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**THE EFFECT OF PERCEIVED SERVICE QUALITY ON CLIENT
SATISFACTION IN THE RETAIL BANKING SECTOR IN BUFFALO CITY,
EASTERN CAPE, SOUTH AFRICA**

BY

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**A DISSERTATION SUBMITTED IN FULFILMENT OF THE
REQUIREMENTS FOR THE MASTERS PROGRAMME IN BUSINESS
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Together in Excellence

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ABSTRACT

It has been established that clients are key stakeholders in the life of every enterprise whose support should not only be cultivated but carefully oiled to maintain an enduring patronage. Expectedly how to engender clients' satisfaction has become an overarching concern for enterprises and researchers alike. For banks and other financial services providers where product offerings are virtually similar and easy to imitate, the competition to maintain clients' satisfaction is a herculean task especially with the dynamics of rapidly changing tastes and plethora of choices. The main objective of this study was to investigate the effect of perceived service quality on client satisfaction in the retail banking sector in Buffalo City, Eastern Cape, South Africa. The study employed the five SERVQUAL model dimensions (Reliability, Tangibility, Responsiveness, Assurance and Empathy) to measure the level of service quality clients receive from retail banks. The investigation covered five main retail banks in South Africa, namely; ABSA, First National Bank (FNB), Nedbank, Standard Bank (STD) and Capitec Bank.

The study was conducted at three East London shopping malls (Hemingways, Retail Park and Vincent Park) in the Eastern Cape Province, South Africa. The study assumed an individual-based perspective, directing the questionnaires to the clients of the five important banks and data was collected through the use of 182 self-administered questionnaires. Data was analysed using both inferential and descriptive statistics to answer the primary research question in the problem statement, namely, to specify the service quality factors that render optimal need satisfaction to retail banking clients.

The research results revealed that Empathy rendered optimal satisfaction to bank clients with a 4.86 mean average score. The study further revealed that there is a significant relationship between service quality and client satisfaction. (It has been proven by some researchers that service quality is related to customer satisfaction. Others used service quality dimensions to evaluate service quality and concluded that there is a significant relationship between service quality and client satisfaction).

In conclusion, it is recommended that retail banks assess their service delivery and invite feedback from clients on their expectations on an ongoing basis; improve service quality dimensions and align these to client expectations, as well as improve overall service delivery as client expectations exceed client perceptions of service delivery.

DECLARATION

I, the undersigned, Agholor Ewere Deborah, hereby declare that this dissertation is my own original work and it has not been submitted, and will not be presented at any other university for a similar or any other degree award.

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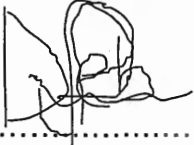
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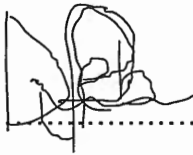
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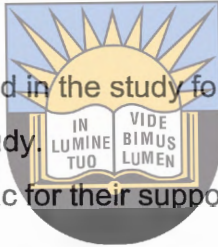
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THANK YOU ALL AND GOD BLESS

DEDICATION

I dedicate this project to the Almighty God for allowing me a successful completion and to my wonderful son Apostle whom I was carrying in my womb during this research study.



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CHAPTER 1



INTRODUCTION AND BACKGROUND TO THE STUDY

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1.1 INTRODUCTION AND BACKGROUND

Retail banks and other financial service providers around the world are faced with increasingly intense competition and a profitability challenge due to the fact that they all compete for the same retail banking clients (Mokhlis, 2009:1478). This has made the struggle to retain clients even more tougher especially as clients are ever in search of and ready to switch to the next provider that is ready to offer them better bargain or value for their money (Chigamba and Fatoki 2011:66). A number of factors have been suggested as reason for why clients could migrate from one service provider to another. According to Chigamba and Fatoki (2011:66), proximity, security, convenience, assurance, service charges, technological innovation, staff courtesy, as well as bank reputation were aspects that influence client choice of banks and client intension to switch from one bank to another. Brink and Berndt (2004:60) also identify other service quality dimensions developed by Parasuraman, bank Responsiveness, Assurance, Tangibles (physical appearance), as well as Empathy and Reliability as additional possible factors that influence client retention, loyalty and client satisfaction. In other words, if clients sense that their current bank or financial service provider is lacking in one all of the above services, the viability of switching to another bank becomes a matter of time (Mokhlis, 2009:1478). Therefore financial service providers that must stay ahead of completion must constantly conduct clients' survey to ascertain the areas they are deficient, benchmark their competitors to ensure that they provide satisfactory above par services to their clients.

Levesque and McDougall (1996:14) pointed out retail banking clients that are dissatisfied with the quality of service they receive, may be hesitant to spread positive word of mouth to friends and may even inspire others to switch banks. Hallowell (1996:30) proposes that in the retail banking sector, possible turn-ups in satisfaction will intensely increase profit. Therefore, clients' satisfaction is not only critical for retention but also key for the survival and continuous profitability of the enterprise. The banking sector in South Africa is highly intense and has reached it saturation stage with large banks such as Standard Bank, Ned bank, First National Bank and ABSA (Amalgamated Banks of South Africa) dominating the retail-banking sector. In all there are thirty five banks in South Africa made up of twenty local banks and fifteen foreign banks (Okeahalam 2001:10).

Singh (2004:188) argues that the dominating banks all offer similar products or services, namely: savings and cheque accounts; credit cards; fixed deposits; small-business banking and others. According to Ganesh (2012:35) most banks provide identical products and services that can be duplicate. The only competitive strategy option open for banks to leverage on to outsmart competitors and create a niche for their brand is to provide supreme service quality.

“Service quality is a vital service component that impacts the level of client satisfaction in the retail banking industry” (Appannan, Doraisamy and Hui, 2013:458). This assertion is supported by the research findings of Donnelly, Neil, Rimmer and Shiu (2006:100) that indicate that the level of service quality offered by retail banks has an important influence on the satisfaction and loyalty of clients with regard to retaining and attracting new clients.

Customer service satisfaction has been researched widely around the world and is defined by Kotler (2006:30) as **“the extent to which a product’s perceived performance matches the customer expectations”**. Kotler (2006:30) maintains that customer satisfaction depends on the congruence between the service performances rendered to the customer in comparison to the service performance expected by the customer. This, therefore, means that customer satisfaction and service quality are both assessments made by individual clients in equating what they actually receive to what they expected to receive.

Literature shows that, there is a close relationship between client satisfaction and service quality (Agus, Barker and Kandampully, 2007:178; Ibanez, Hartmann and Calvo, 2006:640; Culiberg and Rojšek, 2010:154).

Chigamba and Fatoki (2011:66) argue that client-oriented services remain the key for retail banks to survive and retain their market share in the face of intense competition; Focusing on client expectations and continuously exploring marketing information that can assist in recognising and proffering the most suitable marketing strategies would not only aid retail banks in retaining existing clients and maximising client satisfaction but also position them to attract new clients. Retail banks can achieve this goal through ensuring that all strategic decisions pertaining to product offerings, as well as any strategic changes, are mostly primed to meet or exceed client expectations. Client satisfaction can also be ensured by continuously monitoring service delivery through

communication and satisfaction surveys which seeks to understand client views and perceptions on current product or service offerings.

Available studies on client service satisfaction and service quality have focused mostly on developed countries. There is also some body of work on this area carried out in Sri Lanka and Taiwan. However, very little or no literature exist concerning client service satisfaction and service quality especially in the eastern province of South Africa. Hence, there is a need for such research to be conducted in the Buffalo City, Eastern Cape to provide the retail banking sector and decision-makers with meaningful information about this contentious subject under study.

1.2 STATEMENT OF THE PROBLEM

Retail banks continuously endeavour to lure banking clients from competitors through attractive products, services and competitions that offer more efficient client need-satisfaction. The fact that retail banks offer similar products and services makes it difficult to identify the factors that cause banking clients to switch to competitors. The technologically changing banking scenario of the 21st century compels retail banks to develop a vital service identity. Balachandran (2003:7) confirms this notion: ***"Banks nowadays have to be of world-class standard, committed to excellence in client satisfaction, and have to play a major role in growing and diversifying the financial sector"***. Niveen and Demyana (2013:3) concur that banking clients demand globally acceptable diversified quality services that efficiently meet their needs. In addition, Chigamba and Fatoki (2011) state that the retail banking sector in South Africa is extremely focussed and has reached its capacity level. The authors maintain that, regardless of the concentration of the banking industry, competition among banks remains high and in order to win markets, the banks have to focus more on client expectations and satisfaction.

With this backdrop, the primary question that this study seeks to answer is: Which specific service quality factors render maximum need satisfaction to retail banking clients? The SERVQUAL model will be applied to determine to what extent the service quality perceptions of retail banking clients impact their satisfaction in the Buffalo City Metropolitan area, Eastern Cape, South Africa.

1.3 RESEARCH OBJECTIVES

1.3.1 Primary Objective

To investigate the effect of perceived service quality on client satisfaction in the retail banking sector in Buffalo City.

1.3.2 Secondary Objectives

- To determine whether there is a significant relationship between tangibility and client satisfaction.
- To determine whether there is a significant relationship between reliability and client satisfaction.
- To determine whether there is a significant relationship between responsiveness and client satisfaction.
- To determine whether there is a significant relationship between assurance and client satisfaction.
- To determine whether there is a significant relationship between empathy and client satisfaction.



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1.4 RESEARCH HYPOTHESES

A hypothesis is a formal statement explaining some outcomes (Barry and William, 2009). Below are the primary and secondary hypotheses for this study.

1.4.1 Primary Hypothesis

H1₀: Perceived service quality does not affect retail banking client satisfaction in Buffalo City.

H1₁: Perceived service quality does affect retail banking client satisfaction in Buffalo City.

1.4.2 Secondary Hypotheses

H2₀: A significant relationship does not exist between tangibles and client satisfaction.

H2₁: A significant relationship does exist between tangibles and client satisfaction.

H3₀: A significant relationship does not exist between reliability and client satisfaction.

H3₁: A significant relationship does exist between reliability and client satisfaction.

H4₀: A significant relationship does not exist between responsiveness and client satisfaction.

H4₁: A significant relationship does exist between responsiveness and client satisfaction.

H5₀: A significant relationship does not exist between assurance and client satisfaction.

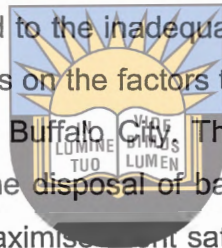
H5₁: A significant relationship does exist between assurance and client satisfaction.

H6₀: A significant relationship does not exist between empathy and client satisfaction.

H6₁: A significant relationship does exist between empathy and client satisfaction.

1.5 IMPORTANCE OF THE STUDY

The significance of the study is to add to the inadequate information currently available to banks and other financial institutions on the factors that lead to client satisfaction and consequently loyalty and retention in Buffalo City. Thus the findings of this study will enhance the existing knowledge at the disposal of bank managers about the financial product- and service offerings that maximise client satisfaction, competitive advantage, market share and profitability.



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Through assessing (measuring) their client satisfaction levels, retail banks can develop client-centric service methods to promote client loyalty, client retention and curbing client switching to competing banks. By acknowledging client service-quality perceptions and expectations, retail banks can review, modify, restructure or repackage their product-offering and service procedures to be in line with the perceptions and preferences of their clients. The successful accomplishment of this goal will not only promote client loyalty, client retention, curbing client switching but, in addition, attract new clients.

This study will serve as a guide for the retail banking sector to develop policies that will enhance client satisfaction through the improvement of its total service delivery, particularly in areas where a serious misalignment between client expectations and perceptions exist.

This study collected data from retail banking clients to gain first-hand information on service factors that promote and maximise client satisfaction. Such information would assist retail bank managers and senior executives to realise the critical importance of providing service-quality consistency but also enhancement, in order to promote client

need-satisfaction. Failure to accomplish this, would lead to clients' intentions to switch service providers in search of satisfaction.

1.6 LITERATURE REVIEW

This section will cover the literature review on the theory of concepts like service, quality, service quality, customer satisfaction, customer perceptions and the relationship between customer satisfaction and service quality. Finally, the review will conclude with a focus on the SERVQUAL model.

1.6.1 Service

Du Plessis, *et al.* (2007:310) define a service as an **“activity, benefit, or satisfaction rendered for the purpose of a sale by a provider to a customer”**. According to the authors, services refer to those recognisable, immaterial activities that deliver satisfaction to needs and might not be positively linked to the trade of a product or service. The rendering of a service does not necessarily need the usage of physical goods. A service can be provided through mere conversation or dialogue. Kotler (2002:3) maintains that firms always offer service to customers, irrespective of the main activity or business of the particular firm. A service thus entails an action or performance that consists of events, instead of physical things (Grönroos, 2000:47).

One exceptional characteristic of services highlighted by Gronroos (2001:269) is the fact that services are not physical products but processes of which quality is rather difficult to consistently maintain in all circumstances. Another two basic characteristics of services are intangibility and perishability (Snoj 1998:10; Gronroos 2001:40). Lovelock (2001:15) concurs and says: although services may include tangible elements, the service performance is intangible. Support of this viewpoint can be found in the works of Wilson, Zeithaml, Gremler and Bitner (2008:16).

Nevertheless, authors frequently regard services as mixed bundles of intangible and tangible elements as can be observed in the literature that concerns service-quality measurement.

1.6.2 Quality

Du Plessis, *et al.* (2007:318) maintain that quality is a term that has been traditionally defined in terms of products when examined closely; clients perceive and interpret quality in different ways. In addition, a client recognises quality products when provided

and would like to obtain more of such products. It is difficult to define quality in the service industry, given that clients often cannot “see” the service, making the recognition of quality a subjective experience. This, therefore, means that what a client perceives as being quality might not necessarily be perceived or viewed by another client as quality.

1.6.3 Service Quality

The concept of service quality has been widely researched by many scholars. Service quality draws its core principles from product value and customer contentment. Hoffman and Bateson (2006:333) define service quality as the outcome resulting from a lasting general assessment of a firm’s performance. Ham, Johnson, Weinstein, Plank and Johnson (2003:197) concur and state that service quality is the correct worth of the assessable gaps amongst anticipated outcomes and observations. Research by several scholars shows that clients’ individual decisions on the level of service offered and delivered is perceived service quality. Gefen (2002:25) posits that service quality is the personal assessment made by customers concerning the service performance they expect to obtain versus the actual service performance received. This is consistent with the proposition of Kotler and Keller (2006:412) which states that the service quality of a service provider is the relationship between perceived service and the anticipated service. Kotler and Keller further argue that, once the perceived service falls short of the expected service, a customer loses interest in the service provider. When a service rendered to customers fails to meet their expectations continuously; the customer will perceive the service as being of a poor quality (Hoffman and Bateson, 2006:334). In all, there is consensus among scholars that this assessment, in the final analysis, is a subjective comparison, meaning that it is perceived uniquely by each individual customer.

There seems to be no consensus as to how service quality should be measured while Cronin and Taylor (1992:59) argue that service quality should be measured as an attitude, Bitner (1990:72) and Bolton and Drew (1991a, 1991b:6) hold that customer satisfaction should be seen as a forerunner of service quality (Parasuraman, *et al.*, 1985, 1988, 1991b; Parasuraman, *et al.*, 1994; Cronin and Taylor, 1992, 1994 and Anderson and Sullivan, 1993).

On the other hand, empirical studies by Rust and Oliver (1994:15), suggest that service quality entails service products, environment, and delivery. According to Brady and

Cronin (2001) as cited in Karatepe (2011:279), service quality comprises of communication, environment, and result quality.

Whereas some researchers hold the view that proposed service quality is a multidimensional concept, agreement is yet to be reached on generally valid, generic dimensions. Certain vital questions remain unanswered as the debate amongst scholars on the determinants of service quality continues, namely: **“(a) the universality of service quality determinants across a section of services; (b) the importance and nature of operating characteristics of determinants as they together constitute the service quality; (c) whether the service characteristic gets reflected in what clients expect from the delivery of a particular service”** (Chowdhary and Prakash, 2007:496; Pal and Choudhury, 2009:34).

The disconfirmation paradigm was used to establish the initial conceptualisation of observed service quality according to which quality is instrumental for comparing anticipated against perceived quality outcomes (Parasuraman, Zeithaml and Berry 1988:15). Consequently, Gronroos (2000:10) acknowledges that there are two proportions of services quality: **“functional quality and technical quality”**. Functional quality conveys the ‘how’ of services performance, while technical quality describes the outcomes of service or ‘what’ the customer experience when the service was rendered. This conceptualisation is referred to as the **“Nordic model”**. In this model, clients observe whatever is being rendered by the services procedure; more importantly, is their observation of the way in which the particular services was delivered. The major disadvantage of this model is that it is, very challenging to describe the technical quality or outcome of most services (Kang and James 2004:25).

Chaoprasert and Elsey (2004:52) held that retail banks need to emphasise service quality as the main strategy to differentiate themselves against competitors. They contend that client’s assessment of overall service quality offered by banks depend on the bridge between the anticipation and observations of real presentation stages of the particular service. It is crucial for marketers to work hand-in-hand to ensure that excellent service quality is provided to enhance client service experience.

1.6.4 Customer Satisfaction

Kotler, (2006) states that customer satisfaction refers to the degree to which the perceived performance of a product or service, equates the expectations of the customer. He adds that customer satisfaction further depends on the observed

performance of the product or service relative to the anticipation of the customer. Customers become disappointed if the product or service performance fails to meet their expectations. If there is congruence between performance and expected outcome, the customer will be pleased and if performance surpasses expected outcome, the customer is extremely satisfied or delighted. Likewise, it could be expected that delighted retail bank clients would re-visit their designated bank and, in addition, communicate their positive service experiences to potential clients by word of mouth.

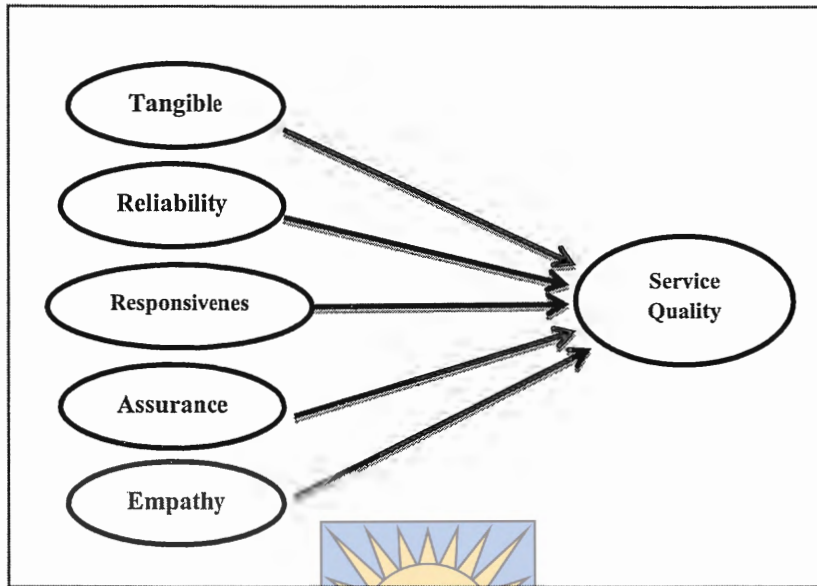
1.6.5 Customer Perceptions

Du Plessis, Rousseau, Boshoff, Ehlers, Engelbrecht, Joubert and Sanders (2007:160) define customer perceptions as the manner by which a particular customer detects, chooses, establishes and responds to environmental incentives in an expressive manner. In essence, client perceptions direct a client's preference for one bank at the cost of another. Lastly, client perceptions and resulting reactions can be influenced by several dynamics and changing factors, either individually or combined, either when the stimulus occurs or when reaction is required. Grönroos (2003) notes that consumers buy goods and services for the benefits they derive from the consumption of such products or services. He further claims that it is the customers 'observation' of the benefits resulting from the goods or services that creates value for the customers.

1.6.6 The SERVQUAL Model

A collection of factors or elements has been acknowledged for measuring services quality. Sachdev and Verma (2004:101) measure services quality in terms of observation, anticipation, satisfaction, and approach of clients. Regardless of numerous models applied to measure service quality, the SERVQUAL model, developed by Parasuraman, *et al.*, in 1985, is still considered the best comprehensive model to conceptualise and measure service quality (Nyeck, Morales, Ladhari and Pons, 2002:104). The model that measures the difference between a customer's perception and expectation of a service is broadly and extensively used to measure service quality and gets widely quoted and described in many literature sources. Hence, this study also adopts the SERVQUAL framework as depicted in Fig 1 below

Fig 1.1: SERVQUAL Service Quality Model



The model comprises of five dimensions that are related to ten components as shown in Table1 below.

Table 1.1: SERVQUAL Specifications

<u>SERVQUAL Dimensions</u>	<u>Components</u>
Reliability	Reliably
Tangibility	Tangibility
Responsiveness	Responsiveness
Assurance	Competences Courtesy Credibility Security
Empathy	Access Communication Understanding

Source: (Parasuraman, Zeithaml and Berry, 1988:20)

Table 1.2: Description of SERVQUAL Dimensions

<u>SERVQUAL Dimensions</u>	Definition
Tangibles	The presentation of physical facilities, equipment, personnel, and communication material.
Reliability	The ability to perform the promised service dependable and accurately.
Responsiveness	The willingness to help clients and provide prompt services.
Assurance	The knowledge and courtesy of employees, and their ability to convey trust and confidence.
Empathy	The caring individualised attention provided to the client.

Source: Adapted from Parasuraman, *et al.*, 1988:20.



1.7 RESEARCH METHODOLOGY AND DESIGN

The research methodology, research design, survey area, population and sampling techniques that will be used to answer the subject area are discussed below.

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1.7.1 Research Methodology

Rungani (2009:95) defines research methodology as the gathering, processing, analysing and interpreting of data. This segment of the research involves research techniques, the survey area, population, sample size, sampling technique, data collection, secondary data, primary data, and data collection instrument and data analysis procedures.

1.7.2 Research Design

Cooper and Schindler (2006:192) indicate that research design is the strategy and composition of research that is considered to achieve answers to study questions. Cooper and Schindler (2006:71) point out that the 'glue' that holds a research project together is the research design. There are two basic types of research designs, namely, qualitative and quantitative research designs. This study will make use of the quantitative research design. Quantitative research will be ideal for this investigation because the study follows on from preceding empirical data (Blanchard and Galloway, 1994) who identified the important service qualities in the retail banking sector. The motivation also for using quantitative research for the study is that it is affordable, questionnaires are

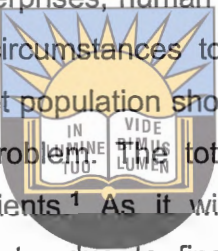
easy to distribute. It will also help to take a broad view about an exact target population centred on the outcomes to be obtained from a sample that is representative of the target population with the research results subjected to statistical analysis.

1.7.3 The Survey Area

The survey area is composed of retail bank clients in East London area of the Buffalo city metropolitan municipality, Eastern Cape Province of South Africa, the survey area was limited to East London because of the time frame and cost involved in the study.

