# Determinants of Customer Satisfaction in Retail Banking

## (at Customer Bank in Solo, Central Java)

## THESIS

**To achieve Management Degree of Economics and Business Faculty**

**Organized by:**

**Agung Ari Wibowo**

**B100112008**

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Written by

AGUNG ARI WIBOWO

B100112008

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Scientific Supervisor

(Dr. Anton Agus Setyawan, M.Si)

Witnessed by

Dean of Economics and Business Faculty

Muhammadiyah University of Surakarta

(Dr. Triyono, M.Si)

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Agung Ari Wibowo

Faculty Of Economics And Business

Dual Degree Management Program

Muhammadiyah University Of Surakarta

Email: Gustialit93@gmail.com

## ABSTRACT

Various businesses competing to seize the banking market by way of satisfying customers. So also with the banks in Solo, Central Java, will be more independent and focused to meet the needs of customers in order to achieve customer satisfaction. In this study the authors use the service quality and service features as independent variables that will be investigated how they affect customer satisfaction. This study was conducted by questionnaire to 100 customer banks in Solo, Central Java, using accidental sampling method is used to determine the questionnaire respondents to each variable. Data that already through validity test, reliability test being research and result this multiples regression equation:

$$\mathbf{Y = 0{,}262X_1 + 0{,}162X_2}$$

Where (Y) is the customer satisfaction variables, (X1) is service quality, (X2) is service feature. Hypothesis testing using the t-test indicates that the two independent variables found to significantly influence the satisfaction dependent variable, then using F-test can be known that the two variables are well deserved to test the customer satisfaction dependent variable. The R square value 0.518 showed that 51.80 percent of customer satisfaction variation can be explained by the two independent variables in the regression equation, while the rest of 48.20 percent is explained by other variables outside of the two variables used in this study.

Keywords: *service quality, service features, customer satisfaction*

# INTRODUCTION

In an era of modern and intense competitive pressures, many firms are focused their efforts on maintaining a loyal customer base. This is particularly true in the financial services sector where deregulation has created an environment that allows consumers considerable choice in satisfying their financial needs. In response, many retail banks are directing their strategies towards increasing customer satisfaction and loyalty through improved service quality.

Retail banks are pursuing strategy, in part, because of the difficulty in differentiating based on the service offering. Typically, customers perceive very little difference in the services offered by retail banks and any new offering is quickly matched by competitors (Coskun and Frohlich, 1992; Devlin *et al*., 1995). Also, retail banks, like many other service providers, have discovered that increasing customer retention rates can have a substantial impact on profits.

## A. Background

Customer satisfaction is the key to long term success of any organization (Peppers & Rogers, 2005). Keeping the importance of customer satisfaction in mind, banks need to maintain stable and close relationships with their customers. Customer satisfaction levels need to be judged. The application of the knowledge of customer satisfaction is imperative to establishing and maintaining a long-term relationship with customers and long-term competitiveness (Kumar & Reinartz, 2006). Banking is a high involvement industry. Banks recognize the fact that delivery of quality service to customers is essential for success and survival in today’s global and competitive banking environment (Wang, Han, & Wen, 2003). Researchers have found that customer satisfaction has a measurable impact on p urchase intentions (Carter, 2010), on customer retention (Voss & Voss, 2008) and on a firm’s financial performance (Chalmeta, 2006). This necessitates an in-depth study about the factors affecting customer satisfaction.

### B. Research Problem

The study to investigate determinants of customers satisfaction in retail banking. These problems can be derived into specific problems such as:

1. Does service quality have impact on customer satisfaction?
2. Does service features have impact on customer satisfaction?

### C. The Purpose Of The Study

According to the research problems above, the purpose of the study is to analyze the role of customer satisfaction.

1. To analyze the impact of service quality on customer satisfaction
2. To analyze the impact of service features on customer satisfaction

### D. Benefit Of Research

1. Results of this study are expected to contribute to the academic world in particular who majored in marketing management.
2. Results of this study are also expected to be used as reference material for research in the future.

## LITERATURE REVIEW AND HYPOTHESES

### A. Service Quality

Service quality is a focused evaluation that reflects the customer's perception of elements of service such as interaction quality, physical environment quality and outcome quality (Brady and Cronin, 2001). These elements are in turn evaluated based on specific service quality dimensions or domains. Lewis and Booms (1983) were among the first to define service quality as a "measure of how well the service level delivered matches the customer's expectation". In this context, service quality is thought of as an attitude of overall judgment about service superiority, although the exact nature of this attitude is still hazy. Some suggest that service quality stems from a comparison of performance perceptions with expectations (Parasuraman et al., 1988), while others see it as derived from a comparison of performance with ideal standards or from perceptions of performance alone (Cronin and Taylor, 1992). Service quality is also defined as the difference between technical quality (what is delivered) and functional quality (how it is delivered) and as process quality (judged during the service) and output quality (judged after the service) (Gronroos, 1983; Lehtinen, 1983).

