



## **The effect of customer satisfaction on service quality and customer retention: evidence from rural banks in Ghana**

**Abba Shamsu-Deen Mahamud<sup>1</sup>, Julius Nuertey Nanor<sup>2</sup>, Hajara Mohammed<sup>3</sup>, Abubakari Mohammed Gazaire<sup>4</sup>**

<sup>1</sup> MBA, School of Business, Anhui University of Technology (East Campus), Yushan District, Maanshan City, Anhui Province, China

<sup>2</sup> MFA Candidate, School of Art, Jiangsu University, 301 Xuefu Road, Zhenjiang, Jiangsu, China

<sup>3</sup> MBA Candidate, School of Management, University of Education, Ghana

<sup>4</sup> MSC, University of Professional Studies, Accra, Ghana

### **Abstract**

This study primarily focused on the effect of customer satisfaction on service quality and customer retention on some rural banks in Ghana. Data were collected using questionnaires, out of 350 questionnaires administered, 200 were received and analyzed using partial least square and structural equation model. The results of the study shows that there is a positive relationship between service quality and customer retention. The study also shows that there is a significant positive relationship between service quality and customer satisfaction. This study contributes to literature in the field of service quality and customer retention, especially in the Ghanaian context. The study also suggested some recommendation and contribution which limitations wasn't left out.

**Keywords:** customer satisfaction, service quality, customer retention, rural bank, Ghana

### **1. Introduction**

Customer satisfaction is defined as “the degree of satisfaction provided by the goods or services of a company as measured by the number of repeated customers” (Business Dictionary). In other words, it is termed as an appraising tool for goods and services provided by an organization to meet customers' expectation. It is therefore often regarded as the best determinant for envisioning into the future about customers buying decisions. Organisations that want to succeed should therefore understand the relevance of customer lifetime value (CLV). This brings to bear “the mediating role of customer satisfaction in the relationship between service quality and customer retention”. Furthermore, the underlying variables have been studied to have some relevant connections, through repurchase intentions (Caruana 2002) [7]. Thus, to ensure business sustainability, it is of paramount importance for businesses to map up pragmatic strategies in delivering quality service to customers of any sort. Zeithaml *et al.* (2006) [28] have said that quality customer service is therefore an essential to success and to ensure sustainable competitive advantage. Wang *et al.* (2004) [27] also argued to a large extent, the determination of profitability in today's business is by attaching the necessary importance to quality of service provided, in accordance with customers' perception. Service quality has therefore become an essential element in the banking environment today and in the rural banks for that matter, because clients will always do favourable assessment on goods and services as far as they are able to meet their targeted desires. For the rural banking sector, service quality has become even more critical considering that they are not only competing among themselves, but against the commercial banks that have scaled down some of their products, thus creating a direct

competition with the rural banks

The mandate of rural banks makes them critical in the developing nations, mostly rural economies. With the direct competition they face from the commercial banks and other financial institutions, rural banks can have distinctiveness with their services base on quality and price. That is, if they will continue to hold or retain their customers. Therefore, customer retention as a strategy must be an integral strategy in whatever strategy rural banks adopt to ensure growth. The ability to do this will however be a function of the level of service quality provided. This study therefore attempts to establish what customer satisfaction, arising from service quality can contribute to customer retention. Admittedly, there have been a lot of studies on customer satisfaction and retention, especially in the banking sector. However, a cursory observation also reveals that when it comes to the connection amongst the various variables, not much can be found as established by (Caruana, 2002) [7]. It is evident that majority of those that exist too were done in other jurisdictions with arguably different business and economic environment. This is especially important to note because certain studies have proven to be country specific and may not be applicable to other economies. This study seeks to address that gap by examining the effect of service quality on customer retention in the context of developing countries using Ghana as a case study.

