New Continuum of Banking Quality Services and Customer Retention

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ABSTRACT

Nowadays, with the increased competition, service quality has become a popular area of academic research and has been acknowledged as an observant competitive advantage and supporting satisfying relationships with customers. So, this research paper empirically examined New Continuum of service quality and customer switching behavior and especially for service provider i.e., the Banking service provider. Respondents would be the users of a bank. Sample size of this research study is 500. The positivist research philosophy approached is used as the structured questioner was developed and distributed for the data collection. Personal administrated questionnaire was distributed and collect the questionnaire from them. Data analysis is divided into two categories; one is the Descriptive analysis and second is the inferential analysis. So, firstly, we analyzed the Demographic, Normality, Reliability, descriptive and correlation discussed. Secondly, Regression analysis and role of moderation is checked. Keeping into account the results of this study, it is confirmed that there is a positive relationship between service qualities with all its dimensions with customer retention as guided by the literature. Result of this relationship indicate that the improvement in the service quality significantly enhances the customer retention which is also evident in the literature which has redundantly shown that the service quality is the prime factor in the retention of the customers of any product. This result confirms that the service quality in the banking sector of Pakistan is also an important element towards the keeping the customers to the service provider company.

KEYWORDS: Service quality, Banking Industry, Customer Retention

1. INTRODUCTION

Customer satisfaction is the goal and aim of all activities. "Increased competition, meeting customer satisfactions are new concepts that have strongly affected current world in a way that one cannot compete or even survive according old ideas in new world." There is no doubt that development of technology has increased customers 'expectations to receive quality and on time services. Service quality is increasingly becoming a major strategic variable. And this construct has received increased scrutiny during the last few decades discussed in their paper that at the center of the marketing concept is the idea of improving organizational performance by attracting and retaining satisfied customers.

Banking has traditionally operated in a relatively stable environment for decades. However, today the industry is facing a dramatically aggressive competition in a new deregulated environment. Government of Pakistan has privatized quite a number of banks which further increases the competition and complexity among the banks. The net result of the recent competition and legislation is that traditional banks have lost a substantial proportion of their domestic business to essentially nonbank competition. Competition will undoubtedly continue to be a more significant factor.

Over the past decades, marketing literature has recognized the existence of a shift in the nature of customer-bank relationships from a transactional to a relational approach (Ganesan, 1994). This change has generated an increasing interest in the study of the factors and mechanisms determining the establishment, development and maintenance of successful relational exchanges (Morgan & Hunt, 1994). As a consequence, practices that have been common up to now, which focused on attracting new customers and gaining a large market share, have given way to policies aimed at consolidating the firm's customer base and retaining the existing customers (Dick & Basu, 1994; Dwyer, 1997).

During the last few decades, the financial service sector has undergone drastic changes, resulting in a market place which is characterized by intense competition, little growth in primary demand and increased deregulation. Government of Pakistan has privatized quite a number of banks which further increases the competition and complexity among the banks. Finding a place in this heating sun becomes vital to the long-range profitability and ultimate survival of the bank. This can be done both by maintenance or having new ones (Afsar, Rehman, Qureshi, & Shahjehan, 2010). Nowadays, with the increased competition, service quality has become a popular area of academic research and has been acknowledged as an observant competitive advantage and supporting satisfying relationships with customers (Valarie A Zeithaml, 2000). So, this research paper empirically examined New Continuum of service quality and customer switching behavior and especially for service provider i.e., the Banking service provider.

2. REVIEW OF LITERATURE
2.1 Banking Service Quality

Quality defines as the reducing variation in a target or represents the properties of products and services that are valued by consumer. Service quality is a term that describes comparison

between expectation and performance of a product or service. Service quality is the most important for any company because when a company provides quality products to its customers, perception about company image in consumer mind get increased. Service quality and image of the company can be helpful to earn profits and improves its image in customer mind. Improvement in service quality can increase the customer loyalty and customer satisfaction. Service quality is a paying attention to evaluation that reflects the customer's perception of particular dimensions of service such as consistency, reaction, assurance and understanding. A major challenge for companies is to deliver service quality consistently (V.A. Zeithaml & Bitner, 2000).

