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**EFFECT OF CUSTOMER SERVICE QUALITY ON
CONSUMER SATISFACTION: A CASE OF THE
NIC BANK LIMITED**

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EFFECT OF CUSTOMER SERVICE QUALITY ON CONSUMER SATISFACTION: A CASE OF THE NIC BANK LIMITED

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Abstract

Purpose: The purpose of the study was to establish the effect of customer service quality on consumer satisfaction, a case of the NIC bank limited.

Methodology: The descriptive survey research design was preferred for the study. The population of the study was over 10,000 credit card holders in NIC Bank. Snow balling sampling technique was appropriate for this study because credit card customers were not keen on cooperating because of the sensitivity of information gathered and only cooperated on referral from friends. Fishers' formula was used for calculating the sample size of an infinite population which amounted to 384 but for the purpose of improving the response rate, the study added 16 more respondents to total up to 400. The study used primary data. The study used a questionnaire as the preferred data collection tool. Information was sorted, coded and input into the statistical package for social sciences (SPSS) for production of descriptive statistics. The results were presented using tables and pie charts to give a clear picture of the research findings.

Results: Based on the findings, the study concluded that organizations must offer their customers quality service. It was also possible to conclude that customer service was the base for business expansion because of the stiff competition prevalent in the banking industry. Results also led to conclusion that the survival of banking business is dependent on customer service. Results also led to conclusion that the customers give firms the chance to correct a service failure.

Unique contribution to theory, practice and policy: Based on the findings, the study recommends that banks should emphasize that the credit customer service operatives are honest. In addition the study recommends that the banks should give customers a chance to suggest on noted service failure.

Keywords: *customer service quality, consumer satisfaction, NIC bank limited*

1.0 INTRODUCTION

1.1 Background of the Study

The use of credit cards rather than cash at point of sale (POS) has increased considerably in recent years. Nowadays consumers even charge relatively small amounts to their credit accounts. The array of plastic cards in consumers' purses is further evidence of a culture of credit that is expected to turn the world into cashless societies in the not too distant future (Worthington, 1995). At present the UK and the USA seem to be the most sophisticated credit card markets in the world (Durkin, 2002). Apart from bank credit cards, store cards offering revolving credit and allowing for interest-free payments have become a convenient, popular transactional medium (Chakravorti, 2003).

Ever-present in society, credit cards have become a fact of life for most consumers and area part of the consumer culture. Staggering credit card statistics provide evidence of their pervasiveness. As of 2011, seventy-seven percent of US adults owned at least one credit card, with a total of 1.4 billion cards in circulation. The average cardholder owned 7.7 cards and uses a credit card 119 times a year charging an average of \$88 per transaction or \$10,500 annually (FICO, 2012). By the end of 2011, with the unfolding of America's economic crisis, the average household credit card debt reached \$16,420 (Federal Reserve G.19 March, 2012).

A notable change in consumer financial services over the past few decades has been the growth of the use of credit cards, both for payments and as sources of revolving credit. From modest origins in the 1950s as a convenient way for the relatively well-to-do to settle restaurant and department store purchases without carrying cash, credit cards have become a ubiquitous financial product held by households in all economic strata (Durkin, 2000). Credit cards are the fastest form of consumer borrowing in the developed world and they have the biggest impact on most consumers' financial status. Credit cards are an integral part of the financial and payment systems of modern societies being used as a convenient payment medium (in place of traditional paper-based instruments such as cash and checks) and a method for obtaining short-term revolving credit to make purchases. Evidence suggests that reliance on credit cards has led to an increase in consumer indebtedness and a rise in personal bankruptcy (Mann, 2007; Zywicki, 2005).

In modern commerce, credit cards have become a means of payment in lieu of cash or cheques for many routine purchases and other transactions that would have otherwise been inconvenient, or even impossible to make (Harris, 2006). This trend has been growing the world over as most of the world's economies embrace this method of payment. Credit cards have been widely accepted and used by the public as a form of payment. But they have also raised concern as regards their use. Durkin (2002) raises concern on two major areas. One is whether consumers fully understand the costs and implications of using credit cards and this, he calls the consumer information-consumer understanding concern. The other is whether credit cards have encouraged widespread over-indebtedness, particularly amongst those least able to pay and this he calls the indebtedness-financial distress concern. Durkin (2002) claims that the two issues are inter-related because one of the results of lack of understanding may be over-indebtedness. He says that both issues remain prominent in public discourse as debt and personal bankruptcy levels have increased over the decades.

