

Factors Influencing Customer Satisfaction in Banking Sector of Pakistan

Muhammad Imran Qureshi ¹, Adeel Rustum ², Sehrish Rustum ², Abdullah Bin Omar ² Khalid Zaman ¹

1. Department of Management Sciences, COMSATS Institute of Information Technology, Abbottabad, Pakistan.
2. MS Scholar, Department of Management Sciences, COMSATS Institute of Information Technology, Abbottabad, Pakistan.

khalidzaman@ciit.net.pk

Abstract: Customer satisfaction has strong influence on the efficiency and financial performance of banks. Customers are satisfied when quality services of banks meets their expectations and the level of dissatisfaction occurs when banks are unable and failed to fulfill their expectations. The study investigates the factors which may influence customer's satisfaction in banking sector of Pakistan. The study is conducted on the basis of convenient sampling and around one thousand questionnaires were distributed to corporate customers of different banks located in four provinces of Pakistan. Factor analysis was used for the measurement of items which may strongly influence customer's level of satisfaction. The result indicates that core services provided by the banks are best predictors of customer satisfaction.

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1. Introduction

The objective of the study is to investigate and measured the level of customer satisfaction and services delivered in the banking industry of Khyber Pakhtoonkhawa province of Pakistan. Customer's satisfaction play crucial role in the success of banking sector, financial sector, business organizations, production sector, firms, industries, small medium enterprises and all other areas of business, however, this study delimit on banking sector. As far as banking sector is concerned, the success of banking sector depends upon corporate customers need and their expectations towards their banking services. Banking sector is a customer oriented services provider. There are different types of banks which provide different quality services to customer's i.e., retail banking, business banking, private banking, investment banking, financial markets and nonprofit organizations. The main quality services offered and used by different banks in KPK province of Pakistan comprised of electronic & internet banking services and general services of banks which attracting customers. Berry et al., (1985) demonstrate that customers always use service quality characteristics of investigation, understanding and assurance for the assessment of service quality. These service quality characteristics are materialistic proficiencies, expression of employees and other expressions are taken into account by customers before consumption of available service.

Banking sector is in critical situation of meeting customer's requirements because the fact is that customers always assess and investigate the standards after use of available services and business depends on

client services. Customers are satisfied when quality services of banks meets their expectations and the level of dissatisfaction occurs when banks are unable and failed to fulfill their expectations. As indicated by Parasuraman et al. (1985) that customers are unsatisfied and disappointed when customers expectations and predictions exceeds the functioning of the banks, than anticipated and recognized quality service decreases and remain unsatisfactory.

Customer satisfaction is the act of just doing enough to be acceptable to a customer. It is simply meeting basic expectations. It is the fact that when bank provide its services to customers more efficiently its profitability increases. Customer's satisfaction has great influence upon the performance and profitability of the banks. On the other side, customer's satisfaction have strong influence on the efficiency and financial performance of banks (Al-Hawari and Ward, 2006). This study also highlights the importance of customers and customers satisfaction for the success, reputation and reliability of banking sector. Factor Analysis is used for the measurement of customer's satisfaction in the selected banks of KPK province of Pakistan.

2. Literature Review

Customer satisfaction is the quality service of today's commercial and Islamic banking sector. The literature enlightens that many studies have been conducted by different researchers in order to measure the customer's satisfaction.

File and Prince (1992) and Richens (1983) indicated that satisfied customers share their best experiences with other peoples and occupy

unambiguous word of mouth (grapevine) advertisement and publication of the banks. On the other side, this positive word of mouth publication is very helpful in increasing banks relationships and interaction with the whole community. Athanassopoulos (2001) explains that it is very difficult to judge and estimate the significance of service quality through customer's satisfaction and use of service by customers due to the fact that services are invisible and not tangible whereas output and inputs are concurrent and operated at the same time. Hofstede (1980) and Hall & Hall (1987) both studies indicated that unsatisfied customers always share bad experiences with the society about the organization due to failure of service provision of the organization and customers become disappointed as a result negative word of mouth advertisement takes place and have adverse impact on the banks performance.

The recognition of service quality extension through customer's satisfaction is the primary concern and the advancement of assessment as well as measurement equipment's and mechanisms are the secondary concern of research. The most important disputation and argument is the measurement of service quality that whether to measure it through customer's satisfaction or customers discontention (Parasuraman et al, 1985, 1988, 1991 and 1993; Cronin and Taylor, 1992, 1994; Buttle, 1996 and Athanassopoulos, 1998, 1999). Berry et al. (1985) demonstrate that customers always use service quality characteristics of investigation, understanding, and assurance for the assessment of service quality. These service quality characteristics are materialistic proficiencies, expression of employees and other expressions are taken into account by customers before consumption of available service. The second one is characteristics i.e in time response of customer's applications and requisitions. The most important and last component of assessment is assurance characteristic it is like the determination of fiscal protection of business which is impossible without frequent use of service.