Service and product quality is in the mind of the customer. This means that measuring quality requires talking with customers. Quality reflects the extent to which a product or service meets or exceeds customers' expectations. For companies to understand how customers perceive their quality, they must measure customers' satisfaction with their products and services (R.T. Rust & Oliver, 1994). What is delivered is as substantial as how it is delivered. (Schneider & Bowen, 1995) clarified that many a time managers become so involved with all the procedures, processes and contexts for service, that they tend to overlook that there is also something called the ``core service''. Schneider and Bowen also argued that fancy facilities, modern equipment, stylish uniforms and terrific signs can never countervail bad or mediocre food, poor financial advice, and an inappropriate joke. Service quality model that is the process of managing for improved service quality begins with understanding the customer's expectations. Service quality is the difference between what a customer expects and what is provided (Kansal, 2012). The expectations/perceptions conceptualizations have been extended to incorporate ``desires'' in evaluating customers' perception of service quality (Lim, 2016). In all the academic sources that were consulted on service quality, the SERVQUAL model/instrument was mentioned as the fundamental most appropriate method and instrument available to measure service quality. Service quality has important aspect for the customer retention (Donthu & Sibley, 2015).

2.2 Customer Retention in Banking Industry

Customer retention encompasses a degree of "fuzziness" since it represents a theoretical construct which cannot be observed directly. There is considerable variance in the ways in which customer retention is specified conceptually and empirically by scholars and practitioners. There are also great differences in the manner in which The phenomenon it is more or less separated from related constructs such as "customer loyalty", "customer satisfaction", "customer enthusiasm", "customer trust", and "customer obligation". Customer retention (CR) is concerned with maintaining the business relationship established between a supplier and a customer. This can be achieved in two ways. The first is by subsequent purchases, or by extending the customer's contract with the supplier over a specified period of time (ex post perspective). The second is by the intention of the customer to make future purchases from the provider, or to refrain from quitting the contract. Customer retention can

be defined as the activity that an organization is perform to stop the decreasing number of its customer.

Measure lifetime value, once you recognize how much combined profit a customer represents to your business when they purchase from you again and again, over the months, you realize the critical importance of taking good care of your customers. And because you understand just how much time, effort and expense you can afford to invest in retaining that customer. It is widely acknowledged that well-designed customer-service programs enhance customer satisfaction, customer retention, market share, revenue, and profits (Paparoidamis, Chumpitaz, & Ford, 2015). This is particularly true in the service sector, where it is often argued that customer attraction costs are significantly higher than customer retention costs (Ennew, Binks, & Chiplin, 2015). Customers retention increased by enriching these service quality dimensions (George & Kumar, 2014).

2.3 Banking Services and Customer Retention

Managing customer orientation and service quality is commonly identified as being one of the most effective - if difficult - means of building a competitive position in a service industry and improving organizational performance (Lewis, 1993). Indeed, a managerial perspective would suggest that investment in service quality and the building and maintenance of customer relationships can only be justified if it results in improved profitability (Roland T Rust & Zahorik, 1993).