The concept of customer satisfaction has been recognized as backbone of marketing literature since its inception and even after several decades it is still a central element in the

contemporary services marketing concept (Solomon, 2009). For some service providers, customer satisfaction is the core of their marketing strategy as well as the major focus of their marketing activities; implied to improve the company performance (Martensen, 2000). Literature suggests the importance of customer satisfaction, testifying to the fact that customer satisfaction increases the probability of repeat buying, enhances word-of-mouth communications, lowers a consumer's price sensitivity, reduces complaints drives customer loyalty reduces the customer defection rate and ultimately positively affects shareholder value (Anderson, 1994).

Credit cards have been increasingly accepted as the preferred mode of payment. In the USA, for example, consumers are using credit cards more than ever. More than 75% of the adult population in the US has a credit card (Hogarth, 2004). Credit card issuers in the US are now competing by waiving annual fees, providing enhancements, and since the early 1990s, lowering interest rates. In the past, credit card issuers offered programs with a single interest rate but now many of them offer a broad range of card plans with differing interest rates depending on the consumers' credit risk and usage patterns. Interest rates have become more subjective with the customers with good payment records getting lower interest rates while the higher risk; late paying customers get a higher interest rate (Hogarth, 2004).

In Kenya, credit cards have been pushed with zeal and zest especially by Barclays Bank of Kenya, who are the market leaders. Barclays Bank of Kenya have partnered with many merchants in the Kenyan market. They even partnered with the Nairobi Stock Exchange (NSE) to have the NSE members sign up as Barclaycard merchants to enable investors who want to purchase shares at the NSE to have an alternative payment option that is more convenient, secure and faster. NIC Bank therefore faces a huge challenge from competition (Petersen & Rajan, 1995).

NIC Bank Ltd. is seeking to embark on an intense public education campaign to increase both debit and credit card users and they are now targeting anybody who earns an income in excess of Ksh 20,000 down from the previous Ksh 40,000 required previously. Industry figures show that, as at December 2012, about 9,200,000 of Kenya's over 43 million people have debit and credit cards, through which about Ksh17 billion (\$217.9 million) changes hands annually. This is a sharp increase from about 100,000 card holders in 2005. With merchants paying an average 2 per cent commission to card issuers, the banking industry made \$340 million from credit card usage alone. Charges on credit and debit cards are liberalized, creating competition among the 12 issuing banks (NIC, 2012).

Kenyans have a cash culture; they are yet to embrace personal cheques and are thus a long way from accepting credit and debit cards. Banks have to come up with products which meet the customer's needs rather than coming up with an imaginary need and seeking to fill that need. Issues such as credit card fraud, over-spending due to bad planning and bad customer service have plagued this sector. This study seeks to find out whether customer service quality influences consumer satisfaction, a case of the NIC bank limited.

1.2 Problem Statement

According to PA Consulting (2000), in the sub-Saharan market, Kenya is perhaps rivaled only by South Africa in the credit card business. Kenya's global share of the card business has recently grown to 0.03 per cent. Traditionally, Kenya has had a cash culture but is now following the global trend of moving from being cash based society to a card based one.

More Kenyan consumers have become willing to take up credit cards and more banks are now ready to offer them to their customers as they learn more and more about their credit histories. NIC Bank Ltd. has been enjoying a healthy share of the market with Barclaycard as their main competitor and market leader, but the challenge is to lure new subscribers while still maintaining the current customer base amidst the rising number of credit card issuing banks (PA Consulting, 2000).

Durkin (2000), in his studies of credit cards that spanned from 1970 - 2000, examined the uses of credit cards and consumer attitudes. He looked at how consumers have adapted to credit card use and also their general attitudes towards credit cards. He, however, did not look at the aspect of consumer satisfaction. He examined the needs that credit cards are meant to fulfill but did not delve further to realize whether credit cards actually satisfy this needs.