### **2. Materials and Methods**

#### **Service quality and its relationship with Customer retention**

Customer retention is just more than merely providing for the customer the required goods and services to meet the combined expectations of the customer in question; but it is more about the organization making the necessary efforts to

provide the required service that in a way exceeds customer's expectations in a more enhanced manner so that they become loyal advocates for the brand of the institution. (Cheng *et al.* 2008)<sup>[8]</sup>. According to Tariq, *et al.* (2009)<sup>[25]</sup> creating customer value by business organizations as a strategy in making the customer interest the utmost priority and seeking to address the general concerns of such valued customers to always meet or exceed their expectations will in no doubt propel business continuity even into the future. As a result of this universal principle, it is only prudent for business managers to always ensure better execution of service strategies which can eventually result in keeping the customer for a better longer period which in effect promotes sustainability (Gronroos, 1984)<sup>[14]</sup>. In this knowledge, the sort of quality service that is provided for banks customers, for that matter rural bank; to a greater extent determines the longevity of business relationship with the clients. Based on the above assertion, we propose the hypothesis below;

**H1:** There is a significant positive relationship between Service quality and Customer retention

### 2.1. Service quality and its relationship with Customer satisfaction

In the marketing literature, Service Quality and Customer Satisfaction have been regarded as a distinctive variables, but directly related constructs. There is a positive relationship between Service Quality and Customer Satisfaction (Beerli *et al.*, 2004)<sup>[4]</sup>. The conception is highly debatable. Many researchers are of the view that service quality is the precursor of customer satisfaction, whilst some hold the conviction of the contrary. Jamal and Naser (2003)<sup>[20]</sup> stated that service quality is the antecedent of customer satisfaction. Meanwhile, they concluded that there is no relevant relationship between customer satisfaction and tangible aspects of service setting.

Many of the researchers came out that service quality is the precursor of customer satisfaction. Abdullah *et al.* (2006)<sup>[11]</sup> and Cheng *et al.* (2008)<sup>[8]</sup> also found that service quality has a significance influence on customer satisfaction. On the contrary, Bitner (1994)<sup>[5]</sup> and Bolton and Drew (1991)<sup>[6]</sup> were also of the view that customer satisfaction is the precursor of service quality. In 2004, Beerli *et al.* (2004)<sup>[4]</sup> were in support of this argument. Per their view, a probable account is that the satisfaction variable suggests an appraising judgment of the worth derived by the customer. This outcome is weighed with many of the researchers. It has been established that providing a quality service to a client automatically leads to customer satisfaction (Kassim and Abdullah, 2010)<sup>[11]</sup>. Many acknowledge the fact that in the banking environment where competition is keen, there are no laid down standards to appraise the perceived quality of bank's service provided. Thus, competitive advantage through high quality service is an increasingly relevant tool to ensure sustainability (Wang *et al.* 2004)<sup>[27]</sup>. Based on the above assertions, the following hypothesis is proposed;

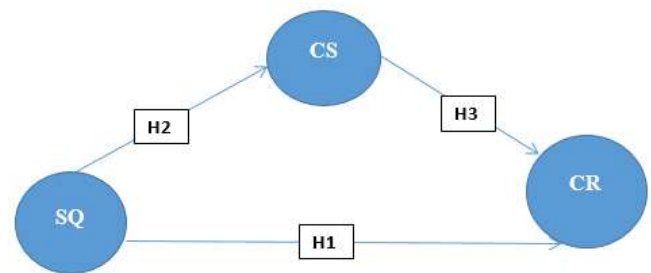
**H2:** There is a significant positive relationship between Service quality and Customer satisfaction

### 2.2 Customer satisfaction and its relationship with Customer retention

Heskett *et al.* (1994)<sup>[17]</sup> emphasized that only 14% of customers no further patronized the service of certain businesses because they were not satisfied by the quality of the product that they were served with, meanwhile, more

than two-thirds of those customers no longer did transact business with these organisations because of what they perceived to be indifferent service. In most retail banking, customer satisfaction is perceived as having a positive impact on customer retention (Mittal, *et al.* 2001)<sup>[21]</sup>. In the rural banking sector, the level of customer satisfaction is also seen to have a strong influence on customer retention. The stronger offer from the bigger commercial banks suggests that rural banks are less likely to retain customers who are not satisfied. According to Cronin and Taylor, (1992)<sup>[9]</sup> they suggested that customer satisfaction and customer retention have direct positive relationship between them. Taylor and Baker (1994)<sup>[26]</sup> also confirmed that assertion in their work. They also suggested that there is a significant positive relationship between the two variables that is customer satisfaction and customer retention. They also suggested that customer retention is an extension of customer satisfaction. Another study by Anderson *et al.* (1997)<sup>[3]</sup> explains that customer satisfaction is a strategic tool in marketing and companies sees it to be a tool for profit making. They again explained that customer satisfaction has a direct positive impact on customer retention. Based on the above evidence we proposed the following hypothesis;

