EVALUATING CUSTOMER-PERCEIVED SERVICE QUALITY AND CUSTOMER SATISFACTION IN THE NIGERIAN BANKING INDUSTRY

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Abstract

Keeping in view the significance of customer perceived quality in today's competitive banking environment, the study was designed to evaluate customer-perceived service quality and customer satisfaction in the Nigerian banking industry. This research focused on the measurement of customer satisfaction through delivery of service quality in the banking sector in Nigeria. A quantitative research was used to study the relationship between service quality dimensions and customer satisfaction. Findings from the study show that, assurance; empathy and responsiveness have positive relationships, but have no significant effects on customer satisfaction. Reliability has negative relationship but has no significant effect on customer satisfaction. Tangibles have positive relationship and have significant impact on customer satisfaction. Conclusively a business that caters for their customers` needs will inevitably gain the loyalty of their customers, thus resulting in repeat business as well as potential referrals. We therefore recommend that rather than paying much attention to the products and services, banks should focus more on their customers.

In this turbulent and competitive environment, organizations, in order to sustain their growth and increase their market share, need to understand how to satisfy customers as it plays a primary role since customer satisfaction is critical for establishing long-term client relationships (Patterson, O' Malley and Evans, 1997). This is evident from the increased number of customer satisfaction surveys by service organizations. Thus, a fundamental understanding of factors that impact on customer satisfaction is of great importance to service organizations, especially banks. Satisfaction of the customer depends on the quality of service. Research in this area suggests that service quality is an important indicator of customer satisfaction. Service quality of late has emerged as the major attraction to many banks as a competitive differentiator (Newman, 2001). Measuring the customer satisfaction helps banks to understand the customers' needs and can thus change strategies accordingly. Customer satisfaction is defined as the result of a cognitive and affective evaluation, wherein a standard comparison is adopted for the actually perceived performance. If the perceived performance is less than expected, customers will be dissatisfied and on the other hand, if the perceived performance exceeds expectations, customer will be delighted (Kotler and Armstrong, 2001).

The Nigerian banking system has undergone remarkable changes over the years, in terms of the number of institutions, ownership structure, as well as depth and breadth of operations. These changes have been influenced largely by challenges posed by deregulation of the financial sector, globalization of operations, competition, technological innovations and adoption of supervisory and prudential requirements that conform to international standards (Soludo, 2004:4). The banking industry has become increasingly integrated in recent years. Liberalization and deregulation of the financial sector, coupled with rapid technological advancement and improved communication systems, have contributed to the integration process. As a result, banks are now faced with very high and intense competition. (Shafie, 2004:2) Studies by Parasuraman, Zeithaml and Berry (1985), and Zeithaml, Parasuraman and Berry (1990), noted that the key strategy for the success and survival of any business institution is the delivery of quality services to customers.

Accordingly, Newman and Cowling (1996) believe that excellent service quality is vital to business profitability and survival. In this sense, Nigerian banks are of no exception. It would seem that at the most general level, perceived service quality and customer satisfaction are evaluation or appraisal variables related to customer judgments about a product (Oliver, 1997). However, some differences exist between them and they can be summarised as follows;

1. Perceived quality judgments are evaluations of specific cues or attributes, whereas satisfaction judgments are more global;
2. Expectations of perceived quality are based on 'excellence' perceptions, whereas satisfaction judgments are based on need and equity; and
3. Perceived quality judgments are more cognitive, whereas satisfaction judgments are more affective and emotional reactions.

As a matter of fact, many banks subscribe to the fact that high customer satisfaction will lead to greater customer loyalty (Munusamy, Chelliah and Mum, 2010) which, in turn, leads to future revenue. For that matter, many organizations (including banks) that resorted to having superior service quality have been found to be market leaders in terms of sales and long-term customer loyalty and retention.

