

The Interrelationship between Service Quality, Electronic Banking and Customer Satisfaction in the Commercial Banks in Uganda

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Abstract

The main objective of this study is to find the Interrelationship between Service Quality, Electronic Banking and Customer Satisfaction in Commercial Banks in Uganda. A review of literature was conducted to find out the relationship among Service Quality, Electronic Banking and Customer Satisfaction. The literature review confirms this relationship. A survey was conducted to collect data. The sample size of 210 commercial banking customers was drawn from different banks in Uganda. The result shows, the Electronic banking adoption was found to have a positive relationship with Service Quality, Service Quality was found to have a positive relationship with Customer satisfaction; and Electronic banking adoption had a positive relationship with Customer satisfaction. In light of the findings various recommendations were put across on how retail banks can better satisfy their customers through the use of electronic banking channels. Electronic banking adoption will then foster Service Quality where a customer's service expectations are exceeded by the actual service She/he obtains. This will then bring about Customer satisfaction where the customers find that their needs are met by the service.

Keywords: E-Banking, Customer Satisfaction, Service Quality, Commercial Banks

1. Introduction

Service is one of the most effective means of establishing a competitive position and improving profit performance (Lewis, 1993). Although banks focus on service quality as an input to customer satisfaction for long-term benefits and business success, they have realized the importance of service quality in order to survive in today's global and highly competitive environment (El Essawi & Abd El Aziz, 2012).

Advances in technology impact service delivery options and approaches within service industries, leading to the active pursuit of e-retailing as a key method of service provision. Like most service providers, banks have realized the importance of investing in technology, to control cost, attract customers, and fulfil customers' needs for convenience and technical innovation (Pyun et al., 2002; Abd El-Aziz, 2009; Chofa et al., 2012). Thus, the degree of customer satisfaction and customer loyalty to a specific bank has been a major concern for many banks. Currently, clients face long queues when they go to banks, where they spend too much of their working time waiting for their turn (Abd El Aziz, 2012).

Service quality is considered an important factor that affects customer satisfaction (Caruana, 2002; Cronin and Taylor, 1992), which in turn is a pre-requisite to service quality. This highlights the importance of assessing the quality of service in order to increase customer satisfaction. Parasuraman et al. (2005) has measured service quality using four dimensions that is efficiency, Availability, fulfilment and privacy. Current research suggests that customers place great importance on the value and convenience offered by banks (Lewis & Soureli, 2006) and that customer satisfaction (which is influenced by service quality perceptions) is a key antecedent of consumer loyalty towards banking institutions.

2. Problem Statement

Customer satisfaction has continuously gained increasing attention in Banks. Many companies take customer satisfaction as an index to measure the performance of services. Service is one of the most effective means of establishing a competitive position and improving profit performance (Lewis, 1993). As such, the banking industry is becoming even more competitive and this can only benefit the customer as banks strive to meet their demands through the development of various service initiatives to win their loyalty. However, in the race to maximize market share, and ultimately shareholder value, it becomes imperative for banks to keep the voice of the customer at the forefront of their strategies. Despite of the Banks efforts to increase customer satisfaction, Banks in Uganda have continued to register high dissatisfaction at a rate of 60% (Bank of Uganda, 2012), with problem of long queues in Centenary Bank halls unsolved many customers have lost their money under this system (Byarugaba, 2001). From the literature, poor customer satisfaction could be due to inefficient electronic banking systems and long waiting time.

3. Conceptual Framework and Objective of the Study

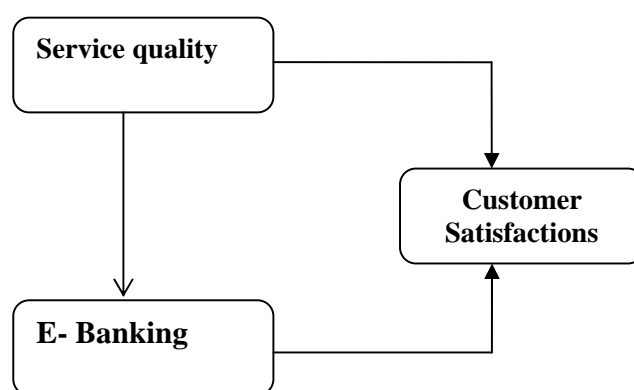


Figure 1: Conceptual Framework

To find out the relationship between Service Quality, Electronic Banking and Customer satisfaction in Commercial Banks in Uganda.