Daniel (1999) and Karjaluoto et al. (2002) both studies indicates that the availability of services to customers through new technology is the main concern of electronic banks. Banks has the opportunity to present and offer services to customers through different dispersion channels and routes. Oliver (1987) and Nyer (1999) both studies indicates that unsatisfied and disappointed customers grumble and contravene to the organization management in order to mitigate cognition discrepancies and failed utilization experiences. Lewis and Mitchell (1990) offered services of banking sector which satisfy and fulfill customer's needs and presumptions are regarded as service quality of banks. Extension in customers holding and retentively rates as well as improvement in functional efficiency and productivity such that gains are the characteristics of

available services. Whereas electronic service quality is considered as most important part of a business organization antagonistic abilities and competencies and helps to increase firms efficiency and financial position. On the other hand the implementation of these electronic services techniques plays a significant role in operating activities [see, Cronin (2003); Rust et al. (2001); Zeithaml (2000), Oliveira et al. (2002), Menor and Roth (2003)]. Al-Hawari and Ward (2006) proclaim that quality services have great influence on customer satisfaction and on the other side customer's satisfaction have strong influence on the efficiency and financial performance of banks. Dabholkar and Bagozzi (2002) elucidates that the literature yields a boundless and comprehensive association between customer's satisfaction, offered and available service quality and financial efficiency wherever direct communication is the core and pinpoint. Whereas, use of new technology have outstanding impact on the development of service transfer.

The conception backed and sustained by weather all and Gummesson that customers always have positive and unambiguous considerations on technology based service quality system and they accredit and trust that technology serve to customers more efficiently as compared to bank staff or personnel. On the other hand authenticity, accuracy and friendly behavior with customers are the vital components for technology based system assessment [Weatherall et al (1984), Gummesson, (1991). Research conducted by Rust and Zahorik, (1993) and Colgate et al (1996) indicates that fascinating new customers is more expensive and costly as compared to protecting old and actual customers. Establishment of higher level of customer's satisfaction doesn't confirm and guarantee customers dedication. Colgate et al (1996) further explains that banks always drop off and dissipate its customers due to shifting and retirement. on the other hand long term relationship of customers does not ensure profitability and higher performance.

3. Methodology

This study is based on primary data which is collected on the basis of convenient sampling from corporate customers of different banks of Khyber Pakhtoonkhawa (KPK) province of Pakistan. . Structured and five point Likert scale questionnaire was used for gathering of responses. The sample size consist of one thousand questionnaires out of which 250 questionnaires were equally distributed in four provinces (i.e., of Khyber Pakhtoonkhawa (KPK), Punjab, Sindh, Balochistan) of Pakistan for the collection of data from corporate customers of banking sector and all customers fit in from different social classes.

Out of one thousand questionnaires, only two

hundred and forty seven questionnaires were returned. The response rate is nearly 24.7 percent which is quite low, however, efforts were made to know whether the customers are satisfied with the provision and performance of bank's services and product or not? Customers' feedback and perceptions were analyzed using SPSS software, version 11. For the measurement of factors influencing customer's satisfaction in banking sector of Pakistan, factor Analysis, was used and for the extraction of factors Principal Component Method was used.

4. Results and Discussion

Factor analysis is a statistical method used to describe variability among observed variables in terms of a potentially lower number of unobserved variables

called factors. In other words, it is possible that variations in three or four observed variables mainly reflect the variations in fewer such unobserved variables. Factor analysis searches for such joint variations in response to unobserved latent variables. The observed variables are modeled as linear combinations of the potential factors, plus "error" terms. The information gained about the interdependencies between observed variables used later to reduce the set of variables in a dataset. Table 1 shows the factors and percentages of variances and cumulative variances. It indicates that the factors with higher percentage have great influence on the customer's satisfaction. On the basis of these variances percentages extraction of values takes place and provides foundation for principle component analysis.

Table 1: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.718	27.753	27.753	4.718	27.753	27.753
2	1.314	7.728	35.481	1.314	7.728	35.481
3	1.234	7.259	42.740	1.234	7.259	42.740
4	1.120	6.590	49.331	1.120	6.590	49.331
5	1.012	5.951	55.282	1.012	5.951	55.282
6	.925	5.440	60.721			
7	.871	5.122	65.843			
8	.822	4.835	70.678			
9	.702	4.131	74.809			
10	.687	4.039	78.849			
11	.662	3.896	82.744			
12	.590	3.472	86.216			
13	.544	3.197	89.413			
14	.522	3.073	92.486			
15	.469	2.758	95.244			
16	.444	2.610	97.854			
17	.365	2.146	100.000			

