Measuring Customer Satisfaction in the Retail Banking Sector of Iran Using RATER Model

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ABSTRACT

The goal of this article is to determine the factors which affect customer satisfaction in the banking sector in Iran. For that purpose, a survey was conducted among 1300 bank customers. The collected data were further analyzed using Structural Equation Test. The results indicated that selected variables, which are service delivery and value proposition quality, have impact on customer satisfaction. Consequently, this research can be a valuable tool for bank managers in Iran to improve customer satisfaction and gain competitive advantage.
KEY WORDS: Service, value, quality, customer, satisfaction, bank,

INTRODUCTION

Islamic banks have started to grow [14] since 1971and develop worldwide. There are around 1.6 billion of Muslims living in the world today, representing about 22% of the total world population. To meet growing financial needs of Muslims, there are now more than 400 Islamic banks and financial institutions in different countries worldwide. Considering the rapid growth of the Islamic financial institutions and its emerging role in global financial industry, its popularity has increased in non-Muslim countries and among large international institutions. For example, Citibank has launched branches in Islamic countries such as Indonesia, Malaysia, UAE, Saudi Arabia and others to operate in accordance with Islamic Sharia'h principles [15]. HSBC has started Islamic banking operations in 12 Islamic countries worldwide. The Islamic banking industry is highly competitive and therefore it is very important for Islamic banks, particularly retail banks, to study the changing behavior, attitudes and perceptions of their customers [14]. Failure to provide the desired quality of the services will definitely result in the loss of existing customers and difficulties in gaining new ones. Therefore, service quality and customer satisfaction have received much attention among the researchers [25]. The importance of quality in bank service is well known [13, 11, 2, 19] and there have been extensive research regarding it. However, there are limited studies related to Islamic bank system, which like any other banks provide financial services but, at the meantime, they have to comply with specific laws.

Iran is specific among all Islamic countries. Iran's banking system completely complies with Islamic laws unlike other Muslim countries where customers can choose between the banks complying with Islamic laws and the banks which do not comply. Retail banks in Iran are better positioned to get the positive outcomes from satisfied customers if they understand the factors that may contribute to their customers' satisfaction. The point is that, meeting customers' expectations through key factors of service quality should lead to customer satisfaction which as a result, to customer loyalty.

Consequently, the aim of the current paper is to study the selected factors to find out if they fit in the measure of customer satisfaction for retail bank in Iran.

LITERATURE REVIEW

Customer satisfaction is a measure of how supplied products or services meet or exceed customer expectation. A satisfied customer will repeat the purchase and will bring new customers by means of word of mouth [21, 14]. Consequently, it is important for a company to measure customer satisfaction to be able to provide the desired quality. As a result customer satisfaction has been in the center of marketing research, theories and practices in recent decades [15, 5, 20, 21]. Achieving customer satisfaction is a main goal for service firms [12] as it may result in increased profits, word of mouth and definitely less marketing expenses [2].

Research on customer satisfaction is frequently linked with the measurement of service quality [11]. However, there are controversies among researchers concerning service quality and customer satisfaction. Zeithmal et al (2000) and Tian-Cole et al (2003) consider customer satisfaction a broader concept than service quality, because it consists of both cognitive and emotional aspects, while service quality includes only cognitive aspects. Some studies argue that the two concepts are strongly connected [1, 8, 24]. In contrast, other researches find that service quality and satisfaction are totally different concepts and that there is a casual

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relationship between them [13]. Reichheld and Sasser (1990) find that good service quality is one of the basic strategies for a firm's sustainable development. According to Saravanan and Rao (2007), customer satisfaction is positively related to service quality.

Researchers generally categorize two viewpoints of service quality [7]: Nordic, which is proposed by Gronroos (1984, 1991) and defines service quality from technical and functional perspectives; and American, which is suggested by Parasuraman et al. (1988) based on SERVQUAL model. Technical quality, according to Nordic viewpoint, refers to tangible aspects of a service, i.e. what is offered. Functional quality refers to intangible aspects of a service, i.e. how service is offered. American perspective is based on the number of elements comprising service quality. Initially Parasuraman et al identified ten elements of service quality, but in later research, these were collapsed into five factors: reliability, assurance, tangibles, empathy and responsiveness creating RATER:

- Reliability is the ability to perform the promised service dependably and accurately
- Assurance is the knowledge, courtesy and ability of employees to convey trust and confidence
- Tangibles refer to physical facilities, equipments, personnel and communication materials
- Empathy refers to caring and individual attention to customers
- Responsiveness is the willingness to help customers and to provide them prompt service

Research has emphasized various factors that can affect customer satisfaction. In this study, service delivery and value proposition quality have been selected as the factors affecting customer satisfaction in the retail banking sector of Iran.

Bank's value proposition first, refers to the products including savings and transactional accounts, mortgages, loans, debit, and credit cards. Second, it refers to the service features and pricing [19]. Third component in the value proposition includes accuracy of information and communication. The fourth is convenience. The last one refers to the brand and reputation.

