Abstract. Customer satisfaction is most important to the concept of marketing with solid evidence of strategic links between overall services quality and customer satisfaction (Truch, 2006) and having a significant theoretical and practical issue for the marketers. The spirit of innumerable researches in diverse cultures endorse that the service provider organizations pay greater attention to satisfy their customer. But lacuna exists in literature for such a key topic in different cultures of developing countries like Pakistan. Accordingly, this current study looks for the impact of customer satisfaction on their behavioral responses in banking sector of Pakistan. Therefore, recognition of significant determinants of customer satisfaction could facilitate the higher management in adoption and implementation their customers’ focus strategies more efficiently and effectively. Practical implication, future research and limitation are also discussed.

Keywords: banking sector, behavioral response, customer satisfaction, Pakistan, services quality.

AN EMPIRICAL INVESTIGATION OF CUSTOMER SATISFACTION AND BEHAVIORAL RESPONSES IN PAKISTANI BANKING SECTOR

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Management & Marketing
Challenges for the Knowledge Society
1. Introduction

Recently, the main purpose of the researches on customer satisfaction has change the spotlight and gives the significant value to other different areas that are important as compared with other issues. For example, the service quality has its impact and significant predictor of the financial strength of the organization (Duncan & Elliott, 2004; Duncan & Elliott, 2002; Yasin et al., 2004; Wiele et al., 2002; Yeung et al., 2002; Rust et al., 1995; Greising, 1994), behavioral intentions (Boulding et al., 1993; Cronin & Taylor, 1992) and intentions of switching the current services (Keaveney, 1995). The impact of service quality and mediating role of customer satisfaction in the banking context got paramount awareness in the field of service marketing. The gap is existed in the literature about the customer satisfaction and their behavioral responses (Zeithaml et al., 1996; Boulding et al., 1993; Cronin & Taylor, 1992). Zeithaml et al. (1996) specify that the relationship between customer satisfaction and behavioral responses that need further probe in order to comprehend the connection of financial outcomes and the customer satisfaction.

The financial organization can hardly state as a form of modernization and banking sector is one of them. Broadly, “Istward and Holland” categorized the banks in to three different structures, small banks having capital less than US$40 billion; medium-sized banks contain capital more than US $40 billion but less than US $350 billion); and large banks with more than US $350 billion (Huang et al., 1990). In western world, banking sector is one of the major sector in which customer satisfaction has been the focal point of different studies (Holliday, 1996). Today, there are multiple operations are performed by the bank and they provide a variety of services and products of almost every segment of the economy. In Pakistan, banking sector is at its boom as the most prominent rising sector. This industry has 45 schedule banks with 8,343 branches all over the Pakistan till June 30, 2008 (State Bank of Pakistan, 2010). But due to the unstable policies and uncertainty, Pakistani banking industry has experienced very confused environment. That’s why this segment faced dramatic changes in his history like in 1950s and 1960s, private sector banks were dominated but they were state-owned in 1974. These public sector banks are privatized in 1992 due to substandard products/services.

Customer satisfaction is judged as the soul of triumph in today’s competitive business world. This concept is gradually becoming a business goal as more corporations struggle for excellence in their services and/or products and (Bitner & Hubbert, 1994). In this situation, the consideration on the understanding of determinant of customer satisfaction is of immense implication to the marketers. So, the current study seeks to determine which key factors of customer satisfaction have an impact on their behavioral responses such as intention to switch and word-of-mouth communication. The exploration of these aspects will assist the top management in making the overall strategy to satisfy and retain the customers which would lead to organizational efficacy and competitive advantage over the competitions.
2. Literature review

Customer satisfaction is critical facet for the researchers and marketers (Naser et al., 1999). It’s a key factor of diverse marketing activities which basically impart the linkage between the different stages of customers buying behaviors. For example, if customer is pleased with the services and/or products offered by the company, then he/she likely re-purchase and also try its line extensions (East, 1997) and these customers are also share the information and favorable experience and producing word-of-mouth communication (Jamal & Naser, 2003). This advertising technique is predominant in socialist culture like in Pakistan where life is ordered in such a way that leads to develop social relations with others in the society. Contrary, dissatisfied customers of any bank switch themselves to other bank and will also fabricate negative word-of-mouth and these actions set ineradicable pressure on the banks to improve their products and services (Levesque & McDougall, 1996; File & Prince, 1992).

