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# A study of Customer Satisfaction in Banking Industry with special reference to Yemen

*Dr.Mahmouda Allan Associate Professor Jordan*

## Introduction:

Banking operations are becoming increasingly customer dictated. The demand for 'banking supermalls' offering one-stop integrated financial services is well on the rise. The ability of banks to offer clients access to several markets for different classes of financial instruments has become a valuable competitive edge. Convergence in the industry to cater to the changing demographic expectations is now more than evident. Bancassurance and other forms of cross selling and strategic alliances will soon alter the business dynamics of banks and fuel the process of consolidation for increased scope of business and revenue. The thrust on farm sector, health sector and services offers several investment linkages. In short, the domestic economy is an increasing pie which offers extensive economies of scale that only large banks will be in a position to tap.**With the phenomenal increase in the country's population and the increased demand for banking services; speed, service quality and customer satisfaction are going to be key differentiators for each bank's future success.** Thus it is imperative for banks to get useful feedback on their actual response time and customer service quality aspects of retail banking, which in turn will help them take positive steps to maintain a competitive edge. The working of the customer's mind is a mystery which is difficult to solve and understanding the nuances of what customer satisfaction is, a challenging task. This exercise in the context of the banking industry will give us an insight into the parameters of customer satisfaction and their measurement. This vital information will help us to build satisfaction amongst the customers and customer loyalty in the long run which is an integral part of any business. The customer's requirements must be translated and quantified into measurable targets. This provides an easy way to monitor improvements, and deciding upon the attributes that need to be concentrated on in order to improve customer satisfaction. We can recognize where we need to make changes to create improvements and determine if these changes, after implemented, have led to increased customer satisfaction. ***"If you cannot measure it, you cannot improve it." - Lord William Thomson Kelvin (1824-1907).***

## The Need to Measure Customer Satisfaction:

Satisfied customers are central to optimal performance and financial returns. In many places in the world, business organizations have been elevating the role of the customer to that of a key stakeholder over the past twenty years. Customers are viewed as a group whose satisfaction with the enterprise must be incorporated in strategic planning efforts. Forward-looking companies are finding value in directly measuring and tracking customer satisfaction (CS) as an important strategic success indicator. Evidence is mounting that placing a high priority on CS is critical to improved organizational performance in a global marketplace.

With better understanding of customers' perceptions, companies can determine the actions required to meet the customers' needs. They can identify their own strengths and weaknesses, where they stand in comparison to their competitors, chart out path future progress and improvement. Customer satisfaction measurement helps to promote an increased focus on customer outcomes and stimulate improvements in the work practices and processes used within the company.

When buyers are powerful, the health and strength of the company's relationship with its customers – its most critical economic asset – is its best predictor of the future. Assets on the balance sheet – basically assets of production – are good predictors only when buyers are weak. So it is no wonder that the relationship between those assets and future income is becoming more and more tenuous. As buyers become empowered, sellers have no choice but to adapt. Focusing on competition has its place, but with buyer power on the rise, it is more important to pay attention to the customer.

Customer satisfaction is quite a complex issue and there is a lot of debate and confusion about what exactly is required and how to go about it. This article is an attempt to review the necessary requirements, and discuss the steps that need to be taken in order to measure and track customer satisfaction.

**What constitutes Satisfaction?**

**The meaning of satisfaction**: **"Satisfied"** has a range of meanings to individuals, but it generally seems to be **a positive assessment** of the service.

**The word "satisfied" itself had a number of different meanings for respondents, which can be split into the broad themes of contentment/happiness, relief, achieving aims, achieving aims and happy with outcome and the fact that they did not encounter any hassle:**

Clearly then there is some variation in understanding of the term. Some of the interpretations fit with the definitions used in much of the service quality and satisfaction literature, where **satisfaction is viewed as a zero state,** merely an assessment that the service is adequate, as opposed to "delight" which reflects a service that exceeds expectations. However, most respondents have more positive interpretations of the term. These questions allow us to identify priorities for improvement by comparing satisfaction with stated (overt) importance, comparing satisfaction with modeled (covert) importance (from identifying key drivers of overall satisfaction), as well as respondents' own stated priorities.

**<u>Service Quality and Customer Satisfaction:</u>**

There is a great deal of discussion and disagreement in the literature about the distinction between service quality and satisfaction. The service quality school view satisfaction as an antecedent of service quality - satisfaction with a number of individual transactions "decay" into an overall attitude towards service quality. The satisfaction school holds the opposite view that assessments of service quality lead to an overall attitude towards the service that they call satisfaction. There is obviously a strong link between customer satisfaction and customer retention. Customer's perception of Service and Quality of product will determine the success of the product or service in the market.

If experience of the service greatly exceeds the expectations clients had of the service then satisfaction will be high, and vice versa.. In the service quality literature, perceptions of service delivery are measured separately from customer expectations, and the gap between the two provides a measure of service quality.