1.7.4 Population

Cooper and Schindler (2006:441) state that a population refers to the study object, which may be individuals, groups, enterprises, human products, and events, that is the subject of research interest or the circumstances towards its exposure. The same author's further point out that the target population should be clearly defined as it is not always obvious from the research problem. The total population for this study will consist of 267,000 retail banking clients.¹ As it will not be possible to distribute questionnaires to all retail bank clients, due to financial and time constraints, the researcher intends to make use of sampling.



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1.7.4.1 Sampling

Samples consist of elements that represent the population (Collis and Hussey, 2003:155). Blumberg, Cooper and Schindler (2008:228) state that the main idea behind sampling is to make assumptions around the entire population from the information gathered from the sample. Cooper and Schindler (2008:229) note that the minimum statistically representative sample size required is 30; therefore any sample size greater than 30 is considered representative of the population and acceptable. For this research a sample size of 182 elements (clients) will be selected conveniently from the three major shopping complexes (Hemingways Mall, Retail Park and Vincent Park) in East London.

¹ According to the 2011 Census, East London has a population of 267,000 inhabitants. To establish the banking client population figure, 20 questionnaires were randomly administered to consumers in East London to determine how many of them use a bank account. The findings show that 11 out of 20 respondents in East London use a bank account. This number was applied against the total population of East London. This was done because an accurate banking population could not be obtained from either of the population offices in East London or Pretoria.

1.7.4.2 Sampling technique

The convenience sampling method was used for this study to select the sample elements from the large banking client population in the survey area. Sekaran (2003:276) states that the gathering of information from respondents of the population who are available and willing to cooperate is known as convenience sampling.

1.7.5 Data Collection Process

The data collection process has to be securely executed for gathering the intended and information from selected participants – the sample. The information is gathered to solve the research problem at hand or to get suitable information for exploiting a potential opportunity. Both primary and secondary data were collected for addressing the formulated research problem and accomplishing the research objectives.

1.7.5.1 Secondary data

Secondary data comprises information already gathered by another researcher, for purposes other than those included in the project at hand (Cant, Gerber-Nel, Nel and Kotze, 2005:66). According to the authors, common sources of secondary data include journals, internet sources, and books. For the purpose of this study, the mentioned secondary data sources were consulted in carrying out this research. Secondary data has to be relevant, recent as well as accurate so as to give reliable and valid results or solutions to the problem at hand (Cant *et al.*, 2005:67).

1.7.5.2 Primary data

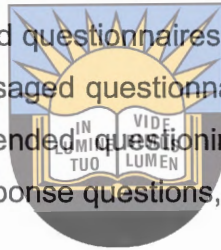
Primary data refers to fresh data collected by a researcher in the demarcated survey area to address a specific problem at hand or to exploit an opportunity. The data, therefore, does not exist prior to the study as is the case with secondary data. Primary data would include information collected through qualitative and quantitative research designs, utilising surveys, experiments, and observations (Cant, *et al.*, 2005:87). This study obtained primary data from respondents through the use of quantitative research tools using questionnaires. Quantitative research tools are structured, systematic and are meant to collect information from respondents directly and in an open manner. Although the collection of primary data can be expensive and time consuming as compared to secondary data collection, it is necessary for but also more applicable to the research at hand (Cant, *et al.*, 2005:67).



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1.7.5.3 Data collection instrument

This study made use of a self-administered questionnaire which was tested for reliability, using Cronbach's Alpha as a data analysis instrument. This questionnaire was adapted from the SERVQUAL model to guarantee an effective construct. The bases for this research would depend on the output obtained from the administered questionnaire and the literature review. Cant, Gerber-Nel, Nel, and Kotze (2003:131) maintain that a questionnaire is an instrument that contains chains of questions intended to collect information from respondents. The purpose of using questionnaires is to make findings of whatever a particular set of participants, feel or think (Collis and Hussey, 2003:173). Also, the use of a questionnaire as data collection method is inexpensive, reduce the data-collection time, while larger samples can be covered by a survey at the hand of self-administered questionnaires than by conducting interviews. In order to maximise feedback, the envisaged questionnaire will make use of open-ended questions and a variety of closed-ended questioning techniques such as multiple response questions, dichotomous response questions, Likert scale questions, etc.



1.7.5.4 Pilot Study

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A pilot study refers to the testing of the questionnaire on a small sample of respondents to identify and eliminate potential problems (Zikmund and Babin, 2010:238). The authors suggest that a pilot study is essential for the researcher to be satisfied that the designed questionnaire provides expedient information for answering the research objectives. This means that a pilot study enables the researcher to ascertain whether the instrument is flexible enough to accommodate the understanding of the diversity of the target audience. In order to improve the content, phrasing, sequence, layout and instructions of a questionnaire, the researcher conducted a pilot study of 10% of the proposed sample size (20 questionnaires) among selected retail banking clients from the population in the survey area.

1.7.5.5 Data analysis procedure

Data analysis includes coding of the collected data, reducing it to controllable size for simple analysis, being precise, considering designs and supplying statistical techniques (Cooper and Schindler, 2008:90). For this study, the analysing of data was conducted by the researcher in collaboration with both the Supervisor and the Department of Statistics at the University of Fort Hare. The statistical analysis for this study was done utilising the Statistical Package for Social Sciences (SPSS) software.

The researcher also made use of descriptive, inferential statistics and correlation testing in evaluating the reliability of the collected data of this study. Cooper and Schindler (2006:536) define inferential statistics as the study of the gathering, organising, analysing, interpreting and presenting of data from a population through samples. Anderson, Sweeney and Williams (2011:215) maintain that inferential statistics refer to the techniques that allow the researcher to use samples to make generalisation about the populations from which the samples were drawn. Gerber-Nel, Nel, and Kotze (2005:204) maintain that descriptive statistics are mainly used in order to define the key features of gathered data in quantitative terms. They contend that descriptive statistics render simple outlines around the sample and the measures to be taken.

1.7.6 Validity and Reliability

Babbie and Mouton (2002:15) maintain that validity decides if a study has correctly measured what it was intended to measure, given the context in which it is applied or how correct the research results are. In addition, Babbie and Mouton (2002:81) purport that the degree to which results of a study are consistent at a period of time and providing a precise picture of the overall population under study, is known as reliability. The research instrument will be considered reliable if similar results can be replicated under a similar methodology. Thus, the degree of an instrument's reliability relies on its capability to bring out the same results when used recurrently.

1.7.7 Ethical Considerations

Ethics refer to established principles of moral and immoral behaviour (Cant, *et al.*, 2003:20). This research study took into consideration the individual rights of participants, and all information disclosed to the researcher by the participants was handled with the highest degree of confidentiality. This study disclosed its nature and objectives to all participants and avoids any deception as per the ethical code. The anonymity of all participants was respected throughout the research. Permission was sought from the head-offices of the retail banking institutions before the research was conducted.

1.8 OUTLINE OF THE DISSERTATION

- **CHAPTER ONE: INTRODUCTION AND BACKGROUND OF THE STUDY**

The introduction and background to the study will be covered in this chapter. Then the research problem, research objectives, hypotheses and the significance of the study will follow. Hereafter, a brief literature review will be given that will be followed by an exposition of the research methodology.

- **CHAPTER TWO: AN OVERVIEW OF THE SOUTH AFRICAN RETAIL BANKING SECTOR AND FACTORS INFLUENCING CLIENT'S PREFERENCE FOR SPECIFIC RETAIL BANKS**

This chapter will discuss the South African retail banking industry; provide an overview of relevant research and published data, as well as considering the factors that influence clients' choice of retail banks.



- **CHAPTER THREE: SERVICE QUALITY AND CLIENT SATISFACTION IN THE RETAIL BANKING**

A literature study of service quality, client perceptions and satisfaction in the retail banking sector, as well as the interaction between these concepts, will be provided in this chapter.

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- **CHAPTER FOUR: THE SERVQUAL MODEL**

This chapter will focus on an overview and evaluation of service quality dimensions from scholarly works. Service quality theories will be discussed while the use of the SERVQUAL model to enhance client satisfaction will receive consideration.

- **CHAPTER FIVE: RESEARCH METHODOLOGY**

This chapter will reflect the complete research methodology – the research design, the research instrument, the research technique, the survey population, the sample size, the sampling procedure, questionnaire design, the data collection procedure, data analysis procedure and validation.

- **CHAPTER SIX: RESEARCH FINDINGS AND ANALYSIS**

The main focus of this chapter will be reporting on the research findings followed by an analysis of the research outcomes. Firstly, the research findings will be presented in graphical and tabular form. Then an analysis of the findings will be done according to

the laid down procedure set in the preceding chapter. Lastly, a discussion of the research findings will follow.

- **CHAPTER SEVEN: CONCLUSIONS AND RECOMMENDATIONS**

In this, the final chapter of the study, conclusions will be drawn, based on the results of the study. The hypotheses will be tested while recommendations will be provided to the retail bank managers and policy makers. Finally, areas for further research will be highlighted.



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**AN OVERVIEW OF THE SOUTH AFRICAN
RETAIL BANKING SECTOR AND FACTORS
INFLUENCING CLIENT'S PREFERENCE FOR
SPECIFIC RETAIL BANKS**

2.1 INTRODUCTION

The historical origins of banking in South Africa involved the creation of banks, which focused exclusively on meeting the needs for bank credit by the farming community (Gidlow cited in Ntsunguzi, 2009:20). The banking industry has changed rapidly since then and so has South Africa, which no longer focuses on only the farming community for bank credit. While Chapter one gave an overview of how the study was conducted and also a brief overview of the literature review, this chapter presents an exposition and overview of the South African retail banking industry with the intention of providing a greater awareness and understanding of the focus area of the study as well as factors that influences client choice of retail banks.

A general overview of the South African retail banking sector and the origin and development of the five major South Africa retail banks are outlined and discussed in section 2.2 that follows.

2.2 THE SOUTH AFRICAN RETAIL BANKING SECTOR

According to Anani (2010:47), South African retail banks are operating in a very vibrant and complex environment that is characterised by fierce competition. In addition, Anani (2010:47) states that the country's banking industry has endured substantial changes since the early 1990s. Heppes and du Toit (2009:54) note that these changes include the formation of new bank legislation, the introduction of regulatory requirements as well as the emergence of banks from foreign countries in the local market. In addition, they maintain that competition from non-bank entities has become strong, scrutiny by international countries has increased and, lastly, clients have become sophisticated in terms of the products they demand as well as their service quality expectations.

Anani (2010:47) maintains that banking in South Africa originated from the British and Dutch traditions. Singh (2004:188) supports this viewpoint and states that the British Natal (NBS) today known as Nedbank, were opened (Singh, 2004:188). In the early days, the primary aim of banks was to safely keep client money or savings. As the years went by, there was a growing need for new banks; therefore, banks such as Volkskas and Trust Bank came into existence (Anani, 2010:48). Anani further purports that the need and demand for long-term finance for housing and other fixed assets, resulted in the establishment of various niche financial institutions including Allied, Natal (NBS), Saambou, SA Perm and United Building Societies.

In 1998, there was a launch of the first amalgamated banking group whereby Allied Bank, United Bank and Volkskas Bank joined forces to form ABSA Bank (Singh, 2004:188). Furthermore, early in 2002, the banking sector experienced great turmoil when Saambou bank that appeared successful, had to close down due to liquidity problems and difficulties in meeting its financial and legal obligations. In addition, Natal Building Society (NBS) also faced similar challenges and had to close down. However, due to the involvement of First National Bank and Nedbank, the banking industry stabilised (Singh, 2004).

After this general description and overview of the South African retail banking sector, more detailed expositions of the five major South African retail banks are provided in the sub-sections that follow.

2.2.1 The ABSA Group (ABSA Bank)



ABSA Group limited, listed on the South African Stock Exchange (JSE), is one of the largest financial services groups in South Africa. ABSA provides a full range of personal and business banking services, including credit cards, corporate and investment banking and wealth management products and services with a staffed outlet of 990 and 12.1 million clients. The ABSA Group is a subsidiary of Barclays Bank PLC, which holds the majority shares in the bank. Barclays Bank is a major global financial service provider involved in retail and commercial banking, investment banking wealth management and investment management services with an extensive international presence in Europe, the USA, Africa and Asia (Anani, 2010:50).

According to ABSA Group (2013), a strategic decision to unify and recreate or reinvent the ABSA brand was taken in 1998. The difficulty of multiple brands with corresponding target markets was illogical, hence, the ABSA Group decided to implement a single brand and provide a range of financial services. The ABSA group moved to a one-stop retailing bank, offering simple, uncomplicated banking relationships, value for money, stability, convenience and superior client service. However, the key challenge for the ABSA Group was staying relevant and becoming a brand of choice. This means that the ABSA Group had the challenge to combine the group of outlets into a single brand in order to provide services that are relevant to the market and meeting client expectations (ABSA Group, 2013). Therefore, the focus of the ABSA Group shifted to establishing a new corporate identity that would unite retail banking services (including financial services, properties and securities, coupled with the brand merger of four individual

retail banks and building societies) creating an ABSA brand that would effortlessly, flawlessly and effectively be accepted by a wide variety of clients and employees (ABSA Group, 2013).

On 31 December 2013, the Group had 718.2 million shares in issue and a market capitalisation of R92.3 billion. The Group had assets of R717.7 billion, 10, 9 million clients, 8 945 automated teller machines and 36 150 permanent employees (Absa-Group, 2013).

2.2.2 First National Bank (FNB)

First National Bank operates as a division of the First Rand Group which is listed on the Johannesburg Securities Exchange (JSE) and the Namibian Stock Exchange. The First Rand Group is a joined financial services group that provides a comprehensive variety of products and services to the South African Market and niche products in certain international markets. *“First Rand Limited is the second largest financial services group in South Africa after the ABSA Group by market capitalisation”* (First National Bank, 2013).



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According to Anani (2010:50), ever since the First Rand Group was established in 1998, the differentiated earnings base of the group has experienced strong growth in earnings, assets and dividends. This means that the Group is progressing and growing over the years. The author further maintains that the Group's track record has been achieved through a combination of organic growth, acquisition of other firms, innovation and a creation of extra sources of revenue through the start-up and development of entirely new businesses. The First Rand Group differentiated by its decentralised structure and owner-manager culture, has a portfolio branding strategy as well as number of leading financial services franchises, including: Rand Merchant Bank (RMB), First National Bank (FNB), Wes Bank, Momentum and OUTsurance (First National Bank, 2013).

2.2.3 Nedbank Group

The Nedbank Group Limited is a bank holding company with its principal banking subsidiary being Nedbank Limited (Nedbank, 2013). The company has its ordinary shares listed on the Johannesburg Stock exchange Limited since 1969. Furthermore, the *“Nedbank Group ranks as the fourth largest banking group in South Africa measured by assets, with a strong deposit franchise, the second largest retail deposit base, a*

client-centric wholesale and retail franchise as well as a substantial and growing bank assurance and wealth management offering” (Nedbank, 2013). Nedbank Group is South Africa’s fourth largest banking group measured by assets, with a strong deposit franchise, the second largest retail deposit base, a client-centric wholesale and retail franchise and a substantial and growing bancassurance and wealth management offering (Nedbank, 2013). **“In addition, the Nedbank Group focuses on South Africa, with the bank positioned as a bank for all, from both a retail and wholesale perspective”** (Anani, 2010:51).

The main banking services offered by the Nedbank Group consist of business, corporate and retail banking, property finance, investment banking, private banking, foreign exchange and securities trading (Nedbank, 2013). The other sources of income for the Nedbank Group are private equity, credit card issuing and processing services, custodial services, unit trust administration, asset management services and bank assurance. The Group’s Headquarters are in Sandton, Johannesburg, with large operational centers in Durban and Cape Town which are complemented by a regional branch network throughout South Africa and facilities in other Southern African countries (Nedbank, 2013). These facilities are operated through Nedbank Group’s 9 subsidiary and/or affiliated banks, as well as through branches and representative offices in certain key global financial centres that serve to meet international banking requirements of the group’s SA-based multinational clients (Nedbank, 2013).



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2.2.4 Standard Bank

The Standard Bank Group is a global bank that has African roots. It operates from 17 African countries and 21 countries on other continents, including the key financial centres of Europe, the Americas and Asia. STD Bank Group is one of the big four, full-service, South African banks. The group operates in a range of banking and related financial services. The group has a wide representation which spans 17 African countries and 21 countries outside of Africa, with an emerging markets focus. STD Bank has 746 branches in South Africa and 238 in the rest of Africa. The STD Bank Group is the largest South African banking group, ranked by assets and earnings (STD Bank, 2012). In addition, the **“Standard Bank Group is listed on the Johannesburg Stock Exchange Limited and the Namibian Stock Exchange”**.

According to Anani (2010:52), the Standard Bank Group has played a dominant role in the development of the South African economy for over 140 years by continuously

adjusting and aligning its presence in the market place with the changing needs of the country's economies, and delivering applicable banking and financial services.

Anani (2010:52) further notes that the three fundamental pillars of the Group's business include Personal and Business Banking, Corporate and Investment Banking, and Wealth. As part of the recent structural re-alignment of their business, Standard Bank identified opportunities to leverage off their existing infrastructure and specific country knowledge across developing markets (Standard Bank, 2013).

The Standard Bank group maintains high standards of Corporate Governance and is committed to advancing the principles and practice of sustainable development (Standard Bank, 2013). However, the long-term growth and success strategies of the Group include making a difference in the communities in which they operate. The Standard Bank group has in recent years concluded an amount of key acquisitions in countries like Argentina, Kenya, Nigeria and Turkey to combine their positions in targeted geographic markets (Standard Bank, 2013). In addition, Standard Bank has proclaimed that it will be entering into a strategic partnership with Troika Dialog under which the bank intends, subject to regulatory approvals, to become a 33% shareholder in Troika Dialog, which is the most recognised and largest independent investment bank in Russia. The strategic partnership of the two largest banks in Africa and China, namely, Standard Bank and the Industrial and Commercial Bank of China (ICBC), with China owning a 20% stake in Standard Bank, will generate significant collaboration benefits and new capacity for growth in the near future. (Standard Bank, 2013).

2.2.5 Capitec Bank

Capitec Bank was incorporated in South Africa on 23 November 1999, registered as a bank controlling company on 29 June 2001, and was listed in the Banks sector of the JSE Limited ('JSE') on 18 February 2002. It conducts its operations through Capitec Bank, a retail bank that has changed the landscape of South African banking.

The impact made by Capitec since its establishment is reflected in its being named a Great Brand of Tomorrow by Credit Suisse in 2010, one of only 27 brands worldwide to receive this award and the only South African brand to do so. Credit Suisse rated its top brands on the criteria of innovation, aspiration and scale. Capitec Bank was also named as the top performing company of the top 100 companies on the JSE in 2012 by the Sunday Times. This accolade is based on the 5 year growth performance of the share price.

Capitec Bank provides innovative transacting, saving and unsecured credit products to individuals within South Africa. The building blocks of the business are affordability, accessibility, personal service and simplicity. The bank seeks to differentiate itself from other banks by providing a unique experience through price, positioning, service and product. It defines retail banking as the basic needs of the consumer associated with transacting (receiving and paying money), saving money in times of surpluses and borrowing money in times of shortages.

In the above section we have provided a detailed review of the five leading retail banks in South Africa, the next section provides a comparative analysis of cost of banking among the top five retail banks.

2.3 COMPARISON OF THE TOP FIVE RETAIL BANKS IN SOUTH AFRICA

This section compares the five banking institutions under study, firstly, looking at the requirements for access to premium banking services as well as the monthly fees associated with such accounts. Secondly, a comparison will be made of the monthly fees of the entry level retail banking accounts to gauge their affordability.

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2.3.1 Comparison of Retail Bank Requirements and Fees for Premium Clients

While South Africa's banks compete vigorously to offer the most affordable banking account for consumers, the big four have not forgotten about their premium clients. Most South African banking clients will be familiar with the wide range of saving and transactional accounts available from Absa, Capitec, FNB, Nedbank and Standard Bank (Quinton, 2014). However, the country's top earners find themselves open to the world of private banking – the top-tier of banking accounts, which are only open to clients who earn a minimum high-level income, or have multi-million rand investment portfolios.

According to source material available from the banks, Standard Bank currently has the lowest threshold for entry into the premium banking market. Standard Bank's most premium offering for personal markets is a Private Banking account, which is available for clients who have a minimum income of R58,000 a month, with a minimum monthly deposit of R35,000.

On the other side of the spectrum, Nedbank's Private Wealth options carry the highest threshold for entry, requiring a minimum annual salary of R1.5 million (approximately R125,000 per month), or investable assets greater than R5 million.

FNB's entry requirements begin at a minimum R1.1 million per annum salary, or investable assets of R3 million. Monthly maintenance fees on the accounts range from lower options to premium options. For the sake of this comparison, we looked at the most expensive option available on each account.

The monthly service fees listed below cover each bank's premium bundled option, which varies across each bank. FNB's bundled pricing, for instance, removes the fee entirely if a credit balance of at least R10, 000 is kept each month.

Generally speaking, however, the bundles offer a multitude of free transactions.

Table 2.1: Premium Banking Salary Requirements and Monthly Fees

Bank	Account	Monthly fee	Minimum Salary requirement
Standard Bank	Private Banking	R299	R58,000 (R700,000 pa)
Absa	Private Banking	R345	R62,500 (R750,000 pa)
FNB	Private Clients	R349	R91,000 (R1.1 million pa)
Nedbank	Private Wealth	R1,100	R1.5 million pa

Source: (Quinton, 2014)

While Capitec has noted growth in *“premium”* clients making use of its Global One account, the bank does not offer a comparable private account product to be included in this comparison.

2.3.2 Most Affordable Entry Level Banking Account Fees in South Africa

As South Africa's top five banks are in the position of most affordable in the country, Writer (2014) looks at which institution offers the cheapest entry into the mainstream market. According to FinMark Trust, approximately 75% of the South African adult population (aged 16+) is considered banked. This includes about 10 million adults who receive social grants (through SASSA), of which 8.2 million (82%) receive less than R3, 000 a month. This leaves a large gap in the market for the formal banking sector to grow their businesses with potential entry-level banking clients. Each of South Africa's banks offers a low-cost entry-level transactional account which allows clients to pay for transactions as they bank, with a minimal monthly maintenance fee.

Capitec's Global One account has grown to be a dominant player in this field – but has also gained wider appeal and now competes with the four major banks in middle-level

markets. However, while the Global One account (which is currently the only transactional account offered by Capitec) compares rather favourably to its middle-market competitors, it is only the third-cheapest account on offer to entry-level clients.

FNB Easy carries a monthly account fee of R4.95 and charges R4.55 per R1, 000 withdrawn at native ATMs (to a maximum of R9.10), effectively undercutting Capitec by 5 cents. However, even FNB's Easy account is still only the second cheapest available across the 5 major players.

In December 2013, after transitioning to Barclays Africa, Absa admitted that it had lost a large number of clients – specifically in the lower income bracket – to Capitec. This led to an aggressive push from Absa to compete directly with Capitec in the entry-level market.



