

This procedure was difficult to implement, as many times the third respondents did not like to be interviewed. In that case, the next respondent was chosen. There were some incomplete questionnaires. Ultimately, 98 survey questionnaires from first phase and 214 survey questionnaires from second phase were analysed.

4. FINDINGS

Pilot survey resulted in following model:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.785	.616	.615	.29389

a) Predictors: (Constant), INAP_EMP, ASSURNC, INAP_PAY, PHYSCOM, RESPONSE

b) Dependent Variable: SATIS

Based on pilot survey, questionnaire was modified by including more factors. Each factor was assessed for reliability using coefficient alpha. The reliability coefficients always exceeded the value of 0.7 recommended by *Nunnally (1978)*. The result of final survey is presented below:

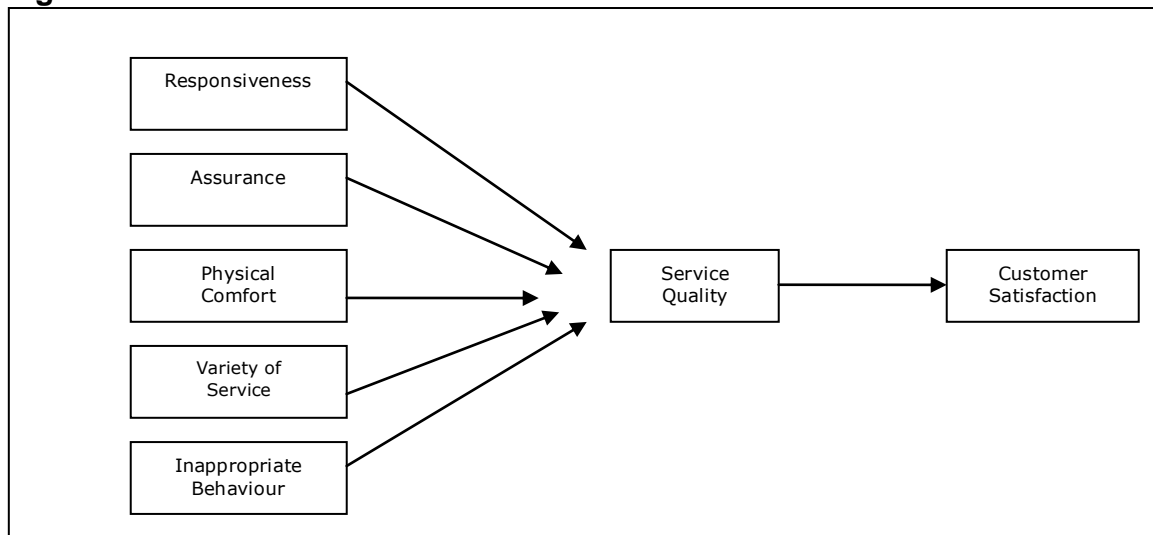
New Variable Created	Alpha value
Inappropriate behaviour of employees that involves time i.e. negligence of employees	0.8632
Inappropriate behaviour of employees regarding extra favour special clients or receiving payment i.e. baksheesh	0.8359

Now, the following table summarizes the reliability analysis:

	Factor	Accepted Alpha Value	Variable name in the model
1	Responsiveness	0.8832	RESPONSE
2	Assurance	0.7472	ASSURNC
3	Physical comfort	0.7173	PHYSCOM
4	Variety of service	0.7759	MOD_SERV
5	Inappropriate behaviour re: negligence	0.8632	NEGL_EMP
6	Inappropriate behaviour re: favouritism	0.8359	FAV_EMP
7	Satisfaction	0.7783	SATIS

R square indicates the portion of variability in dependent variable (satisfaction) is explained by the model. From the analysis above, it indicates that the model explains 53% variability in satisfaction of customers. The coefficient of the variables indicates the strength of relationship between the independent variable and dependent variable. From the above analysis, derived new model is shown below:

Figure 2



The final model summary is as follows:

R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
.733	.537	.524	1.17	2.006

a) Predictors: (Constant), FAV_EMP, MOD_SERV, PHYSCOM, NEGL_EMP, ASSURNC, RESPONSE

b) Dependent Variable: SATIS

Coefficients

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	1.113	.496		2.242	.026
	RESPONSE	.417	.079	.385	5.267	.000
	ASSURNC	.245	.095	.187	2.572	.011
	PHYSCOM	.291	.077	.220	3.799	.000
	NEGL_EMP	-6.930E-02	.051	-.075	-1.359	.176
	MOD_SERV	-6.626E-02	.047	-.068	-1.421	.157
	FAV_EMP	-5.169E-02	.044	-.059	-1.166	.245

A Dependent Variable: SATIS

So, the model is:

Satisfaction = 1.113+ 0.385 Responsiveness + 0.187 Assurance + 0.220 Physical comfort –0.075 negligence of employees – 0.068 variety of service – 0.059 favouritism of employees.

This study tested above CS model using the transaction – specific framework. The results suggest that our model satisfactorily explains customer satisfaction and SCB management and staffs should focus on three major elements- responsiveness, physical comfort and assurance- if customer satisfaction is to be treated as a strategic variable and enhanced.

The outcome of the study clearly shows that the ‘responsiveness’ dimension of service quality was most important to customers. This dimension includes personal attributes of the SCB staffs with the customers including whether staffs were prompt, courteous, helpful & knowledgeable and understood customer needs. It is important, therefore, for SCBs to train and develop their staff so that customer expectations are met or exceeded along those attributes.

Based on the regression coefficients, “physical comfort” was determined to be next in importance in influencing customer satisfaction. The positive beta value suggests that when the tangibles are not in accordance with expectations, customer satisfaction declines. The key tangible attributes found in the survey were the temperature, interior, furniture and tidiness of the banks. To enhance the customer comfort and eventually their satisfaction, SCB should seriously focus on those attributes.

Based on the regression coefficient and beta values the construct “assurance” ranked third in importance. The positive beta value suggests that customer expects the SCB staffs should be competent and able to solve their problem at first chance. If their expectations are not met they would consider the service is unsatisfactory resulting with customer dissatisfaction.

The last two variables “inappropriate behaviour” and “variety of services” have lower beat value and considered to have least impact on SCB customer satisfaction. This finding seems logical as “Variety of service” in terms of ATM, credit card, providing bank statements and phone banking is completely new concepts of banking for SCB customers. As they are unaware and unwilling to avail those services, the variable has hardly affected their satisfaction.

The last variable “inappropriate behaviour” has been broken into three constructs based on factor analysis which suggests little impact on satisfaction. Though ‘inappropriate behaviour’ by employees or favouritism does influence customer satisfaction; however, the variable has only nuisance value. The low impact of “inappropriate behaviour” also seems to support main thesis of this paper-that quality (via responsiveness and assurance) is more important than cost and access. If a small price needs to be paid in the form of baksheesh or favour, its impact on customer satisfaction is significant but marginal (*Andaleeb, 2001, p. 1366*).

5. CONCLUSION :

We believe our model for assessing customer satisfaction in the underperforming SCBs is a useful one. We also believe that if SCB management and government bodies (finance ministry, Central bank) want to revive SCB from near closure, they must continually strive to increase the levels of customer satisfaction by emphasizing the significant factors discerned in this study and as suggested by the transaction-specific model.

Future research:

The factors like “variability of service”, “inappropriate behaviour” and “cost” showed surprisingly lower value which may need to be explored in future research. The role of market incentives may be included in future models of customer satisfaction to differentiate the attitude/willingness of SCB and PCB employees. By considering these aspects, it may be possible to provide deeper insight into the factors that SCB management, related government bodies and Bangladesh Bank need to stress in their policy development.

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