A variety of factors have been identified as potentially increasing or improving customer retention rates. These factors include senior management commitment, customer-focused cultures, a clearly targeted marketing campaign and the identification of switching barriers (Payne & Clark, 1995). The motivations and behavior of customer contact staff may be of particular relevance to retention. Employees who are more satisfied with their job will typically deliver a better quality of service. These employees will tend to remain with the organization for longer periods of time and are then better placed to build long-term, personnel relationships with customers. Customers will be more satisfied because they receive a better service, and enhanced customer satisfaction will tend to result in enhanced employee satisfaction thus creating a 'virtuous circle'.
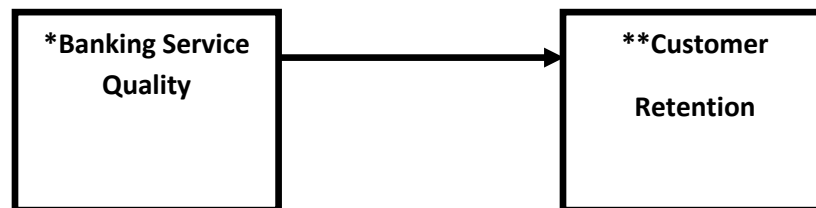
Evidence concerning the role of service quality in relation to customer loyalty and retention takes a variety of forms. Customer satisfaction has been shown to influence both loyalty and repurchase intentions for a range of consumer products (Lee & Cunningham, 2001) and in the case of a service, (Bitner, 1990)argues that satisfaction with a service encounter affects assessments of service quality and subsequent loyalty and switching behavior. Empirical work in a variety of service settings provides some support for these propositions by identifying a link between service quality and satisfaction, and between satisfaction and purchase intentions (Cronin Jr & Taylor, 1992). In a longitudinal study (Bolton & Drew, 1991) highlight the importance of service features in relation to customers' assessments of service quality. Certainly, the quality of the overall product offer must play a role in assessments of quality and satisfaction, although from a relationship marketing perspective, it is often argued that quality

per se is not enough and more attention should be focused on the integration of quality, marketing and customer service (Christopher, Payne, & Ballantyne, 1991). However, accepting as a general principle that relationship marketing requires the integration of marketing, quality and customer service, then relevant dimensions on which a product or service is assessed will typically consist not just of the core product features but also the full range of associated benefits offered to the target customer.

3. METHODOLOGY

3.1 Model

As shown below, wal et al, (2002) measure the service quality by using five dimensions as tool for customer retention. Narayandas (1998) developed scale for the measurement of the customer retention.

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┌─────────────────┐          ┌─────────────────┐
│ *Banking Service│          │ **Customer      │
│    Quality      │─────────▶│                 │
│                 │          │    Retention    │
└─────────────────┘          └─────────────────┘
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MODEL-1: **Relationship of overall SERVQUAL with the customer retention.**
*1: Wal, R. W. E. V. d., Pampallis, A., & Bond, G. (2002). Service quality in a cellular telecommunications company: a South African experience. Managing Service Quality, 12(5), 323-335
*2: Narayandas, Das (1998) "Measuring and Managing the Benefits of Customer Retention: An Empirical Investigation," *Journal of Service Research*, 1 (2), pp. 108–128.

3.2 Instruments & Scale

Respondents would be the users of a bank. Sample size of this research study is 500. The positivist research philosophy approached is used as the structured questioner was developed and distributed for the data collection. The qualitative deductive approach is used in this research. The research used primary data and there are many techniques to collect data like observation, Interviews and questioners, in this research paper data is collected through questioners. The questioner is distributed only to those people who use the services of a bank. The language used in the questioner is English.

Convenient sampling would be used where questionnaires were distributed among respondents directly as well as indirectly. The users of the service provider of bank are the respondent for this study. Self-administrative questionnaire was distributed among the students, professionals, house wife's etc.

Following questionnaires will be used for the collection of data.

1. 20 items (start from Strongly Disagree to Strongly Agree) service quality questionnaire (Van der Wal, Pampallis, & Bond, 2002) will be used to measure the service quality.
2. 7 items (start from Strongly Disagree to Strongly Agree) customer retention scale developed by (Narayandas, 1998) will be used to measure customer retention.
    Based on the above discussion, following hypotheses are developed:-

H_1: There is a relationship of service quality (overall) provided by the banks on the customer retention.

H_a: There is a no relationship of service quality (overall) provided by the banks on the customer retention.

3.3 Technique Used

In this research study primary source of the data is used. Most commonly used method of the data collection in primary source is the questionnaire. Questionnaire was developed on the basis of the scale and distributed to the user of the services provider in Banks. Personal administrated questionnaire was distributed and collect the questionnaire from them. The data gathered was of a quantitative nature. 'It enables us to recognise and evaluate the errors involved in quantifying our experience, especially when generalising from what is known of some group (as sample) to some wider group (the population) (Collis et al., 2003). After the data was gathered, it was entered into SPSS statistical analysis software by the researcher. This was the only statistical analysis software utilised for this study. Subsequently the missing data will be analysed and to ensure that they are dealt with in the most appropriate way for this study.