According to Reuters, Absa Personal and Business Banking CEO, Craig Bond said that the group had lost *“hundreds of thousands of clients* to Capitec and pegged a figure of R1.2 billion to spend over the next three years on refurbishing its branch network in South Africa in a bid to consolidate.

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Consequently, Absa, which proved to be the costliest middle-market account for withdrawals, now has the cheapest entry-level account with its Basic Transactional pay-as-you-use offering.

Table 2.2: Entry Level Banking Withdrawal and Monthly Fees

<u>Bank</u>	<u>Account</u>	<u>Monthly Fee</u>	<u>Digital Banking</u>	<u>Withdrawal Fee (Native)</u>	<u>Withdrawal Fee (Other)</u>
Absa	Transact	R4.50	Free	R4.20	R7.00
FNB	Easy	R4.95	Free	R4.55 per R1,000	R9.10
Capitec	Global One	R5.00	Free	R4.60	R7.30
Nedbank	Ke Yona	R5.00	Free	R5.50	R7.50
Standard Bank	Access	Free	Free cellphone banking	R5.50*	R6.70 + R3,50 + 1,10% of value

Source: (Writer, 2014)

While Standard Bank offers its Access Account with no monthly maintenance fee, the bank's withdrawal charges are limited to a flat rate only for the first R1, 000 taken out of

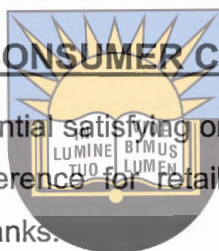
the account, after which a R3.50 + 1.10% of value charge will apply. The bank's charge to withdraw cash from another ATM is also the costliest by default, and its digital banking offering on the account also only applies to cell phone banking.

The rates above are based on pure PAYU prices and don't include value plus or any other bundles offered by the banks. The basic transactional accounts, without bundles, place the onus on clients to be aware of what transactions they make. The accounts covered do not include child, student or senior or any other special accounts offered by the banks.

After drawing a comparison between the five top retail banking institutions, the next section will discuss the factors that influence client's choice of retail banks.

2.4 FACTORS INFLUENCING CONSUMER CHOICE OF RETAIL BANKS

This section discusses the most influential satisfying or dissatisfying factors, revealed in literature, that determine client preference for retail banks or, on the other hand, resulting in switching between retail banks.



2.4.1 Security

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According to Mocklis (2009:1452), the desire of an individual to feel secure, reflects the need to bank with a reliable bank that assures confidentiality and dependability during the process of making financial transactions. A study conducted in Singapore by Gerrard and Cunningham (2001:112), investigated retail banking client preferences in selecting which bank to patronise. The research findings show that, for clients to become loyal, banks should emphasise a feeling of security in utilising the electronic services and in rendering high quality service to clients. This, therefore, implies that security is very crucial to clients, especially in the light of the high crime rate in South Africa.

Gerrard and Cunningham (2001:112) point out that the main focus of any promotion campaign should be on the provision of a sense of security to clients, more particularly, by emphasising that the bank is trustworthy and will be in operation permanently (Gerrard & Cunningham, 2001:112). Should clients feel insecure with their bank or during financial transactions, they are bound to consider dealing with another bank that will provide them with the security they desire. According to Sharma and Rao (2010:63), clients are risk-conscious especially with services that involve their finances, therefore, banks should at all times try to build a reputable brand image as clients prefer to hold

accounts in well-known and reputable banks where security measures are in place to assure clients of the safety of their savings and deposits.

2.4.2 Convenience

Mocklis (2009:1455) maintains that many clients, mostly the youth and educated people prefer the use of electronic services (ATMs) which give them quick and convenient access to the desired bank services. There are times that the use of ATMs is more effective than receiving internal service by a bank employee that may be subjected to long queues and waiting time. A study conducted by Sharma and Rao (2010) on bank selection criteria in Delhi, reveals that convenience is the second important banking determinant, influencing consumer choice of retail banks.

The observations of Chigamba and Fatoki (2011:68) about the importance of factors such as ***“free parking facilities, free telephone banking as well as free home cash delivery”***, suggest that consumers put a premium on convenience during banking engagements and are also time-conscious. Rehman and Ahmed (2008) support these viewpoints and further claim that convenience is one of the most prominent factors among factors like value-added services, online banking facilities and the overall banking experience, that influence client preferences. Cicic, Brkic and Agic (2004:5), however, conclude that technology and relationship with clients represent slightly less important factors. This, therefore, means that clients prefer retail banking services they are comfortable with, than services that are inconveniencing them. It could thus be concluded that, based on the busy schedules as well as the financial status of clients, they prefer services that give ease of operation, that are responsive and quick and that deliver high quality services at affordable prices.

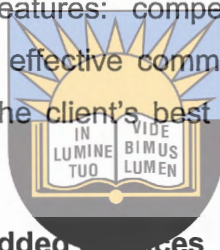
2.4.3 Proximity

Almossawi (2001) maintains that proximity and service quality are important selection factors of a retail bank used by clients. Chigamba and Fatoki (2011:68) maintain that clients prefer to bank with retail banks with branches or ATM facilities that are close to where they stay. Almossawi (2001:120) adds that even though there are schemes which enable ATM card-holders to use ATMs of any bank, they still need to visit their bank when necessary, to perform some services which cannot be done through ATMs. Almossawi further states that proximity gives credibility to the importance of bank selection factors including the availability of parking space near the bank, courtesy and the pleasantness of bank personnel. Cicic, Brkic and Agic, (2004:5) point out that,

factors such as *“close proximity to home and work and assurance are perceived to be the least important criteria on the choice of banks”*.

2.4.4 Assurance

Due to the fact that clients who patronise banks are not all income earners, they want the assurance of dependable services from the bank. Assurance is derived from the promises that banks give to clients in terms of trustworthy administration services that include: the levying of competitive interest rates and bank charges, the provision of accurate monthly statements, timely cell phone or e-mail updates on every transaction done by the account holder, etc. This considers the knowledge and courtesy of employees as well as their ability to convey trust and confidence. The assurance dimension includes the following features: competence to perform the service, politeness and respect for the client, effective communication with the client and the general attitude that the server has the client's best interest at heart (Fitzsimmons & Fitzsimmons, 2001).



2.4.5 Service Provision and Value Added Services

According to Sharma and Rao (2010:61), clients need to be totally assured that banking services will be provided fast, interest rates will be reasonable and overdraft facilities available. Services such as credit cards and short-term as well as long-term loans, respectively, show that these value added services are important factors in selecting a bank. Mocklis, (2009:1456) claims that service provision came second in terms of relative importance considered by female clients. The importance of service provision is revealed in the study conducted by Gerrard and Cunningham, (2001) on client's preferences for selecting banks to bank with in Singapore. Sharma and Rao (2010:63) emphasise that banks have to understand and acknowledge that clients do not open an account for only saving money but also for value-added services, like loan services, including car loans, personal loans, and house loans.

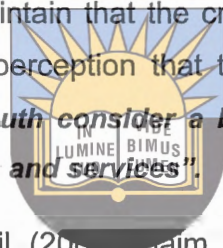
2.4.6 Service Fees

Consumers expect to have their needs satisfactorily satisfied at the lowest cost. In other words, clients demand the optimal delivery of high quality financial services. This, therefore, implies that clients prefer service charges as one important factor before choosing a bank to bank with. When a bank makes decisions about service charges, the geographic area in which the target clients are based, the general standard of living of the target market, as well as the demographic factors of the target market, must be

taken into consideration because, low income earners, students and people from rural areas, people with big families and people who have debts would prefer low or cheaper banking service charges. Cicic, Brkic and Agic, (2004:5) claim that cost or service charges is another important factor in determining which bank a client chooses to bank with.

2.4.7 Reputation and Brand Name of the Bank

A study conducted by Almosawi (2001:115) reveals that a bank's reputation is a key factor in retail banking preference and selection. Client confidence in or dissatisfaction with the management of retail banks suggests that the particular bank's management is primarily responsible for the success or failure of the bank (Chigamba & Fatoki, 2011:69). In addition, the authors maintain that the creation of a positive image in the minds of consumers, gives them a perception that the bank is client focused. The authors further maintain that *"the youth consider a brand name to be a major factor determining their preference for goods and services"*.



Similarly, Haque, Osman and Ismail (2008) claim that clients prefer to deal with reputable and popular banks. According to Chigamba and Fatoki (2010:69), banks can attract clients by engaging in various public relations and marketing activities that would be recognised and impress clients. Banks that satisfy and appeal to the majority of the population will continue to grow in popularity and market share because clients want to belong to a bank that is trusted and recommended by others.

In addition, Sharma and Rao (2010:123) maintain that banks should continuously focus on building a sought after brand image because clients prefer to have accounts at prominent banks. Findings from the study by Almosawi (2001:123) confirm that clients have a high preference for banks of repute, offering ample parking space, proximity, pleasant staff–client relations as well as self-help ATM services available in several convenient locations on a 24-hour basis.

2.4.8 Individual Recommendation

According to Almosawi (2001), word of mouth recommendations of friends and relatives have a substantial influence on client preference for a specific retail bank despite the fact that young people prefer to act independently. In contrast, Gerrard and Cunningham (2001) maintain that third party influences are of little importance to clients in retail bank selection. Mocklis (2009:1476) agrees that influences by word of mouth of

existing clients, marketing promotion and attractiveness are among the three least important factors for both male and female clients in selecting a retail bank. Gerrard & Cunningham (2001:104) also maintain that third party word of mouth influence was the least important dimension in client preference for a specific retail bank. The same outcome was reflected in the reports by Almosawi (2001) and Mokhlis, Mat and Salleh (2010), all claiming that people influence was the least important factor determining client preference for a specific retail bank and was ranked lowest for all ethnic groups in South Africa.

2.4.9 Technology

According to Almosawi (2001) and Lenka; Suar and Mohopatra (2009); technology is an important determinant of client preference for retail banks. Chigamba and Fatoki (2010:69) state that managers should realise that people appreciate the use of advanced technical service devices such as ATMs. The latter provide quick and convenient access to retail bank services, and are preferred to aspects like hospitality, condition of the bank's premises and the location of the bank.

According to Karatepea, Yavas and Basalus (2005) and Habibi and Sharma (2010), total client satisfaction is efficiently achieved when the management searches and identifies exactly what clients want. Gerrard and Cunningham (2001); Kaynak and Harcar (2005); claim that electronic services are relevant and important. Chigamba and Fatoki (2010:69) remark: ***“Even though ATMs were not available for that long, the current well-educated generation has been exposed to modern technology in their higher education which will increase their drive to patronise banks that are regarded as technology leaders”.***

2.4.10 Staff Courtesy and Competence

Cicic, Brkic and Agic (2004) and Maddern, Maull and Smart (2007) argue that incompetency and lack of courtesy of bank employees are major reasons for clients to switch banks. Their studies reveal that clients highly regard knowledgeable and competent personnel, coupled with friendly and courteous values, as the most important criteria in patronising banks. The authors further argue that, contrary to the studies conducted in developed countries that found that the most important retail bank selection determinants are related to technology, friendliness of staff plays a major role in the bank selection process.

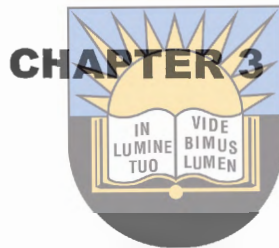
2.5 CONCLUSION

The purpose of this chapter was to provide an overview of the South African retail banking sector as well as the factors influencing consumer choice of retail banks. General observations, research and evidence from the latest World Competitiveness Report indicate that the South African financial services sector is lucrative and efficient. It compares favourably with the financial service sector of the developed countries. It is, however, evident that competition is fierce in the retail banking sector of South Africa among the major banks Absa, FNB, Nedbank, Standard Bank and Capitec Bank, all listed on the JSE.

The next chapter will provide a review of literature on service quality and client satisfaction in retail banking.



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CHAPTER 3

SERVICE QUALITY AND CLIENT SATISFACTION

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IN RETAIL BANKING

3.1 INTRODUCTION

Service signifies all the actions implemented by firms that maintain a relationship between enterprises and their customers. Since customer satisfaction is the objective of most successful businesses, the service quality needs to be measured to establish the success rate of service quality on customer satisfaction. There have been various efforts by different writers to measure overall customer satisfaction (Brink & Berndt 2008:70).

This chapter reviews the literature on the concept of quality in general and, more specifically, the concept and characteristics of service quality and how it affects client satisfaction in the banking sector.

The concepts of quality and service as well as the theories of client satisfaction and service quality are explained in the sub-sections that follow.

3.2 QUALITY DEFINITION

The word 'quality' is often used to describe specific characteristics of products and/or services meeting the purpose for which they are intended or demanded for. It lacks a general definition because it suggests a different meaning to different individuals and firms. As a result, there have been various definitions of quality from literature in an effort to form a mutual understanding. Recently, the concept of quality was primarily related with products, thus, quality issues became of importance in the manufacturing era and that majority of the quality definitions possess product characteristics. Therefore, quality issues became important in the manufacturing arena, as a result, the majority of the quality definitions include product characteristics. Quality was originally seen as a protective mechanism but it is now predominantly seen as a competitive weapon and advantage for developing new markets as well as increasing market share (Davis, Acquilano and Chase, 2003:20).

3.3 DESCRIPTION OF SERVICE

Brink and Berndt (2004:3) describe 'service' as any benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. On the other hand, Zeithaml, Bitner and Gremler (2006:4), explain 'service' as all interacting economic activities that jointly collaborate in creating customer satisfaction. This implies that financial services rendered by retail banks need to be evaluated on an on-going basis in that they create relationships between the banks and their clients.



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Furthermore, Johns (2000:960) states that a service could imply an industry, a performance, an output or offering or a process. As compared to manufactured products, services are intangible and less measurable. Service firms have a predominant percentage of their employees in direct contact with their clients.

Service providers identify service as a procedure that comprises of essentials like service operation, personal attentiveness and interpersonal performance that are managed differently in several industries. Clients on the other hand view a service as an experience of life which consists of essentials of core need, choice, and emotional content (Johns, 2000). These service elements are present in diverse service outputs and encounters and affect each individual's experience differently. The features important to services include value (benefit at the expense of cost), service quality and interaction.

Service quality is a concept that has stimulated significant interest and debate in research. There are problems with defining and measuring it, with no general consensus emerging on either (Wisniewski, Eshghi, Roy & Ganguli (2008) define service quality as the general valuation of a service by customers while Brink and Berndt (2008:55) suggest that high quality customer service is the key to improved customer relationships; a better relationship with customers culminates in enhanced customer retention, customer loyalty and more notably, profitability. An important phenomenon of customer satisfaction is that it is *"hard to win and easy to lose"*; therefore, should customers not be satisfied, they will merely switch to a competitor service provider (Brink & Berndt, 2009). Service is said to be of good quality when it constantly meet or exceed client expectations. Parasuraman, et. al. (1985 - *The founder of the SERVQUAL model that has been widely accepted for the measurement of service quality*) argue that service quality is the measure of service rendered in comparison to expected service performance.

3.4 CHARACTERISTICS OF SERVICES

Whilst Johns (2000:962) claims that services are frequently termed as intangible and its output seen as an activity rather than a tangible object, he also concedes that some service outputs have some substantial tangible components like physical facilities, equipment and personnel. Gummesson (2001) postulates that a service design that entails a service, the service system and the service delivery process, comprises of

staff, technology, the physical environment, and the consumption goods. The physical aspects are important for high quality service delivery.

Bateson (2004) outlines four distinct characteristics of a service to be intangibility, heterogeneity, inseparability and perishability. Unlike a product where tangible cues exist to enable consumers to assess the quality of the product, the quality of the service is determined by parameters that largely come under the domain of experience and credence properties and are as such difficult to measure and evaluate (Zeithaml and Bitner, 2003:30).

Having discussed the concept of quality, the description of a service and its characteristics, the impact of service quality on client satisfaction will be discussed in the next section.

3.5 IMPACT OF SERVICE QUALITY ON RETAIL BANK'S CLIENT SATISFACTION



With the continuous increasing competition in the marketplace resulting from trade liberalization and the free economy model, it is vital for banks to succeed in client longevity, through excellence in service delivery (Lassar, Manolis and Winsor 2000). Service quality is known for its potential in guaranteeing client satisfaction and retention, operational efficiency and profitability of an enterprise (Cronin, 2003).

Since customer satisfaction has been considered to be based on the customer's experience of a particular service encounter (Cronin & Taylor, 1992), it is in line with the supposition that service quality is a basic determinant of customer satisfaction, because service quality is derived from the outcomes of the services rendered by service providers in enterprises. Lewis (1993:4-12) postulates in her theory that ***"definitions of consumer satisfaction relate to a specific transaction (the difference between predicted service and perceived service) in contrast with 'attitudes', which are more enduring and less situational-oriented"***. This is supported by Zeithaml, et. al. (2006, p. 106-107). Regarding the relationship between customer satisfaction and service quality, Oliver (1993) first suggested that service quality would be an antecedent of customer satisfaction, regardless of whether these constructs were cumulative or transaction-specific. Some researchers found empirical support for this supposition above (Anderson & Sullivan, 1993; Fornell, Johnson, Anderson, Cha, & Bryant, 1996; Spreng & Mackoy 1996); where customer satisfaction came as a result of service quality (*this theory is regarded as the brainchild of these researchers*).

Literature confirms that client satisfaction has a strong positive relationship with client retention in the retail banking (Kandampully and Suhartanto, 2000). The strong positive relationship means the clients will recommend the bank to other clients. Significantly, the bank can be guaranteed a repeat and steady client base. Cohen, Gan, Yong and Chong (2007) maintain that a loyal client takes less of the firm's time during dealings and are less fussy about tariff changes. Reichheld, Markey, and Hopton, (2000) state that firms with a higher level of client loyalty, experience up to twice as much client growth compared to their rivals.

Having completed the discussion on the impact of service quality on client satisfaction, the theories of services quality will be discussed in the next section.

3.6 THEORIES OF SERVICE QUALITY

Theories of service quality that have been reported in literature on research outcomes on retail or commercial banks include the theory of constraints and the Service Quality Model (Gap analysis). These two theories are now discussed below.

3.6.1 The Theory of Constraints

According to Mabin and Balderstone (2003: 368), the Theory of Constraints (TOC) is a flexible systems methodology that was established to help people and firms to think about their problems, develop innovative solutions and implement those solutions effectively in the process of solving their problems. The authors assert that this theory of constraints was established by Eliyahu Goldratt in year 1990. Chigamba and Fatoki (2011) purport that the constraint or limitations started when firms would lose clients to competitors or be faced with a need to attract more clients in order to sustain profitability. The authors further maintain that firms apply the theory of constraints to evaluate the reasons for the loss of clients or to the factors that enhance client loyalty and attraction. Factors that cause clients to switch between financial service providers include quality constraints, delays or inefficiency in service delivery and impoliteness of staff, among others (Chigamba & Fatoki, 2011).

According to Mabin and Balderstone (2003), clients expect service and product quality utility to exceed the sacrifice they are willing to make to purchase those products and services. In other words, clients expectations should be exceeded in terms of the so-called value proposition where value = benefits - cost. Chigamba and Fatoki (2011) state that the theory of constraints is very appropriate to retail banks because of the

competitive pressures, the rapidly changing financial environment and the need to attract and retain clients in the interest of sustainability and profitability. Therefore, gaining understanding of the factors that persuade clients to patronise a specific retail bank, is one way to reduce or even eliminate some of the constraints deterring retail banks of accomplishing their wealth maximisation objective (Bramorski, Madan & Motwan, 2002).

Below are the theories of constraints stated by (Mabin and Balderstone, 2010).

- Each and every firm must have at least one constraint or limitation. If that was not the case, then an enterprise would make unlimited profit;
- a constraint, therefore, is anything that limits an enterprise from exceeding its performance objective or goal; and
- the existence of a constraint presents opportunities for improvement. Contrary to ordinary thinking, the theory of constraints views constraints as being positive and not negative. In other words, this theory views a constraint as a platform that opens doors for opportunities and creativity or innovation on the bases that it requires people to think and deviate from the normal routine of doing things.

The fact that constraints limit the performance of an enterprise means that a continuous rise of the firm's constraints will improve performance hence quality. In other words, if a firm is faced with a limitation, doors of creativity will be opened for that will boost performance and resulting quality.

3.6.2 Service Quality Model (Gap Analysis)

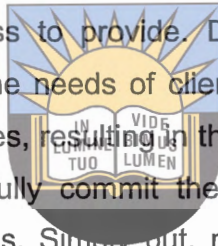
According to Kotler and Keller (2006:412), the theory of Gap analysis was developed by Parasuraman, Berry and Zeithaml in 1985. When there are differences between client expectations and perceptions of service, it either causes a degree of client dissatisfaction or a degree of client satisfaction. Hoffman, Bateson, Wood and Kenyon (2009:403) maintain, that in order to improve a client's perception of service quality, the major factors that determine client expectations and perceptions should be theoretically explained through gaps. Support of this viewpoint can be found in the works of Kotler and Keller (2006:412). According to Parasuraman (2004) and Tahir and Bakar (2007), the quality Gap is divided into the following **FIVE** secondary gaps, the sixth gap added by Lovelock 1994 will also be discussed:

Gap1 - Knowledge Gap

This refers to the gap between what clients actually expect and what management thinks or assumes (perceive) as what clients expect. This gap arises when management fails to correctly determine or identify the needs of clients through undertaking in-depth studies about client needs and wants such that there is inconsistency between what the clients want and what the firm thinks the clients want.

Gap 2 - Standard Gap

This gap refers to the inconsistency between the management perceptions of client service quality expectations and service quality specifications or provisions. In other words, it refers to the irregularity between what management believes the clients want and what clients expect the business to provide. During the process of this Gap, management may correctly identify the needs of clients, but fail in setting a specified performance standard for its employees, resulting in this gap. In order to close this gap, the management of banks should fully commit themselves to the development of services standards on a regular basis. Simply put, management conducts marketing research and manages to identify the needs and wants of clients, but fails in setting performance standards to satisfactorily provide in the needs and wants of clients.



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Gap 3 - Delivery Gap

This gap refers to the absence of consistency between service quality specifications stipulated by management and the actual service quality delivered by employees to clients. This implies that employees fail to perform in accordance with management's stipulated specifications of service quality provision to clients. The failure on the part of employees to meet the exact service delivery expectations of clients as laid down by management, may be caused by insufficient staff training, incapability and unwillingness of employees to perform, a lack of motivation and inadequate quality control systems.

Gap 4 - Communication Gap

The communication gap refers to the gap between service delivery and the external information (communication) regarding promises made or implied by the firm to clients. This means that over-promising about service delivery communicated to clients, do not meet the actual service delivered by the firm to the clients. In other words, the firm raises client expectations through these communications (over-promising) but the service actually delivered, differs from service communicated to them. Examples of

communication mediums implemented to communicate with clients, include social media, advertising, promotions, publicity and client contracts.