According to a survey carried out by Consumer Insight (2006), competition may have gone up in the banking industry but the level of customer satisfaction has dropped by 21%. Consumer Insight found that most banks had reduced the number of personnel at banking halls. A survey carried out by Research International, only 19% of the respondents rated the services offered by banks as very good, 69% rated services as fair and 11% rated bank services as poor. This study sought to establish the effect of customer service quality on consumer satisfaction, a case of the NIC bank limited.

1.3 Research Objectives

To establish the effect of customer service quality on consumer satisfaction, a case of the NIC bank limited.

2.0 LITERATURE REVIEW

2.1 Empirical Review

Service quality, in the context of offline and online services, has received considerable attention within the literature. Generally, service quality has been identified as consumers' comparison between service expectation and service performance as well as the subjective comparison that customers make between the quality of service that they wish to receive and what they actually get. Research into the importance of service quality within the banking industry identifies service quality as a critical factor in influencing satisfaction (Gefen, 2002).

Service quality is determined by the total utility received by the beneficiary of the service. This represents the benefits package that he receives from the core and supplementary services. The consumer assesses the service quality by comparing his perceived mental image of the service which he constituted from information obtained via promotions, personal experiences, and the experiences of friends, family and all those around him, with the level of satisfaction that he receives. As failing to achieve the required satisfaction will prompt consumers to abstain from purchasing the service and to purchase services provided by the competition, service quality is correlated with the organization's service capability of achieving a level of customer satisfaction that surpasses his expectations (Alsamydai and Rudaina, 2005).

Dee (2009) indicates that the concept of service quality is centered around the benefits obtained by the consumer of the service, while (Berry et al 1995) find that service quality depends on the current and past experiences of the customer with the services that benefited

him, which is the main principle in evaluating the service based on the perceived quality of the service. Furthermore, the more satisfaction is achieved; the more the mental image will be enhanced, thus encouraging individuals to repeated purchases. Repeated purchases are the result of the total utility received by the consumer which determines the service quality from the viewpoint of the consumer.

Bhaskar (2004) analysed that when good service is extended to a customer, a loyal customer will work as an ambassador to the bank and facilitate growth of business. Customer service is the base for business expansion because of the stiff competition prevalent in the banking industry. The survival of banking business is dependent on customer service. To conclude, the banking industry is active in India, due to technological revolution. Banks have to utilize this opportunity to become strong organizations providing essential service.

Buttle and Burton (2001) state that outcome is the 'primary driver' of consumer evaluations of service in initial encounters. But process is more important during service recovery. Buttle and Burton identify two important forms of justice within recovery: 'distributive justice' (fair settlement) and 'interactional justice' (polite and respectful treatment). PA Consulting (2000) conducted studies which suggested that only 4 to 10 per cent of customers will give firms the chance to correct a service failure.

Goodman and Ward (1993) conducted a study for the US Office of Consumer Affairs which suggested that for every five customers who encounter a problem, one will be lost for good. Non-complainers were found to be the least loyal customers, even more disloyal than complaining dissatisfied customers whose problems were not resolved. Spreng, (1995) found out that in both positive and negative recovery outcomes; recovery can take on greater importance than the original service failure. Service recovery methods (which include any actions necessary to return a customer who had experienced service failure to a state of satisfaction) may be employed to make sure that customers remain satisfied with the company's products. Complaints handling, when done properly, offers an opportunity for developing customer satisfaction the retention rate of customers whose problems have been resolved is 50% (Buttle & Burton, 2001).

On average, customer service representative with any leading credit card company answer about 100 calls per day, 80% of which are enraged customers calling to complain. According to a focus group carried out by the Food and Nutrition Service (2003), when dealing with these complaints, customers expect the customer service operatives to be efficient – customers expect that their complaint will be dealt with in the shortest time possible. They do not want to be kept waiting unnecessarily. Customers also expect the credit customer service operatives to be honest; they do not expect to be lied to regardless of the message.

Perception is an opinion about something viewed and assessed and it varies from customers to customers, as every customer has different beliefs towards certain services and products that play an important role in determining customer satisfaction. Customer satisfaction is determined by the customers' perceptions and expectations of the quality of the products and services. In many cases, customer perception is subjective, but it provides some useful insights for organizations to develop their marketing strategies. Providing high level of quality service has become the selling point to attract customer's attention and is the most important driver that leads to satisfaction. Therefore, customer perception and customer satisfaction are very closely linked together, because if the perceived service is close to

customer's expectations it leads to satisfaction. Satisfied customers provide recommendations; maintain loyalty towards the company and customers in turn are more likely to pay price premiums (Kotler, 2000).