4. RESULTS

Two kinds of the analysis were conducted. One is called the descriptive kinds of the analysis and second is called the inferential kind of the analysis. Here, descriptive statistics, correlation and regression analysis is done below by using software SPSS version 21.

4.1 Demographics

The demographics are also included in the research. The Demographic variables used in this study are age, Education, and experience in the banking sector. The table -4.1 below showed that number of respondent were 475 and 97% response rate is measured. 3% missing values are observed.

Table 4. 1: Data Demographics

Demographic	Valid	Missing	Total
Age of respondent	460	15	475
Education respondent	460	15	475
Experience respondent	460	15	475

Frequency distribution of respondent's age is described in detail in below table-4.2. Table is presenting data of age in terms of frequency, percentage of total respondents, valid percentage after excluding missing values and cumulative percentages. Cross Tabulation test showed

that there is a significant relationship between age and customer retention. The value of Pearson Chi-Square is significantly differing from zero with less 0.05 p-value. Hence, it can be said that both variables have significant association.

Age Groups	Frequency	Percent	Valid Percent	Cumulative Percent
Under 25 years	70	14.8	15.2	15.2
26-30 years	174	36.7	37.8	53.0
31-35 years	126	26.6	27.4	80.4
36-40 years	80	16.9	17.4	97.8
41-45 years	8	1.7	1.7	99.6
46-50 years	2	.4	.4	100.0
Total	460	97.0	100.0	

Table 4. 2: Age of Respondent

Frequency distribution of respondents' education is described in detail in below table-4.3. Table is presenting data of educational background in terms of frequency, percentage of total respondents, valid percentage after excluding missing values and cumulative percentages. Cross tabulation test showed that there is a significant relationship between education and customer retention. The value of Pearson Chi-Square is significantly differing from zero with less 0.05 p-value. Hence, it can be said that both variables have significant association.

Education Groups	Frequency	Percent	Valid Percent	Cumulative Percent
Bachelors	8	1.7	1.7	1.7
Masters	342	72.2	74.7	76.4
M phil/M.S.	68	14.3	14.8	91.3
Phd	40	8.4	8.7	100.0
Total	458	96.6	100.0	
System	16	3.4		
	475	100.0		

Table 4. 3: Education of Respondent

Frequency distribution of respondents' experience is described in detail in below table. Table-4.4 is presenting data of professional experience background in terms of frequency, percentage of total respondents, and valid percentage after excluding missing values and cumulative percentages. Cross tabulation test showed that there is also a significant relationship between experience and customer retention. The value of Pearson Chi-Square is significantly differing from zero with less 0.05 p-value. Hence, it can be said that both variables have significant association.

Work Experience	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 5 years	228	48.1	49.6	49.6
6-10 years	174	36.7	37.8	87.4
11-15 years	48	10.1	10.4	97.8
16-20 years	10	2.1	2.2	100.0
Total	460	97.0	100.0	
System	14	3.0		
	475	100.0		

Table 4. 4: Work Experience of Respondent

4.2 Reliability Analysis

"Cronbach's alpha is used to measure reliability that ranges from 0 to 1, with values of .60 to .70 deemed as the lower limit of acceptability." Service quality has the reliability of 0.7 which fall in the acceptable range for the twenty items. The reliability of the customer retention of the seven items falls in the acceptable range of the reliability which is 0.7. It is also evidence from the literature that the reliability of the customer retention is present. The reliability analysis procedure calculates a number of commonly used measures of scale reliability and also provides information about the relationships between individual items in the scale. So, all the variables and the items are in reliability acceptable range.

4.3 Descriptive Analysis

Deceptive analysis is the snap short that shows the description of the whole data. In descriptive analysis means, standard deviation, skewness and kurtosis were the tools which are used to describe the data. The table-4.5 below described that description of the data. Table included no of variables i.e. dependent, independent, interacting, and demographics. It also included number of respondent means sample size for this study that is 460, minimum number observed against each variable and maximum numbers as well. Similarly, mean, standard deviation, skewness and kurtosis id also measured and presented. Like age is categorized in 6 different groups and therefore minimum is 1 and maximum is 6. The mean of age lies in between second and third group means average age in this study belongs to 2nd and 3rd group. Standard deviation showed that there is a variance from the mean to 1 next group above and below. The graph of age is slightly right skewed. All demographics variables can be described in the same way.