Gap 5- Service Gap

The service gap refers to the lack of agreement between the client's service quality expectations and service quality actually received. Furthermore, this refers to the difference between the consumers' internal perceptions and actual service quality received. This inconsistency arises when the clients' perceptions of service quality differ from the actual service quality delivered. Therefore, firms should divert from promising too much, but should deliver more than they promise.

The most appropriate gap that clearly defines service quality is gap 5. While the other gaps play important roles in the delivery of quality services, the service gap must be identified by banks in order to attract and retain clients in the interest of long-term sustainability and profitability maximisation.



Gap 6- The perception Gap

Lovelock (1994) added the sixth gap to the model, Service Delivery and Perceived Service, The Perceptions Gap. According to the responses of focus group participants, the judgments of high and low service quality depended on how consumers perceived the actual service performance in the context of what they expected, and GAP 5 showed the expected service-perceived service gap.

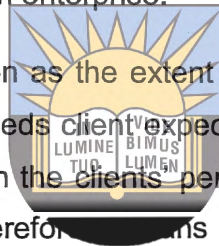
The theories of service quality as well as the gap analysis have been discussed in this section; the next section will focus on client satisfaction and the theories on client satisfaction.

3.7 CLIENT SATISFACTION

Buttle (2009:44) posits that client satisfaction has been highly researched and has been defined and measured in numerous ways by different researchers. The definitions of client satisfaction by different authors are closely related. Baran, Galka and Strunk (2008:20) define client satisfaction as a "**post purchase evaluation of product or service quality given the pre-purchase expectations**". Meaning that, when experience exceeds expectations, one is satisfied while when expectations exceed experience, one is dissatisfied. Gustafsson Johnson and Roos (2005) define client satisfaction as an overall evaluation of the performance of an offering to date. This overall satisfaction has

a strong positive effect on client loyalty intentions across a wide range of product and service categories.

In order for a firm to be able to persistently improve their value offering to clients, they should establish client satisfaction levels with the firm's current offering (Walker, Boyd, Mullins & Larreche, 2006:239). The authors further explain that useful measures of client satisfaction should examine client expectations and client preferences. Santouridis and Trivellas (2010:322) define client satisfaction as the overall response, measured by the inconsistency between the client's expectations and the actual performance of the product or service. Chen (2008:711) further elaborates, stating that overall satisfaction is when a client's subjective post-consumption evaluation is based on encounters and experiences with an enterprise.



Kotler (2006) defines client satisfaction as the extent to which a product's or service's perceived performance meets or exceeds client expectations. The author further states that client satisfaction is dependent on the clients' perceived performance in relation to the clients' expectations. This, therefore, means that if a client perceives the performance of a product or service as being below his or her expectations, the particular client gets dissatisfied. Swarc (2005:4), however, mentions that if the product or service performance meets client expectations, the clients get satisfied and if the performance exceeds client expectations, the clients get highly satisfied or delighted. Highly satisfied clients make repeat purchases and make recommendations to others about their positive experience with the product or services.

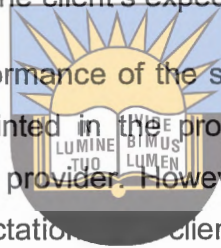
Buttle (2009:44) claims that the most common way of measuring client satisfaction is to compare the clients' perception of an experience with a product or service, or some part of it, with the client expectations of the particular product or service. Kotler and Keller (2006:141) purport that it is crucial to build and maintain good client relationships, because they manifest in client support where word of mouth flourishes. The authors further maintain that clients nurture relationships that exist because they want it to continue out of free will and not because they feel obligated to continue with the support.

Past research suggests that service quality and client value largely affect the client satisfaction outcome (Chen, 2008:711). Hsu, Chen and Hsueh (2006:440) claim that only a limited number of researchers actually observed how the frequent monitoring of client satisfaction factors would provide meaningful information to enterprises that could

not only enhance strategic and tactical decision-making but also support the value-proposition in rendering more satisfactory products and services to their clients. In addition, the authors highlighted the importance of frequently measuring client satisfaction levels and formulated meaningful questions that a client satisfaction survey should contain.

Nyadzayo (2010:18) suggests that a firm should always ensure that client needs and wants are optimally satisfied; the focus should be on understanding client value and service quality first, because all clients eventually want to buy a product or service that is of great value and exceeding satisfaction expectations. In general, satisfaction is a person's feelings of pleasure subsequent to the comparison of an experienced result with another experience in relation to the client's expectations.

In the case of banks, when the performance of the service falls below what the client expected, the client will be disappointed in the product or service and, eventually, dissatisfied with the bank as service provider. However, if the product's performance matches or exceeds the client's expectation, the client will be more than delighted and satisfied.



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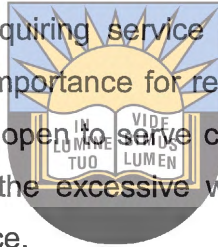
Grover and Vriens (2006) purport that there is ample research and theoretical support in literature that client satisfaction does not just occur on its own. It occurs as a result of a range of antecedents which include mood and attitude. These antecedents are discussed by the authors as follows:

- **Moods:** - A mood is defined as a *“feeling or emotion which is non-cognitive or is subjective and which plays a role in satisfaction formation and being emotionally triggered”*. The client's mood prior to the service encounter may influence the level of satisfaction that the individual derives from such a service.
- **Attitude:** - An attitude is *“a hybrid or combination affective-cognitive of clients, based on many separate evaluations of the product itself and deliberate information processing”*. This means that an attitude does not result from a single factor of a product or service, but rather from a combination of distinct assessments of the product or service by the consumer. When an individual develops an attitude towards a service provider or the product or service offered, this will affect their satisfaction rate.

Theories of client satisfaction identified in the scrutinised literature about the banking sector include the Queuing theory and the Zone of Tolerance theory. These two theories are discussed below:

3.7.1 The Queuing Theory

Nosek and Wilson (2001:275) state that the Queuing theory makes use of mathematical models and performance measures to evaluate and improve client turnover or flow through the queuing system. The Queuing theory has been used in the past to assess things such as staff schedules, the working environment, productivity, client waiting time, and the client waiting environment. The Queuing theory has implications for client satisfaction and the quality of service. This has a massive impact on the ability of retail banks to attract and retain clients. Michael, McManus, Michael, Long, Cooper and Litvak (2004) maintain that queues or waiting lines occur when the demand for a service facility exceeds the capability of that facility, that is, the clients do not get service immediately upon request, but must wait for assistance from the staff. Some clients wait when the total number of clients requiring service exceeds the number of service facilities available. Therefore it is of importance for retail banks to make a decision on the number of teller windows to keep open to serve clients during various hours of the day so as to avoid the queuing or the excessive waiting lines that clients have to tolerate before getting actual assistance.



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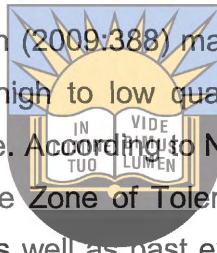
Nosek and Wilson (2001:279) argue that physical, physiological and emotional factors have an effect on the clients, as well as their perception of the waiting or queuing experience. The authors' further claim that better understanding of the queuing theory and the numerous measures associated with client waiting time can lead to bank managers making decisions conducive to the satisfaction of all banking clients. Clients that respond adversely to extended waiting periods in queues to be serviced, will switch to other banks and in the process spread negative word-of-mouth about his or her experience contributing to the bank developing a negative reputation.

3.7.2 The Zone of Tolerance Theory

The Zone of Tolerance theory was developed by Parasuraman in 2002. The author suggests that perceptions on service quality are dependent on the client's expectation of the service. Sachdev and Verma (2004) state that Zone of Tolerance theory is a: ***"conceptual model that can be defined as the area between adequate and desired service expectations"***. This definition reveals that clients assess service performance against two standards: what they desire and what they feel acceptable. However, the zone or area of tolerance separates desired service from adequate service. According to the authors, the two levels of client expectations are; adequate and desired service

expectation. Desired expectations refer to 'wished for' level of performance which is a combination of what the client believes can be and should be. ***“Adequate expectations refer to the level of service the client will accept in the light of certain controllable resource constraints”*** (Sachdev & Verma, 2004). This indicates that adequate service level is always lower than the desired service level because desired service level is subject to client beliefs and needs, whereas adequate service level is not (Sachdev & Verma, 2004). The authors further maintain that where performance exceeds desired service, clients will be delighted and satisfied. However, if service performance is below the adequate level of service performance, client dissatisfaction will occur (Sachdev & Verma, 2004). Therefore, the extent to which clients identify and are willing to accept this difference is called the 'Zone of Tolerance' (Sachdev & Verma, 2004).

Hoffman, Bateson, Wood and Kenyon (2009:388) maintain that the Zone of Tolerance is the level of quality ranging from high to low quality and reflecting the difference between desired and adequate service. According to Nadiria, Kandampully and Hussain (2009:1556), factors that influence the Zone of Tolerance, include the price, physical facilities, advertising or promotions, as well as past experience. The zone of tolerance theory has implications for the quality of service offered by retail banks to clients and can impact on their ability to attract and retain clients.



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Having discussed client satisfaction and theories related to client satisfaction, the next section will be on the benefit of client satisfaction.

3.8 BENEFITS OF CLIENT SATISFACTION

According to Singh (2006), clients are the driving force of a firm's existence and instead of clients depending on firms; firms are very much dependent on their clients. This means that clients are the reasons why firms are established and firms can never survive or even exist when there are no clients to cater for. Because clients bring so many important benefits to firms, many firms, including banks, are focusing on client satisfaction, loyalty and retention. The following are some of the basic benefits of firms for achieving client needs satisfaction that were identified by Lamb, Hair, McDaniel, Boshoff and Terblanche (2004:6):

- Lower acquisition cost: acquisition costs are referred to as the costs of getting or acquiring new clients. These costs include advertising, public relations and promotional expenditure. These costs refer to the money spent on getting the products or services known to the clients and attracting them. Given the assumption

that client satisfaction leads to client loyalty, a firm that achieves the goal of satisfying clients will reduce the costs involved in acquiring new clients.

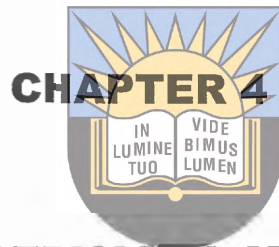
- Base profit: this refers to the profit gained on the basic purchases made by clients unaffected by time, loyalty or efficiency. Client satisfaction increases the base profit of the firm.
- Referrals: this is also known as word-of-mouth publicity. Satisfied clients usually recommend the firm to other potential clients. This provides credible and no cost advertising for the firm because the recommendations are coming from people who actually had a real encounter with the recommended firm.
- Cost savings: increased client satisfaction usually has the effect of reducing the overall costs of the firm.

Having looked at literature on service quality and client satisfaction, the conclusion to this chapter is presented in the last session.

3.9 CONCLUSION

This chapter provides a literature review on the concept of service quality and how it affects client satisfaction. Various theories of service quality and client satisfaction were explained in order to measure and improve service quality and client satisfaction in the retail banking sector. Service quality constitutes clients satisfaction, client satisfaction results in client loyalty and their lifetime value. The presence of both client satisfaction and service quality influence the general behaviour of clients. Therefore, this means that service quality and client satisfaction serve as determining factors for which bank clients choose to patronise.

The next chapter will be based on the SERVQUAL model and how it can be used to measure service quality.



CHAPTER 4

THE SERVQUAL MODEL
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4.1 INTRODUCTION

An array of factors or determinants has been identified in the literature for measuring service quality. For instance, Sachev and Verma (2004) measure service quality in terms of customer perception, customer expectation, customer satisfaction, and customer attitude. Despite the numerous models for measuring service quality, Nyeck, et al. (2002) admit that the SERVQUAL model remains as the most complete attempt to conceptualise and measure service quality. This chapter will focus on an overview and evaluation of classification and dimensions of service quality from scholarly works. The SERVQUAL model will be discussed and how service quality could be measured using this model.

4.2 CLASSIFICATION AND DIMENSIONS OF SERVICE QUALITY

The classification and dimensions of service quality are an important aspect to look into in the study at hand. Therefore, the five dimensions of service quality and the classification will be explained in detail.

4.2.1 Classification of Service Quality

The classification of service quality has been addressed by a number of authors. Majority agree that service consists of an outcome and a process element, where outcome is the achievement (or not) of some end by the client (for example, cash from a cash dispenser, an appropriate insurance policy or loan) and process is the interaction between the client and the service unit. The difference in tangibility of the service, and the presence of the client in the process, commonly make it problematic to define the border between the two (Blanchard & Galloway, 1994). Lehtinen & Lehtinen (Leblanc & Nguyen, 1988) identify three dimensions of service quality, namely: *(an old source is used because these authors are the original brain behind the three dimensions of service quality)*

- physical quality – equipment, premises, tangibles;
- corporate quality – image and profile of the enterprise;
- interactive quality – client contact with service personnel and other clients.

Grönroos (2000), on the other hand, identifies five key determinants of service quality, namely:

- professionalism and skills (technical (outcome related));
- reputation and credibility (image related);
- behaviour and attitudes;

- accessibility and flexibility; and
- reliability and trustworthiness.

The majority extensively reported framework is that proposed by Parasuraman, Zeithaml & Berry (1988); SERVQUAL, which measures the difference between clients' perceptions of a service and their expectations of the service. The model consists of five dimensions of service quality; reliability, tangibles, responsiveness, assurance and empathy.

Gefen (2002) states that service quality refers to *the “subjective comparison that clients make between the quality of the service that they want to receive and what they actually get”*. Chaoprasert and Elsey (2004) purport that banks have to focus on service quality as a core competitive strategy. Hoffman and Bateson (2006:333) define service quality as an attitude formed by a long-term overall evaluation of a firm's performance. Ham, Johnson, Weinstein, Plank and Johnson (2003:197) define service quality as the true value of the measurable gaps between expectations and perceptions. According to Kotler and Keller (2006:412), the service quality of a service provider is the difference between perceived service and the expected service.



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Having discussed the classification of service, the five service quality dimensions are discussed below.

4.2.2 Service Quality Dimensions

In service marketing literature, service quality has been reported as a second order construct, being composed of several first-order variables. Various authors have provided different conceptualisations over the time. they include Gronroos's (1984) three component structure technical, functional and reputational quality; Lehtinen and Lehtinen's (1982) three component interactive, physical and corporate quality; two dimensions- willingness and ability to serve, and physical and psychological access; Leblanc's and Nguyan's (1988) five components- corporate image, Internal organisation, physical support of the service producing system, staff/customer interaction, and level of customer satisfaction; Garvin's (1988) nine dimensions: performance, features, conformance, reliability, durability, service, response, aesthetics, and reputation; Rust and Oliver's (1994) functional quality, technical quality and environment quality: Parasuraman, et al. (1988) conceptualisation of five dimensions: tangibles, responsiveness, reliability, assurance and empathy, which eventually led to the development of SERVQUAL. Niveen and Demyana (2013:3) state that reliability is

considered to be the important dimension of service quality. The authors maintain that the other service quality dimensions matter to clients only after the service is considered reliable. The reason is that the other remaining service quality dimensions cannot compensate or make up for unreliable service delivery.

The service dimensions have been discussed, the service quality model used in this research will be discussed in the next session.

4.3 SERVICE QUALITY (SERVQUAL) MODEL

Several models have been identified in the literature for measuring service quality. Among the approaches or models are: expectancy-disconfirmation approach, performance-only approach, technical and functional dichotomy approach, service quality versus service satisfaction approach and attribute importance approach. The expectancy-disconfirmation model focuses on identifying client expectation versus what they actually experienced. It compares the service performance with the expectations of the clients, which is assessed after the service encounters (Oliver, 1980:463). The performance-only approach assesses service quality by enquiring from the clients about their level of satisfaction with the various features following a service encounter Cronin & Taylor, 1994:62). The technical and functional dichotomy approach identifies two service components that lead to client satisfaction: technical quality of the product which is based on product characteristics such as durability, security, physical features; and functional quality which is concerned with the relationships between service provider and the client such as courtesy, speed of delivery and helpfulness (Gronroos, 1984). Clients usually lack information on the technical aspects of a service, therefore rely on functional quality to form perceptions of service quality (Donabedian, 1980:58).

Service quality versus service satisfaction model mainly focuses on two service components that are interrelated; the transition-specific assessment which evaluates specific features of quality and the overall assessment which evaluates overall quality. This approach links perceived quality at the time of the service encounter or immediately after it and overall satisfaction with the service. The attribute important model focuses on the relative weight on the importance the consumer places relative weight on the importance the consumer places on attributes found to be linked with service satisfaction (Gilbert, *et. al.*, 2004).

Cronin and Taylor (1992) developed SERVPERF (service performance) which disregards the expectation and measured service quality perceptions by evaluating the client's overall feeling towards the service. Among the models for measuring service quality, the most acknowledged and applied model in variety of industries is the SERVQUAL (service quality) model developed by Parasuraman, *et. al.* The model originally provided a list of ten determinants of service quality: access, communication, competence, courtesy, credibility, reliability, responsiveness, security, understanding and tangibles. Further studies merged correlated variables and reduced the determinants into five consolidated dimensions: tangibles, reliability, responsiveness, assurance and empathy as the instruments for measuring service quality (Parasuraman, *et. al.*, 1988; Zeithaml, *et. al.*, 1990). The SERVQUAL model assesses client expectation and perceptions of service quality by capturing the gap between expectation and experience.

Having discussed the service quality model use for the study at hand, how the service quality can be measured using the model will be discussed in the next section.

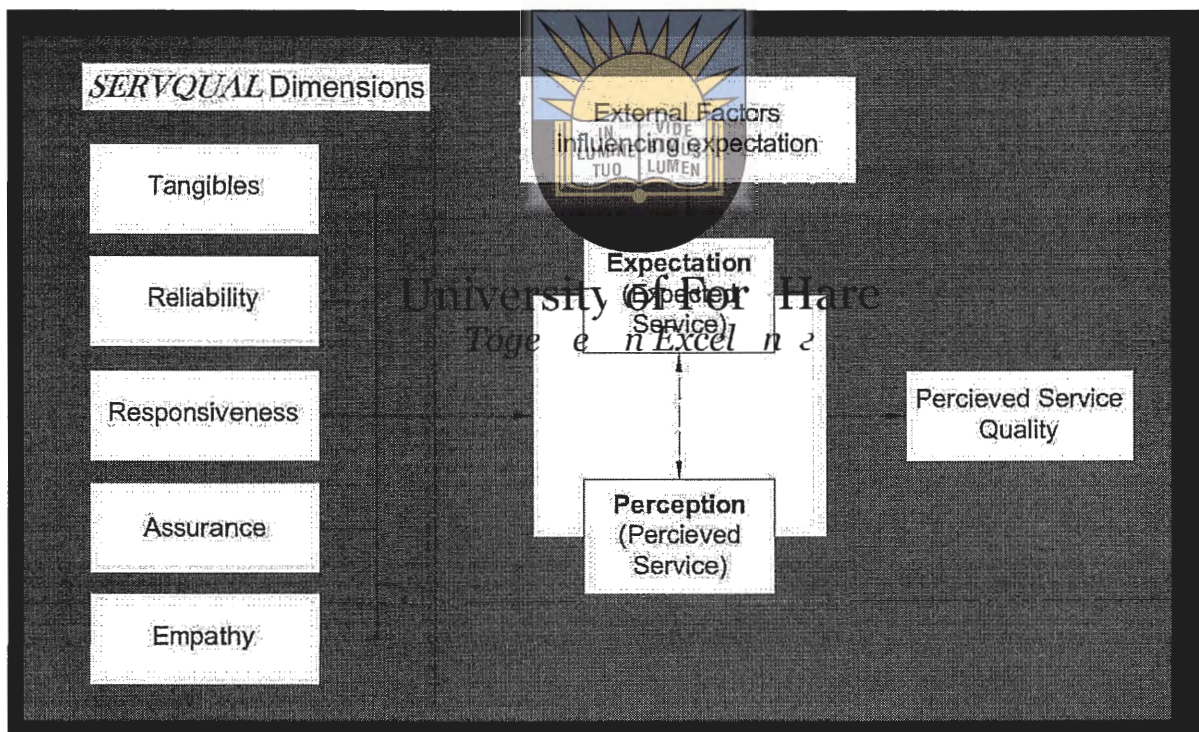
4.4 THE DEVELOPMENT AND EVOLUTION OF THE SERVQUAL MODEL

“Parasuraman, et al. (1985) identified 97 attributes which were found to have an impact on service quality. These 97 attributes are the criteria that are important in assessing customer’s expectations and perceptions on delivered service” (Kumar, Kee and Manshor 2009:214). These attributes were categorised into ten dimensions (Parasuraman *et al.*, 1985) and later subjected the proposed 97 item instruments for assessing service quality through two stages in order to purify the instruments and select those with significant influences (Parasuraman *et al.*, 1988:13). The first purification stage came up with ten dimensions for assessing service quality which were; tangibles, reliability, responsiveness, communication, credibility, security, competence, courtesy, understanding, knowing, customers, and access. They went into the second purification stage and in this stage they concentrated on condensing scale dimensionality and reliability. They further reduced the ten dimensions to five which were; Tangibility: 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 Empathy: caring individualized attention the firm provides to its customers.

4.5 FUNCTIONING OF THE SERVQUAL MODEL

SERVQUAL represents service quality as the discrepancy between a customer's expectations for a service offering and the customer's perceptions of the service received, requiring respondents to answer questions about both their expectations and their perceptions Parasuraman *et al.*, (1988). The use of perceived as opposed to actual service received makes the SERVQUAL measure an attitude measure that is related to, but not the same as, satisfaction (Parasuraman *et. al.*, 1988). The difference between expectations and perceptions is called the gap which is the determinant of customers' perception of service quality as shown below.

Figure 4.1 SERVQUAL Model



Source: (Kumar *et al.*, 2009)

The expectations of customers are subject to external factors which are under the control of the service provider as shown on the diagram. The gap 5 on the diagram represents the difference between customers' expectations and customers' perceptions which is referred to as the perceived service quality (Kumar, *et al.*, 2009:214).

4.6 CRITICISMS OF SERVQUAL MODEL

Notwithstanding its growing popularity and widespread application, Buttle (1996: 1011), claims that SERVQUAL has been subjected to a number of theoretical and operational criticisms which are detailed below:

4.6.1 Theoretical Criticisms

- Paradigmatic objections: SERVQUAL is based on a disconfirmation paradigm rather than an attitudinal paradigm; and SERVQUAL fails to draw on established economic, statistical and psychological theory.
- Gaps model: there is little evidence that customers assess service quality in terms of P – E gaps.
- Process orientation: SERVQUAL focuses on the process of service delivery, not the outcomes of the service encounter.
- Dimensionality: SERVQUAL's five dimensions are not universal; the number of dimensions comprising service quality is contextualized; items do not always load on to the factors which one would a priori expect; and there is a high degree of inter correlation between the five dimensions (Reliability, assurance, tangible, empathy and responsiveness).