Perceptions of company performance were found to exert a positive influence on perceived service quality, satisfaction, repurchase intention, and WOM. Kotler (2000) also provided a review supporting a positive relationship among satisfaction, repurchase intention, and WOM. Bhaskar (2004) found a strong positive association between customer value and satisfaction in four lodging markets segmented by price. He also supported a positive influence of perceived value on customer satisfaction. It is axiomatic that these variables are all positively related reflecting marketers' efforts to deliver high service quality and customer value that will lead to market retention. Perceived value is expected to explain both repurchase intention and WOM directly, in addition to its influence on WOM through customer satisfaction and repurchase intention.

A positive perception of value may bring customers back to make another transaction. When customers believe they are being treated fairly in an exchange, they will be satisfied with the transaction if their outcome-to-input ratio is in some sense adequate. Customers pointed out that quality, price, and company or brand image were three factors that comprise the customer value package. In other words, customers will make an explicit comparison between what they give and what they get. However, customers expect prices to be lower in an online store than in a traditional sales channel. They may expect to get more value from an online store than from a physical store (Minocha, Dawson, Blandford & Millard, 2005).

3.0 RESEARCH METHODOLOGY

The descriptive survey research design was preferred for the study. The population of the study was over 10,000 credit card holders in NIC Bank. Snow balling sampling technique was appropriate for this study because credit card customers were not keen on cooperating because of the sensitivity of information gathered and only cooperated on referral from friends. Fishers' formula was used for calculating the sample size of an infinite population which amounted to 384 but for the purpose of improving the response rate, the study added 16 more respondents to total up to 400. The study used primary data. The study used a questionnaire as the preferred data collection tool. Information was sorted, coded and input into the statistical package for social sciences (SPSS) for production of descriptive statistics. The results were presented using tables and pie charts to give a clear picture of the research findings.

4.0 RESULTS AND DISCUSSIONS

4.1 General Information

4.1.1. Gender Distribution of the Respondents

The study sought to establish the gender distribution of the respondents. The findings were presented in Figure 1. From the study findings, majority of the respondents (82%) were male and 18%) were females.

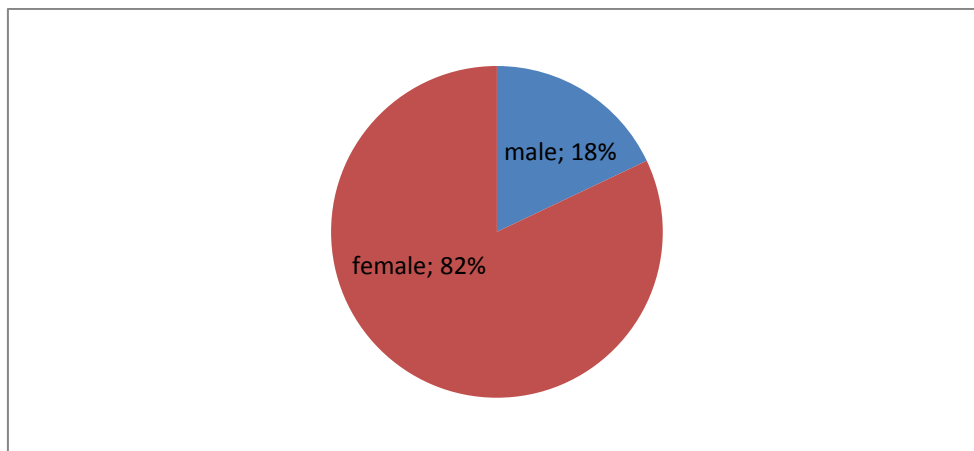


Figure 1: Gender

4.1.2. Level of Education

The study sought to establish the level of education of the respondents. The findings were presented in Figure 2. From the study findings, majority of the respondents (60%) were university graduates while 24% of the respondents were college graduates. Sixteen percent (16%) of the respondents were post graduates. The findings imply that most of the respondents were literate thus it is assumed that they were able to interpret the questions posed to them with ease.