**H3:** There is a significant positive relationship between Customer satisfaction and Customer retention.



**Fig 1:** Conceptual Framework

SQ = Service Quality, CS = Customer Satisfaction, CR = Customer Retention

### 2.3. Methodology

This study adopted the survey methodology which considered the use of quantitative techniques for collection and analyzing of data. Structured questionnaire was adopted to measure the quantitative variables. The objective of this study is to examine the effect of Service quality on customer retention with a mediating role of customer satisfaction. Random sampling technique was employed to select the respondent from some rural banks in Ghana. Four hundred (350) respondent were selected; but only two hundred and fifty (200) responses were received and considered after initial data cleaning. The study also adopted a Likert scale, ranging from 1 = Strongly disagree to 5 = strongly agree and as well considered relevant questions from other researchers who used similar studies. The questionnaire was in three (3) different fold. The first fold contains questions on demographics, the second considered the measurement of construct whiles the third fold sought for the dependent variables. Measurement of all the three construct thus Service quality, Customer satisfaction and Customer retention was adopted from Parasuraman *et al.*'s (1988)<sup>[23]</sup>. Data collected from respondent were analyzed through the

help of SmartPLS3 and SPSS version 18. SPSS was considered for demographic Analysis while testing of hypothesis was done using Stata and SmartPLS3 for structural equation model. Confirmatory and Exploratory factor analysis were adopted for the assessing and purifying the unidimensionality items on the scale.

And again assess discriminant validity among the constructs.

**3. Results**

The demographics below were extracted from the distributed questionnaire; Gender, Age, educational level.

**Table 1: Gender of respondents**

|       |        | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|--------|-----------|---------|---------------|--------------------|
| Valid | Male   | 118       | 59.0    | 59.0          | 59.0               |
|       | Female | 82        | 41.0    | 41.0          | 100.0              |
|       | Total  | 200       | 100.0   | 100.0         |                    |

Results from the above table-1 shows that 118 respondents were males representing 59.0%, and 82 respondent

Representing 41.0% are females. This means that majority of the respondents are males.

**Table 2: Age of respondents**

|       |                    | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|--------------------|-----------|---------|---------------|--------------------|
| Valid | 18-25 years        | 118       | 59.0    | 59.0          | 59.0               |
|       | 26-39 years        | 71        | 35.5    | 35.5          | 94.5               |
|       | 40 years and above | 11        | 5.5     | 5.5           | 100.0              |
|       | Total              | 200       | 100.0   | 100.0         |                    |

The response from table -2 above shows that of the respondents representing 59.0% were between the ages of 18-25 years; 71 respondents representing 35.5% were between

The ages of 26-39years;11 respondents representing 5.5% were above the age of 40 years. This means that majority of the respondents are between the ages of 18-25years.

**Table 3: Educational level of respondents**

|       |                       | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-----------------------|-----------|---------|---------------|--------------------|
| Valid | Less Than High School | 3         | 1.5     | 1.5           | 1.5                |
|       | High School           | 23        | 11.5    | 11.5          | 13.0               |
|       | Diploma               | 20        | 10.0    | 10.0          | 23.0               |
|       | Undergraduate         | 119       | 59.5    | 59.5          | 82.5               |
|       | Graduate              | 31        | 15.5    | 15.5          | 98.0               |
|       | Others                | 4         | 2.0     | 2.0           | 100.0              |
|       | Total                 | 200       | 100.0   | 100.0         |                    |

The results in table -3 above shows that 3 of the respondent representing 1.2% are from the Basic level; 1 respondent representing 0.4 is from the High school whiles 7 respondent representing 2.8% are from diploma level; 39 of the respondent representing 15.6% are from the undergraduate level whiles 188 of the respondent representing 75.2% are from the graduate level; 12 of the respondent representing 4.8% are from other levels of education. This means that majority of the respondents are graduates.