Service quality includes the elements of RATER model: reliability, assurance, tangibles, empathy and responsiveness.

Customer satisfaction, the dependent variable in the model, is determined by the mentioned independent variables.

Consequently, the research sets forward the following hypotheses:

H$_1$ Value proposition quality is positively related to customer satisfaction.

H$_2$ Service delivery quality is positively related to customer satisfaction.

RESEARCH METHODOLOGY

A survey questionnaire was developed to collect the data and was sent to 1300 randomly selected respondents. The survey has been conducted in the bank which possesses about 2,400,000 accounts. The sample size is 950.

The questionnaire consists of 34 aspects to measure value proposition, 24 aspects to measure service delivery quality and 3 to measure customer satisfaction. Service quality includes the elements of RATER model: reliability, assurance, tangibles, empathy and responsiveness.

The quality of value proposition includes respondents' perception of bank products, features and prices, convenience, communication with customers and accuracy of the information provided by the bank and reputation.

Likert scale was used in the questionnaires. The questionnaire's reliability was tested by Cronbach's Alfa which was 96.2 %. After the reliability test, the hypotheses were tested by Structural Equation Modeling using LISREL software. Table 1 shows factor analysis results used to test the validity of the questionnaires.

Table. 1 Factor Analysis Results

Independent variables	Selected factors	Cumulative Variance
Service delivery quality	Responsiveness (11.12), assurance (15.51), tangibles (14.43), empathy (16.79) and reliability (6.05)	74.2%
Value proposition quality	Price(16.6), product (13.59), convenience (13.2), communication (12.66) and reputation (10.07)	76.7%

Data analysis and findings

To test whether the model is a good fit the first-order factor analysis were run. The results, in Figures 1 and 2, indicate that both models are good as $x^2 < 300$ and the RMSEA < 0.08. In addition, NFI, NNFI and GFI are more than 90%. Structural equation modeling (SEM) was applied to test research hypotheses. As it is clear from Figure 3, both hypotheses are confirmed, as P-value=0. According to the results, both variables have significant positive impact on customer satisfaction. That is 1% improvement in value proposition quality will increase

customer satisfaction by 45% and 1% increase in service delivery quality will increase customer satisfaction by 23%.

The model's $R^2 = 0.44$ which means 44% of customer satisfaction variability can be explained by the service delivery and value proposition quality.

Then, it is worth mentioning that the degree of the impact of each SDQ element varies. Hence, the reliability and responsiveness has the highest impact on customer satisfaction. 94% of the variability in customer satisfaction is explained by each of these factors. At the meantime, tangibility has the lowest impact among the selected factors. However, in general, it also has rather high impact, i.e. 76% of the changes in customer satisfaction are explained by this factor.

As to our second independent variable, communication has the highest impact on customer satisfaction, i.e. 95% of the changes in customer satisfaction are determined by communication, while reputation is not so significant for customer satisfaction.