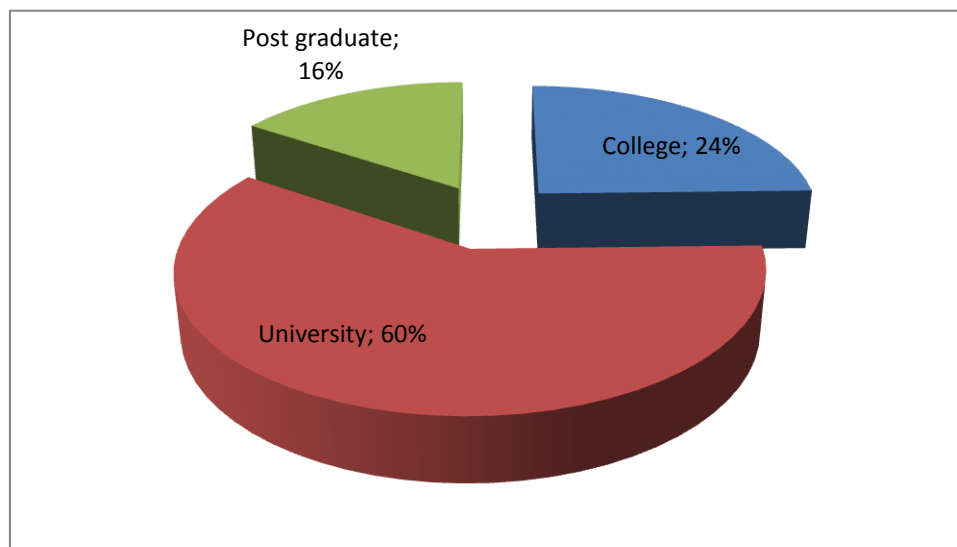


Figure 2: Level of Education

4.1.3. Work experience

The study sought to establish the work experience of the respondents. The findings were presented in Figure 3. From the study findings, majority of the respondents (69%) had an experience of 6 to 10 years. while 29% of the respondents had an experience of 2 to 5 years. Another 1 % had an experience of over 10 years and less than one year respectively. This

implies that the respondents had enough experience and were more knowledgeable to the question hence reliable information.

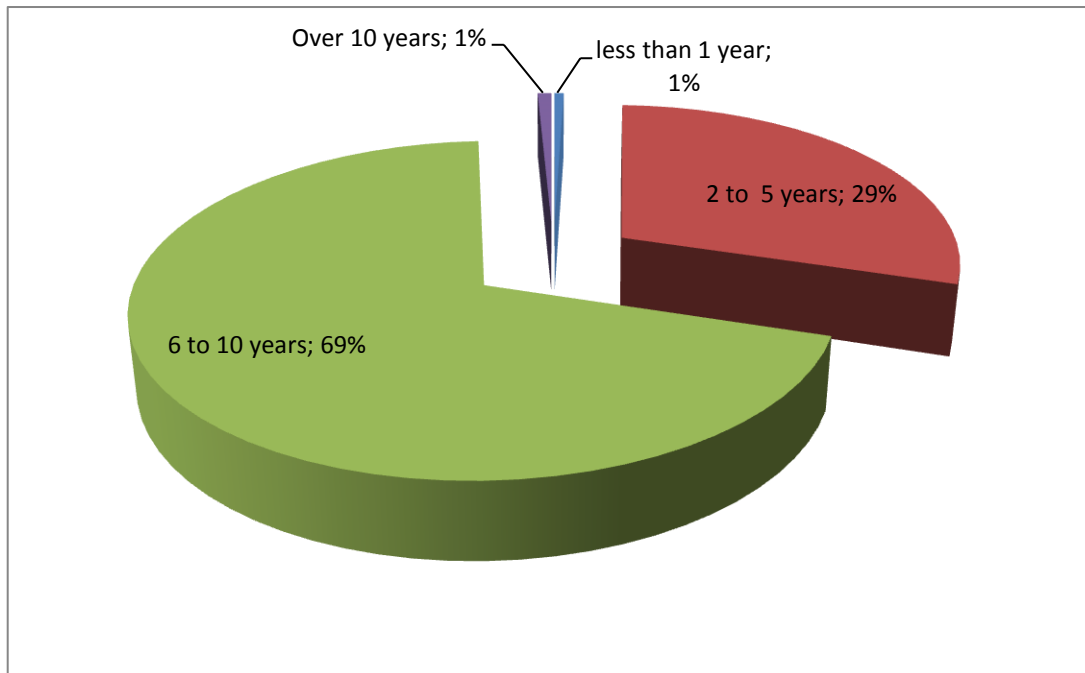


Figure 3: Work experience

4.2 Descriptive Statistics

4.2.1 The organization offers the customers quality service

The respondents were asked if the organization offers the customers quality service. A majority (87.9%) strongly disagreed while another 4.9% disagreed bringing to a total of (92.8%) of those who disagreed. Three point six percent (3.6%) strongly agreed and one point eight 1.8% agreed. The results are presented in table 1.