4.6.2 Operational Criticisms

- Expectations: the term expectation is polysemic meaning it has different definitions; consumers use standards other than expectations to evaluate service quality; and SERVQUAL fails to measure absolute service quality expectations.
- Item composition: four or five items cannot capture the variability within each service quality dimension.
- Moments of truth (MOT): customers' assessments of service quality may vary from MOT to MOT.
- Polarity: the reversed polarity of items in the scale causes respondent error. • Scale points: the seven-point Likert scale is flawed.
- Two administrations: two administrations of the instrument (expectations and perceptions) cause boredom and confusion.
- Variance extracted: the over SERVQUAL score accounts for a disappointing proportion of item variances.

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4.7 MEASURING SERVICE QUALITY USING THE SERVQUAL MODEL

The SERVQUAL dimensions: tangibles, reliability, responsiveness, assurance and empathy are the basis for service quality measurement (Parasuraman, et. al., 1988; Zeithaml, et. al., 1990). These dimensions are discussed below:

An array of factors or determinants has been identified in the literature for measuring service quality. For instance, Sachev and Verma (2004) measure service quality in terms of client perception, client expectation, client satisfaction, and client attitude. Despite the numerous models for measuring service quality, Nyeck, et. al. (2002) admit that the SERVQUAL model remains as the most complete attempt to conceptualize and measure service quality. The model is extensive and widely used to measure service quality in the literature. Therefore this study adopts the SERVQUAL dimensions to measure service quality.



4.7.1 Tangibles

The tangibles encompass the appearance of the company representatives, facilities, materials, and equipment as well as communication materials. The condition of the physical surroundings is seen as tangible evidence of care and attention to detail exhibited by the service provider (Fitzsimmons & Fitzsimmons, 2001). Davis, Acquilano, & Chase (2003) summarise tangibles as the physical evidence of the service.

4.7.2 Reliability

Niveen and Demyana (2013:4) maintain that “**reliability depends on handling clients' services problems; performing services right the first time; provide services at the promised time and maintaining error-free record**”. Yang and Fang (2004) claim that reliability is the most important factor in service quality and consists of accurate order fulfilment; accurate record; accurate quote; accurate in billing as well as accurate calculation of commissions. According to Fitzsimmons and Fitzsimmons (2001), reliability is the ability to perform the promised service both dependably and accurately with error free.

4.7.3 Responsiveness

Niveen and Demyana (2013:4) maintain that responsiveness refers to the willingness or readiness of employees to provide a service to clients and the timeline of service

delivery. This included the speed of throughput and the ability of the service to respond promptly to client service requests, with minimal waiting and queuing time. Fitzsimmons and Fitzsimmons (2001) purport that when the client is kept waiting for no apparent reason, an unnecessary negative perceptions of quality is created. Conversely, the ability for the bank to recover quickly when service fails and exhibit professionalism will also create very positive perceptions of quality.

4.7.4 Assurance

Assurance considers the knowledge and courtesy of employees as well as their ability to convey trust and confidence. The assurance dimension includes the following features: competence to perform the service, politeness and respect for the client, effective communication with the client and the general attitude that the server has the client's best interest at heart (Fitzsimmons & Fitzsimmons, 2001).

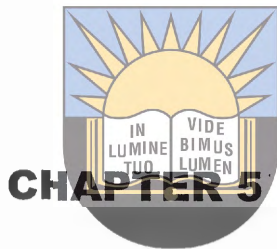
4.7.5 Empathy

Niveen and Demyana (2013:4) maintain that empathy refers to the care and individual attention firms provide to their clients. The authors' further point out that empathy involves ensuring that clients are adequately served by competent employees who understand the needs of the clients. Empathy also involves the provision convenient business hours. Ananth, Ramesh and Prabakaran (2011) describe empathy in their study on private sector banks as ***"giving individual attention; convenient operating hours; giving personal attention; best interest in heart and understand client's specific needs"***.

The conclusion to this chapter is presented below.

4.8 CONCLUSION

This chapter provides a literature review on the SERVQUAL model and how it can be used to measure service quality, the development and criticisms of the model. Classification of service quality was explained, as well as the five service quality dimensions. The next chapter will be based on the methodology used to carry out the research at hand.



CHAPTER 5

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RESEARCH METHODOLOGY

5.1 INTRODUCTION

The measurement of service quality and customer satisfaction is not a well-known research field in the financial services industry and, more specifically, the retail banking sector in Buffalo city. This chapter presents an overview of the research methodology applied to accomplish the research objectives set for the study. The research methodology is the systematical framework that stipulates the process, procedures and methods implemented for collecting, processing and analysing data (Welman, Kruger & Mitchell, 2005: 53). Inter alia, this chapter presents an exposition of the focus and scope of the study, the research methodology and design, the research instrument, the sampling methodology and the data analysis process. Also included in this chapter are the research limitations and delimitations, a discussion of the questionnaire measurement scale as well as its reliability and validation assessment. The chapter concludes with the ethical considerations underpinning the study.

The next two sections describe the focus and scope of the study.

5.2 FOCUS OF THE STUDY

The study was conducted at three East London shopping malls (Hemingways, Retail Park and Vincent Park) in the Eastern Cape Province, South Africa, focusing on service quality and client satisfaction of retail banks. These three shopping malls were selected because they provide excellent access to the 5 most important retail banks where the majority of the East London inhabitants that do visit the mall. For the purpose of this study only individuals with at least one bank account form part of the survey population and were considered. The study assumed an individual-based perspective, directing the questionnaires to the clients of the five important banks namely ABSA Bank, Capitec Bank, First National Bank, Nedbank and Standard Bank.

5.3 SCOPE OF THE STUDY

The scope of the survey demarcates the survey area, the survey population and the study units being studied. Cant, Gerber-Nel, Nel and Kotze (2005:45) state that the scope of a study refers to the margins and boundaries which physically show the source and location of the elements in the sample frame of the research study from which data is to be collected. A proper distinction of the geographical area, the population and the study units to be interviewed is important in order to reduce the time frame, the costs and the effort required to conduct the study.



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5.3.1 The Survey Area

This section specifies the physical geographical area that was included in the study. Cooper and Schindler (2003:186) explain that a survey area is the place where research is done. In this research, the survey area was presented by the three East London shopping complexes that are located in the Eastern Cape Province, South Africa. East London shopping complexes were chosen, not only for their proximity to the researcher, but also because there is a high number of retail banking clients that patronise the banking outlets at the complexes on a daily basis. Moreover, the majority of citizens that patronise the shopping malls are educated and own at least one bank account. This made it convenient for the researcher to administer the survey and for distributing the questionnaires, thereby, further justifying the decision to select East London shopping malls.

5.3.2 The Survey Population

Burns and Burns (2008:182) define a survey population as ***“the entire collection of all the observations of interest (this could be people, objects or events) to the researcher”***.

Moreover, Malhotra (2004:314) elaborates, saying that the population of a study can also be the total of the elements that share a common set of characteristics and that comprise the universal group meeting the objectives of the research problem. McDaniel and Gates (2001:12), on the other hand, define a survey population as a pool of the elements from which the sample will be drawn. Churchill and Brown (2007:351) support this standpoint by explaining that all the individuals or objects that meet certain selected requirements for being part of a certain group, constitute the survey population. The total population used for this study consist of 267,000 retail banking clients.

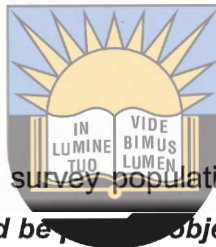
5.3.3 The Study Units

The study covered retail bank clients that visited the East London malls during this survey.

The next section focuses on the research methodology applied in conducting the research ensuring that the study was scientifically dependable for collecting relevant data.

5.4 METHODOLOGY

The research methodology is the specification of the most adequate process and procedures to be performed in order to test the hypotheses under given conditions. It

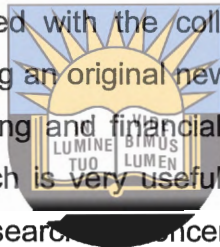


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constitutes the data-collection plan, specifying from whom, how and when the data was gathered through systematic planning. More specifically, research methodology entails the different methods and techniques that can be used to collect, process and analyse data.

There are mainly two methods of data collection that can be used in research, which are; secondary data collection and primary data collection.

Secondary data collection is also known as desk research and it comprises data that was previously collected and aggregated with a specific research objective and problem in mind. Secondary research data comes from existing and even historical information sources built on previous research findings. Davis (2003:89) concurs and elaborates that secondary research is concerned with the collation and summary of previous research findings instead of conducting an original new research. Sources of secondary data include; journal articles, marketing and financial reports, company websites and data warehouses. Secondary research is very useful to give a vivid background and extremely essential information to researchers concerning the research area they are interested in. It is evident that secondary research is important to the researcher, but it is advisable to conduct primary data collection if the researcher wishes for more and deeper insight concerning a specific area of study.



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Data collection in the case

The researcher made use of academic journal articles, published books, organisational websites and also dissertations of related research studies conducted by others previously. Information provided by businesses, government sources, commercial marketing research firms and computerised databases was also used by the researcher in an extensive literature review that was covered in the previous chapters.

Primary data collection mainly utilise three primary data collection methods, namely, observations, experiments and surveys (Cooper and Schindler, 2006:390; Zikmund & Babin, 2010:64). Cooper and Schindler (2006:390) state that the broad area of survey research includes any measurement procedures that involve asking questions from respondents. This view is supported by Chigamba and Fatoki (2011:69) professing that a survey asks a series of questions from respondents; the answers are then captured and analysed at the completion of the survey. In such a survey, the researcher selects a sample of respondents from a population and administers an identical questionnaire to them.

Gerber-Nel, Nel and Kotze, (2005:94) argue that surveys can be divided into four main types, namely, personal interviews, telephone surveys, mail surveys and self-administered surveys.

As secondary research alone proved insufficient to answer the research problem the researcher proceeded to collect primary data at the hand of self-administered questionnaires considered appropriate for the investigation of the research problem. The researcher delivered the questionnaires to the respondents and noted their contact detail to enable the researcher to follow up on the actual completion of the questionnaires.

The various components composing the research methodology are: the research format, the research technique as well as the design, construction and administration of the data collection instrument.

These aspects will now be discussed in the sub-sections below.



5.4.1 Research Format and Design

Cooper and Schindler, (2008:216) define the research design as a 'blueprint' for achieving research objectives and are essential in providing insights to solve the research problem. A research design explains the logic behind the research methods.

A research design is a plan of how the research objectives are to be achieved. It is the objectives of the research that will determine the research design that is appropriate for a certain study, because the best research design is one which will help achieve the research objectives. There are three main types of research designs and these are: exploratory research design, causal research design and descriptive research design.

Each type of research design is briefly explained in the sub-sections below, so as to justify the choice of research design for this study.

5.4.1.1 Exploratory research design

Exploratory research design is normally employed where the intended area of research is new or vague and it is essential to explore the area before establishing any theories and concepts (Burns & Burns, 2008:82). Hair, Money, Page, and Samouel, (2007:37) define this research design as being focused on the collecting of data by using informal or unstructured procedures and it is not concerned with providing conclusive information but it can be seen as a platform to develop theories and concepts.

5.4.1.2 Causal research design

Burns and Burns (2008:83) elaborated that with causal research, the purpose is to determine whether one variable causes a certain effect in another variable. Causal research aims to identify the cause and effect relationship between independent variables and the dependent variable. Dependent variables are those that have an influence on the independent variables and the independent variables are the variables that the researcher has control over.

5.4.1.3 Descriptive research design

Descriptive research design is when the researcher seeks to estimate as precisely as possible the nature of existing conditions or maybe the characteristics of the target population. This research design is useful for making simple management decisions (Burns & Burns, 2008:82). With this research design, researchers have got no influence over the research area under study but are able to draw inferences about the respondents and the results are close to accurate (Van Der Merwe, 2003:175).

The researcher adopted a descriptive research design as to be the most ideal design to secure answers to the set objectives and information on the relationship between service quality and client satisfaction in the retail banking sector in Buffalo City, Eastern Cape.

5.4.2 Research Technique

There are two broad categories under which data collection techniques can be classified and these are Quantitative and Qualitative research.

5.4.2.1 Qualitative research

Qualitative research involves the collection and analysis of data with meanings, attitudes and feelings and it provides information which is non-numeric and in-depth (McDaniel & Gates, 2001:109). The qualitative research method is usually difficult to quantify and summarise into numbers that are comprehensible. With qualitative research, data is commonly collected through Focus groups and Personal interviews, most often at the hand of unstructured questionnaires. Answers are also usually probed from the respondents by a moderator or interviewer and though this may encourage responses, which may direct the respondents' responses in a certain direction. Quantitative research involves the collection of data which is in the form of or can be expressed numerically (McDaniel *et. al* 2001:120).

5.4.2.2 Quantitative research

Quantitative research is a technique which involves obtaining data from many individuals and using it in descriptive and causal research to quantify the data and generalise the results to the total target population (Hollensen, 2003:740). Put simply, this research methodology technique seeks to quantify the data and then typically apply some form of statistical analysis (Malhotra, 2004:137). The advantage of using quantitative data is that it is easy to interpret and the results give simple conclusions. According to Hair, Bush and Ortinau (2000:66), the main objective of quantitative research is to provide decision-makers with specific facts they will be able to use to make predictions, validate relationships or use to gain meaningful insights.

A quantitative research design was used for this research and the main reason for this being that it is easy to interpret and useful and realistic conclusions could be drawn. The study at hand made use of a structured data collection instrument and sought to provide, not only, meaningful statistical analyses but also to quantify the relationship in the selected variables. It was upon this background that quantitative research methodology was deemed the most appropriate technique to be utilised for this study.

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5.4.3 The Research Instrument *Together in Excellence*

The primary research instrument used by the researcher was a self-administered questionnaire adapted from the SERVQUAL model (Parasuraman *et al*, 1994) in order to ensure a valid construct. The SERVQUAL model proposed by Parasuraman *et al*. (1994), as described in the literature review, is considered the most widely confirmed and applicable model and was therefore used as a framework for the questionnaire design and analysing the data. The SERVQUAL model has, previously, been applied to South African conditions and found to be generally both valid and reliable (Boshoff & Nel, 1992; Nel, Pitt and Berthon, 1997). Sekaran (2003:236) defines a questionnaire as a pre-formulated set of questions to which respondents reply and this is usually within some closely defined alternatives. The researcher used questionnaires for the research study for the following reasons:

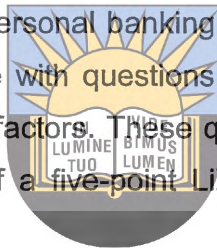
- Questionnaires help to ensure that information from different respondents is comparable.
- Questionnaires increase the speed and accuracy of recording.
- Questionnaires facilitate data processing.

- Questionnaires enable the respondents to remain anonymous and be honest in their response.

5.4.3.1 Questionnaire Design

It is important for researchers to have a well-designed questionnaire as this will motivate respondents to respond and minimise the error associated with data collection. When constructing a questionnaire and in formulating the questions, it is essential to consider the type of information as well as the types of responses that are sought (Burns & Burns, 2008:497). The questionnaire consists of three sections.

The first section required demographic information from the respondents considered essential to achieve the research objectives. The second section of the questionnaire questioned respondents about their personal banking profile, the third section required the respondents to agree or disagree with questions related to specific retail banking client-satisfaction and service quality factors. These questions required respondents to provide their responses by means of a five-point Likert scale ranging from 'strongly disagree' to 'strongly agree'.



5.4.3.2 Response format

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The questionnaire was adapted from the SERVQUAL dimensions i.e. reliability, tangibles, responsiveness, assurance, and empathy. Wheather and Cook, (2000:195) define a questionnaire as a formalised set of questions used for obtaining information from respondents.

The researcher used open-ended and closed-ended questions. According to Cooper and Schindler, (2006:351) open-ended questions are questions in which the respondents have the autonomy of expressing their own opinions in answering a question.

The questionnaire for the study at hand was clear, understandable and of convenient duration, the researcher avoided the use of questions that are too general, vague, ambiguous, leading or double-barrelled (Haque, Osman & Ismail: 2009). It is also important that the language used for a questionnaire should be familiar to the respondents and easy to understand and respond to. For the study at hand, English was chosen as the mutual language which respondents could easily comprehend and respond to.

5.4.3.3 Pre-testing

A pre-test, also known as a pilot test, is a process of conducting a replicated administration of the designed questionnaire to a small representative group of respondents. This is mostly done in order to test the reliability of the questionnaire. It also helps in development of the questionnaire by highlighting issues such as structure, wording and format of the questionnaire which may hamper the efficiency and effectiveness of the questionnaire. Pre-testing at the hand of a pilot study on 10% of the sample size which is 25 questionnaires, were distributed to the respondents to eradicate any possible problems; detecting errors in the questionnaire; and to rectify any aspects that could pose difficulties to respondents during the course of data collection. The questionnaires were hand-delivered to the respondents by the researcher and collected by the end of the day. The pilot study helped to address potential problems concerning questionnaire administration, question lay-out, as well as questionnaire length. Issues concerning vagueness of questions and questionnaire content were not raised in the pilot study.



Lay-out issues were appraised and the questionnaire was appropriately adjusted after the pre-test before being administered to the rest of the targeted population.

5.4.3.4 Survey administration

This section reflects on the administration of the research instrument in the collection of relevant data for the study from retail bank clients in the survey area.

As indicated, the primary research instrument used by the researcher was a self-administered questionnaire adapted from the *SERVQUAL* model (Parasuraman *et. al.*, 1994) in order to ensure a valid construct.

Chigamba and Fatoki, (2011:69) maintain that ***“self-administered questionnaires are research questionnaires personally delivered to the respondent by the interviewer but completed by a respondent with no interviewer involvement”***. Cooper and Schindler, (2003:369) mention the following benefits of using self-administered questionnaires as a data collection method:

- Self-administered questionnaires are useful in describing the characteristics of a large population. No other method of data collection can provide this general capability.

- Self-administered questionnaires guarantee anonymity and privacy of the respondents, thereby encouraging more honest and open responses.
- Self-administered questionnaires have proved to have a higher response rate than other data collection techniques such as mail surveys.
- Self-administered questionnaires are less expensive than other data collection methods such as personal interviews where the researcher must be present with respondents at all times.

5.5 SAMPLING METHODOLOGY

According to Cooper and Schindler, (2003:179) sampling methods are classified into two categories, namely probability sampling and non-probability sampling. Probability sampling is a sampling technique in which every element has a known non-zero chance of selection while in non-probability sampling the selection of sample elements relies on the judgement or convenience of the researcher (Roberts-Lombard, 2002:98). This study used the non-probability sampling method. ***Non-probability sampling does not attempt to select a random sample from a population of interest; rather, subjective methods are used to decide which elements are included in the sample*** (Battaglia, 2011:523). Put simply, non-probability sampling is when the elements to represent the target population are conveniently or subjectively selected by the researcher. The reasons for the use of non-probability sampling are the population size and the lack of a reliable/accurate sample frame.

5.5.1 Sampling Types

Sampling is a beneficial tool when collecting data from a large target population, because it renders representative data of the total target population by only surveying a portion of the population. According to Parasuraman, Grewal and Krishnan (2007:332), sampling involves the selection of a portion of the total number of elements in the target population for the purpose of being able to draw general conclusions about the entire target population. Tustin, Martins, Lighthelm and Van Wyk (2005:337) purport that, using a sample instead of a census (collecting data from the entire target population), has cost and time saving benefits.

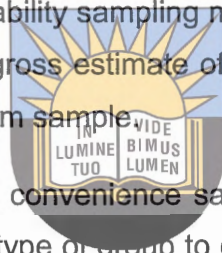
Either probability or non-probability sampling techniques could be applied which are discussed below.

5.5.2 Sampling Technique Applied

According to Ary, Jacobs, Razavieh and Sorensen (2009:150), probability sampling may be defined as the kind of sampling in which every element in the population has an equal chance of being selected. Bryman and Bell (2007:101) pointed out that probability sampling allows the researcher to make inferences from information about a random sample to the population from which it was selected. Based on these facts, the study employed the probability sampling. There are four methods/techniques which fall under probability sampling which are; simple random sampling, stratified sampling, cluster sampling and the systematic sampling.

For the purpose of this study the convenience sampling method was used. Convenience sampling is a nonprobability sampling method which is often used during preliminary research efforts to get a gross estimate of the results, without incurring the cost or time required to select a random sample.

In general, the major advantage to a convenience sample is the availability of such a population. Researchers choose this type of group to gain information without having to travel extensively or build a pool of wide-ranging subjects. This often saves both time and money, which can make a tremendous difference while performing research.



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5.5.3 Sample Size

There are basically two methods of sampling namely probability and non-probability sampling. The determination of a sample size is an important step in planning a study and it is usually a difficult one (Lenth, 2001:2). Furthermore, the sample must be of adequate size, relative to accomplish the goals of the study; not too small, as an under-sized study can be a waste of resources for not having the capability to produce useful results; neither too large as an over-sized study results in a waste of scarce resources. The size of the sample should depend on the size of the target population and the significance of the study. Convenience sampling method is used to determine the sample selection for the study. For this research a sample size of 182 elements (clients) selected conveniently from the three major shopping complexes (Hemingways Mall, Retail Park and Vincent Park) in East London.

5.6 DATA PREPARATION

The data preparation process for this study involves data editing, data coding, data capturing and cleaning.

5.6.1 Data Editing

Editing is a thorough and critical examination of the completed questionnaires, checking for compliance with the criteria for collecting meaningful data, so that the questionnaires that have not been properly completed can be dealt with and corrected where necessary (Hair, Bush & Ortinau, 2000:45 and Churchill & Brown, 2007:47). Sekaran (2003:302) maintains data editing is done mainly to apply a certain minimum quality standard to the raw data. It is apparent that editing is important to ensure that data is accurate and consistent with the questions asked in the questionnaire. The researcher edited data as soon as the questionnaires were returned by the respondents. This is important because the questionnaires were filled out by respondents in the absence of the researcher.

5.6.2 Data Coding

Churchill and Brown (2007:429) define data coding as the process when raw data responses are transformed into numbers or symbols that can be captured for computerised analysis. These numbers and symbols are assigned to the responses so that they can be recognised and interpreted by software programs (McDaniel & Gates, 2001:56). The initial step to coding the data is to prepare a coding guide or manual to enable the researcher to accurately code each response given. Coding enhances the statistical analysis process.

This research study made mostly use of closed-ended and scaled questions which were pre-coded. Only the open-ended questions had to be coded manually before capturing it.

5.6.3 Data Capturing and Data Cleaning

At this stage, the data is transformed to a computerised format. This is done using a Microsoft Excel spread sheet from MS Excel 2010. Once the data is prepared in such a spread sheet format, it is easy to be transferred to a statistical software package for analysis. Before doing that, it is crucial to examine the data so as to make sure that it has been entered correctly into the data file and that there are no errors. Such errors usually occur during data coding, during data entry or omissions during typing. This action is called data cleaning and helps to eliminate small mistakes which could give biased or incorrect results. Once this is done, the data in the excel spread sheet is transferred to the SPSS software for analysis.