2.1. Customer satisfaction and service quality

Oliver (1997) describe satisfaction as “the consumer’s fulfillment response, a post consumption judgment by the consumer that a service provides a pleasing level of consumption-related fulfillment, including under- or over-fulfillment”. Service quality is renowned as a multi-dimensional construct. Its dimensions often vary from one researcher to other researcher, but still there is some harmony that service quality mainly consists of three major features: “outcome quality, “interaction quality, and “physical service environment quality” (Brady & Cronin, 2002). Numerous researchers more elaborate on sub-aspects of these three broad dimensions e.g., the most popular construct of service quality – SERVQUAL – have five dimensions: “tangibles”, “reliability”, “responsiveness”, “empathy” and “assurance” (Parasuraman et al., 1988). The tangibles dimension contact with physical environment aspect, the reliability dimensions corresponds with service outcome aspect and remaining three signify interaction quality aspect. Service quality is an precursor of the broader theory of customer satisfaction (Lee et al., 2000; Buttle, 1996) and the relationship between loyalty and service quality is intercede by satisfaction (Caruana, 2002; Fullerton & Taylor, 2002). Although the organizations are operating in service sector know that the service quality is of key factor for success at national and international level (Berry et al., 1989). even then companies were found that the instrument of service quality is relatively less appropriate in other than developed countries because of cultural context which lead to unsatisfactory and inappropriate sales and marketing approaches in those cultural contexts (Laroche et al., 2004). In today’s economy, service quality has come out as critical component for the top management of successful business (Blose et al., 2005) and human elements, as well, play essential role to determining the whole perception of customers about service quality (Yavas et al., 1997) and retaining the customers (Ranaweera & Neely, 2003).
For measuring the service quality dimensions, SERVQUAL instrument is often adapted. The main strength of this instrument over SERVPERF (another service quality instrument) is that it can effectively take. Though it also has some criticism on both operational and theoretical issue as well (Buttle, 1996). Asubonteng et al. (1996), made a conclusion after critically reviewing the 18 empirical studies on service quality that this instrument is industry specific. Carman (1990) found 6 to 8 dimensions, Headley & Miller (1993) pointed out six in medical sciences while Clow et al. (1995) and McAlexander et al. (1994) seven and ten respectively in dental industry.

Moreover, SERVQUAL used to measure service quality from over 20 years; it is seriously questioned the relationship of SERVQUAL’s to cultural dimensions (Kueh & Voon, 2007; Tsoukatos & Rand, 2007; Malhotra et al., 2005; Raajpoot, 2004; Witkowsi & Wolfmberger, 2001; Furrer et al., 2000; Espinoza, 1999; Donthu & Yoo, 1998; Winsted, 1997). Donthu & Yoo (1998) studied that the effect of customers’ cultural orientation in banking sector influenced the overall service expectations.

### 2.2. Behavioral responses

A flurry of research had recognized customer satisfaction as prominent antecedent to retention, customer loyalty, market share, profitability and behavioral responses (Wood, 2008; Beerli et al., 2004; Athanassopoulos et al., 2001; Anderson & Mittal, 2000; Heskett et al., 1997; Levesque & McDougall, 1996; Mufiato & Panizzolo, 1995). An immense stream of literature had exposed that the link of customer satisfaction has positive with loyalty of customer and their retention (Lovelock et al., 2001; Sharma & Patterson, 2000; Fornell, 1992; Levesque & McDougall, 1996), commitment (Burnham et al., 2003; Morgan & Hunt, 1994), service quality (Sureshchandar et al., 2002; Athanassopoulos, 2000; Parasuraman et al., 1988) and behavioral intentions of the customers (Olorunnwiwo et al., 2006; Zeithaml, 2000). The general assumption in these studies are that the affluence and escalation of the banks depend to a large extent on how they build a strong base to get the customer loyalty and to differentiate themselves via better service quality that may results in satisfaction of its customers.