Table 1: The organization offers the customers quality service

	Scale	Count	Percent
The organization offers the customers quality service	Strongly disagree	343	87.90%
	Disagree	19	4.90%
	Neutral	7	1.80%
	Agree	14	3.60%
	Strongly Agree	7	1.80%
	Total		390

4.2.2 Customer service is the base for business expansion

The respondents were asked if the customer service is the base for business expansion because of the stiff competition prevalent in the banking industry. A majority (85.9%) strongly disagreed while another 7.2% disagreed bringing to a total of (93.1%) of those who

disagreed. Three point six percent (3.6%) strongly agreed and three point one 3.1% agreed. The results are presented in table 2.

Table 2: Customer service is the base for business expansion

	Scale	Count	Percent
Customer service is the base for business expansion because of the stiff competition prevalent in the banking industry	Strongly disagree	335	85.90%
	Disagree	28	7.20%
	Neutral	1	0.30%
	Agree	14	3.60%
	Strongly Agree	12	3.10%
	Total	390	100.00%

4.3.3 The survival of banking business is dependent on customer service

The respondents were asked if the survival of banking business is dependent on customer service. A majority (90.5%) strongly disagreed while another 5.4% disagreed bringing to a total of (95.9%) of those who disagreed. Two point six percent (2.6%) agreed and one point five 1.5% strongly agreed. The results are presented in table 3.

Table 3: The survival of banking business is dependent on customer service

	Scale	Count	Percent
The survival of banking business is dependent on customer service	Strongly disagree	353	90.50%
	Disagree	21	5.40%
	Neutral	0	0.00%
	Agree	10	2.60%
	Strongly Agree	6	1.50%
	Total	390	100.00%

4.2.4 Customers give firms the chance to correct a service failure

The respondents were asked if the customers give firms the chance to correct a service failure. A majority (82.6%) strongly disagreed while another 8.7% disagreed bringing to a total of (91.3%) of those who disagreed. Six point four percent (6.4%) agreed and one point eight 1.8% strongly agreed. The results are presented in table 4.

Table 4: Customers give firms the chance to correct a service failure

	Scale	Count	Percent
Customers give firms the chance to correct a service failure	Strongly disagree	322	82.60%
	Disagree	34	8.70%
	Neutral	2	0.50%
	Agree	25	6.40%
	Strongly Agree	7	1.80%
	Total		390

4.2.5 Customer perception is subjective

The respondents were asked if the customer perception is subjective, but it provides some useful insights for organizations to develop their marketing strategies. A majority (83.1%) strongly disagreed while another 9.2% disagreed bringing to a total of (92.3%) of those who disagreed. Four point four percent (4.4%) agreed and three point three percent (3.3%) strongly agreed. The results are presented in table 5.

Table 5: Customer perception is subjective

	Scale	Count	Percent
Customer perception is subjective, but it provides some useful insights for organizations to develop their marketing strategies	Strongly disagree	324	83.10%
	Disagree	36	9.20%
	Neutral	0	0.00%
	Agree	17	4.40%
	Strongly Agree	13	3.30%
	Total		390

4.2.6 Informational channels to educate the credit card customer

The respondents were asked if the bank has used informational channels to educate the credit card customer. A majority (89%) strongly disagreed while another 4.9% disagreed bringing to a total of (93.9%) of those who disagreed. Three point one percent (3.1%) agreed and two point eight percent (2.8%) strongly agreed. The results are presented in table 6.