**Expectations and Customer Satisfaction:**

Expectations have a central role in influencing satisfaction with services, and these in turn are determined by a very wide range of factors lower expectations will result in higher satisfaction ratings for any given level of service quality. This would seem sensible; for example, poor previous experience with the service or other similar services is likely to result in it being easier to pleasantly surprise customers. However, there are clearly circumstances where negative preconceptions of a service provider will lead to lower expectations, but will also make it harder to achieve high satisfaction ratings - and where positive preconceptions and high expectations make positive ratings more likely. The expectations theory in much of the literature therefore seems to be an over-simplification.

**<u>The ISO Guideline:</u>**

Measurement of Customer Satisfaction is a new and significant addition to the new ISO9000: 2000 standard. Organizations certified to this standard are now required to identify parameters that cause customer satisfaction or dissatisfaction and consciously measure them. We cannot create customer satisfaction just by meeting customer's requirements fully because these **have to be met** in any case. However falling short is certain to create dissatisfaction.

**Clause 8.2.1 in ISO9000: 2000** states:

"As one of the measurements of the performance of the Quality Management System, the organizations shall monitor information relating to customer perception as to whether the organization has met customer requirements. The methods for obtaining and using this information shall be determined".

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 vital process for any service organization.

**The MODELS OF customer satisfaction**

**<u>The KANO Model:</u>** The customer satisfaction model from N. Kano is a quality management and marketing technique that can be used for measuring client happiness.

Kano's model of customer satisfaction distinguishes **six categories of quality attributes**, from which the first three actually influence customer satisfaction:

**1. Basic Factors**. (Dissatisfiers. Must have.) - The minimum requirements which will cause dissatisfaction if they are not fulfilled, but do not cause customer satisfaction if they are fulfilled (or are exceeded). The customer regards these as prerequisites and takes these for granted. Basic factors establish a market entry 'threshold'.

**2. Excitement Factors**. (Satisfiers. Attractive.) - The factors that increase customer satisfaction if delivered but do not cause dissatisfaction if they are not delivered. These factors surprise the customer and generate 'delight'. Using these factors, a company can really distinguish itself from its competitors in a positive way.

**3. Performance Factors**. The factors that cause satisfaction if the performance is high, and they cause dissatisfaction if the performance is low. Here, the attribute performance-overall satisfaction is linear and symmetric. Typically these factors are directly connected to customers' explicit needs and desires and a company should try to be competitive here.

The additional three attributes which Kano mentions are:

**4. Indifferent attributes** . The customer does not care about this feature.

**5. Questionable attributes**. It is unclear whether this attribute is expected by the customer.

**6. Reverse attributes** . The reverse of this product feature was expected by the customer.

**Steps in the customer satisfaction model. Process**

Kano developed a questionnaire to identify the basic, performance and excitement factors as well as the other three additional factors.

1. For each product feature a pair of questions is formulated to which the customer can answer in one of five different ways.

2. The first question concerns the reaction of the customer if the product shows that feature (functional question);

3. The second question concerns the reaction of the customer if the product does NOT show this feature (dysfunctional question).
4. By combining the answers all attributes can be classified into the six factors.

**The Profit –Chain Model:**

Research has shown that organizational subunits where employee perceptions are favourable enjoy superior business performance. The **service profit chain model of business performance** (Heskett, Sasser, & Schlesinger, 1997) has identified customer satisfaction as a critical intervening variable in this relationship.(profit-chain model) A number of researchers have found that revenue-based measures of business unit performance, for example, sales and profitability, are significantly correlated with employees' work-related perceptions. The evidence suggests that business units in which employees' collective perceptions are relatively favourable perform better.

**Stated simply, the service profit chain asserts that satisfied and motivated employees produce satisfied customers and satisfied customers tend to purchase more, increasing the revenue and profits of the organization.** Heskett et al. (1997), for example, define the service profit chain as 'involving direct and strong relationships between profit; growth; customer loyalty; customer satisfaction; the value of goods and services delivered to customers; and employee capability, satisfaction, loyalty and productivity.' (p. 11). These authors recommend the service profit chain as a framework for constructing a strategic organizational vision, and suggest that, provided service profit chain concepts are carefully interpreted and adapted to an organization's specific situation, they are capable of delivering 'remarkable results' (p. 18).

The second crucial element of the service profit chain is the link between customer satisfaction and financial performance. Management theorists and chief executives have often argued that superior business performance depends critically on satisfying the customer (e.g. Heskett et al., 1997; Peters & Waterman, 1982; Watson, 1963).

Consumer researchers have established that customers who are satisfied with a supplier report stronger intentions to purchase from that supplier than do dissatisfied customers (e.g. Anderson & Sullivan, 1993; Mittal, Kumar, & Tsiros, 1999; Zeithaml, Berry, & Parasuraman, 1996). However, as noted by Verhoef, Franses, and Hoekstra (2001), the link between customer satisfaction and actual, as opposed to intended, purchase behavior is less well established. Indeed, the results are mixed, with both positive findings (e.g. Bolton, 1998; Bolton & Lemon, 1999) and null findings (e.g. Hennig-Thurau & Klee, 1997; Verhoef et al., 2001).

