

**IMPACT OF SERVICE QUALITY ON CONSUMER SATISFACTION: THE CASE OF
KHAAN BANK IN MONGOLIA**

Gantogtokh Tsogtgerel and Munkhzul Tuvshinbat

Department of Business Administration, Da-Yeh University, Changhua, Taiwan

<http://doi.org/10.35409/IJBMER.2019.6776>

ABSTRACT

The banking industry is a critical factor of economic development and manage the financial flow between people and business. In recent years, Mongolian banks are strong competing with each other to attract new customer and keep a loyal customer. Consequently, Banks are facing an issue related to customer shift among banks and research study focused on investigating Service quality effect on Customer satisfaction and loyalty. The research will help high-level managers in the bank to produce an effective service strategy for increasing customer satisfaction. A conceptual framework based on the SERVQUAL model and Primary data will be collected from one hundred customers who get service from Khaan Bank in Mongolia. To output analyzing the result, SPSS 21 software will be used for doing a reliability test, correlation, and regression analysis, and it will make a conclusion and suggestion for the bank.

Keyword: Service Quality, Customer Satisfaction, the Banking industry.

1. INTRODUCTION

In the 21st century, Consumers gathered more service experience ever before, and for this reason, Companies are actively competing by service quality with competitors to survive in the market. The success of the Service industry such as Banking, Telecommunication, Restaurant directly relates to service quality, and the quality defines business can be a success or not?. Bank offers financial service, including savings and loan for people and business companies and manages financial demand between individuals. In 1990, Mongolian polity changed from socialist to the democratic polity, and the situation became the main reason to start private banks. Since the time, Mongolian banks have strongly developed, and twenty banks such as Khaan Bank, Golomt Bank, Trade Development Bank, Arig bank, Khas Bank are successfully operating in the financial market. The number of Banks in Mongolia is higher compared to other countries, and it means that business competition is strong in the financial market. Thus, The private banks are facing huge problem related to consumer movement among the banks, and they are competing by Marketing, Financial Service quality, the Interest rate to attract future potential customers and save the loyal customers. Additionally, Mongolian consumers get services from more than two banks, and it is one of the main reasons which is increasing competition. Thus, Research study focused to investigate impact of Service Quality dimensions on customer

satisfaction and loyalty.

2.ABOUT KHAAN BANK

Khan Bank, with 537 branches nationwide, is the largest commercial bank in Mongolia, providing banking services to an estimated 70% of Mongolian families. Established in 1991 as the Agricultural Cooperative Bank, in connection with the dissolution of the State Bank of Mongolia, the Bank assumed most of the assets and businesses of the State Bank of Mongolia in rural areas. Although the Bank was privatized, its business remained heavily influenced by the government, and in 1999 it was placed into receivership by the Bank of Mongolia. In 2000, a restructuring plan was developed under World Bank guidance. The government assumed ownership and recapitalized the Bank, and an external management team, funded by USAID, was brought in to implement the recovery plan. In 2003, the Bank was successfully privatized through an international tender. Sawada Holdings, the Bank's majority shareholder, acquired 100% of the Bank's shares and subsequently sold 40% of the shares to Tavan Bogd Trade Ltd. In 2006, and the Bank's name was officially changed to Khan Bank LLC. Khan Bank holds a banking license, issued by the Bank of Mongolia (BoM) on November 11, 2006, and operates under regulations relating to banks and the opening of branches approved by Bank of Mongolia Governor's Decree 375, dated 2000, in compliance with the Mongolian Law on Banks' Article 17, provision 2.

3.LITERATURE REVIEW

3.1 Service Quality

Hussain (2015) stated that service is intangible, identifiable activities which are the essential object of an interaction produced to provide satisfaction to customers. Quality means consumer evaluation or perception about service, and if service performance cannot be met with customer perception, they customer negative evaluate for service. Service quality in the management and marketing literature is the extent to which customers' perceptions of service meet and exceed their expectations, for example, as defined by Zeithaml et al. (1990). Balmur (2013) cited that the demand for service quality is directly driven by both customers and employees, changing the business environment. Individual's expectations about service quality always increase, and the organizations need to develop the quality for the changing situation. At firstly, Service Quality measurement was introduced by (Parasuraman, 1988), and the model was the SERVQUAL model with ten dimensions and 97 items. Other researchers (Akbaba, 2006) decreased the dimensions and items until five dimension and 22 items. Each items relate with a seven-point Likert scale and is used on the questionnaire. According to the SERVQUAL structure, service quality can be measured by five dimensions: tangibles, reliability, responsiveness, assurance, and empathy.