Cronin & Taylor (1994) challenged that service quality should linked with “universal assessment and long-term approach” and customer satisfaction with “transaction-specific judgments”. However, regardless of this disagreement, most researchers have same opinion that service quality and customer satisfaction perform collectively on behavioral intentions. Recently, several researches have acknowledged that customer satisfaction act as mediator between behavioral intentions and service quality (Olorunnwiwo et al., 2006; Cronin et al., 2000; Dabholkar et al., 2000). Olorunnwiwo and his colleagues (2006) found a significant relationship but relatively small direct result of service quality on behavioral intentions and also concluded that the indirect effect of service quality on behavioral responses via customer satisfaction is a key indicator of behavioral intentions. Several studies have pointed out that only
the small percentage of dissatisfied customers cast their complaints and remaining customers who do not complained about their dissatisfaction respond in different actions like negative word-of-mouth and intention to switch (Blodgett & Li, 2007; Fernandes & dos Santos, 2007).

3. Research design

Research Hypotheses

Hypothesis 1: There is positive association between customer satisfaction and positive word-of-mouth communication.

Hypothesis 2: There is positive relationship between customer satisfaction and intention to stay with the current bank’s service providers.

Self-administered questionnaires were used to collect the data from the respondents. Random sampling technique was used to select two schedule banks from the list of State Bank of Pakistan. After that, ten branches from each bank (operating in Lahore) were selected through random sampling because the purpose behind this was to cover the whole geographical area of Lahore. Three hundred and forty questionnaires delivered to the users of respective branches. Three hundred and fifteen questions were return and only three hundred questionnaires were usable with response rate (88%). Stepwise regression method was employed to ascertain to what level different aspects of customer satisfaction are related to customer’s behavior responses. In this study, six variables of customer satisfaction were handled as independent variables whereas behavioral response (word-of-mouth communication and intention to switch) was treated as dependent variable. Five dimensions of service quality described by Parasuraman et al. (1991a, 1991b) were used to evaluate different aspects of customer satisfaction. Behavioral responses (intention to switch and word-of-mouth communication) of the banking clients; were measured by seven items scale of Athanassopoulos et al. (2001) Likert scale was used where 1 as strongly disagree and 5 as strongly agree.

4. Analysis and interpretations

Respondent sample, descriptive statistics and stepwise regression analysis was used to interpret this section.

Table 1 reflects the demographic characteristics of the respondents of two banks. Male respondents were in majority (66%) and females accounted for 34%. For age, about 47 percent (142) participants were 20-29 years, 30 percent (90) were 30-39 years and 23 percent (68) were more than 40 years of age. As far as education is concerned, fifty three percent (160) had undergraduate degree and forty seven percent (138) had graduation degrees. About 19 percent were using the bank’s services up to 1 year, 35 percent used 1-3 years and 46 percent used their current bank services for more than 3 years.
Demographics Profile

Table 1

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Frequency</th>
<th>Percentage (%)</th>
<th>Characteristics</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender:</td>
<td></td>
<td></td>
<td>Education:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>198</td>
<td>66.00</td>
<td>Under-graduation</td>
<td>160</td>
<td>53.00</td>
</tr>
<tr>
<td>Female</td>
<td>102</td>
<td>34.00</td>
<td>Graduation</td>
<td>138</td>
<td>47.00</td>
</tr>
<tr>
<td>Age:</td>
<td></td>
<td></td>
<td>Service-Users Since:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20-29 years</td>
<td>142</td>
<td>47.30</td>
<td>Up to 1 years</td>
<td>56</td>
<td>18.70</td>
</tr>
<tr>
<td>30-39 years</td>
<td>90</td>
<td>30.00</td>
<td>1-3 years</td>
<td>104</td>
<td>34.70</td>
</tr>
<tr>
<td>40-49 years</td>
<td>50</td>
<td>16.70</td>
<td>3-5 years</td>
<td>80</td>
<td>26.70</td>
</tr>
<tr>
<td>Above 60 years</td>
<td>18</td>
<td>6.00</td>
<td>More than 5 years</td>
<td>60</td>
<td>20.00</td>
</tr>
</tbody>
</table>

Table 2 shows the mean and standard deviation (descriptive statistics) and reliability coefficient of service quality dimensions and behavioral responses of the respondents.