Customer expectations have been consistently acknowledged in the literature as the basis on which service quality and customer satisfaction judgments are formed (Oliver, 1993; Parasuraman et al., 1988). Satisfaction is the customer's evaluation of a product or service in terms of whether that product or service has met their needs and expectations, (Zeithaml and Bitner, 2000). Happy and satisfied customers behave in a positive manner. They will buy a lot from you and will give you a large share of their business. Customer satisfaction is derived largely from the quality and reliability of your products and services. However, almost every Nigerian bank encounters similar problems in meeting customer's expectation of services and customer satisfaction. For example, the issue of money transfer in banks is one major problem that customers of many banks have experienced.

Purpose and Scope of the Study

Customer perceived service quality and satisfaction have been studied by some researchers mostly in the developed countries of the world. Given the differences and peculiarities of such environmental factors as technology, socio-cultural behaviour, economic and competition, the present study seeks to evaluate the level of customer satisfaction in banks service delivery within the Nigerian (a developing) context. This study therefore, focused on the effect of customer-perceived service quality on Nigerian bankers' satisfaction. To this effect, the respondents for the study were drawn from the customers of banks within Enugu State of Nigeria.

Conceptual and Theoretical Review of Perceived Service Quality

Service quality has been viewed as a significant issue in the banking industry (Angur, Nataraajan and Jahara, 1999; Brysland and Curry, 2001; Olaleke, 2010). Since financial services are generally undifferentiated products, it becomes imperative for banks to strive for improved service quality if they want to distinguish themselves from the competition. Positive relationship between high levels of service quality and improved financial performance has been established by Roth (1991) and Bennet (1992) as cited by Shafie 2004:3). Similarly, Bowen and Hedges (1993) documented that improvement in quality of service is related to expansion of market share. In the current marketing literature, much attention on the issue of service quality as related to customers' attitudes towards services has focused on the relationship between customer expectations of a service and their perceptions of the quality of provision. This relationship known as perceived service quality was first introduced by Gronroos (1982). Gronroos (1982) suggests that "the perceived quality of a given service is the result of an evaluation process since consumer makes comparison between the services they expect with perceptions of the services they receive". Sequel to this therefore, he concludes that the quality of service is dependent on two variables: expected service and perceived service. Parasuraman et al., (1985) considered that a customer's assessment of overall service quality depends on the gap between the expected and perceived service.

Thus, the key to managing perceived service quality is to minimize this gap. Zeithaml (1988) define perceived service quality as the customers' assessment of the overall excellence of the service while Bolton and Drew (1991) describe service quality as a form of attitude that results from the comparison of expectations with performance. Berry, Zeithaml and Parasuraman (1990) pointed out that since customers are the "sole judge of service quality", an organization can build strong reputation for quality service when it can constantly meet customer service expectations. Approaches to the measurement of service quality have typically been either a simple comparison of mean scores, extensive and detailed statistical model or more recently, computer analysis of respondents' opinion gathered through market research. The current measurement of perceived service quality using the latter approach can be traced to the research of Parasuraman et al., (1985).

In developing service quality, Parasuraman et al., (1988) recast the previously used ten determinants into five principal dimensions: tangibles, reliability, responsiveness, assurance and empathy. Following their works, other researchers have adopted this model for measuring service quality in various service industries. Among them are Blanchard and Golloway (1994), Donnelly Wisniewski, Dalrymple, and Curry (1995), Angur Nataraajan and Jahera (1999), Lassar Manolis and Winsor (2000), Brysland and Curry (2001), Wisniewski (2001) and Kang, Jame and Alexandris (2002). Application of this model to measure the quality of service in the banking industry was conducted by Newman (2001). According to Othman and Owen (2001) in Shafie (2004), this model has proven to be the most popular instrument for measuring service quality because it affords technology techniques for measuring and managing service quality.