- To examine the relationship between service quality and customer satisfaction in Commercial Banks
- To establish the relationship between Service quality and Electronic Banking in Commercial Banks
- To examine the relationship between Electronic Banking and customer satisfaction in Commercial Banks

4. Literature Review

4.1. Service quality

Early researches defined quality as the conformance to specifications of features set for a product to meet the standards predetermined by management (Reeves and Bednar, 1994), according to Gronroos (1984) defines service quality as a judgment, resulting from an evaluation process where customers compares their expectations with the service they perceive to have received. While a growing number of studies shed light on service quality, they mostly define the service quality based upon an overall customer judgment of product or service (Parasuraman et al., 1988). In 1988, Parasuraman et al. developed SURVQUAL model to measure service quality as the gap between customer expectation and their perception of the actual service. Earlier studies by Parasuraman et al. (1985) indicate that

Service quality has been identified as a critical success factor for organizations to build their competitive advantage and increase their competitiveness. Service quality is particularly essential in the banking services context because it provides high level of customer satisfaction and hence it becomes a key to competitive advantage (Almossawi, 2011)

4.2. Customer Satisfaction

Researchers have tried to define customer satisfaction and in general they have defined it as transaction process. Kotler (2000) defined satisfaction as: “a person’s feelings of pleasure or disappointment resulting from comparing a product perceived performance (or outcome) in relation to his or her expectations”. According to Hansemark and Albinson (2004) “satisfaction is an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers.

4.3. Electronic Banking

Vilattes (2007) defines E-banking as a distance banking that not only handles the flow of information between customers’ “living spaces” (e.g. homes, offices) and the physical facilities of the bank, but also deals with solicitation, sales, distribution and access to services, all without requiring the customer and the financial institution representative to be in the same physical place at the same time. Most electronic business specialists agree that E-banking ensures 24-hours-a-day, seven-days-a-week accessibility, through any type of advanced information system (Automated Teller Machines, Personal Computers, Internet, mobile phones etc.) and for all types of financial transactions (Daniel, 2009; Sathye, 2007).

5. Analysis of Data

The study revealed that most respondents were male (51.0%) while the females comprised of 49.0%. On the other hand, the most respondents were in age bracket 19-29 about (57.1%), between 30-39 accounted for (14.3%), those in between 40-49 years are accounted for 19.0% and those in the 50 and above year age group (9.5%). In addition, the study revealed that majority of the bank customers are single (56.2%) followed by the unmarried (43.8%). According to respondent educational qualification majority of the respondent were Certificate holder (35.7%), Diploma 14.3%, Bachelors 33.3%, Master 11.9% and PhD comprised 4.8% of the respondents.

Table 1: Correlations

		Service Quality	Customer Satisfaction	Electronic Banking
Service Quality	Pearson Correlation	1	.216**	.397**
	Sig. (2-tailed)		.002	.000
	N	210	210	210
Customer Satisfaction	Pearson Correlation	.216**	1	.171*
	Sig. (2-tailed)	.002		.013
	N	210	210	210
Electronic Banking	Pearson Correlation	.397**	.171*	1
	Sig. (2-tailed)	.000	.013	
	N	210	210	210

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

5.1. The Relationship between Service quality and customer satisfaction

The results show that Service quality is positively correlated to customer satisfaction ($r = .216^{**}$, $p < 0.01$) and this therefore implies that as bank's improve service quality in electronic banking facilities, customer satisfaction is consequently bound to improve. This therefore indicates that banks have to improve service quality in the areas of service quality attributes such as security, aesthetics, reliability, responsiveness and efficiency in order to effect greater customer satisfaction among the customers.

5.2. The Relationship between Electronic banking adoption and Customer Satisfaction

The results show that Electronic banking adoption has a positive correlation with customer satisfaction ($r = .171^*$, $p < 0.05$) implying that Electronic banking adoption among bank customers is bound to increase customer satisfaction. When a bank puts a lot of emphasis of getting customers to adopt electronic banking services by improving ease of use, usefulness and perceived cost, there will be more customer satisfaction achieved among the banks customers.