Table 2

Descriptive Statistics (N=300)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>α</th>
<th>Variables</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>α</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Competence</td>
<td>3.52</td>
<td>0.71</td>
<td>0.73</td>
<td>Physical Evidence</td>
<td>3.56</td>
<td>0.60</td>
<td>0.71</td>
</tr>
<tr>
<td>Reliability</td>
<td>3.82</td>
<td>0.37</td>
<td>0.65</td>
<td>Convenience</td>
<td>3.45</td>
<td>0.81</td>
<td>0.75</td>
</tr>
<tr>
<td>Product Innovation</td>
<td>3.41</td>
<td>0.71</td>
<td>0.68</td>
<td>Behavioral Responses</td>
<td>4.80</td>
<td>1.01</td>
<td>0.79</td>
</tr>
<tr>
<td>Pricing</td>
<td>2.72</td>
<td>1.01</td>
<td>0.61</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3 shows the Pearson correlations of behavioral responses and customer satisfaction and reflect that the there is no problem of co-linearity and fit for regression analysis. It showed that pricing have negative relationship with behavioral response, employee competence and product innovation.

Table 4 showed stepwise regression which reflects that about 36% variance (adjusted R2 = .364) in behavioral response was explained by the model containing convenience, pricing, physical evidence and product innovation. Convenience alone explained 20% variability (adjusted R2 = 0.20) in behavioral responses whereas by product innovation for only 0.9% variance (R2 Change = .009, F change significance = 0.41) in behavioral response of customers in banking sector of Pakistan. These results were consistent with the research hypothesis that customer satisfaction of the customers is related with their behavioral responses.

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### Table 3

**Pearson Correlation Matrix**

<table>
<thead>
<tr>
<th></th>
<th>BR</th>
<th>EC</th>
<th>R</th>
<th>PI</th>
<th>P</th>
<th>PE</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>BR</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EC</td>
<td>0.37*</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R</td>
<td>0.28</td>
<td>-0.11</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PI</td>
<td>0.30*</td>
<td>0.50*</td>
<td>0.26</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P</td>
<td>-0.43*</td>
<td>-0.26*</td>
<td>0.21</td>
<td>-0.22*</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PE</td>
<td>0.41*</td>
<td>0.57*</td>
<td>0.36</td>
<td>0.36*</td>
<td>-0.23*</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>0.46*</td>
<td>0.44*</td>
<td>0.19</td>
<td>0.24*</td>
<td>-0.14**</td>
<td>0.51*</td>
<td>1.00</td>
</tr>
</tbody>
</table>

BR = Behavioral Responses, EC = Employee Competence, R = Reliability, PI = Product Innovation, P = Pricing, PE = Physical Evidence, C = Convenience.
* Significant at 0.01 level: One-tailed, ** Significant at 0.05 level: One-tailed.

### Table 4

**Model Summary (Dependent Variable: Behavioral Responses)**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square Change</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Change</td>
<td>df1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.461a</td>
<td>.212</td>
<td>.209</td>
<td>.89952</td>
<td>.212</td>
<td>80.223</td>
</tr>
<tr>
<td>2</td>
<td>.587b</td>
<td>.345</td>
<td>.340</td>
<td>.82184</td>
<td>.132</td>
<td>60.000</td>
</tr>
<tr>
<td>3</td>
<td>.603c</td>
<td>.364</td>
<td>.357</td>
<td>.81098</td>
<td>.019</td>
<td>9.005</td>
</tr>
<tr>
<td>4</td>
<td>.611d</td>
<td>.373</td>
<td>.364</td>
<td>.80660</td>
<td>.009</td>
<td>4.226</td>
</tr>
</tbody>
</table>

a. predictors: (constant), Convenience, b. predictors: (constant), Convenience, Pricing, c. predictors: (constant), Convenience, Pricing, Physical Evidence, d. predictors: (constant), Convenience, Pricing, Physical Evidence, Product Innovation.

ANOVA results (Table 5) indicated the predictive strength (F 8, 588 = 24.63, p<.05) of the model to explain variance in behavioral responses.

### Table 5

**ANOVA (Dependent Variable: Behavioral Responses)**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>65.20</td>
<td>8</td>
<td>7.89</td>
<td>24.63</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>232.07</td>
<td>588</td>
<td>0.36</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>297.27</td>
<td>596</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. predictors: (constant), Convenience, b. predictors: (constant), Convenience, Pricing, c. predictors: (constant), Convenience, Pricing, Physical Evidence, d. predictors: (constant), Convenience, Pricing, Physical Evidence, Product Innovation.
The beta coefficients (Table 6) show the impact of customer satisfaction modes such as convenience, pricing, physical evidence and product innovation on behavioral responses. As shown, convenience (b = .39, t = 5.9, p<0.05) had utmost influence whereas and product innovation (b = .15, t = 2.06, p<0.05) had lowest impact on behavioral responses of the customers. It’s also interesting to note that pricing (b = – .32, t = –6.83, p<0.05) negatively contributed to the behavioral response. However, convenience b = .39, t = 5.9, p<0.05), physical evidence (b= 0.23, t=2.37, p<0.05) and product innovation (b = .15, t = 2.06, p<0.05) had positive relation with the behavioral responses of the bank’s customers

