



# IJSRM

INTERNATIONAL JOURNAL OF SCIENCE AND RESEARCH METHODOLOGY

An Official Publication of Human Journals



Human Journals

**Review Article**

March 2019 Vol.:12, Issue:1

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## The Relationship between Service Quality and Customer Satisfaction: A Review



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**Submission:** 22 February 2019

**Accepted:** 28 February 2019

**Published:** 30 March 2019



HUMAN JOURNALS

[www.ijsrm.humanjournals.com](http://www.ijsrm.humanjournals.com)

**Keywords:** Service quality, customer satisfaction, customer loyalty, banking sector, review.

### ABSTRACT

At present, the banking sector has become much more competitive and these competitions make an extremely difficult for a firm to differentiate itself from its counterparts. So, in this competitive era, every business sectors are looking for an appropriate way to gain a complete advantage as well as dominate the market. However, it is known that banks gain competitive advantages by efficient service quality because higher service quality leads to more satisfied customers and this higher satisfaction leads to higher customer loyalty. The aim of this study is to review the relationship between service quality and customer satisfaction in the banking sector. From different literature, it is proven that customer satisfaction comes as a result of service quality. There is a strong positive relationship between service quality and customer satisfaction have found from a number of literature. In other words, a high level of service quality leads to a high level of customer satisfaction. Therefore, it can be recommended that a high level of service quality should maintain for satisfying customers and achieving the ultimate goal.

## INTRODUCTION

Banks have their own significant role to play in the economic system of any country. At present, the banking sector has become much more competitive as most of the banks have almost the same service as their competitors. Nowadays, these competitions make extreme difficulty for a firm to differentiate itself from its counterparts [1]. So, in this competitive era, every business sectors are looking for an appropriate way to gain a complete advantage as well as dominate the market. It is found that the quality of services is attracting customer's satisfaction [2]. However, it is known that banks gain competitive advantages by efficient service quality because higher service quality leads to more satisfied customers and this higher satisfaction leads to higher customer loyalty [3-5]. A number of research have revealed that there is a significant positive relationship among service quality, customer satisfaction and customer loyalty [1, 6-7].

Banks have their own significant role to play in the economic system of any country and acts as the backbone of modern business [8]. Finance and banking system is the key to development and lifeblood of trade and commerce [8, 9]. The banking sector comprises a number of banks which are classified considering ownership into four major categories including Private Commercial Banks (PCBs) [3]. Various types of banks perform various functions. Commercial banks generally have a wider network of their branches and look after the financial requirements of the general public. Commercial banks in the world have maximum interaction with the general public and that is why customer satisfaction is the key factor and has become exceedingly important for commercial banks [10]. Most of the banks have their slogans based on the theme of the statement i.e. Committed to Cordial Service. This approach is very much in line i.e. customer is king, the customer is always right because they play the most important role in the organizational process [1, 11-12]. It becomes obvious that customer is the center of all banking activities in this decade.

It has been proven that service quality in the banking sector has a direct and significant impact on customer satisfaction [12-15]. More specifically, customer satisfaction mainly depends on service quality and a higher level of organizational performance leads to higher level of customer satisfaction [16-17]. Forgetting sustainable advantages, customer satisfaction has been considered as important factors in today's' commercial banking sectors [1]. For this reason, research about the relationship between service quality and customer satisfaction

should be given more concern. The aim of this study is to review the relationship between service quality and customer satisfaction in the banking sector.

### **Service quality**

Service quality can be measured by the judgment of the customers of their total service experience from an organization [22]. Grönroos (1984) defined service quality as meeting customer expectation regularly [23]. According to Parasuraman et al. (1985), service quality is the degree and direction of discrepancy between consumer's perceptions and expectations in terms of important dimensions of the service quality, which has an impact on their future purchasing behavior [24]. Kotler et al. defined service quality as "any intangible act or performance that one party offers to another that does not result in the ownership of anything" [16]. However, 'Service quality' is an important construct of customer satisfaction and the vital aspect that affects the competitiveness of business.

Service quality is "multidimensional concept" and it is the evaluation of customers' expectations that have fulfilled and how good the service level delivered [25]. In commercial banking, customers are extremely important for determining service quality [1, 26-28]. It can also be defined as the characteristics or features or values of services that are carried on its capability to satisfy the users. Gronroos (1982) stated that service quality is two types: technical quality and functional quality [23]. Technical quality refers to the customer is actually receiving from the service while functional quality is related to the process and the manner.

Brown et al. stated that when a service is provided, the personal relationship established between employees and customers [29]. The aim of quality services is to satisfy the clients. So, measuring service quality is a better way to assess whether the services are good or bad and whether the customers are satisfied or dissatisfied with it. Haywood (1988) in his study, listed three components of service quality [30]. These are: physical facilities, processes and procedures; personal behavior and professional judgment get good quality service which is known as 3 "Ps" of service quality". Nordic model, multilevel model, and hierarchical model have been developed for measuring service quality [31].