5.7 DATA ANALYSIS

Once data has been collected, it is imperative to be able to generate valuable information at the hand of appropriate data analysis tools to process questionnaire responses that can be used by different stakeholders. It is also imperative that researchers are able to analyse and interpret the data they collect in relation to the research objectives. Data Analysis is when collected data is transformed into useful information. SPSS 17.0 for Windows was used to analyse the data and test the hypotheses of this research. The processing of the collected data was done with the aid of the Statistical department of the University of Fort Hare. Data was checked for skewness, linearity, outliers and kurtosis before the hypotheses were tested. The sections that follow discuss how the data was analysed.

5.7.1 Descriptive Analysis

Welman, Kruger and Mitchell (2005: 231) suggest that descriptive statistics are used to describe the basic features of the data in the study. Descriptive statistics refer to the organizing, summarizing and describing of quantitative data. Armstrong and Kotler (2011: 103) mention that the objective of descriptive research is to describe things, such as the market potential for a product or the demographics and attitudes of consumers who buy the product or service. For the purpose of this study, Descriptive statistics, in the form of frequencies and percentages, were computed from the variables.

5.7.2 Inferential Analysis

Inferential statistics are concerned with inferences that are made about population indices on the basis of the corresponding indices obtained from samples drawn randomly from the populations (Welman, Kruger and Mitchell, 2005: 236). Inferential statistics were used to test the chi-square, and also calculate the expectation and perception mean, which were ultimately applied to the SERVQUAL calculation to calculate Gap scores for each of the five service quality dimensions.

5.8 VALIDITY AND RELIABILITY

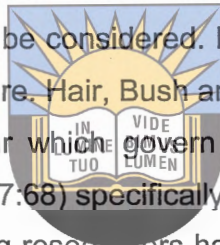
Babbie & Mounton, 2002:17 maintain that validity specifies the extent to which a test score essentially measures what it should measure. In other words, validity pertains to whether a research instrument measures exactly what it is intended to measure. Reliability, on the other hand, is defined by Sekaran (2003:203) as being the extent to which scaling results are free from random errors and generate consistent or similar

results if the measurement was to be repeated. Measuring reliability has to do with establishing the consistency of outcomes. Cant, *et al.* (2005:67) concur that a measurement instrument's reliability depends on its ability to repeatedly produce consistent results.

The first step to measuring reliability in this study was the Internal Consistency test which is a measure of the consistency of the respondent's answers to all the items in a measure. To test this, the Cronbach's alpha test was applied by the statistic department of the university.

5.9 ETHICAL CONSIDERATIONS

When conducting research in the field of Client satisfaction and service quality, there are some ethical issues that ought to be considered. In order to fully understand ethics better, it is vital to define what ethics are. Hair, Bush and Ortinau (2000) define ethics as the norms or standards of behaviour which govern the way people act or conduct themselves. Zikmund and Babin (2007:68) specifically describe ethics as the principles, values and standards which marketing researchers have to adhere to when conducting research. These ethical considerations have to ensure that the respondents are protected from any kind of harm or unfavourable situations and that the research is executed in an ethical manner. The ethical factors that have to be adhered to during research are as follows:



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5.9.1 Voluntary Participation

Trochim (2006) maintains that people should not be forced into taking part in research. The author further held that this is especially applicable "***where researchers had previously relied on 'captive audiences' for their subjects including; prisons, universities, and places like that***". In this research survey, all respondents voluntarily participated.

5.9.2 Informed Consent

This means that potential research participants must be fully informed about the procedures and risks involved in research and must give their consent to participate in the study Trochim, (2006). They must also be told the purpose of the research.

In this study, the consent of the respondents was sought and recognised as the researcher thoroughly took time to explain what the study is all about to those respondents that were willing to participate in the study.

5.9.3 Risk of Harm

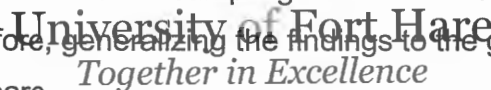
Trochim (2006) maintains that ethical standards require that researchers do not subject participants to a situation of risk or bodily harm as a result of their participation. In this study, these ethical considerations were closely monitored and the risk of divulging surreptitious information was non-existent.

5.9.4 Confidentiality and Anonymity

Anonymity states that participants will remain anonymous throughout the study even to the researchers themselves (Trochim, 2006). The researcher must, therefore, assure the respondents that the information they divulge will be held confidential and will not be made available to anyone who is not directly involved in the research. For this survey, the respondents were informed that their responses will be treated with utmost confidentiality.

5.10 LIMITATIONS AND DELIMITATIONS

One limitation of this study relates to the sampling method. A convenience sample of consumers was used; therefore, generalizing the findings to the general consuming public should be done with care.



The research focuses on the effect of perceived service quality on banking clients' satisfaction in the retail banking sector in Buffalo City and exclude clients outside this metro municipal area.

Since the research will mostly collect quantitative data, there would be limited information on the deeper opinions or hidden feelings of the respondent's. The research will only focus on East London banking clients; hence, the findings may not be truly representative of all Eastern Cape banking clients and or South Africa as a whole. The research will be limited by time and budget constraints.

5.11 CONCLUSION

The purpose of this chapter was to outline the research techniques and research methodology used in carrying out this study. This chapter presented the study's research focus, gave a detailed explanation of the methodology followed in conducting the research and described the sampling process and the sample size selection. The data collection instrument, the question format and question types, as well as the pre-

testing of the questionnaire were comprehensively described. The chapter concluded with an exposition of the measurement instruments employed, the statistical measures applied for data analysis, ethical considerations implemented and some limitations and delimitations of this study.

The next chapter provides an exposition of the collected data, the data analysis and the most important research findings of the study.



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CHAPTER SIX

DATA ANALYSIS AND FINDINGS



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6.1 INTRODUCTION

In the previous chapter, the research methodology for collecting and analysing the data was presented. The purpose of this chapter is to present and analyse the empirical findings of the study, and, in addition, highlights aspects of specific mention in the findings.

In order to effectively accomplish this, it is necessary to revisit the objectives set for the study as well as the scope of this research. The data obtained from both sections of the questionnaire is presented and analysed in this chapter. The first section focuses on client demographics and the second section on the measurement of client satisfaction in the banking sector. The last part of the chapter provides an exposition of the outcomes of the hypotheses testing. Research findings for each objective and hypothesis are evaluated and presented in this chapter.

6.1.1 Research Objectives

The primary objective of this research was to investigate the effect of perceived service quality on client satisfaction in the retail banking sector in the Buffalo City Metropole.

The secondary objectives of this study were to determine:

- whether there is a significant relationship between tangibility and client satisfaction,.
- whether there is a significant relationship between reliability and client satisfaction,
- whether there is a significant relationship between responsiveness and client satisfaction,
- whether there is a significant relationship between assurance and client satisfaction, and
- whether there is a significant relationship between empathy and client satisfaction.

6.1.2 Scope of the study

The study used the quantitative research methodology for collecting meaningful data from banking clients in three East London shopping complexes in the Eastern Cape Province of South Africa.



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6.2 RESULTS AND DISCUSSIONS

In this section, data obtained from the questionnaire was analysed and interpreted using the inferential and descriptive method with each section getting individual attention and being discussed accordingly. For convenience the results are illustrated at the hand of tables, graphs and charts. The results from all sections of the questionnaire were compared to existing empirical evidence to establish the consistency.

6.2.1 Preliminary Analysis and Response Rate

Preliminary analysis was completed before hypothesis testing was done in order to simplify the process of data analysis. As another step to ensure the reliability and validity of the study, the response rate was determined, and descriptive statistics were computed reflecting both the means and standard deviations as well as minimum and maximum values for all scaled questions used in the compilation and explanation of the findings. In addition, reliability and validity tests were utilised to support the relevance of the findings.



Table 6.1: Response Rate
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Total questionnaires	182
Completed	180
Response rate	98.9%

A total of 182 questionnaires were distributed to respondents. A hundred and eighty (180) satisfactorily completed questionnaires were returned. The response rate achieved was 98.9%.

6.3 SECTION A: DEMOGRAPHIC INFORMATION

The first section of the research instrument focused on the collection of general demographic information relating to aspects like gender, age group, highest educational qualification, and occupation as well as income levels of the respondents. This information is important for classification purposes. Demographic information is described by Hair, *et. al.* (2000:158) and Proctor (2000:157) as an essential aspect of primary research as it provides basic information about the respondents. This

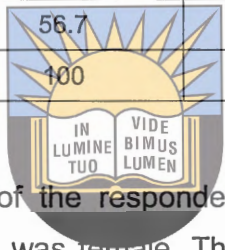
information is analysed question by question in the next sections, starting with the gender of respondents.

Question 1: Gender Distribution of Respondents

The need to determine the gender of respondents is to enable the researcher to make demographic inferences concerning the respondents. Figure 6.2 below depicts the gender distribution of the respondents.

Table 6.2: Gender Distribution of Respondents

Gender	Frequency	Per cent	Valid per cent	Cumulative per cent
Male	78	43.3	43.3	43.3
Female	102	56.7	56.7	100
Total	180	100	100	



The table above reflects that 43% of the respondents were male while the larger percentage, 57%, of the respondents was female. The reason that more female bank clients responded to the questionnaire than male clients, could be ascribed to the fact that the study was conducted in three shopping complexes during normal week days. These complexes are then mostly dominated by females with more free time at their disposal.

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Question 2: Age Distribution of Respondents

It is essential to be aware of the age distribution of the respondents. This will enable the researcher to know whether respondents are old or young (Zindiye, 2008:150). Table 6.3 below presents the age categories of the respondents.

Table 6.3: Age of Respondents

Age category	Frequency	Per cent	Valid Per cent	Cumulative Per cent
Younger than 25 years	42	23.3	23.3	23.3
25-34years	35	19.4	19.4	72.2
35-44years	53	29.4	29.4	52.8
45-54years	27	15.0	15.0	87.2
More than 54years	23	12.8	12.8	100.0
Total	180	100.0	100.0	

Table 6.3 above shows the frequency and percentage of the respondents' ages. The table reveals that 23.3% of the respondents were younger than 25 years of age –; 29.4% of the respondents were between 25-34 years of age; 19.4% between 35-44 years of age; 15.0% between 45-54 years of age and 12.8 older than 54 years of the age. This indicates that the highest number of client patronising the bank were between the ages of 35-44 years. It is however evident that a normal distribution frequency is observed where the highest number of respondents is found to fall in the middle bracket.

Question 3: Highest Academic Educational Qualification

The level of education obtained by respondents is important to establish the academic standing of the respondents who completed the questionnaire. Table 6.3 below, presents the highest qualifications achieved by respondents.

Table 6.4: Highest Academic Educational Qualification

Academic Qualification	Frequency	Per cent	Valid Per cent	Cumulative Per cent
High school (grade 8-11)	6	3.3	3.3	3.3
Grade 12 (matric)	29	16.1	16.1	41.7
Post matric certificate/diploma	40	22.2	22.2	25.6
Bachelor degree	48	26.7	26.7	68.3
Post-graduate degree	57	31.7	31.7	100.0
Total	180	100.0	100.0	

Table 6.4 above reflects the highest educational qualification achieved by the respondents. Of these 3.3% achieved a grade 8-11 qualification; 16.1% a grade 12 (matric) qualification; 22.2% a post-matric (certificate/diploma) qualification, 26.7% a Bachelor's degree and the majority, 31.7%, a post-graduate degree qualification.

Question 4: Current Occupation of Respondents

The current occupation of respondents is important in order to establish whether some parity exists between occupation and monthly income and to note any differences. Below is Fig. 6.1 which depicts the current occupation of respondents.

Figure 6.1: Occupation of Respondents

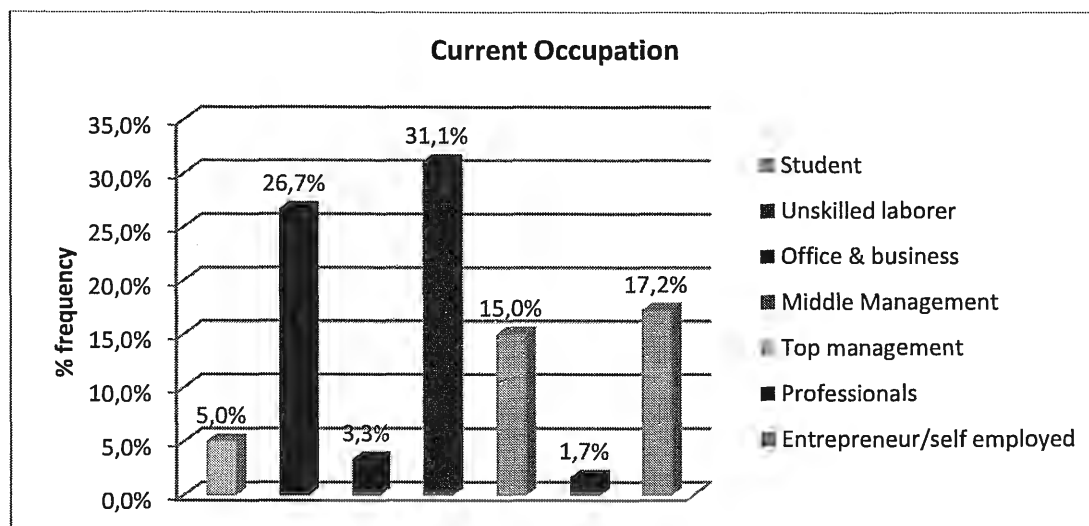
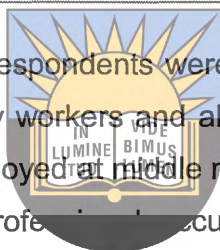


Figure 6.1 reveals that 5.0%, of the respondents were students; 26.7% were unskilled labourers; 3.3% were office or factory workers and also managing businesses; 31.1% majority of the respondents were employed at middle management level; 15.0% were in executive positions; 1.7% was in professional occupations while 17.2% were self-employed or entrepreneurs.



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Question 5: Monthly Income Level of Respondents

The monthly income of respondents is important to determine how much goes to their bank account on a monthly basis and this will also help to determine how often there are likely to visit.

Table 6.5: Monthly Income Level of Respondents

Income	Frequency	Per cent	Valid per cent	Cumulative per cent
< R6 000	14	7.8	7.8	7.8
R6 000-R11 999	104	57.8	57.8	65.6
R12 000-R19 999	32	17.8	17.8	83.3
R20 000 and above	30	16.7	16.7	100.0
Total	180	100.0	100.0	

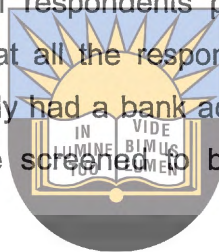
Table 6.5 above shows 7.8% of the respondents have a monthly income less than R6 000; 57.8% earn between R6 000 and R11 999; 17.8% earn between R12 000 and R19 999; and 16.7% of the respondents earned R20 000 and above. There exists indeed parity between the respondents' qualifications, their occupations and their monthly income levels.

6.4 SECTION B: PERSONAL BANKING PROFILE

This section of the questionnaire focuses on the respondent's personal banking behaviour and actions.

Question 6: Bank Account Profile of Respondents

This question explores the status of respondents pertaining to possessing a bank account or not. The result shows that all the respondents have a bank account. All respondents that took part in the study had a bank account. Prior to the distribution of the questionnaire, respondents were screened to be sure that they have a bank account.



Question 8: Banks Patronised by Respondents

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The aim of this question was to gather information on the banks patronised by respondents. Table 6.6 below reflects the names of the bank(s) respondent's support.

Table 6.6: Banks Patronised by Respondents

Name of Bank	Frequency	Per cent	Valid per cent	Cumulative per cent
ABSA	31	17.2	17.2	17.2
CAPITEC BANK	32	17.8	17.8	35.0
FIRST NATIONAL BANK	39	21.7	21.7	56.7
NEDBANK	17	9.4	9.4	66.1
STANDARD BANK	40	22.2	22.2	88.3
ABSA AND CAPITEC	4	2.2	2.2	90.6
CAPITEC AND NEDBANK	7	3.9	3.9	94.4
ABSA AND STANDARD	5	2.8	2.8	97.2
FNB AND NEDBANK	5	2.8	2.8	100.0
Total	180	100.0	100.0	

According to Table 6.6, the best supported bank is Standard Bank with a share of 22.2%, followed by First National Bank with a 21.7% share, Capitec Bank with a 17.8% share, Absa with a 17.2% share and Nedbank with a 9.4% share. As can be seen from the table, a relatively small number of respondents patronise two banks: 3.9%, Capitec and Nedbank; 2.8%, ABSA and Standard Bank as well as First National Bank and Nedbank while 2.2% bank with ABSA and Capitec Bank. From the responses gathered, the majority of respondent's prefer to bank with Standard Bank due to easy and stress-free protocol in its banking procedures.

Question 9: Reasons for Banking with more than one Bank

This data was gathered with the help of an open ended question. Respondents that patronised more than one bank revealed that this practice was firstly, for convenience purposes and secondly, for administering their income and expenditure in one bank account and utilising the other bank account for saving purposes.

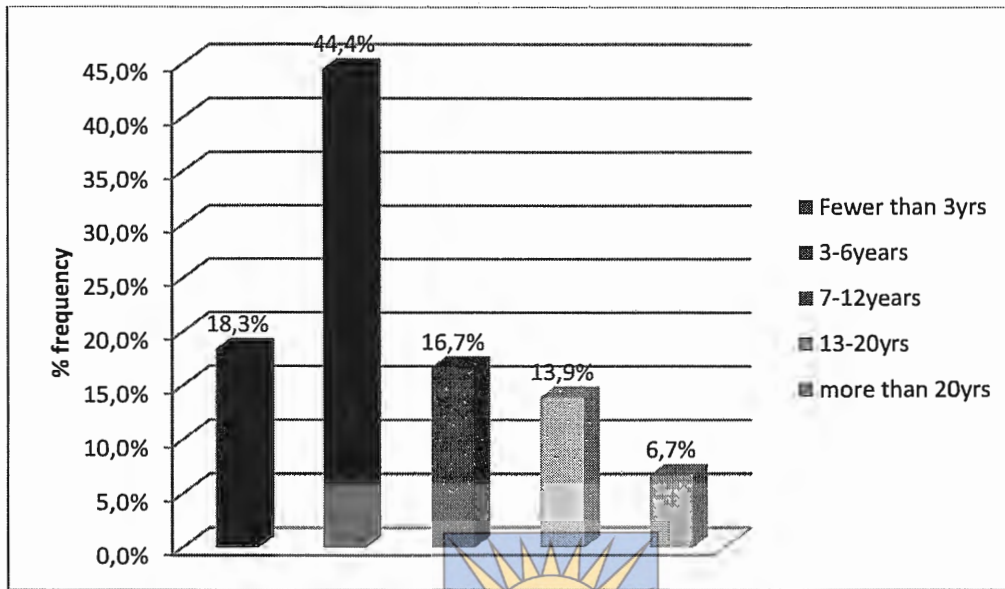
Question 10: Duration of Bank Patronisation

The purpose of this question was to determine for how many years respondents have been patronising their indicated bank of choice. The responses are presented in Table 6.7 and in Fig 6.2 below.

Table 6.7: Duration of Bank Patronisation by Respondents

Duration	Frequency	Per cent	Valid Per cent	Cumulative Per cent
Fewer than 3 years	33	18.3	18.3	18.3
3-6years	80	44.4	44.4	62.8
7-12years	30	16.7	16.7	79.4
13-20yrs	25	13.9	13.9	93.3
more than 20yrs	12	6.7	6.7	100.0
Total	180	100.0	100.0	

Figure 6.2: Duration of Bank Patronisation by Respondents



Both presentations above show that the largest proportion of respondents, 44.4% have been clients of their indicated bank for 3 to 6 years; 18.3% for less than 3 years; 16.7% for between 7 and 12 years while only 6.7% for more than 20 years.

Question 11: Frequency of Bank Patronisation by Respondents per Annum
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The responses to this question reveal the frequency with which respondents patronise their banks per annum. Table 6.6 below depicts the frequencies.

Table 6.8: Frequency of Bank Patronisation by Respondents per Annum

Patronisation	Frequency	Per cent	Valid per cent	Cumulative per cent
never	10	5.6	5.6	9.5
once a year	9	5.0	5.0	14.5
a number of times per year	39	21.7	21.7	36.2
once a month	56	31.1	31.1	67.3
several times a month	44	24.4	24.4	87.8
several times a week	16	8.9	8.9	96.7
Daily	6	3.3	3.3	100.0
Total	180	100.0	100.0	

Table 6.8 above indicates that the majority of respondents, 77.2%, patronise their banks between a numbers of times per year (21.7%), to once a month (31.1%), to several times per month (24.4%). The remaining respondents, 22.8%, patronise their banks several times per week (8.9%), daily to transact business (3.3%), once a year (5%) and an alarming 5.6% never. The phenomenon that the highest incidence of patronising is once per month, 31.1%, could possibly be ascribed to the fact that most respondents were salary earners being paid monthly and transacting once per month.

Question 13: Proximity of Bank Branch to Respondents

Proximity to a branch or an ATM is a major advantage to any client. This question was posed to establish the proximity of banking services to respondents. The responses to this question, therefore, reveal to what extent banking services are within easy reach of clients in the East London Metropolitan.

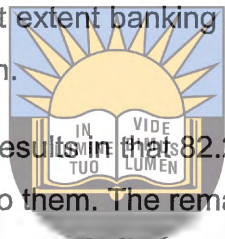


Figure 6.9 below reflects the positive results in that 82.2% of the respondents have a branch of the bank in close proximity to them. The remaining 17.8% of respondents do not have a branch of their bank in close proximity to them.

Table 6.9: Proximity of Bank Branch to Respondents

	Frequency	Per cent	Valid Per cent	Cumulative Per cent
Yes	148	82.2	82.2	82.2
No	32	17.8	17.8	100.0
Total	180	100.0	100.0	

Question 14: Utilisation of Online/internet Banking Service of Patronising Bank

This question was posed to enquire whether respondents use the online or internet service of their indicated bank. Table 6.10 below depicts the response outcomes.

Table 6.10: Utilisation of Online/internet Banking Service of Patronising Bank

	Frequency	Per cent	Valid Per cent	Cumulative Per cent
Yes	80	44.4	44.4	44.4
No	90	50.0	50.0	94.4
Not available	10	5.6	5.6	100.0
Total	180	100.0	100.0	

The findings as reported in Table 6.10 above, reveals that 44.4% of the respondents use online or internet banking and 50.0% does not. A further 5.6% of the respondents do not have access to online internet banking. There is thus ample room for the expansion of online or internet access and utilisation.

6.5 SECTION C: CLIENT SATISFACTION FACTORS

This section of the questionnaire is concerned with perceptions/experiences and satisfaction with the respondent's preferred banking institution. In order to measure the level of service quality provision, the five dimensions: tangibles, empathy, responsiveness, reliability and assurance, developed by Parasuraman, *et. al.* (1988), were adopted for the study. The excellence of the rendered services was measured by the clients' expectations and perceptions of the SERVQUAL dimensions. In addition, descriptive statistical analysis of the responses from respondents was used to construct the needed measurements.