5. Conclusions and recommendations

Study findings showed that four dimensions of service quality have impact on behavioral responses of the banking clients. Convenience, physical evidence and product innovation put positive impact on behavioral response means these dimensions create positive word-of-mouth communication through the customers and customer’s loyalty and intention to stay with the current bank will increases and pricing will put negative impact on behavioral response. These study findings are consistent with the findings of Blodgett & Li (2007) and Fernandes & dos Santos (2007). Overall, the findings impart very strong support the direct effects of customer satisfaction on the customers’ behavioral responses. More specifically, research findings indicated that when the customer’s satisfaction is high they will stay with their current service providers, engage in positive word-of-mouth communications and subdue negative behavioral intentions.

In today’s competitive environment, customer satisfaction has recognized as an essential role for survival and success in the market. Needless to say, numerous research had been conducted to know what customer satisfaction meant and for that various survey items were developed. On different concerns about empirical review of customer satisfaction dimensions, previous researches indicated that the customer satisfaction dimensions are industry specific and country specific as well. Certainly, there is differentiation on those factors that constitute the key elements of service
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bunch important to customers depending on culture, industry, and country. In this respect, this research exposed the existence of four customer satisfaction dimensions out of five in Pakistani culture (i.e. convenience, pricing, physical evidence and product innovation). This research effort has also practical implications for different service providers that struggle to organize their service offerings for achieving their corporate objectives. Service organizations like banking sector should try to develop strategies which enhance positive behavioral responses for to customer satisfaction and prohibit negative ones. These strategies may include meeting with the clients to determine the customers’ desired-service levels, avoid problems in services, dealing effectively with dissatisfied consumers and tackle customer complaints positively.

This research has also some limitations. First, behavioral responses instrument needs further development. Second, the current study investigated only two types of consumers' behavioral responses e.g. intention to stay and positive word-of-mouth communication. In future researchers may consider further augmenting this section by including additional behaviors of consumers like loyalty etc. At last, this study was conducted in banking sector of Lahore, Pakistan and the aim was not to generalize this study to whole Pakistan. Therefore, this study may applied in other service contexts such as insurance, telecommunication, retailing, air transportation etc.

References


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Appendix 1 (Survey Questionnaire)

**Employee competence**
The bank’s employees know very well the bank’s products
You receive prompt service from the bank’s employees
Bank employees have the necessary knowledge to serve you promptly
Bank employees do not hesitate to find the time to serve you better
Bank employees know what your needs are and how the bank’s products can satisfy them

**Reliability**
It informs me without errors of my transactions
If there is a problem, the bank is willing to discuss it with me
You do not have to visit your bank many times to solve a particular problem
It is a bank that is worth trusting

**Product innovation**
The bank offers a wide product variety
The bank offers flexible products that meet my needs
The new products that my bank offers meet my needs
The bank offers telephone services

**Pricing**
The loan interest rates of my bank are higher than other banks
The deposit interest rates of my bank are lower than other banks
I feel I pay a lot on commissions charged

**Physical evidence**
There is a warm friendly atmosphere inside the bank
Employees of the bank are well dressed and appear neat
The atmosphere inside the bank gives you a positive impression for the services it offers
The interior design of the premises facilitates the transactions
The climate among the bank’s employees contributes to receiving better service

Employees of the bank have a friendly behavior

**Convenience**
The bank’s branch is near your workplace
The bank’s branch is near other state buildings and other banks
The bank’s branch is near shopping centers I usually visit

**Word-of-mouth communications**
I have recommended the bank to friends and acquaintances
I have encouraged friends and acquaintances to do business with the bank
I have informed other customers of the bank about complaints I have about the services offered by the bank (R)
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Intention to stay
In the near future I intend to intensify my efforts to find a better bank (R)
In the last year I have thought very seriously to switch banks (R)
I have decided to do less business with the bank in the future (R)
I have decided to switch to another bank that offers better service (R).

(R): denotes reverse coded item.