Concept of Customer Satisfaction

Operational definition of certain terms in a study gives clearer understanding and appreciation of the researcher's course of action and direction of his/her discussions. To this end therefore, it is considered worthwhile that our readers fully understand the operational definition of the term 'Customer Satisfaction`. The term does not only express a happy customer, but more complex than that. Customer satisfaction is actually a term mostly used in the business and commerce industry. It is a business term explaining about a measurement of the kind of products and services provided by a company to meet its customer's expectation. To some, this may be seen as the company's key performance indicator. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. There is a substantial body of empirical literature that establishes the benefits of customer satisfaction for firms. It is well established that satisfied customers are key to long-term business success; Zeithaml et al., 1996; McColl-Kennedy and Scheider, 2000 cited in Munusamy et al., 2003). It is also defined as a global issue that affects all organizations, regardless of its size, whether profit or non-profit, local or multi-national. Companies that have a more satisfied customer base also experience higher economic returns (Bolton and Drew, 1998; Munusamy et al., 2010). Consequently, higher customer satisfaction leads to greater customer loyalty which in turn leads to higher future revenue (Bolton and Drew, 1998). Hence, many market leaders are found to be highly superior-customer-service orientated, and have been equally rewarded with high revenue and customer retention.

Organizations in the same market sector are compelled to assess the quality of the services that they provide in order to attract and retain their customers. Apparently, many researchers conceptualize customer satisfaction as an individual's feeling of pleasure (or disappointment) resulting from comparing the perceived performance or outcome in relation to the expectation (Kang et al., 2002; Munusamy et al., 2010). There are two general conceptualizations of satisfaction here, namely, the transaction-specific satisfaction and the cumulative satisfaction. Transaction-specific satisfaction is the customer's very own evaluation of his or her experience and reaction towards a particular service encounter (Boshoff and Gray, 2004 cited by Munusamy et al., 2010). This reaction is expressed by the customer who experiences a product or service for the first time. Meanwhile, cumulative satisfaction refers to the customer's overall evaluation of the consumption experience to date (Johnson, Anderson and Fornell, 1995). It is from this accumulation that customers establish a personal standard which is used to gauge service quality. However, in general, it is agreed that customer satisfaction measurement is a post-consumption assessment by the user, about the products or services gained (Churchill and Surprenant, 1982).

The Dynamic Nature of Adequate Expectations

In the service quality and customer satisfaction literature, expectations are interpreted differently. In service quality, expectations have a normative role based on past experience and they equally provide the consumer's view of what *should* happen. In the customer satisfaction literature, expectations are usually linked to what consumers forecast, that is, they have a more predictive role and they relate to what *will* happen (Zeithaml et al., 1993, cited by Dean 2002). The role of expectations in service quality is made more complex by theory suggesting that different levels of normative expectations exist (the customer's 'zone of tolerance') and that the expectations associated with service quality and customer satisfaction interact (Dean, 2002). The zone of tolerance is based on the assumption that customers recognize and are willing to accept a degree of heterogeneity in service quality. It is represented by a range between what is 'desired' and what is considered 'adequate' (Dean, 2002). Desired service is defined as the blend of what can and should be provided whereas the 'adequate' service quality level is defined as the minimum level of service performance customers consider adequate (Parasuraman et al., 1994).

The authors of zone of tolerance theory proposed that the desired service level is relatively stable but that the adequate service level moves up and down according to consumer circumstances and needs (Parasuraman et al., 1994; Zeithaml et al., 2000). They subsequently demonstrated that the desired service level tends, consistently, to be highly positively skewed but that the adequate level is more likely to vary and that only a small number of customer responses appear to fall outside the zone of tolerance. This finding is consistent with studies that employ the service quality instrument to measure desired or ideal expectations and which also reveal that the desired level of expectations tends to be skewed highly positively (Cronin and Taylor, 1992; Shafie, 2004; Dean, 2002).

Model for Measuring Customer Satisfaction in A Service Based Industry

Customer satisfaction and service quality are inter-related. The higher the service quality, the higher is the customer satisfaction. Many agree that in the banking sector, there are no recognized standard scales to measure the perceived quality of a bank service. Thus, competitive advantage through high quality service is an increasingly important weapon to survive. Measuring service quality seems to pose difficulties to service providers because of the unique characteristics of services: intangibility, heterogeneity, inseparability and perishability. Because of these complexities, various measuring models have been developed for measuring perceptions of service quality (Parasuraman et al., 1988). The service quality model of Parasuraman et al. (1988) proposes a five-dimensional construct of perceived service quality: tangibles, reliability, responsiveness, assurance and empathy – with items reflecting both expectations and perceived performance. Service quality has become an important research topic because of its apparent relationship to costs, profitability, customer satisfaction, customer retention and positive word of mouth (Reichheld and Sasser, 1990).