Wende, and Becker, 2015) [18, 24]. Furthermore, the variables in Table-5 below shows that their Cronbach’s alpha is above the acceptable region of the 0.70.This can be easily explained that the variables are highly reliable. Construct validity assesses the level to which a measures symbolise and are associated with observed eventualities of the construct through the principal theory (Fornell and Larcker, 1981a; Fornell and Larcker, 1981b) [12, 13]. The evaluation were done through convergent and discriminant validity (Ringle *et al.*, 2015) [24]. Composite reliability (CR) and average variance extracted (AVEs) have satisfied the minimum of 0.70 and 0.50 respectively (Fornell & Larcker, 1981b; Ringle *et al.*, 2015) [13, 24].

**Measurement model reliability and validity**

Construct reliability checks the consistency of internal variables and does evaluation of item loadings with an acceptable region of 0.70 and considered the Cronbach’s alpha of 0.70 (J. Hair, Ringle, and Sarstedt, 2011; Ringle,

The variables in Table-5 shows that their Cronbach’s alpha is above the acceptable region of the 0.70.This can be easily explained that the variables are highly reliable.

**Table 5: Item Loadings & Construct Reliability**

| HEMS | FL    | CA    | rho A | CR    | AVE   |
|------|-------|-------|-------|-------|-------|
| SQ1  | 0395  | 0.738 | 0351  | 0284  | 0.792 |
| SQ2  | 0368  |       |       |       |       |
| SQ3  | 0299  |       |       |       |       |
| CS1  | 0.871 | 0352  | 0.828 | 0.858 | 0.670 |
| CS2  | 0908  |       |       |       |       |
| CS3  | 0226  |       |       |       |       |

|     |       |      |       |       |       |
|-----|-------|------|-------|-------|-------|
| CS4 | 0346  |      |       |       |       |
| CR1 | 0.807 | 0382 | 0.810 | 0.858 | 0.602 |
| CR2 | 0922  |      |       |       |       |
| CR3 | 0313  |      |       |       |       |

Notes: SQ- Service Quality, CS- Customer Satisfaction, CR-Customer Retention, FL – Item Loadings, CA – Cronbach’s Alpha, CR- Composite Reliability, AVE –Average Variance Extracted.

Discriminant Analysis is a statistical tool that correlate constructs that are higher than any other construct on its scale (Messick, 1988)<sup>[22]</sup>.

**Table 6:** Discriminant Validity

|    | SQ    | CS    | CR    |
|----|-------|-------|-------|
| SQ | 0.819 |       |       |
| CS | 0.005 | 0.776 |       |
| CR | 0.009 | 0.568 | 0.890 |

The Table-6 above clearly shows factors loaded are higher than any other factor on the scales. Service Quality (SQ) on it scale recorded a value of 0.8, Customer Satisfaction (CS) on it scale recorded a value of 0.7 and Customer Retention (CR) recorded a value of 0.8 which appears to be higher than the rest on the scale.

**4. Hypothesis Analysis**

Test of hypothesis was carried out on the effect of service quality on customer retention using the statistical tool SmartPLS V.3 software. The results of the tested variables showed a significant and positive relationship with the predictor variables. Taking the first model, a test was carried out on the effect of service quality on customer retention. SQ ( $\beta = 0.569$ ;  $t = 19.35$ ,  $p < 0.000$ ) and this led to the acceptance of hypothesis (H1). This suggest that service quality has significant great effect on customer retention. Furthermore, the beta in the results shows that when service quality increases by 1% customer satisfaction increases by 56.9%. Thus when a bank provides quality service to its customers by way of being responsive, reliable and showing some kind of empathy, this customers tend to be happy there by sticking to the bank because of the kind of services they have received. This findings supports the earlier findings of (Andaleeb and Conway, 2006; Zeithaml *et al.*, 2006)<sup>[2, 28]</sup>.