Table 2: Component Matrix

	Component				
	1	2	3	4	5
Q1	.629	-.123	-.241	-.300	-.029
Q2	.617	.188	-.056	-.381	-.076
Q3	.578	-.163	.179	-.373	-.032
Q4	.625	-.201	.024	.132	-.386
Q5	.567	-.176	.144	-.015	-.375
Q6	.589	.015	.305	-.352	-.112
Q7	.617	.155	.083	.210	-.065
Q8	.555	.116	-.222	.015	.270
Q9	.355	.187	-.638	.092	-.314
Q10	.529	-.445	.006	.200	.225
Q11	.572	-.138	-.236	.086	.415
Q12	.543	-.249	-.008	-.097	.453
Q13	.469	.311	-.169	.402	.092
Q14	.367	.458	.356	.201	.164
Q15	.460	-.138	.517	.442	-.100
Q16	.204	.659	.216	-.256	.143
Q17	.473	.232	-.195	.180	-.176

The result of Principal Component Analysis shows that there are five factors whose Eigen-values exceed 1. The

factor's Eigen-value shows the amount of total variance explained by that factor. The five factors explained

55.28 % of the total variance. The first, second, third, fourth and fifth factor explained 27.75%, 7.72%, 7.25%, 6.59% and 5.95% of this variance respectively. The component matrix is shown in Table 2. First factor “core services” is constructed by fourteen scale items and accounted for largest proportion, i.e.,

27.75 % of total explained variance. The second factor, “customer trust” is constructed by two scale items and accounted for 7.72% of variance. The third factor,

“personal selling” is constructed by only single scale items and accounted for 7.25% of total variance. However, fourth and fifth factor does not account for any single scale items which may be seen due to less number of questionnaire returned. Therefore, we may exclude both fourth and fifth factors from our analysis. The component factors are shown in Figure 1.

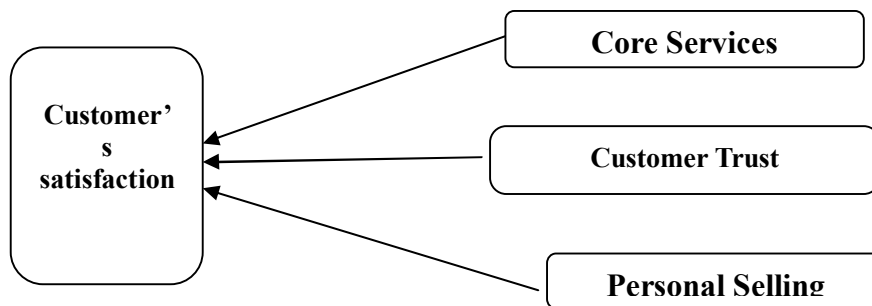


Figure 1: Component factors in Banking Sector

Source: Self extract

There are multiple factors which suggest the customer satisfaction in the banking sector;

however, three factors are shown in Table 3.

Table 3: Factors Identification in the Banking Sector

Factor	Suggested name	Indicators	Variance %
1	Core Services	Services provided by the Branch, Fulfillment of Banking Needs, Fast & Efficient Procedures, Well mannered & Competent Staff, No. of Customer visits to Branch, No. of mistakes by Br. personnel, Customer comfort & Convenience, Accessible Location, Accuracy of financial transactions, Branch Environment, Affordability of service charges, Overall service quality service quality of private/public bank	27.753
2	Customer Trust	Customer Experience, Customer Continuance	7.728
3	Personal Selling	personal selling	7.259

Factor one represents the elements of the core services provided by the bank, and is, therefore labeled as Core Services. These elements include skills and competencies of the employees, their confidence instilling behavior, convenient timings of the bank, location & efficiency, and product accessibility & friendliness. The second factor consists of the statements that lead a customer to continue with the bank, abbreviated as customer trust. The elements factored are general offering of satisfactory products and services, and continuances with the bank as customers are satisfied. The third factor is concerned with the recommendation of branch made by customers to their friend or business associate, abbreviated as Personal Selling. If customers are satisfied with the services provided by the respective bank branch, they will refer that to their friend or business associate.

5. Conclusion and Recommendation

Factors indicated potential elements of customer’s satisfaction in banking services. The analysis shows that core services provided by the banks are good predictors of customer satisfaction. Satisfied customers not only share their best experiences with other peoples but also occupy positive word of mouth advertisement and publication of the banks. This positive word of mouth publication is also very helpful in increasing banks relationships and interaction with the whole community. From the above analysis, following suggestions can be made to the concerned banking authorities for increasing customers’ satisfaction: Staff should be knowledgeable about their services which are offered to their corporate clients. Customers’ instructions should be carried out carefully, queuing time should be reduced and disagreements with the customers should be avoided.

Correspondence to:

Khalid Zaman

Assistant Professor, Department of Management Sciences, COMSATS Institute of Information Technology, Abbottabad, Pakistan.

Telephone: 92 334 8982744

Emails: khalidzaman@ciit.net.pk**References**

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