5.3. The Relationship between Electronic banking adoption and Service Quality

Results from the table show that Electronic banking adoption and Service quality are positively correlated ($r = .397^{**}$, $P < .01$). This indicates that as customers adopt more of electronic banking channels, customer's cognition of service quality is seen to improve. This therefore implies that as banks improve Electronic banking attributes such as ease of use, usefulness and costs of electronic banking channels there will be an improvement in Service Quality.

6. Discussion of Findings

The section presents a discussion of findings, conclusions and recommendations of the study in line with the research objectives.

6.1. Electronic banking adoption and Service Quality

Pearson's correlation coefficient shows that there is a significant positive relationship between Electronic banking adoption and service quality. This implies that when customers adopt Electronic banking services their perception of service quality will improve. That is to say, when customers adopt electronic banking channels such as the ATM, internet banking and the other platforms; they will consequently perceive an improvement in service quality once the service quality dimensions of electronic banking such as greater security, aesthetics, reliability, responsiveness, efficiency are in place. These findings are in line with those of scholars such as Zeithaml et. al(2002), Nadia (2012), Lichtenstein and Williamson (2006), Yang and Fang (2004) who assert that attributes of Electronic banking adoption such as ease of use, usefulness, cost have a positive impact of service quality.

6.2. Service Quality and Customer Satisfaction

The findings showed that there is a significant positive relationship between Service quality and Customer satisfaction. This means that when banks incorporate greater security, aesthetics, reliability, responsiveness and efficiency, in their electronic banking channels such as the ATM, Internet banking etc thereby improving service quality, Customers will consequently experience greater satisfaction. These findings are in line with those of Khalil (2011); Yee, Yueng and Cheng (2010) who assert that service quality has a positive impact on customer satisfaction and Mesay (2012) who says that service quality is an antecedent to customer satisfaction in the electronic banking arena.

6.3. Electronic banking adoption and Customer satisfaction

The findings show a significant positive relationship between Electronic banking adoption and customer satisfaction. This means that an increase in Electronic banking adoption will bring about an increase in Customer satisfaction. Electronic banking attributes such as perceived ease of use, usefulness and cost can have a direct impact of customer

satisfaction. This finding is consistent with scholars such as Jun et al. (2004), Yang and Fang (2004) and Dilijonas et al, (2009).

7. Conclusion and Recommendation

It established from the study that there is a significant positive relationship between Electronic banking adoption and Service Quality, a significant positive relationship between Service Quality and Customer Satisfaction and a significant positive relationship between Electronic banking adoption and Customer Satisfaction. Finally, Electronic banking adoption and Service Quality are significant predictors of Customer Satisfaction.

The significant relationship between Electronic banking adoption and Service Quality indicates that banks should emphasise putting in place attributes of customer's adoption of electronic banking services, this will further enable customers experience better Service Quality.

Service Quality has a significant positive relationship with customer satisfaction and therefore dimensions of service quality such as security, aesthetics, reliability, responsiveness and efficiency should not be ignored in an attempt to obtain better satisfied customers. Electronic banking adoption has a direct relationship with Customer Satisfaction and therefore attributes such as ease of use, usefulness and cost directly influence customer satisfaction. This means that banks should consider going electronic in their service delivery in order to better satisfy their clients.

The researcher recommends that Banks should make an effort and improve Electronic banking adoption, this will bring about greater perceived Service Quality in customers but this will only take effect if security, reliability, responsiveness, aesthetics and efficiency are incorporated in the E-banking platform being used.

Service Quality can lead to greater levels of customer satisfaction, this will be seen in the greater customer loyalty and commitment exhibited by the bank's clients.

Electronic banking channels once adopted by customers enable them to be better satisfied and thus create committed and loyal customers. This is of great advantage to the bank because the competitive power of a bank lies in the degree of customer satisfaction (Titko and Lace, 2010).

A majority of the highly educated and older population is not good adopters of electronic banking services; they seem to be more skeptical. This means that banks should not spend a great deal of their budget trying to market electronic banking services to the low adopters such as the highly learnt and the elderly. Banks should emphasise the younger customer who seems to be more intrigued by new technologies and find it rather exciting to try them out.

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