**Table 6:** Hypothesis Test

| Hypothesis | Beta  | T-value | P-value | Action   |
|------------|-------|---------|---------|----------|
| H1 SQ → CR | 0.569 | 19.35   | ***     | Accepted |
| H2 SQ → CS | 0.141 | 3.67    | ***     | Accepted |
| H3 CS → CR | 0.300 | 13.76   | ***     | Accepted |

Note: EB-Electronic Banking, CSAT- customer satisfaction, BP-Bank performance

We again tested the effect of service quality on customer satisfaction. CS ( $\beta = 0.141$ ;  $t = 3.67$ ,  $p < 0.000$ ) and this led to the acceptance of hypothesis (H2). This suggested that service quality has greater effect on customer satisfaction. The beta in the results shows that when customer satisfaction increases by 1% bank performance will increase by 14.1%. Thus when a bank provides a good service to it clients, this clients tend to be satisfy with the service there by making the client to repeat patronage of services because of their level of satisfaction. This is in line with the earlier findings of (Beerli *et al.*, 2004)<sup>[4]</sup>. Lastly, the effect of customer satisfaction on customer

retention was tested. CR ( $\beta = 0.300$ ;  $t = 13.76$ ,  $p < 0.000$ ) and this led to the acceptance of hypothesis (H3). This suggested that there is effect of customer satisfaction on customer retention. Furthermore an increase in customer satisfaction by 1% will lead to an increase of customer retention by 30 %. Thus the more the customers of the banks are satisfied the more they are likely to stay with the bank and even introduce the services of the bank to friends and family to join. This is in line with the earlier studies of (Mittal, *et al.* 2001)<sup>[21]</sup>.

**5. Discussion**

Firstly, the study seeks to find out the effect of service quality on customer retention. The results of the test has proven a positive relationship between the two variables. The outcomes of the study revealed that when a bank invest much in customer service, the employees put out their best to deliver better and quality services to its customers. This alone will keep the customers to be with the bank because of the kind of services they are enjoying from the bank. This is in line with the study of Grönroos (2000)<sup>[15]</sup> on service quality. The fact is most works that has been done focused customer satisfaction and organizational performance losing focus on how to retain the customers of the bank. This particular study seeks to fill that gap.

Furthermore, the results of hypothesis (H1) shows that there is a positive relationship between service quality and customer retention. The results suggested that the more the bank pay more attention to providing quality services to customers they more the customer will be with the bank forever. This is also supported by the works of Tariq, *et al* (2009)<sup>[25]</sup>.

Secondly, hypothesis (H2) depict a positive relationship between service quality and customer satisfaction. The outcome shows that the more the banks provide good and quality services the happier the customers will be and they will patronize more of the bank services. This is in line with the works of Giese *et al.* (1999)<sup>[16]</sup>.

Lastly, hypothesis (H3), depict a positive relationship between customer satisfaction and customer retention. The findings depict that the more the customers of the bank are happy with the services of the bank, the more the customers will stay to patronize the services. This is in line with the works of Anderson *et al.* (1997)<sup>[3]</sup>.

**6. Contributions**

This paper contributes to literature especially in the field of service quality and customer retention. With respect to the level of industry, the outcome of the study will help banks to improve upon their quality of services they give to customers, because the quality of service will lead the customer to stay with the bank. The work also showed that satisfying the customer leads the customer to be loyal to the bank. Which means they will spend more when given the opportunity on that bank. The study also revealed that investing in customer service will lead to customer to be



with the bank forever. Management and stakeholders and other practitioners must drive their attention on customer services since it is a main driver to customer satisfaction and retention.

## 7. Conclusion

This paper focused on service quality and customer retention. The findings with regards to service quality and customer retention shows that when management of rural banks consider service quality as their major strategic tool, the probability that they will retain most of their customers is very high and this can lead to profitability. The paper again concluded that the more the customers are satisfied the more they will stay with the bank and even become an apostle of the bank by inviting other to patronize the services of those banks. Finally, the rural banks should invest more into customer services by training their employees to be able to deliver good services to their customer. The happiness and satisfaction of these customers will retain them in the bank.