6.5.1 Reliability Dimension

The reliability of a corporate entity is the ability to perform the promised service dependably and efficiently. In this study, the researcher focused on service obligations and promises, efficient task accomplishment, taking a sincere interest in solving clients' problems successfully and addressing and servicing client needs satisfactorily.

6.5.1.1 Construct Reliability

Cronbach's alpha test was performed on each construct to measure internal consistency for the overall measures. The recommended cut-off score for a reliable measurement scale is 0.60; otherwise, it indicates unsatisfactory internal consistency reliability (Malhotra 2004:268). The Cronbach alpha co-efficient for all items is 0.838 which is above 0.6, which means the measurement instrument was reliable. Table 6.8 below presents the Cronbach alpha co-efficients of individual constructs.

Table 6.11: Cronchbach Alpha of Constructs

Variable	Cronchbach Alpha Co-efficients
Reliability	0.882
Tangibility	0.801
Responsiveness	0.791
Assurance	0.864
Empathy	0.811

According to above data, the Cronchbach alpha co-efficients of the individual questionnaire items are all above 0.60 which is the benchmark for reliability. Hence, it can be concluded that the questionnaire items were reliable.

Table 6.12 below presents the results of five service items of the Reliability dimension that were measured. The mean scores of each item for both expectations and perceptions indicate that the services of retail banks were perceived by respondents as reliable. The bank delivers according to promise and keeps accurate records of client finances and investments. Irrespective of the effects of loading shedding, the banks deliver financial services punctually and reliably and also, efficiently safeguard clients' deposits. The measurement of the reliability item: 'the bank keeps its records accurately' rendered a mean reliability perception score of 3.21. This score is indicative that retail banks keep efficient records of clients' transactions and provide accurate bank statements and interest calculations for accurate documentation.

Table 6.12: Reliability as a Client Satisfaction Factor

Reliability Expectation			Reliability Perception		
Items	Mean	STD	Items	Mean	Gap diff
The bank meets its promises to do deliver services at an agreed time.	4.53	0.387	The bank meets its promises to do deliver services at an agreed time.	3.20	-0.33
The bank keeps its records accurately.	3.40	.0432	The bank keeps its records accurately.	3.21	-0.19
The bank informs clients exactly when services will be performed.	3.37	0.432	The bank informs clients exactly when services will be performed.	3.21	-0.16
Apart from load shedding, the bank delivers financial services punctually.	3.35	0.482	Apart from load shedding, the bank delivers financial services punctually.	3.38	+0.03
The bank is dependable / reliable to safeguard my deposits	3.58	0.355	The bank is dependable / reliable to safeguard my deposits	3.43	-0.15
Average Total	3.55	0.42	Average Total	3.40	-0.80

Table 6.12 indicates that, while the clients' reliability service quality expectations score was 3.55, the service quality perceptions score for reliability rendered by banks was only 3.40. This renders a service gap of -0.15 that fell short of the expectations of bank clients. In other words, the perceived reliability service quality delivery was unsatisfactory compared to the reliability service quality expectations of clients in terms of the service quality dimension on reliability.

This finding is in total agreement with the findings of Pae and Hyun (2002) who state that the increasing rate of technology growth has elevated the expectations of clients from their service providers, thereby affecting the perceptions of service quality.

6.5.2 Tangibility Dimension

Tangibility deals with the appearance of physical facilities, equipment, personnel and communication materials. Descriptive statistics were compiled, based on the expectations and the perceptions of the clients of the bank.

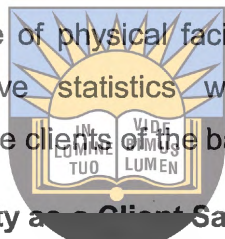


Table 6.13: Tangibility as a Client Satisfaction Factor

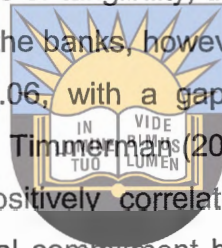
Tangibility Expectation			Tangibility Perception		
Items	Mean	STD	Items	Mean	Gap diff
The bank should have up-to-date equipment	3.64	0.43	The bank has up-to-date equipment	3.23	-0.41
The physical facilities should be visually appealing (ATMs, bank branch, tellers, vaults).	3.55	0.47	The physical facilities are visually appealing (ATMs, bank branch, tellers, vaults).	3.10	-0.45
The bank's employees should be formally dressed	3.21	0.33	The bank's employees are formally dressed.	3.03	-0.18
When I have financial challenges, the bank should be sympathetic (understanding) and reassuring (comforting).	3.01	0.39	When I have financial challenges, the bank is sympathetic (understanding) and reassuring (comforting).	2.89	-0.12
Average Total	3.35	0.405	Average Total	3.06	-1.16

Table 6.13 reveals a high average mean score for the scale of Tangibility measurement. This indicates that clients perceive these service items as efficient measures of Tangibility of quality services that impact client satisfaction in the retail banking sector. From the given service items to measure tangibility expectations, clients place a high priority on up-to-date equipment, on appealing physical facilities, on proficient employees that have a sympathetic ear and a good understanding of complaints handling. The mean values in each of the service items indicate that clients strongly feel

that Retail banks have modern and adequate facilities to render satisfactory banking services at all times.

Among the Tangibility perceptions and expectations that banks are sympathetic when clients have financial challenges, indicate that the use of modern and adequate facilities by banks reduce client challenges and have increased bank efficacy through facilities like ATMs and client care policies. The average total mean is also high, indicating that clients agree that the Tangibility of retail banks is adequate, modern, up to date and very appealing. Regardless of the means of the tangibility expectations and perceptions, the mean score for Tangibility expectations was found to be higher than that of the Tangibility perceptions for each of the service items considered.

Table 6.13 shows clearly that, in terms of tangibility, the clients expected their banks to render a service quality level of 3.35, the banks, however only succeeded in rendering a perceived service quality level of 3.06, with a gap of -0.29 that fell short of the expectations of bank clients. Lytle and Timmerman (2006) maintain that a client-focused service orientation in banking is positively correlated with employee commitment, longevity, and *esprit de corps*. Internal commitment by all employees towards greater *esprit de corps* is thus an important facet of a retail banking that could contribute to longevity, higher service quality levels and improved profitability.



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Tangibility of corporations' services has increased dramatically across all service delivery. This observation may be ascribed to the fact that banks are competing for clients; the focus on tangibility service items can thus be expected to be higher. The results for this study, however, show that for tangibility, client perceptions fall short of client expectations. This could be attributed to the fact that respondents have higher expectations on tangibles due to increasing levels of technology and competitive actions, thereby, resulting in banks to underscore in terms of client perceptions on tangibles.

6.5.3 Responsiveness Dimension

Responsiveness is the willingness to help clients, to provide prompt service, to make information available to clients and to be available to render a sympathetic ear when requested to do so.

Table 6.14 below shows that the average total value of responsiveness of both expectations and perceptions measured above 4.0. This is an indication of the level of importance placed by clients on their expectations of Responsiveness but also high

perceptions of the level of Responsiveness rendered by banks in dealing with client needs. From all service items considered, the service item: 'employee of bank provides prompt service to their clients' has the highest means; 4.51 for expectation and 4.46 for perception. This indicates that the waiting time of clients in the bank hall is minimal. The average total mean for clients' perception of responsiveness was 4.534, which indicates that clients perceive retail banks to be responsive and committed to supreme service delivery.

The total service quality level of responsiveness fails to meet the expectations of banking clients. As revealed in Table 6.14, while respondents expected a service quality level of 4.76, banks rendered a perceived service quality level of 4.53 that renders a service gap of -0.23 falling short on the expectations of the clients and represents an unsatisfactory level of service delivery for this dimension of the descriptive analysis.

Table 6.14: Responsiveness as a Client Satisfaction Factor

Items	Responsiveness Expectation		Items	Responsiveness Perception	
	Mean	STD		Mean	Gap diff
Employees of the bank are not always willing to help me as a client	4.25	0.501	Employees of the bank are not always willing to help me as a client	4.13	-0.12
Employees of the bank are too busy to respond promptly to my requests	3.76	0.473	Employees of the bank are too busy to respond promptly to my requests	3.53	-0.23
Bank employees do not provide prompt service to me as a client.	4.51	0.522	Bank employees do not provide prompt service to me as a client.	4.46	-0.05
Employees of the bank are not trustworthy	3.55	0.402	Employees of the bank are not trustworthy	3.42	-0.13
Employees of the bank are not capable to attend to my needs.	3.28	0.399	Employees of the bank are not capable to attend to my needs.	3.11	-0.17
Employees of the bank are polite	4.43	0.518	Employees of the bank are polite	4.24	-0.19
Average Total	4.76	0.469	Average Total	4.53	-0.89

6.5.4 Assurance Dimension

Assurance is the knowledge and courtesy of employees and their ability to inspire trust and confidence.

Table 6.15 below, reflects the Assurance dimension scores of expectations and perceptions of retail banking clients. The recorded mean expectation for all three service items is above 3.50. This indicates that clients have fairly high assurance

expectations from transacting with retail banks. Clients perceive a great degree of security, score of 3.44, when engaging in retail banking transactions indicating that client feel secured to transact without any fear of fraud.

Table 6.15: Assurance as a Client Satisfaction Factor

Assurance Expectation			Assurance Perception		
Items	Mean	STD	Items	Mean	Gap diff
I feel secured in my transactions with the bank employees (no fear of fraud, etc.).	3.57	0.402	I feel secured in my transactions with the bank employees (no fear of fraud, etc.).	3.44	-0.13
I feel it's safe to use the ATMs of the bank	3.49	0.381	I feel it's safe to use the ATMs of the bank	3.25	-0.24
I trust to do online transactions with the bank.	3.55	0.401	I trust to do online transactions with the bank.	3.35	-0.20
Average Total	3.54	0.395	Average Total	3.35	-0.57

Looking at the gap analysis for satisfaction, respondents were expecting an assurance service quality level of 3.54; they, however, perceived an assurance service quality level of 3.35, resulting in a service quality gap of -0.19, lower than their expectations. This renders a general degree of dissatisfaction on the Assurance dimension.

6.5.5 Empathy Dimension

The Empathy dimension deals with the caring, individualised attention each bank provides to its clients.

Table 6.16: Empathy as a Client Satisfaction Factor

Empathy Expectation			Empathy Perception		
Items	Mean	STD	Items	Mean	Gap diff
The bank does not give me individual personal attention	5.24	0.76	The bank does not give me individual personal attention	5.13	-0.11
The bank does not (truly) have my best interest at heart	5.63	0.662	The bank does not (truly) have my best interest at heart	5.45	-0.22
The bank does not offer convenient operating hours to all their clients.	4.89	0.58	The bank does not offer convenient operating hours to all their clients.	4.67	-0.22
Services provided through the ATMs are in line (consistent) with client needs.	5.01	0.642	Services provided through the ATMs are in line (consistent) with client needs.	4.89	-0.20
Online transactions of the bank are designed to serve the best interests of clients.	4.78	0.499	Online transactions of the bank are designed to serve the best interests of clients.	4.45	-0.33
Bank statements are a nightmare to understand / interpret.	4.55	0.475	Bank statements are a nightmare to understand / interpret.	4.23	-0.32
Average Total	5.05	0.603	Average Total	4.86	-1.40

For the Empathy dimension, six service items were applied. Generally, the results show a high means score for both empathy expectations and perceptions which indicate that clients expect and receive 'Royal' service and treatment. It thus appears that Retail banks understand the needs of its clients and try their utmost best to render fair and just treatment to all clients without any favouritism.

Table 6.16, reveals that clients expected a service quality level of 5.05, while the perceived quality value for the empathy dimension was only 4.86, which renders a service gap of -0.19, thus falling short of client expectations.

Table 6.17: Summary of Correlation Scores by Ranking Order of Expectations and Perceptions

Ranking	Respondents expectations	Respondents perceptions
1	TANGIBILITY	RELIABILITY
2	RELIABILITY	RESPONSIVENESS
3	RESPONSIVENESS	ASSURANCE
4	ASSURANCE	TANGIBILITY
5	EMPATHY	EMPATHY

This results show that, clients' expectations are contradicting some existing literature who claim that the normal ranking order for client expectations are reliability, responsiveness, tangibility, assurance and empathy. The perceptions of clients, however, agree largely with the rankings reported in existing literature (Crosby,

Table 6.18: Respondents' Perceptions of the Quality of Banking Services

Quality of banking service	Frequency	Per cent	Valid per cent	Cumulative per cent
Poor	5	2.8	2.8	2.8
Undecided	10	5.6	5.6	8.3
Fair	28	15.6	15.6	23.9
Good	48	26.7	26.7	50.6
Excellent	89	49.4	49.4	100
Total	180	100.0	100.0	

1979). From this an encouraging conclusion can be drawn, namely, that service quality rendering by banks are in line with the service quality framework given in existing literature and preached by most scholars in the field of service quality management and delivery.

Table 6.19: Respondents' Overall Satisfaction Level

	Strongly disagree		Disagree		Slightly disagree		Undecided		Slightly agree		Agree		Strongly agree	
	f	%	f	%	F	%	f	%	f	%	f	%	f	%
Satisfy/pleased with the bank's overall service	15	8.3	0	0.0	0	0.0	0	0.0	31	17.2	54	30.0	80	44.4
Trust and confidence in the financial services rendered by the bank	3	1.7	0	0.0	0	0.0	13	7.2	24	13.3	68	37.8	72	40.0
Perceive a satisfying experience from my interaction with the bank	5	2.8	0	0.0	0	0.0	5	2.8	48	26.7	70	38.9	52	28.9
Satisfied with the bank's interest rates	11	6.1	17	9.4	17	9.4	6	3.3	32	17.8	48	26.7	49	27.2
Financial service expectations are met by bank	5	2.8	0	0.0	14	7.8	5	2.8	17	9.4	86	47.8	53	29.4

The above table 6.19 shows the respondents overall satisfaction level on the basis of whether they strongly agree, disagree, slightly disagree, undecided, slightly agree, agree or strongly agree on a frequency and scale level.

6.6 HYPOTHESIS TESTING

The study at hand was conducted to investigate the effect of perceived service quality on client satisfaction in the retail banking sector in Buffalo City, Eastern Cape, South Africa. The hypotheses formulated for this study were:

- H1₀:** Perceived service quality does not affect retail banking client satisfaction in Buffalo City.
- H2₀:** A significant relationship does not exist between tangibles and client satisfaction.
- H3₀:** A significant relationship does not exist between reliability and client satisfaction.
- H4₀:** A significant relationship does not exist between responsiveness and client satisfaction.
- H5₀:** A significant relationship does not exist between assurance and client satisfaction.
- H6₀:** A significant relationship does not exist between empathy and client satisfaction.

Regression analysis was used to understand if there is a significant relationship between tangibles and client satisfaction, while correlation analysis was used to check the degree of the relationship either a positive or negative relationship. T test distribution was used mean comparison of the two groups. P-value < 0.05 was used to accept the null hypothesis for significant differences.

Each hypothesis is tested individually in the section that follows.

6.6.1 Primary Hypothesis

H1₀: Perceived service quality does not affect retail banking client satisfaction in Buffalo City.

Table 6.20: Regression Results of Perceived Service Quality and Retail Banking Client Satisfaction.

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	150.931	10	15.093	26.855	.000 ^b
Residual	94.980	169	.562		
Total	245.911	179			

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According to Table 6.20 above, since the p-value = 0.000 < 0.05, the primary hypothesis, H1₀, is rejected. It can thus be concluded that perceived service quality does affect retail banking client satisfaction in Buffalo City with a 5% level of significance (F = 26.855, df = 179, p-value = 0.000).

6.6.2 Secondary Hypotheses

The regression analysis results showing the relationship between the five SERVQUAL Model dimensions and client satisfaction are presented in Table 6.21 below.

Table 6.21: Regression Results Showing the Relationship between the Five SERVQUAL Model Dimensions and Client Satisfaction.

Dimensions	Unstandardised Coefficients		Standardised Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	8.077	.505		16.003	.000
TANGIBILITY	-.030	.079	-.030	-3.375	.008
RELIABILITY	.197	.074	.208	2.665	.008
RESPONSIVENESS	.044	.090	.038	.485	.028
ASSURANCE	-.124	.067	-.137	-1.847	.067
EMPATHY	-.341	.121	-.239	-2.809	.006

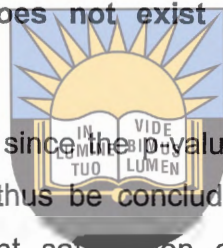
The results pertaining to each secondary hypothesis is individually outlined below:

H2₀: A significant relationship does not exist between tangibles and client satisfaction.

According to Table 6.21 above, since the p -value = 0.008 < 0.05, the secondary hypothesis, H2₀, is rejected. It can thus be concluded that a significant relationship exists between Tangibility and client satisfaction at the 5% level of significance ($|t|=3.375$, $df=179$, p -value=0.008). Any additional Tangible element added to service rendering by retail banks, will positively promote client satisfaction.

H3₀: A significant relationship does not exist between reliability and client satisfaction.

In the light of the Table 6.21 above, since the p -value = 0.008 < 0.05, the secondary hypothesis, H3₀, is rejected. It can thus be concluded that a significant relationship exists between Reliability and client satisfaction at the 5% level of significance ($|t|=2.665$, $df=179$, p -value=0.008). Any additional Reliability element added to service rendering by retail banks, will positively promote client satisfaction.



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H4₀: A significant relationship does not exist between responsiveness and client satisfaction.

In the light of the Table 6.21 above, since the p -value = 0.028 < 0.05, the secondary hypothesis, H4₀, is rejected. It can thus be concluded that a significant relationship exist between Responsiveness and client satisfaction at the 5% level of significance ($|t|=0.485$, $df = 179$, p -value=0.023). Any additional Responsiveness element added to service rendering by retail banks, will positively promote client satisfaction.

H5₀: A significant relationship does not exist between assurance and client satisfaction.

According to Table 6.21 above, since the p -value = 0.067 > 0.05, we fail to reject the secondary hypothesis, H5₀ and it can be concluded that no significant relationship exist between Assurance and client satisfaction at the 5% level of significance ($|t|=1.847$, $df=179$, p -value=0.067). Any additional Assurance element added to service rendering by retail banks, will not necessarily promote client satisfaction.

H6₀: A significant relationship does not exist between empathy and client satisfaction.

According to Table 6.21 above, since the p-value = 0.006 < 0.05, the secondary hypothesis, H6₀, is rejected. It can thus be concluded that a significant relationship exist between Empathy and client satisfaction at the 5% level of significance ($t=2.809$, $df=179$, $p\text{-value}=0.006$). Any additional Empathy element added to service rendering by retail banks, will positively promote client satisfaction.

6.6.3 Summary of Hypotheses Testing

The following six hypotheses were statistically tested, namely:

H1₀: Perceived service quality does not affect retail banking client satisfaction in Buffalo City.

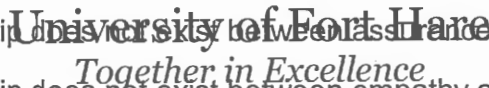
H2₀: A significant relationship does not exist between tangibles and client satisfaction.

H3₀: A significant relationship does not exist between reliability and client satisfaction.

H4₀: A significant relationship does not exist between responsiveness and client satisfaction.

H5₀: A significant relationship does not exist between assurance and client satisfaction.

H6₀: A significant relationship does not exist between empathy and client satisfaction.



The outcomes of the statistical analysis, using a regression test were as follows:

- Primary hypothesis H1₀ with a p value of 0.000 is rejected;
- Secondary Hypotheses H2₀, H3₀, H4₀ and H6₀ that rendered p values of 0.008, 0.008, 0.023 and 0.006 respectively, are also rejected;
- The statistical analysis, however, failed to reject alternative hypothesis H5₀ which rendered a p value of 0.067.

The summarised results of the hypotheses testing are presented in the Table 6.22 below.

Table 6.22: Summary of Results on Hypotheses Testing

Hypothesis	P value	Decision
H1 ₀	0.000	Reject
H2 ₀	0.008	Reject
H3 ₀	0.008	Reject
H4 ₀	0.023	Reject
H5 ₀	0.067	Fail to reject
H6 ₀	0.006	Reject

6.6.4 Summary of Research Findings and Results

Table 6.23 below, summarises the overall accomplishment of the envisaged objectives, the main associated findings and the results achieved.

Table 6.23: Summary of Research Findings and Results

<u>Objective</u>	<u>No</u>	<u>Main Findings</u>	<u>Results</u>
To investigate the effect of perceived service quality on client satisfaction in the retail banking sector in Buffalo City.	1	The main findings show that Perceived service quality does not affect retail banking client satisfaction in Buffalo City.	$F = 26.855, df = 179, p\text{-value} = 0.000;$ <i>Null Hypothesis Rejected.</i>
To determine whether there is a significant relationship between tangibility and client satisfaction.	2	From the findings, it can be concluded that a significant relationship does exist between Tangibility and client satisfaction.	At a 5% level of significance where ($t=3.375, df=179, p\text{-value}=0.008$). <i>Null Hypothesis Rejected.</i>
To determine whether there is a significant relationship between reliability and client satisfaction.	3	The findings revealed that a significant relationship does exist between Reliability and client satisfaction.	At a 5% level of significance where ($t=2.665, df=179, p\text{-value}=0.008$). <i>Null Hypothesis Rejected.</i>
To determine whether there is a significant relationship between responsiveness and client satisfaction.	4	The findings revealed that a significant relationship does exist between Responsiveness and client satisfaction.	At a 5% level of significance ($t=0.485, df =179, p\text{-value}=0.023$). <i>Null Hypothesis Rejected.</i>
To determine whether there is a significant relationship between assurance and client satisfaction.	5	The findings failed to proof that a significant relationship exists between Assurance and client satisfaction.	At a 5% level of significance ($t=1.847, df=179, p\text{-value}=0.067$). <i>Failed to reject the Null Hypothesis.</i>
To determine whether there is a significant relationship between empathy and client satisfaction.	6	The findings reflect that a significant relationship exist between Empathy and client satisfaction.	At a 5% level of significance ($t=2.809, df =179, p\text{-value}=0.006$) <i>Null Hypothesis Rejected.</i>

6.7 CONCLUSION

This chapter presented the research findings. The objectives and the hypotheses were revisited. Methods used to analyse data were also explained. The hypotheses were tested and conclusions were drawn.

The following chapter is the final chapter and presents the findings, implications and limitations of this study, based on the research results. The chapter summarises the complete study, gives recommendations and highlights areas that still need further research.



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CHAPTER SEVEN

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CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

Chapter one provided an introduction and background to the study while chapter two gave an overview of the South African retail banking sector and the factors influencing client's preference for specific retail banks. The service quality and client satisfaction in the retail banking sector were discussed in chapter three. Chapter four discussed the model which was used for the study which is called the SERVQUAL model. Research methodology, design and techniques were discussed in chapter five. Research findings and analysis were presented in chapter six.

This is the final chapter of this study and it focuses on all the information from the preceding chapters and provides a synopsis of the conclusions reached. In addition, it provides pertinent recommendations based on the findings of the empirical results as well as the conclusions.