There are many research instruments developed to measure the perceived service quality. Among such general instruments, the most popular being the service quality model, a well known scale developed by Parasuraman et al. SERVQUAL, as it has been frequently used in the literature has been widely acknowledged and applied in various services setting for variety of industries in the past decade. Examples include: health care setting, dental school patient clinic, business school placement centre, large retail chains, banking, pest control, dry cleaning, and fast food restaurants (Cronin and Tayler, 1992). According to Olaleke (2010), the SERVQUAL measuring tool "remains the most complete attempt to conceptualize and measure service quality because of its number of benefits". Incidentally, the SERVQUAL measuring tool's main benefit is its ability that allows researchers to examine numerous service industries such as; healthcare, banking, financial services, and education (Olaleke, 2010). The fact that SERVQUAL has critics does not render the measuring tool inconsequential; rather, the criticism received concerning SERVQUAL measuring tool may have more to do with how researchers use the tool.

Originally, SERVQUAL formulated by Parasuraman et al. (1985) showcased ten various components of service quality. Later in 1988, these ten components were collapsed into five different dimensions, namely:

1. **Tangibles**: physical facilities, equipment, and appearance of personnel;
2. **Reliability**: ability to perform the promised service dependably and accurately;
3. **Responsiveness:** willingness to help customers and provide prompt service;
4. **Assurance**: knowledge and courtesy of employees as well as their ability to convey trust and confidence
5. **Empathy**: individual care and attention that a company provides its customers.

Research Method

The survey design method was employed for the study. Both secondary and primary sources of data were used. The secondary sources, mostly through the literature gave impetus to the theoretical and empirical knowledge on service quality that formed the bedrock of the study. Primary information used for the analysis and discussion of findings came from the questionnaire and personal interviews with some staff and customers of various banks visited during the course of the study. Population of the study consists of both the staff and the customers of the banks within Enugu metropolis. The sample size for the study was 140, determined from the customer records of the selected banks used for the study using the appropriate statistical formula for a known population. Out of the 140 copies of questionnaire distributed, 117 copies were returned while 23 copies were not returned as depicted in table I of the appendix.

Questions were asked on the five SERVQUAL variables being tested using a five-point Likert scaling of “strongly agree”, “agree”, “not sure”, “disagree”, and “strongly disagree”. All the data generated for the study were fed into the Statistical Package for the Social Sciences (SPSS) and Microsoft Excel for analysis. The internal consistency reliability of the variables measured was done through Cronbach’s Alpha as depicted in table 2 of the appendix. This gives us the following Cronbach’s Alpha: Assurance (0.869), Reliability (0.895), Tangibles (0.848) Empathy (0.835), Responsiveness (0.837) and the overall customer satisfaction (0.889) indicating that internal consistency reliability for the variables measured is considered good. (Cronbach’s Alpha > 0.7).

Analysis of multiple regressions was undertaken to learn more about the relationship between these independent or predictor variables and a dependent or criterion variable. For example, whether, responsiveness, empathy, reliability, assurance and tangibles act as subjective ratings of appeal in the banking sector. Information compiled from this helps in showcasing whether and how these measures relate to customer satisfaction in the banking sector. Personnel professionals, customarily use multiple regression procedures to determine equitable compensation. The overall study on the five dimensions, namely Assurance, Reliability, Tangibles, Empathy and Responsiveness suggests that there is a strong effect of these five independent variables on customer satisfaction as shown in table 3 in our appendix. From this table, the F-value (36.404) shows that the changes are significant which implies that the model is fit.

Lastly, a regression analysis was carried out to determine the relatedness of the variables on customer satisfaction. Obviously, from the regression analysis of SERVQUAL variables as presented in table 4 of the appendix, it could be seen that Assurance, Reliability, Empathy and Responsiveness have no significant effect on customer satisfaction. Only Tangibles have significant effect on customer satisfaction. (p-value < 0.01).