Nyeck et al. (2002) [32] suggested SERVQUAL for measuring service quality which is also known as the gap model by Parasuraman, et al. (1988) [33]. By some authors, SERVQUAL scale has been proven to be one of the best ways to measure the quality of services as well as it has been proven as a consistent, reliable and best-fitted model for the evaluation of service

quality [32, 34-36]. SERVQUAL instrument consists of 22 pairs of Likert-type items. SERVQUAL measure five dimensions of service quality, namely, tangibles (physical facilities, equipment, and appearance of personnel), reliability (ability to perform the promised service dependably and accurately), responsiveness (willingness to help customers and provide prompt service), assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence), and empathy (caring and individualized attention the firm provides its customers) [37].

### **Customer satisfaction**

The concept of customer satisfaction has relevance to both single, discreet encounters and to the relationship. Customer satisfaction is becoming one of the most essential parts of the market research long-term relationship with customer considers as the top priority of any business. Customers are more knowledgeable, sophisticated, as well as assertive and in the retail banking context, however, customer satisfaction is becoming the key for successful [27, 38].

According to Tse& Wilton, (1988), customer satisfaction is “the consumer’s response to the evaluation of the perceived discrepancy between prior expectations and the actual performance of the product or service as perceived after its consumption” [39] hence considering satisfaction as an overall consumer's post-purchase evaluation and effective response to the overall product or service experience [40-41]. Client happiness, which can be the symbol of customer satisfaction and according to Lovelock (2004) customer satisfaction as an individual's feeling of pleasure or disappointment resulting from the outcome in relation to the expectation [42]. This definition is supported by various researchers [16, 43-44].

Satisfaction can be determined by both subjective and objective factors. Since satisfaction is an attempt to measure human feelings, measuring customer satisfaction could be very difficult. An author, namely Levy (2009, p. 6) in his studies, suggested three ways of measuring customer satisfaction [45]. These include a survey of customer feedback; focus group discussion of what customers think and informal measures like reading blogs, talking directly to customers. But the most popular way to assess customer satisfaction is the customer’s perception of service quality [46-47]. Customer satisfaction can be measured from the comparison of the customers’ expectations and perceived performance of service quality [48].

## **Service quality and customer satisfaction**

Service quality and customer satisfaction are closely related despite they are distinct concepts.

Service quality from any organization is one of the main element determining customer satisfaction [27-28]. From different literature, it is proven that customer satisfaction comes as a result of service quality [49-50]. Moreover, customer satisfaction also plays as a mediator in the relationship between service quality and economic performance. Al-Hawari et al., have confirmed this relationship from their study on Australian on banking sector [51]. Jun and Cai (2001) identified 17 significant factors that influencing customer satisfaction [52]. They are reliability, responsiveness, accuracy, access, understanding the customer, courtesy, collaboration, timeliness, security, competence, credibility, continuous improvement, content, easy use, aesthetics, and diver's features. There are some other factors have been identified as influencing of customer satisfaction, for instance, price and product features but perceived service quality mentioned as a key component of customer satisfaction by Wilson et al. (2012) [53]. They observe reliability, assurance, responsiveness, empathy, and tangibility are the significant factors of customer satisfaction [53].

Parasuraman et al., (1985) in their study, proposed that the level of high service quality leads more likely customer satisfaction [54]. There is much evidence where this relationship has been proven by past researches [55]. For instance, a study from Ethiopia has shown a strong positive relationship between service quality and customer satisfaction in the private banking sector [56]. In this study, a five-dimensional SERVPERF scale was used for measuring service quality. Empathy and responsiveness played the most important role in customer satisfaction followed by tangibility, assurance, and reliability. A study using SERVQUAL scale and regression analysis from three major conventional banks and three Islamic banks in Pakistan shows that multidimensional service quality has a significant impact on customer satisfaction [57]. There are also some studies where outcomes had found an insignificant relationship between service quality and customer satisfaction. For example, a study from Malaysia shows that there is a positive correlation between service quality dimensions (assurance, empathy, and responsiveness) but all these three dimensions were insignificant [58]. In this research, only tangibility had a significant positive relationship with customer satisfaction while reliability had found a negative impact on customer satisfaction [58].

## CONCLUSION

The banking sector in a country is the nerve center of all commerce and trade activity where customer plays the key role. Customer satisfaction has been considered as one of the most important theoretical as well as practical issues for the banking sector as success in the banking business mostly depends on customer satisfaction. The objective of this study was to review the relationship between customer satisfaction and service quality with respect to service quality dimensions. There is a strong positive relationship between service quality and customer satisfaction have found from a number of literature. In other words, a high level of service quality leads to a high level of customer satisfaction. Therefore, it can be recommended that the high-level of service quality should maintain for satisfying customers and achieving the ultimate goal.

Conflict of interest: Nil

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