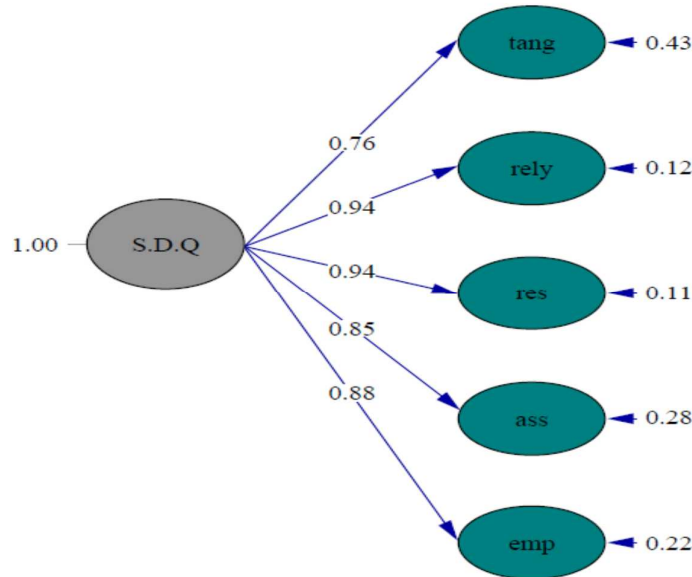Figure 1. Model of SDQ (Service Delivery Quality)
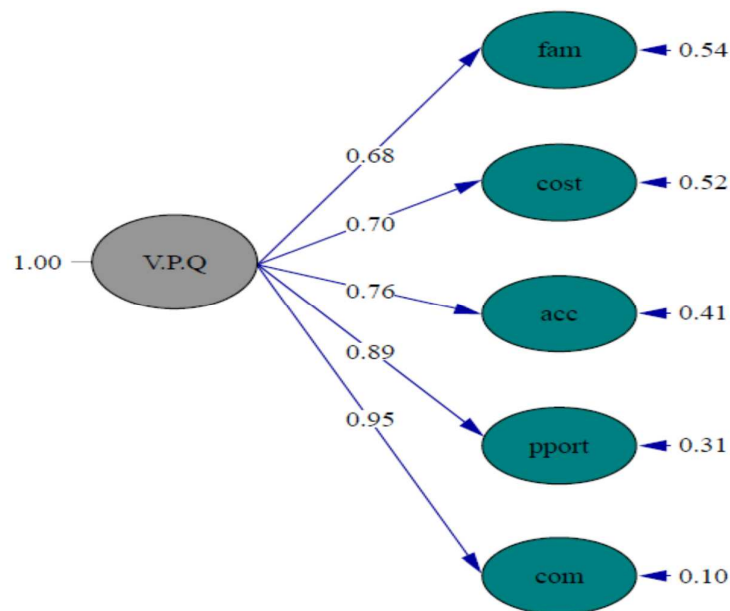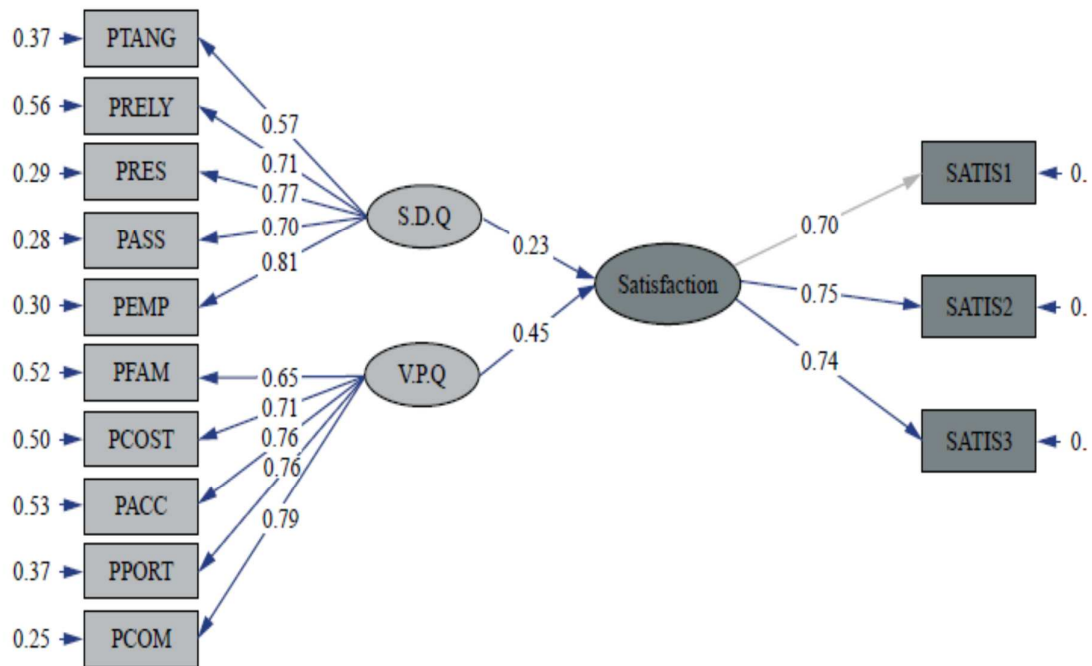

Figure 2. Model of VPQ (Value Proposition Quality)

Figure 3. Structural Equation Model (SEM)

Notes: $\chi^2 = 177.28$; df $= 62$; p-value $= 0.00000$; RMSEA $= 0.053$

CONCLUSION AND DISCUSSION

This paper has tried to determine the factors which can affect customer satisfaction in retail banking of Iran. According to the results service quality is positively related to customer satisfaction, which complies with the findings of Parasuraman et al., (1991), Othman and Owen (2001) and Arasly et al (2005). Moreover, reliability and responsiveness have the highest impact among the selected factors. These findings are similar to the results of Amin and Isa (2008) and Al-Tamimi and Al-Amiri (2003) who argues that reliability is the most important factor. Further, among the value proposition factors communication is the best determinant of customer satisfaction followed by product portfolio, convenience, price and reputation. This result is in accordance with the findings of Amin and Isa (2008).

Hence, it is very important for banks first to improve communication with customers. Then, they should extend their product portfolio focusing on more innovative, cheaper, easy to use and convenient products. Finally, they should improve their reputation. Actually, improving all above mentioned aspects will help banks to build better reputation.

This paper can help bank managers to review and improve their marketing strategies and focus their efforts on the factors which are truly important.

To summarize, it should be mentioned that while this paper can serve as a valuable tool for increasing customer satisfaction, more studies in this area will be helpful to cross-compare the findings. In addition, the research is limited to a single bank. Future researches may go beyond, which will definitely provide better insight.

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