Discussions of Findings

The analysis of the variables studied shows that assurance has positive relationship with Customer Satisfaction, but with little or no significant effect. Respondents' responses indicate that the customers do not feel that assurance too important to be part of the service quality. There are two possibilities; firstly the customers feel that the retail banks have provided enough safety and confidence in their services, necessitating the customers' apathy to safety measures while dealing with any bank. Consequently many reported cases of security breach in the internet banking, use of ATMs and phone banking, most of the time is due to the customers' carelessness and recklessness. Secondly, the customers have given up since all the retail banks are not able to provide the level of safety expected. The customers are therefore hopeless, while waiting on the retail banks to improve on the assurance in their services.

The second variable Reliability is about the accuracy and timeliness in the service provided. Responses to the research questions indicate that, Reliability does not have any significant impact on customer satisfaction. This may be caused by the growth of the phone banking, use of ATMs and internet banking. Customers do not show much concern about the reliability level in customer service since they have alternatives. With the rapid growth in the internet technology, many banks have setup their internet banking portal, and the banks have spent much on TV advertisement, free gift, lucky draws and many other ways, to encourage their customers use the ATM and internet banking. Retail banks are able to reduce the operation cost by not extending the business hours and reduce staffs, since the Internet banking operates 24 hours a day without supervision. Apart from that, machines have been used to replace banks staff as well to help customers in cash withdrawals, cash credit, cheque, credit cards, bank book update, credit transfer and many other services.

The third variable Tangibles encompass the appearance of the company representatives, facilities, materials, and equipment. Data analysis shows that it has positive correlation and highly significant to customer services. The retail banks operating hours had been reduce down to five days per week (Mondays - Fridays), while, machines are used to help the banks to provide faster and better services to their customers during weekends. Internet banking is spread all over the nation and this provides 24/7 non-stop service. Customers can comfortably settle many matters without leaving their home or office, including pay bills, check account balance, inter-bank transfers and loan instalment and others. Many machines such as ATM machines, cash deposit machines, cheque deposit machines, and their functions also improved to serve walk-in customer. These machines are being built in a way with less error, more accurate and less time to spend and they can work consistently. Many retailing banks are taking steps to improve their quality to retain and capture more customers. Banks branches are operating in many shopping mall and retail stores nowadays. All these changes are made to achieve customers' satisfaction, sustain, maintain and retain customers' patronage and loyalty for long run business relationship

Furthermore, the results of the research suggest that there is no significant positive relationship between the empathy and customer satisfaction. Although most of the customers would like to use the new facilities in the bank, there are still groups of people who prefer one on one and face-to-face services by the banks. Apart from that, there are chances that customers are forced to resort to the conventional way of queuing during banking hours. They have no other alternative, but to make personal contact with the banks' staff each time the ATM machines go `out of service` (due to maintenance or power failure). By human nature, people tend to expect empathy and respect from someone who they wish to deal with. Technology provides the platform to mitigate the problem of workloads and error, provide a more efficient and quicker problem solving solution. Yet, the banks should maintain and improve the empathy skill since personal contact is still very important in direct marketing.

Lastly, Responsiveness is the timely reaction towards the customers' needs. The study further reveals that responsiveness has relationship, but no significant effect on customer satisfaction. We can conclude that responsiveness is a need in providing quality service, but not a must. Once again, this result shows that the banks' customers prefer to deal with the machines rather than human being. Machines are made to have a shorter response time compare to human beings, while human responsiveness sometimes can be affected by emotion, which cause low productivity. Customers understand that machines can sometimes break down, but cannot accept not being responded to on time by the banks' staff. These are some of the differences in customers' perception of banking services while dealing with machines and human beings.