## B. Service Feature

Service features can be defined as the quality or the user requirements related to the matters such as frequency, reliability, regularity, suitability, location, safety and convenience (Lubbe, 2003). Among all these factors, reliability is treated as the important service feature in a way to enhance customer satisfaction (Smith et al., 2007) but according to Ahmed et al. convenience and service specific factors (e.g. competitive interest rates) are the two core ingredients to satisfy customers.

## C. Customer Satisfaction

Customer satisfaction is defined as "the number of customer, or percentage of total customers, whose reported experience with a firm, its products, or its services (ratings) exceeds specified satisfaction goals”. There is sufficient evidence to suggest that customer satisfaction can and should be viewed as an attitude (Yi, 1990). For example, in retail banking there is an ongoing relationship between the service provider and the customer. Here, customer satisfaction is based on an evaluation of multiple interactions. For this investigation, satisfaction is considered as a composite of overall customer attitudes towards the service provider that incorporates a number of measures. To protect/gain market shares, organizations need to outperform competitors by offering high quality product service to ensure satisfaction of customers (Tsoukatos and Rand, 2006). With better understanding of customers' perceptions, companies can determine the actions required to meet the customers' needs. They can identify their own strengths and weaknesses, where they stand in comparison to their competitors, chart out paths for future progress and improvement (Magesh, 2010).

### D. Future Intention

Future intentions are defined as the subjective judgments about how a person will behave in the future and usually served as criterion variable in many research focusing on service sector and satisfaction models (Boulding et al., 1993; Soderlund and Ohman, 2003).

## METHODOLOGY AND DISCUSSION

The sample was collected from 100 respondents between male and female whom living in Solo, Central Java, adopted by non-probability sampling technique and asked respondents to collected primary data. This probability sampling is to collect data from by questionnaire.

Sampling technique used was non-probability sampling which a sampling technique that does not provide equal opportunity for each element or member of the population to be sampled (Sugiyono, 2004).

Accidental sampling is technique based on chance, which anyone who by chance / incidental met with researchers can be used as a sample, when viewed that the person who happened to be found suitable as a source of data (Sugiyono, 2011:67).

**Demographic of Respondents**

| Place | Percent | Place | Percent |
|---|---|---|---|
| School | 10% | Gonilan | 35% |
| College | 55% | Menco | 40% |
| Household | 35% | Pabelan | 25% |
| Total | 100% | Total | 100% |

## Characteristics of Banks

| Bank | Frequency | Percent |
|---|---|---|
| BNI | 18 | 18% |
| BRI | 32 | 32% |
| Mandiri | 15 | 15% |
| Bank Jateng | 24 | 24% |
| BCA | 11 | 11% |
| Total | 100 | 100 % |

## Characteristics of Respondents by Gender and Age

| Sex | Frequency | Percent | Age | Frequency | Percent |
|---|---|---|---|---|---|
| Male | 60 | 60% | 17-20 | 25 | 25% |
| Female | 40 | 40% | 21-25 | 40 | 40% |
| Total | 100 | 100% | > 25 | 35 | 35% |
|  |  |  | Total | 100 | 100% |

## Characteristics of Respondents by Education Level

| Education Level | Frequency | Percent |
|---|---|---|
| SMP | 4 | 4 % |
| SLTA | 40 | 40 % |
| S1/D3 | 56 | 56 % |
| Total | 100 | 100% |

## Characteristics of Respondents by Outcome/month

| Outcome/month | Frequency | Percent |
|---|---|---|
| Rp 500.000-Rp 1.000.000 | 26 | 26% |
| Rp 1.001.000– Rp 1.500.000 | 14 | 14% |
| Rp1.501.000 – Rp 2.000.000 | 22 | 22% |
| > Rp 2.000.000 | 38 | 38% |
| Total | 100 | 100% |

| | Component | | |
|---|---|---|---|
| | 1 | 2 | 3 |
| x1.1 | 0.691 | | |
| x1.2 | 0.684 | | |
| x1.3 | 0.620 | | |
| x1.4 | 0.666 | | |
| x1.5 | 0.711 | | |
| x1.6 | 0.578 | | |
| x1.7 | 0.633 | | |
| x1.8 | 0.632 | | |
| x1.9 | 0.566 | | |
| x1.10 | 0.683 | | |
| x1.11 | 0.574 | | |
| x1.12 | 0.589 | | |
| x2.1 | | | 0.724 |
| x2.2 | | | 0.634 |
| x2.3 | | | 0.679 |
| x2.4 | | | 0.726 |
| x2.5 | | | 0.750 |
| y1 | | 0.555 | |
| y2 | | 0.610 | |
| y3 | | 0.520 | |
| y4 | | 0.681 | |
| y5 | | 0.638 | |

Based on Table above shows that the items of service quality, service features and customer satisfaction declared valid because the extracted perfectly and factor loading above 0.5.

| Varible | $\alpha cronbach$ | Information |
|---|---|---|
| *Service Quality* | 0.903 | Reliable |
| *Service Feature* | 0.810 | Reliable |
| *Customer Satisfaction* | 0.771 | Reliable |

Based on Table above the variable Service Quality, Service Feature and Customer Satisfaction have r alpha> 0.06, so that these three variables are acceptable.