7.2 SUMMARY OF THE STUDY



Literature gathered in this study through secondary research revealed that if clients perceive that the service quality they receive is below their expectations, they will be dissatisfied and in the process voice out their displeasure leading to the loss of potential clients and the current clients to competitors through the availability of switching choices clients have between banks. Kotler and Keller, (2006: 412) maintain that if perceived service falls short of expected service, the client loses interest in the service provider. This study was aimed at investigating the effect of perceived service quality on retail bank client satisfaction in Buffalo City. Below is a discussion of all the objectives that were set out for this study.

The alternative hypotheses are reproduced in the section that follows.

7.3 ALTERNATIVE HYPOTHESES

7.3.1 Primary Hypothesis

H1₁: Perceived service quality does affect retail banking client satisfaction in Buffalo City.

7.3.2 Secondary Hypotheses

H2₁: A significant relationship does exist between tangibles and client satisfaction.

H3₁: A significant relationship does exist between reliability and client satisfaction.

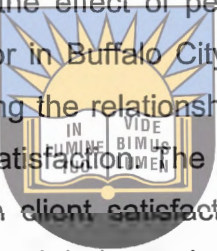
H4₁: A significant relationship does exist between responsiveness and client satisfaction.

H5₁: A significant relationship does not exist between assurance and client satisfaction.

H6₁: A significant relationship does exist between empathy and client satisfaction.

7.4 ACHIEVEMENT OF OBJECTIVES

The objectives of the study are divided into primary and secondary objectives. The primary objective was to investigate the effect of perceived service quality on client satisfaction in the retail banking sector in Buffalo City, Eastern Cape. The secondary objectives were focused on determining the relationships between the five dimensions of the SERVQUAL model and client satisfaction. The primary objective established the effect of perceived service quality on client satisfaction in the retail banking sector. Empirical evidence from chapter 2, 3 and 4 shows that the expectation of clients is not always equal to perceived service quality by clients.


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7.5 DISCUSSION OF THE FINDINGS

This section discusses and concludes the results obtained in chapter six by assessing each concept and explaining the results that have been obtained from testing the hypotheses linked to it. Data obtained from the questionnaires were analysed and interpreted using the SERVQUAL model, descriptive and inferential method.

The demographic section of the questionnaire showed that the majority of respondents who took part in this study were females, 14% more than male respondents. The majority of the respondents have attained post graduate qualifications and lastly, most respondents were in the 35 – 44 age group.

7.5.1 Measure of Service Performance

Service performance is based on the services received or experienced by a client. In this study, perceptions of clients pertaining to the five service dimensions were measured to assess the service quality delivery of the retail banks, hence the performance of the banks and client satisfaction. Noticeably, all five service quality dimensions applied, had a mean score beyond 3.0 out of a maximum of 5, indicating a

superior performance relative to the scale of measurement.

Looking at the individual factors assessing reliability, the highest mean score was 3.43 representing the factor: ***“The bank is dependable / reliable to safeguard clients’ deposits”*** and the least mean score was 3.20 representing the factor: ***“The bank meets its promises to deliver services at an agreed time”***.

The four factors used to measure tangibility all gave an average score more than 3.0 and it is also on the high side of the scale of measurement. However, the item: ***“The bank has up-to-date equipment”*** gave the highest average score of 3.23 while the least average score 2.89 was obtained by the item: ***“When I have financial challenges, the bank is sympathetic (understanding) and reassuring (comforting)”***. This is indicative that retail banks are not providing for financial challenges that may force clients to patronise cash loan providers.

The six factors used to measure responsiveness gave an average score of more than 4.0. The highest average score of 4.46 was achieved by the factor: ***“Bank employees do not provide prompt (quick) service to me as a client”***, while the least average score 3.11 was generated by the item: ***“Employees of the bank are not capable to attend to my needs”***.



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Out of the three factors used to measure assurance, the factor: ***“I feel secured in my transactions with the bank employees”*** yielded the highest mean score of 3.44 while the least average score 3.25 was achieved by the item: ***“I feel it's safe to use the ATMs of the bank”***. As the average scores of all the factors were more than 3.0, it confirms that the clients agree that their retail Bank provides assurance to them as clients.

The six factors used to measure empathy also delivered an average score of more than 4.0. Additionally, the highest average score of 5.45 was given by the factor: ***“The bank does not (truly) have my best interest at heart”*** while the least average score 4.23 was rendered by the item: ***“Bank statements are a nightmare to understand / interpret”***.

7.5.2 SERVQUAL Dimensions Excelled in by Retail Banks

The ranking of perceived service quality dimensions clearly shows that retail banks in South Africa are predominantly excelling with regard to the performance dimension. The factors applied in assessing the SERVQUAL dimensions were grouped and the grand mean scores calculated for each. By comparing the grand average scores, it was established that ***Reliability*** stood out as the highest ranked SERVQUAL dimension of

retail banks. Unfortunately, *Empathy* which measures particular concern for clients' needs and financial challenges yielded the least average grand score. This is indicative that retail banks and their employees need to improve on client relations and empathy.

7.6 RECOMMENDATIONS

Based on the conclusions drawn, a number of recommendations are proposed to improve service performance so that the SERVQUAL dimensions, assessing client perceptions, will exceed the expectations of the clients.

7.6.1 Continuous Assessment of Service Delivery by Clients

With respect to service quality, bank managers should focus on improving all five SERVQUAL dimensions. While for the purpose of improving client satisfaction, the focus should be on empathy, assurance and responsiveness, since the results show that the contribution of tangibility and reliability to satisfaction is minor. Regular assessment of client satisfaction and feedback on service delivery from current clients as well as gaining insight into the expectations of prospective clients about the level of satisfaction they require from banking services, retail banks will be well informed about which service dimension need ~~Improvement to increase~~ service delivery and performance. It will also inform banks about service areas that have been neglected, so as to pro-actively upgrade those areas.

In order to improve on the empathy, assurance and responsiveness dimensions, banks should provide suitable training to staff members and service supervisors to ensure that client service front-desk employees are efficiently equipped to render the required client services, address problems and show empathy with the specific financial challenges faced by clients. Kumar, Kee and Manshor (2009) claim that client service departments at banks should receive on-going training and retraining to improve their competency in service delivery. The authors state further that on- the-job training is not enough; it has to be supported by training in soft skills, for instance, handling client objections, service recovery, and effective communication skills.

7.6.2 Improvement of Service Quality Dimensions

Service quality dimensions require a logical approach from banks to ensure improvement. This is recommended because, if the service quality dimensions do not meet the client's expectations, a pragmatic effort is required from a bank to ensure an

improvement in the service quality dimensions that will contribute to the overall service quality and efficient client service delivery by the bank.

As Legcevic (2008) suggests, having a high-quality-supportive culture is particularly important for all service institutions. Bank employees, from the highest to the lowest rank, should have service quality and client satisfaction at heart, and execute their jobs precisely to serve that purpose. With this culture instilled, banks would be able to maintain a trustworthy workforce that helps clients to feel safe when dealing with the bank.

In addition to investing in empathy, assurance and responsiveness, banks should create a culture that focuses on quality client service and client satisfaction.

7.6.3 Improvement of Overall Service Delivery

Based on the conclusions drawn from this research as well as evidence from secondary data, a definite gap, between client expectations and perceptions about service delivery by retail banks, comes to light. In other words, client expectations exceed client perceptions. This revelation requires retail banks to consider redesigning and repackaging of its service delivery so as to match or exceed client expectations. The use of client satisfaction surveys and timeous action by retail banks to render superior service will prompt clients to stay loyal to their banks and not to switch banks.

This interesting findings confirm that the physical qualities of a bank do not automatically determine the quality of services rendered and, per se, do not necessarily lead to client satisfaction. The physical setting of a bank might be appealing or even extravagant, and its front-desk employees could be professionally dressed, but still not be able to show reliability and empathy, thus, resulting in low satisfaction levels

Finally, the bank should have convenient operating hours to serve different segments of clients, thus improving the reliability dimension. In that same logic, Kumar, *et al.* (2009) recommend the opening of more banking booths in high foot-traffic areas; elongate the banking hours, or even operating on weekends, beyond Saturday mornings. They maintain that all banking channels operated by a bank should be easy and convenient to access since waiting causes dissatisfaction for clients. Thus, banks must think of innovative ways to create additional types of channels to connect with clients through using new technological breakthroughs to reduce waiting time and service access effort for clients (Kumar, *et al.*, 2009).

7.7 RESEARCH LIMITATIONS

The focus of this study was on investigating the service quality dimensions and client satisfaction in the South Africa Retail Banking industry. Hence, the study was limited to only retail banking services in South Africa. The limitation lies within the possibility that the research findings may have been affected by this particular context of the study and therefore presenting doubts of the applicability in different surroundings in the financial sector. Hence, repetition of the research approach in other service providers within the financial sector would certainly be worth the while.

The methodology employed in this study was limited to the quantitative approach in gathering data for analysis purposes. The measurement used for the different variables considered in this study was adopted from formerly validated models of past research where minor changes were incorporated. Consequently, a qualitative approach to capture client's perceptions of what matters the most to them when evaluating service quality would be most valuable.



Another limitation for consideration has to do with clients' dealings with the different branches of a bank. A client may be at ease and enjoy satisfaction from a certain person or service provider at one branch of the bank but which is not the general experience with service provision at other branches of the bank. This is due to the service characteristic of inseparability; that is, services ***"cannot be separated from their providers, whether the providers are people or machines"*** (Armstrong & Kotler, 2011: 250). Therefore, for a better understanding of bank-client relationships, respondents should be asked about their encounters with multiple branches, if any. Likewise, studying the nature of provider-client interaction would help in the assessment of perceived service quality in general.

7.8 AREAS FOR FURTHER RESEARCH

The following areas are highlighted for research in future:

- Future researchers are hereby called upon to conduct research to assess the service quality delivery of different branches of retail banks in order to ascertain the extent of service quality delivery among the retail banks in South Africa.
- Repeat the research model among other financial service providers like short-term insurers, life-assurance firms, UIF; as well as perceived service quality and client

satisfaction in non-financial service providers like municipalities, Telkom, Post Office and alike.

- Explore the possibility of the existence of other demographic-related differences with regard to perceived service quality and client satisfaction, based on: marital status, age, social class, occupation, educational level, nationality and ethnicity.
- Conduct a qualitative study and by no means explore new dimensions of client perceptions and expectations by developing customised questionnaire items in addition to the already existing 97 items of the SERVQUAL model.

7.9 SUMMARY OF RESEARCH OUTCOMES AND RECOMMENDATIONS

A summary of the primary objective, the secondary objectives, the relevant sections in the questionnaire, the main findings and the recommendations of the study are shown in Table 7.1 below:



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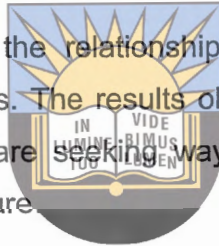
Table 7.1: Summary of Research Outcomes and Recommendations

PRIMARY OBJECTIVE	SECONDARY OBJECTIVES	RELEVANT CHAPTERS	SECTIONS IN QUESTIONNAIRE	MAIN FINDINGS	RECOMMENDATIONS
To investigate the effect of perceived service quality on client satisfaction in the retail banking sector in Buffalo City.	1. To determine whether there is a significant relationship between tangibility and client satisfaction.	Chapters 3, 4 & 6	Section C	Clients are satisfied with the level of general technical sophistication of banks as well as access to bank facilities.	Retail bank managers should develop a holistic focus on improving all five SERVQUAL dimensions on an on-going basis.
	2. To determine whether there is a significant relationship between reliability and client satisfaction.	Chapters 3, 4 & 6	Section C	Reliability stood out as the highest ranked SERVQUAL dimension of retail banks. Banks are successful in delivering according to promise.	The retail banking fraternity should follow a holistic approach in addressing those service dimensions that are lacking efficiency.
	3. To determine whether there is a significant relationship between responsiveness and client satisfaction.	Chapters 3, 4 & 6	Section C	Retail banks are not always responsive enough to concerns and financial challenges faced by clients.	Continuous assessment and improvement of service quality dimensions to be offered by retail banks
	4. To determine whether there is a significant relationship between assurance and client satisfaction.	Chapters 3, 4 & 6	Section C	Clients generally reported high levels of satisfaction with regard to assurance	Retail Banks should, on a continuous basis, enhance the security measures at ATMS.
	5. To determine whether there is a significant relationship between empathy and client satisfaction.	Chapters 3, 4 & 6	Section C	Banks do not show sufficient empathy for client needs raised. Especially bank statements offer challenges.	Subject employees to additional training in client relations to improve their responsiveness and compassion.

7.10 CONCLUSION

This chapter outlined and discussed the conclusions based on the findings of this research as reported in chapter six. An assessment of the achievement of the objectives envisaged in chapter one is also reported in this chapter and it is clear that this study accomplished all the mentioned objectives. The contributions this research made to the field of management and the promotion of efficient customer satisfaction were also noted. However, research limitations have been revealed and, in view of these limitations, certain recommendations have been made for research areas that could be explored in the future.

In conclusion, this study examined the relationships that exist between perceived service quality and client expectations. The results obtained will serve as a source of knowledge for bank managers that are seeking ways to improve the level of client satisfaction and loyalty now and in future.



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APPENDIX 1: QUESTIONNAIRE



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I, DEBORAH EWERE AGHOLOR, am presently registered for a Master of Commerce Degree in Business Management at the University of Fort Hare in Alice, Eastern Cape, South Africa. As a prerequisite to fulfill the requirements of this degree, I am conducting research on the Effect of Perceived Service Quality on Client Satisfaction in the Retail Banking Sector in Buffalo City, Eastern Cape, South Africa.



The data collected at the hand of this questionnaire will be analysed and the recommendations based on the research findings will be implemented to assist Retail Banks in Buffalo City and wider in the Eastern Cape to adopt their service quality where discrepancies are evident in order to enhance client satisfaction. Therefore, it would be appreciated if you complete the questionnaire as honestly and objectively as possible. Please note that this research is strictly for academic purposes, therefore, the responses given in this questionnaire will be treated with great care, confidentiality and professionalism and will not be used for any other purposes. Your cooperation is greatly appreciated.

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If you have queries concerning the questionnaire, please contact the researcher and/or the supervisor, whose contact details are set out below:

Deborah Agholor (researcher)

Mr B D Jordaan (co-supervisor)

Cell: 0789297081

Tel: 040 602 2116

E-mail: 201002540@ufh.ac.za

E-mail: bjordaan@ufh.ac.za

Signature: _____

*** Thank you in advance for your time, patience and participation ***

SECTION A: DEMOGRAPHICAL INFORMATION

The questions in this section address your demographic characteristics as respondent. Kindly indicate your selected response with an (X) in the most appropriate box.

1. Gender

Male		Female	
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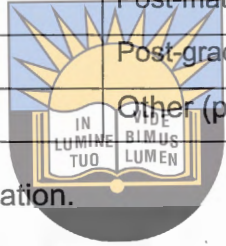
2. Indicate your age group.

Younger than 25 years	25 to 34	35 to 44	45 to 54	55 to 64	65 years and older

3. Please indicate your highest educational qualification achieved?

High school: (Grade 8-11)	Post-matric Certificate/Diploma	
Grade 12 (Matric)	Post-graduate Degree	
Bachelor Degree	Other (please specify)	

4. Please indicate your current occupation.

Unemployed	 <p style="text-align: center;">University of Fort Hare <i>Together in Excellence</i></p>
Student	
Unskilled labourer	
Office, business or factory worker	
Middle management (supervisor, office manager)	
Professional (teacher, physician, dentist, pharmacist, nurse, lawyer, engineer)	
Entrepreneur / Own Business / Self-employed	
Other: please specify	

5. Which income category best reflects the gross monthly income level for the occupation selected above?

No income	Less than R5 999	R6 000 to R11 999	R12 000 to R19 999	R20 000 to R29 999	R30 000 to R39 999	R40 000 to R49 999	R50 000 or above

SECTION B: PERSONAL BANKING PROFILE

The questions in this section address your personal banking behaviour and actions. Kindly indicate your selected response with an (X) in the most appropriate box or by completing the appropriate sections.

6. Do you have a bank account?

Yes		I have closed my account		Never had an account	
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7. If you have closed your bank account, what would you ascribe the closure to?

8. If you do have a bank account, indicate with which of the following banks?

BANK	1st	2nd	3rd
ABSA			
Capitec Bank			
First National Bank			
Nedbank			
Standard Bank			

9. What would be the most important reasons for banking with more than one bank?

10. For how many years are you a client of the indicated **Main** bank?

Less than 3 years		3 to 6 years		7 to 12 years		13 to 20 years		More than 20 years	
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11. How often do you visit your bank for banking transactions?

Never		Several times a month	
Once a year		Once a week	
A couple of times per year		Several times a week	
Once a month		Daily	

12. Do you use the ATM's of your indicated bank(s)?

Yes		No		Not available	
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13. Does the bank of your choice have a branch near you?

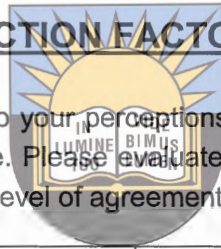
Yes		No		Not available	
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14. Do you use the Online/internet banking service of your bank?

Yes		No		Not available	
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SECTION C: CLIENT SATISFACTION FACTORS

The following set of statements relates to your perceptions / experiences and satisfaction with the **Main** bank you have specified above. Please evaluate the following statements and insert an (X) into the column representing your level of agreement or satisfaction.



	Statements	Strongly Agree	Agree	Neither Agree or Disagree	Disagree	Strongly Disagree
13.	The bank has up-to-date equipment.					
14.	The physical facilities are visually appealing (ATMs, bank branch, tellers, vaults).					
15.	The bank's employees are formally dressed.					
16.	The appearance of the physical facilities is consistent with the type of banking services provided.					
17.	The bank meets its promises to do deliver services at an agreed time.					
18.	The bank has enough ATMs and branches.					
19.	The bank offers internet and other remote services banking including mobile banking.					
20.	Queues at ATM machines are not excessively long.					
21.	ATM machines are easily accessible – easy to operate.					
22.	When I have financial challenges, the bank is sympathetic (understanding) and reassuring (comforting).					
23.	The bank is dependable / reliable to safeguard my deposits.					
24.	Apart from load shedding, the bank delivers financial services punctually.					

25.	The bank keeps its records accurately.					
26.	ATMs are always operating efficiently.					
27.	Online banking transactions are always successful.					
28.	The bank does not inform clients exactly when services will be performed.					
	Statements	Strongly Agree	Agree	Neither Agree or Disagree	Disagree	Strongly Disagree
29.	Employees of the bank are not always willing to help me as a client.					
30.	Employees of the bank are too busy to respond promptly to my requests.					
31.	ATMs always render financial transactions accurately.					
32.	There is rarely (infrequently) a response to Online requests.					
33.	Bank employees do not provide prompt (quick) service to me as a client.					
34.	Employees of the bank are not trustworthy.					
35.	I feel secured in my transactions with the bank employees (no fear of fraud, etc.).					
36.	Employees of the bank are polite.					
37.	I feel it's safe to use the ATMs of the bank.					
38.	I trust to do Online transactions with the bank.					
39.	The bank does not give me individual personal attention.					
40.	Employees of the bank are not capable to attend to my needs.					
41.	The bank does not (truly) have my best interest at heart.					
42.	The bank does not offer convenient operating hours to all their clients.					
43.	Services provided through the ATMs are in line (consistent) with client needs.					
44.	Online transactions of the bank are designed to serve the best interests of clients.					
45.	ATM machines of the bank are user-friendly and directions are clearly provided.					
46.	Online services are often frustrating and time-consuming.					
47.	Bank statements are a nightmare to understand / interpret.					



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Overall Service Quality Level

	Statement	Very Poor	Poor	Slightly Poor	Undecided	Slightly Good	Good	Excellent
48.	The quality of the bank's service is:							

Overall Satisfaction Level

Please evaluate the following statements on the 7-point scale and insert an (X) into the column representing your overall level of satisfaction.

	Statements	Strongly Disagree (1)	Disagree (2)	Slightly Disagree (3)	Undecided (4)	Slightly Agree (5)	Agree (6)	Strongly Agree (7)
49.	Overall, I am satisfied / pleased with the bank's service.							
50.	Overall, I have trust and confidence in the financial services rendered by the bank.							
51.	Overall, I perceive the financial services rendered by the bank as a satisfying experience.							
52.	Overall, my financial service expectations are met by the bank.							
53.	Overall, I am satisfied with the bank's rates (transaction costs charged).							



54. Please provide suggestions as to what banks could do or provide to enhance client satisfaction.

Thank you for your cooperation!!!!!!!!!!!!!!!!!!!!!!

APPENDIX 2: ETHICAL CLEARANCE



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ETHICAL CLEARANCE CERTIFICATE **REC-270710-028-RA Level 01**

Certificate Reference Number: SH-A0219AGH01

Project title: **The effect of Perceived Service Quality on client satisfaction in the retail banking sector in Buffalo City, Eastern Cape, South Africa**

University of Fort Hare
Together in Excellence

Nature of Project: Masters
Principal Researcher: Deborah Agholor
Supervisor: Dr G Shaw
Co-supervisor: Mr BD Jordaan

On behalf of the University of Fort Hare's Research Ethics Committee (UREC) I hereby give ethical approval in respect of the undertakings contained in the above-mentioned project and research instrument(s). Should any other instruments be used, these require separate authorization. The Researcher may therefore commence with the research as from the date of this certificate, using the reference number indicated above.

Please note that the UREC must be informed immediately of

- Any material change in the conditions or undertakings mentioned in the document
- Any material breaches of ethical undertakings or events that impact upon the ethical conduct of the research

The Principal Researcher must report to the UREC in the prescribed format, where applicable, annually, and at the end of the project, in respect of ethical compliance.

Special conditions: Research that includes children as per the official regulations of the act must take the following into account:

Note: The UREC is aware of the provisions of s71 of the National Health Act 61 of 2003 and that matters pertaining to obtaining the Minister's consent are under discussion and remain unresolved. Nonetheless, as was decided at a meeting between the National Health Research Ethics Committee and stakeholders on 6 June 2013, university ethics committees may continue to grant ethical clearance for research involving children without the Minister's consent, provided that the prescripts of the previous rules have been met. This certificate is granted in terms of this agreement.

The UREC retains the right to

- Withdraw or amend this Ethical Clearance Certificate if
 - Any unethical principal or practices are revealed or suspected
 - Relevant information has been withheld or misrepresented
 - Regulatory changes of whatsoever nature so require
 - The conditions contained in the Certificate have not been adhered to
- Request access to any information or data at any time during the course or after completion of the project.
- In addition to the need to comply with the highest level of ethical conduct principle investigators must report back annually as an evaluation and monitoring mechanism on the progress being made by the research. Such a report must be sent to the Dean of Research's office

The Ethics Committee wished you well in your research.

Yours sincerely


Professor Gideon de Wet
Dean of Research

11 February 2015