Implications for Marketing Managers

Marketing manager in the banking industry should make sure that all the components in a service quality programme be strictly followed and effectively implemented. Assurance, Reliability, Empathy, Tangibles and Customer Satisfaction are all important. Marketing managers should not only focus on the bank's objective of profits and gains, but must also look into the needs of the customers as well. As a matter of fact, the marketing manager should recommend extensive customer-relations training programmes for all the staff, but mostly the frontline tellers. In this way it would fortify the bank's core competency in customer satisfaction. The result of this study has proven that SERVQUAL model is still the effective model to measure customer satisfaction in the retail banking. Managers from various banks should continuously measure and improve the level of customer satisfaction using the SERVQUAL model in order to maintain competitive advantage in the market place.

Conclusions

Undoubtedly, no business can exist without customers. In the philosophical words of Peppers and Rogers "The only value your company will ever create is the value that comes from customers—the ones you have now and the ones you will have in the future". This is absolutely true when one conceptualizes that customer value is an asset to the organization. Hence, in order to maintain the customer, the organization needs to ensure that the right products and services, supported by the right promotion are made available at the right time for the customers. While quality service and merchandise are essential in today's competitive market, it is equally important that a customer experiences the "wow effect" that only superior customer service can deliver. A business that caters for their customers` needs will inevitably gain the loyalty of their customers, thus resulting in repeat business as well as potential referrals.

Consequently, it is imperative that businesses get to know their customers. Establishing a professional relationship with customers empowers us with the knowledge of what our customers need. When a business focuses on delivering what is of value to their customers, this will generate the potential for repeat business as well. The feedback from the survey is a testament to the customer satisfaction. Similarly, the other attributes, such as; assurances, tangibles, empathy and responsiveness all have positive relationship with customers satisfaction. It is far more difficult to measure the level of performance and satisfaction when it comes to the intangible expectations. One of the ways to help obtain loyal customers is by having products and services that are so good that there is very little chance that the customer requirements will not be met. Of course, one of the difficulties in understanding the true customer requirements is that the customer can and will change them without notice or excuse. Having a good recovery process for a dissatisfied customer is a very important and necessary process for any service organization, such as the banking industry.

Recommendations

The study hereby recommends that;

1. The banks that will thrive in the future will focus more on their customers, rather than on the products and services, which they sell.
2. Banks should have the interest of their customers at heart, because customers are the true business of every company.
3. Banks in Nigeria should not only adapt to technological advancement, but must equally ensure that the newly employed technology makes for a prompt and a stress-free banking.

4. There is need for each bank to apply the queuing technology to their banking system as this would help them to manage customers waiting in line and productivity.
5. Lastly, banks should embark on effective training and development skills that would help their employees deliver prompt services to the various segments of their target customers.

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APPENDIX

Table 1: Response Rate of Questionnaire Administered to the Respondents

Questionnaire	Number	Percentage
Returned	117	83.6%
Not Returned	23	16.4%
Total	140	100%

Source: *Survey findings 2010.*

Table 2: Reliability Analysis Using Cronbach's Alpha Reading

Variables	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlated	Cronbach's Alpha if Item Deleted
Assurance	103.0940	306.379	0.668	0.869
Reliability	103.2991	329.332	0.463	0.895
Tangibles	102.7265	269.787	0.779	0.848
Empathy	104.1880	269.895	0.871	0.835
Responsiveness	103.5214	277.993	0.882	0.837
Customer Satisfaction	85.6923	241.542	0.653	0.889

Table 3: Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df 1	df2	Sig. F Change
1	.788a	.621	.604	3.73871	.621	36.404	5	111	.000

Model Summary

- Predictors: (Constant), responsiveness_1, reliability_1, tangible_1, assurance_, empathy_1
- Dependent Variable: customer_satisfaction_1
- $p<0.01$

Table 4: Regression Analysis of Servqual Variables

Variables	Understandardized Coefficients	Standardized Coefficients		t	Sig.
1.(Constant)	15.798	2.164	.062	7.300	.000
Assurance	.109	.195	-.117	.559	.577
Reliability	.206	.174	.621	-1.182	.240
Tangibles	.863	.167	.093	5,174	.000
Empathy	.140	.200	.218	.702	.484
Responsiveness	.179	.218		.819	.415

Dependent Variable: customer satisfaction – 1

- $p<0.01$.