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 4.641 | 1.424 | | 3.259 | 0.002 |
| | Service Quality | 0.262 | 0.035 | 0.613 | 7.488 | 0.000 |
| | Service Feature | 0.162 | 0.074 | 0.178 | 2.178 | 0.032 |

Based on the analysis as shown in the table 4.14 above can be made regression equation as follows:

$$\mathbf{Y = 0{,}262X_1 + 0{,}162X_2 + e}$$

From the results of these equations is known that the two independent variables both service quality and service feature positive effect on customer satisfaction. This means that if the service quality increasing, the higher of customer satisfaction. If service feature enhanced will be increase customer satisfaction

| Model | | F | Sig. |
|---|---|---|---|
| 1 | Regression | 52.069 | $0.000^a$ |
| | Residual | | |
| | Total | | |

Based on the results of data processing that have been made known F count of 52,069, it can be concluded that Ho is rejected and Ha accepted. This means that the variables of service quality and service features together significant effect on customer satisfaction.

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | $0.720^a$ | 0.518 | 0.508 | 1.969 |

The results of the calculation of R-square is 0.518 and the adjusted coefficient of determination (adjusted R square) of 0.508 this means that customer satisfaction is affected by the variables of service quality and service feature by 51.80%. While the remaining of 48.20% influenced by other factors outside the regression model.

| **Variables** | **$T_{count}$** | **$t_{table}$** | **Significant** | **Information** |
|---|---|---|---|---|
| Service Quality ($X_1$) | 7,488 | 1,960 | 0,000 | Significant |
| Service Feature ($X_2$) | 2,178 | 1,960 | 0,032 | Significant |

Based on the table above it can be seen that the two variables have a p value <0.05. This means that the variable service quality and service features are a significant influence on customer satisfaction in partial.

# CONCLUSION AND RECOMMENDATION

## A. Conclusions

1. Service Quality effect on customer satisfaction, the first hypothesis which states that service quality has a significant influence on customer satisfaction banks in Solo proven true.
2. Service Feature effect on customer quality, the second hypothesis which states service features have a significant impact on the customer satisfaction banks in Solo proven true.
3. Service quality and service features together influence the customer satisfaction in Solo.

## B. Implications

The study premeditated the determinants of customer satisfaction in retail banking. The domino effect of the study discovered that the service quality and service features play a significant part in customer satisfaction. It further validates the argument that satisfied customers will be having future intentions for long-term basis.

We trust a great deal that our research model for customer satisfaction in retail banking is very constructive and it can open the directions for further research by making an allowance for many different variables. If the owners of the banks truly want to gain competitive edge today then they must try to focus in the discussed areas i.e. service quality and service features to make their customers satisfied which in response will bring customer retention and loyalty for the owners and facilitate them in flourishing their business.

Virtually speaking the study of customer satisfaction is both exigent and imperative. Prospect efforts should prolong to press forward the better understanding of the concept, the gaps left behind and the means to gauge and perk up the customer satisfaction approaches.

Keeping in view the findings of the study, banks may particularly focus on the following;

1. Banks should understand the needs of the customer and provide courteous services efficiently in catering such needs.
2. Employees at front desk are the key personnel who form the impression of bank. Therefore, their appearance needs to be neat. They should strive to provide each customer a personalized touch. So that the commitment with their respective bank is lasting.
3. Customers normally prefer banks which have broad product or service lines, quality offerings at reasonable competitive rate and convenient location. Therefore banks should have keen focus at these factors.

## C. Limitations

The authors recognize that there are limitations of this research. But this hope, this limitation can be used as a source of ideas for future research. Some point limitations of this study include:

1. The results of this study are based only on respondents' answers to a questionnaire distributed and is not supported by in-depth interviews.
2. The sample used is too small, it would be better if use a large sample to measure these variable.
3. In the questionnaire, respondents could also answer is not in accordance with the actual situation.

## D. Recommendations

The results of this study and the limitations that are found to be used as a source of ideas and input for the development of this research in the future, then the suggested extension of this research include:

1. Banks should respond to customer complaints and evaluate complaints respondent and immediately perform recovery services (service recovery).
2. For future studies are expected to add the variables where these variables can be used to support research and further consideration. by using a larger

sample, so that the answers of the respondents would be more valid and varied so as to better reflect actual conditions.

3. In order to maintain customer satisfaction, the bank made various efforts, such as creating loyalty programs by implementing service quality in banking services. Application service quality ones can be done in a way to handle complaints properly. Complaint itself is the result of dissatisfaction in the provision of services performed by the bank. If this cannot covered, the possibility of customers who switch to another bank complaints and negative rumors tend to convey to others.

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