**The Service Expectation Model:**

Customer satisfaction with a service/product (p/s) can be measured through a survey of the actual perception of the users or otherwise comparing their actual perception with their expectations. More appropriately in the first case "quality" is considered, in the second "customer satisfaction" (CS) (Cronin et al.1992,1994). Therefore to measure the CS we have to compare the evaluations of the user with his expectations connected to an ideal p/s. For some kinds of p/s such expectations are typically "subjective", they have to be gathered ad hoc; for others they can be suggested by the provider the p/s referring to an optimum p/s; in this way the expectations are collected in an "objective" way.(degree course)

**Variability in the Service Process Model(Wharton):**

Service quality has become an essential part of organizational success due to increased customer expectations and customization of services in many markets. In fact, even the definition of service quality is changing. Good service quality used to mean that the output was made to conform to the specifications set by the process designers. Today, the concept of service quality is evolving to mean uniformity of the service output around an ideal (target) value determined by the customer. However, when the dimensions or performance of a service output exceed allowable limits, the variation needs to be identified so the problem can be corrected.

Four factors represent major explanations for the existence of process variation in services: heterogeneous customers with different service expectations; lack of rigorous policies and processes; high employee turnover; and nature of customization. The financial performance of a financial service institution is driven to a large extent by its ability to attract and retain customers. Customers increasingly have alternatives from which they can choose. We are interested in whether a customer's decision whether to stay with her current service provider might be more sensitive to variability of service than the level of service quality.

While there is a significant body of theoretical (Morroni, 1992) and anecdotal (Davenport and Short, 1990) evidence on the importance of process management, there is very little statistical evidence that process management matters with respect to the 'bottom line' of the institution.

The model shows that, while no individual process is correlated with firm performance, the aggregate measure of process performance affects firm performance. More importantly, the most significant finding is that while aggregate process performance is correlated with financial performance, it is not correlated with customer satisfaction. The process performance measure associated with both firm financial performance and customer satisfaction is the measure of variation across processes. We have found that if processes are managed in a consistent way, then both financial performance and customer satisfaction are improved. By consistent process management, we mean that the performance of individual processes within a firm are similar to one another and thus provide a consistent service offered to the consumer. Consumers' desire consistency and thus, the bank must align its various delivery processes to meet the consumer's needs. Therefore, we define process variation as the variation in performance across the eleven individual process performance scores for each bank. It is the *variation* that we have found to be the best predictor of overall firm performance.

**The Common Measurements Tool (CMT):**

CMT is the result of an extensive study by researchers at the Canadian Centre for Management Development and others, which examined a number of approaches to standardising measurement of customer satisfaction with public services. The model they have developed provides a useful example of how elements of different approaches can be combined to improve our understanding of satisfaction and highlight priorities for improvement. It incorporates five main questioning approaches, measuring:

- expectations of a number of service factors;
- perceptions of the service experience on these factors;
- level of importance attached to each of a number of service elements;
- level of satisfaction with these elements;
- respondents' own priorities for improvement.

The approach is therefore made up of three distinct strands. The measures of expectations and perceptions of the service experience tend to focus on a relatively small number of very specific factors, such as how long customers wait to be served etc. This allows the gap analysis approach through comparing expected service quality with experience.

The second strand involves asking levels of satisfaction with a more extensive list of elements, followed by asking how important each of these aspects are to respondents. This allows the comparison of satisfaction and importance that asking people to think about what should be provided by an ideal or excellent service. As noted above, this approach has also been taken by Berry in later studies.

**The Customer Satisfaction Index (CSI)**

The Customer Satisfaction Index represents the overall satisfaction level of that customer as one number, usually as a percentage. Plotting this Satisfaction Index of the customer against a time scale shows exactly how well the supplier is accomplishing the task of customer satisfaction over a period of time.Since the survey feedback comes from many respondents in one organization, the bias due to individual perception needs to be accounted for. This can be achieved by calculating the Satisfaction Index using an importance weighting based on an average of 1.

Calculate the average of all the weightings given by the customer. Divide the individual weightings by this average to arrive at the weighting on the basis of average of 1. Customer's higher priorities are weighted more than 1 and lower priorities less than 1. The averages of the Customers Importance Scores are calculated and each individual score is expressed as a factor of that average. Thus Customer Satisfaction can be expressed as a single number that tells the supplier where he stands today and an Improvement plan can be chalked out to further improve his performance so as to get a loyal customer.

**Conclusion:**

SCPR conducted a qualitative project for the Department of Social Security which looked at the factors that affect satisfaction with local Benefit Agencyboffices. This followed up respondents to the National Customer Survey conducted by the department among Benefit Agency users. The SCPR study included an attempt to explore in more detail what "satisfaction" actually means to customers.

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