## 8. References

1. Abdullah NA, Kassim N. The effect of perceived service quality dimensions on customer satisfaction, trust, and loyalty in e-commerce settings: a cross cultural analysis *Asia Pacific Journal of Marketing and Logistics*. 2010; 22(3):351-371.
2. Andaleeb SS, Conway C. Customer satisfaction in the restaurant industry: An examination of the transaction-specific model. *Journal of Services*. 2006; 18(4):36-44.
3. Anderson E, Fornell C, Rust RT. Customer satisfaction, productivity and profitability: differences between goods and services". *Marketing science*. 1997; 16(2):129-45.
4. Beerli A, Martin JD, Quintana A. A model of customer loyalty in the retail banking market, *European Journal of Marketing*. 2004; 38(1/2):253-275.
5. Bitner Mary Jo, Hubbert Amy R. Encounter Satisfaction vs. Overall Satisfaction vs Quality, in Rust Roland T, Oliver Richard L. (eds), *Service Quality – New Directions in Theory and Practice*, London: SAGE, 1994.
6. Bolton RN, Drew JHA. Multistage model of customer's assessments of service quality and value. *Journal of Consumer Research*. 1991; 17:375-384.
7. Caruana A. Service loyalty. The effects of service quality and the mediating role of customer satisfaction. *European Journal of Marketing*. 2002; 36(7/8):811-828.
8. Cheng T, Lai L, Yeung A. The driving forces of customer loyalty: a study of internet service providers in Hong Kong, *International Journal of E-business Research*. 2008; 4(4):26-42
9. Cronin JJ, Taylor SA. Measuring service quality: a re-examination and extension. *J Mark*. 1992; 56:55-68.
10. Fornell CA. National customer satisfaction barometer: The Swedish experience. *Journal of Marketing*. 1992; 56(1)6-21.
11. Fornell C, Johnson MD, Anderson EW, Cha J, Everitt Bryant B. The American customer satisfaction index: Nature, purpose, and findings. *Journal of Marketing*. 1996; 60(4):7-18.
12. Fornell C, Larcker DF. Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*. 1981; 18(1):39-50.
13. Fornell C, Larcker DF. Evaluating structural equation models with unobservable variables and measurement error. *Journal of Marketing Research*. 1981; 18(1):39-50.
14. Gronroos CA. Service quality model and its implications, *European Journal of Marketing*. 1984; 18(4):36-44.
15. Gronroos, C. *Service Management and Marketing: A Customer Relationship Management Approach*. 2nd ed. West Sussex: John Wiley & Sons, Ltd, 2000.
16. Giese JL, Cote JA. Defining consumer satisfaction. *Academy of Marketing Science Review*, 1999, 00 (1).
17. Heskett JL, Jones TO, Loveman GW, Earl Sasser W, Schlesinger LA. "Putting the Service-Profit Chain to Work." *Harvard Business Review*. 1994; 72(2):164-174.
18. Hair J, Ringle CM, Sarstedt M. PLS-SEM: Indeed a Silver Bullet. *Journal of Marketing Theory and Practice*. 2011; 19(2):139-151.
19. Hair Jr, Hult JF, Ringle GTMC, Sarstedt M. *A primer on partial least squares structural equation modeling (PLS-SEM)*. Sage publications, 2016.
20. Jamal A, Naser K. Factors influencing customer satisfaction in the retail banking sector in Pakistan, *International Journal of Commerce and Management*. 2003; 13(2):29.
21. Mittal V, Kamakura WA. Satisfaction, repurchase intent, and repurchase behavior: investigating the moderating effect of customer characteristics. *Journal of Marketing Research*. 2001; 38:131-142
22. Messick, S. Validity. In R. L. Linn (Ed.), *Educational Measurement (3rd ed.)*. New York, NY.: Macmillan, 1988.
23. Parasuraman A, Zeithamel VA, Berry LL. Servqual: a multiple-item scale for measuring consumer perceptions of service quality. *Journal of Retailing*. 1988; 64:12-37
24. Ringle CM, Wende S, Becker JM. (Producer). *SmartPLS 3*. Retrieved from, 2015. <http://www.smartpls.com>.
25. Tariq AN, Moussaoui N. The main antecedents of customer loyalty in Moroccan banking industry. *International Journal of Business and Management Science*. 2009; 2(2):101-115.
26. Taylor SA, Baker TL. An assessment of the relationship between service quality and customer satisfaction in the formation of customers' purchase intentions. *Journal of Retailing*. 1994; 70 (2):163-178.
27. Wang Y, Lo HP, Yang Y. An integrated framework for service quality, customer value, satisfaction: evidence from China's telecommunication industry, *Information Systems Frontiers*. 2004; 6(4):325-340.
28. Zeithaml VA, Bitner MJ, Gremler DD. *Services marketing: integrating customer focus across the firm*. 4th ed., Singapore: McGraw-Hill, 2006, 117.