Table 6: The bank has used informational channels to educate the credit card customer

	Scale	Count	Percent
The bank has used informational channels to educate the credit card customer	Strongly disagree	347	89.00%
	Disagree	19	4.90%
	Neutral	1	0.30%
	Agree	11	2.80%
	Strongly Agree	12	3.10%
	Total		390

4.2.7 The bank has quality service

The respondents were asked if the bank has quality service thus encouraging individuals to repeated purchases. A majority (89.2%) strongly disagreed while another 5.4% disagreed bringing to a total of (94.6%) of those who disagreed. Two point eight percent (2.8%) agreed and two point three percent (2.3%) strongly agreed. The results are presented in table 7.

Table 7: The bank has quality service

	Scale	Count	Percent
The bank has quality service thus encouraging individuals to repeated purchases	Strongly disagree	348	89.20%
	Disagree	21	5.40%
	Neutral	1	0.30%
	Agree	9	2.30%
	Strongly Agree	11	2.80%
	Total		390

4.2.8 The credit customer service operatives are honest

The respondents were asked if the credit customer service operatives are honest. A majority (90.5%) strongly disagreed while another 5.6% disagreed bringing to a total of (96.1%) of those who disagreed. Three point one percent (3.1%) agreed .The results are presented in table 8.

Table 8: The credit customer service operatives are honest

	Scale	Count	Percent
The credit customer service operatives are honest	Strongly disagree	353	90.50%
	Disagree	22	5.60%
	Neutral	2	0.50%
	Agree	1	0.30%
	Strongly Agree	12	3.10%
	Total		390

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion

Results reveal that (87.9%) of the respondents disagreed with the statement that the organization offers the customers quality service. (85.9%) of the respondents disagreed with the statement that customer service was the base for business expansion because of the stiff competition prevalent in the banking industry. Results indicate that (90.5%) of respondents disagreed with the statement that the survival of banking business is dependent on customer service. Results indicate that (82.6%) of respondents disagreed with the statement that the customers give firms the chance to correct a service failure. Results indicate that (83.1%) of respondents disagreed with the statement that the Customer perception was subjective, but it provides some useful insights for organizations to develop their marketing strategies. Results indicate that (89%) of respondents disagreed with the statement that the bank has used

informational channels to educate the credit card customer. (89.2%) disagreed with the statement that the bank has quality service thus encouraging individuals to repeated purchases. Results indicate that (96.1%) of respondents disagreed with the statement that the credit customer service operatives are honest.

The findings agree with those of Gefen (2002) who found out that service quality, in the context of offline and online services, has received considerable attention within the literature. Generally, service quality has been identified as consumers' comparison between service expectation and service performance as well as the subjective comparison that customers make between the quality of service that they wish to receive and what they actually get. Research into the importance of service quality within the banking industry identifies service quality as a critical factor in influencing satisfaction.

The findings are also consistent with those of Minocha, Dawson, Blandford, & Millard, (2005) who found out that positive perception of value may bring customers back to make another transaction. When customers believe they are being treated fairly in an exchange, they will be satisfied with the transaction if their outcome-to-input ratio is in some sense adequate. Quality, price, and company or brand image were three factors that comprise the customer value package. In other words, customers will make an explicit comparison between what they give and what they get. The positive relationship between equity and satisfaction was supported in the literature. However, customers expect prices to be lower in an online store than in a traditional sales channel (Karlsson, Kuttainen, Pitt, & Spyropoulou, 2005). They may expect to get more value from an online store than from a physical store.

5.2 Conclusions

Results concluded that the organization must offer their customers quality service. It was also possible to conclude that customer service was the base for business expansion because of the stiff competition prevalent in the banking industry. Results also led to conclusion that the survival of banking business is dependent on customer service. Results also led to conclusion that the customers give firms the chance to correct a service failure. It was also possible to conclude that the Customer perception is subjective, but it provides some useful insights for organizations to develop their marketing strategies. Results conclude that the bank should have used informational channels to educate the credit card customer. Results also led to conclusion that the bank has quality service thus encouraging individuals to repeated purchases. Results also concluded that the credit customer service operatives are honest. The findings imply that customer service has significant positive effect on customer satisfaction.

5.3 Recommendations

The study recommends that banks should emphasize that the credit customer service operatives are honest. In addition the study recommends that the banks should give customers a chance to suggest on noted service failure.

5.4 Areas for Further Research

The study recommends that further investigation be done on the effect of customer service quality on non-banking organizations. For instance the study can be replicated in manufacturing organizations.

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