Variables	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Age	1	6	2.54	1.030	.365	.160	-.340	.320
Education	2	5	3.30	.650	1.529	.160	1.646	.320
Experience	1	4	1.65	.754	.982	.160	.471	.320
CR	1.00	5.00	3.3870	.68164	-.329	.160	.507	.320
SQ	2.00	5.00	3.5275	.53891	-.115	.160	.071	.320

Table 4. 5: Descriptive Analysis

4.4 Correlation Analysis

Bivariate correlation is used to test the relationship between the variables used for this study. Bivariate correlation is used to test the relationship between the variables used for this study. Analysis describes that similar variable is row and column produces score 1 that is perfectly correlated. The perfection is only caused by similar variable having same values are tested. CR is positive significantly correlated with SQ because p-value is less than 0.05.

4.5 Regression Analysis

In table 4.6 the model summary for first model is given. The model summary is showing that the model explanatory power is almost 33%. Which means variance in dependent variable in

this model is explained 33% only and 67% variance in the model is unexplained that can be explained by adding other relevant variables in the model. The value of R-square explains the model explanatory power. Value of Durbin-Watson lies between 1.5 - 2.5 which showing that there is no first order autocorrelation in the model. Below the table predictors are describing independent variable SQ and intercept (constant) with dependent variable CR of this model.

The table 4.8 discussed the analysis of variance in the model. Regression is showing variance explained by predictors in the model and intercept from the regression line and it sum of squares with degree of freedom (df) 1 because there are 2 parameters in model and df=K-1 where K is total number of parameters. F value explains the model significance. The cutout point for significance of model is 4. This model is highly significant as F-value 111.595 > 4 and p-value is also >0.05.

The table 4.6 below titled coefficients depicting the rate of change in dependent variable due to change in independent variable in presence of intercept keeping all other factors constant. This table is stating that 1 unit change in service quality will bring .573 per unit change in Customer Retention. This can be generalized because the t-value 10.5 > 2 and p-value is <0.05. Collinearity statistics is showing that data is nor collinear because the value of Tolerance 1.00 > 0.01 and VIF value 1.00 < 10.

Model-1	Independent Variable	Dependent Variable	R square	F-Value	Beta	T-Value	Sig. Level	VIF
1	Serv Qlty	CR	0.329	111.595	.573	10.564	.000	1.00

Table 4. 6: Regression Analysis of Model-1

5. CONCLUSION

The main aim of the study was to assess the service quality of banks and its impact on customer retention. Customer retention is a critical business requirement; Customer value is an asset to the organization. Customers are getting good services from banking industry in Pakistan. It has learnt that in banking sector of Pakistan youth is in majority as banks' customers. This also states that banks' have captured a right market for its long term sustainability. It is also revealed that banking staff welcomes every complaint reported personally or through complaint and suggestions box. Therefore, banking sector is exercising good service quality and its dimensions. These dimensions are tangibility, reliability, assurance, responsiveness and empathy. The mean score for each dimension is greater than 3 indicating good performance at every factor of the service quality. But, still there is a room for improvement as on likert scale the performance in service quality can be measured upto 5. Frontline employees must be trained regularly to develop the necessary and required skills keeping upto date with the demands of customers. This helps employees in providing support and care as well as prompt service to customers. It is also noticed that staff is not recognized

for their efforts by the customers; therefore rewards will help staff members in implementing improved service quality. Model-1, Results of the model 1 imply that the *(H_1)* is accepted. Result of this relationship indicate that the improvement in the service quality significantly enhances the customer retention which is also evident in the literature which has redundantly shown that the service quality is the prime factor in the retention of the customers of any product. This result confirms that the service quality in the banking sector of Pakistan is also an important element towards the keeping the customers to the service provider company.

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