Tangibles- It means material or physical things necessary to provide the service, for example, workers clothes, office environment. According to Parasuraman (1988), it is the appearance of physical equipment, personnel, facilities, materials related to the service provider on consumers.

Reliability- It is the capacity to accurately and dependably produce the promised service. Reliability connects with an understanding of correctly performing in the shortest time as well as it is an essential impact in the service industry (Parasuraman, 1988).

Responsiveness- It is understanding of willingness to solve customer's problem in the shortest

time. According to Ali (2017), responsiveness is timeliness and speed of service delivery. It includes speed and capacity of service to answer and resolve shortly to consumer requests.

Empathy – it is understanding of caring and individualized attention which the organizations provide to own customers. Ali (2017) mentioned that empathy consists of giving individual and personal attention, short operation period, understanding the individual needs of clients.

Assurance – it is friendly and knowledgeable employees, simple access on the account information (Ali, 2017). If a customer has not trust and confidence about a specific organization, they never will get service from them. Thus, organizations need always to develop inspiration skill of employersto increaseconsumer trust and confidence.

3.2 Customer Satisfaction

Customer satisfaction can be a fatal factor that affects any source of business and company performance. According to LaBarbera and Mazursky (1983), “satisfaction influences repurchase

intentions, whereas dissatisfaction has been seen as a primary reason for customer defection or discontinuation of purchase.” When achieved customer satisfaction, it can lead to many advantages.

According to JochenWirtz (2003), customer satisfaction may lead to the customer: the customer is more

likely to come back to repurchase product or services, and generated customer loyalty as well as they

will introduce the product to other people surrounding them, as a consequence, this will lead to an

increase on long term profitability of the company.

Customer satisfaction can be a fatal factor that affects any source of business and company performance. According to LaBarbera and Mazursky (1983), “satisfaction influences repurchase

intentions, whereas dissatisfaction has been seen as a primary reason for customer defection or discontinuation of purchase.” When achieved customer satisfaction, it can lead to many advantages.

According to JochenWirtz (2003), customer satisfaction may lead to the customer: the customer is more

likely to come back to repurchase product or services, and generated customer loyalty as well as they

will introduce the product to other people surrounding them, as a consequence, this will lead to an

increase on long term profitability of the company.

Customer satisfaction can be a fatal factor that affects any source of business and company performance. According to Ismail (2016), “satisfaction influences repurchase intentions, whereas dissatisfaction has been seen as a primary reason for customer defection or discontinuation of purchase.” When achieved customer satisfaction, it can lead to many advantages. According to Ennew (2015) customer satisfaction may lead to customer: customer is more likely to come back to repurchase product or services, and generated customer loyalty as well as they will introduce the product to other people surrounding them, as a consequence this will lead to

an increase on long term profitability of the company. Also, Customer satisfaction is one of the essential factors in the business and helps to differentiate from competitors. Therefore the satisfaction measurement is most important (Miheils, 2015). Shanka (2001) postulated that dissatisfaction is created when the expectation is higher than the output of service performance and satisfaction is a case of service performance matching or surpassing on consumer expectations. Siddiky (2011) defined the relationship between service quality and customer satisfaction and found the quality directly positive influence on satisfaction. Also, Rod (2009) mentioned that service quality in the banking industry positively influence both customer satisfaction.

3.3 Service quality and Customer Satisfaction

Multiple research defined service quality has a relationship with customer satisfaction and retention in different industries. Rajendran (2002) mentioned, "The satisfaction is an effective and cognitive reaction on the service." According to (Parasuraman, 1988) stated that quality is the most potent weapon to reach satisfaction in business, and high service quality leads to high client satisfaction. Dean (2016) determined that the Service quality is a better measurement for customer satisfaction than perceived value. Same like, Hsu (2006) found that satisfaction is a powerful impact on service quality. Peeters (1998) concluded that service quality improvement not based on customer needs could not improve customer satisfaction, and not all quality improvement cannot be essential for satisfaction. Thus, the right defining the quality's dimensions is the essential factor in the beneficial improvement of customer satisfaction (Rod, 2009). In the end, the research study proposed the following hypothesis using upper literature definition.

H1: Tangibility positive effect on consumer satisfaction

H2: Reliability positive effect on consumer satisfaction

H3: Responsiveness positive effect on consumer satisfaction

H4: Empathy positive effects on consumer satisfaction

H5: Assurance positive effect on consumer satisfaction

4. RESEARCH METHODOLOGY AND DATA ANALYZING

4.1 Research framework

A conceptual framework based on previous literature review and included five dimensions of SERVQUAL model (Tangible, Reliability, Responsiveness, Assurance, Empathy) and customer satisfaction.

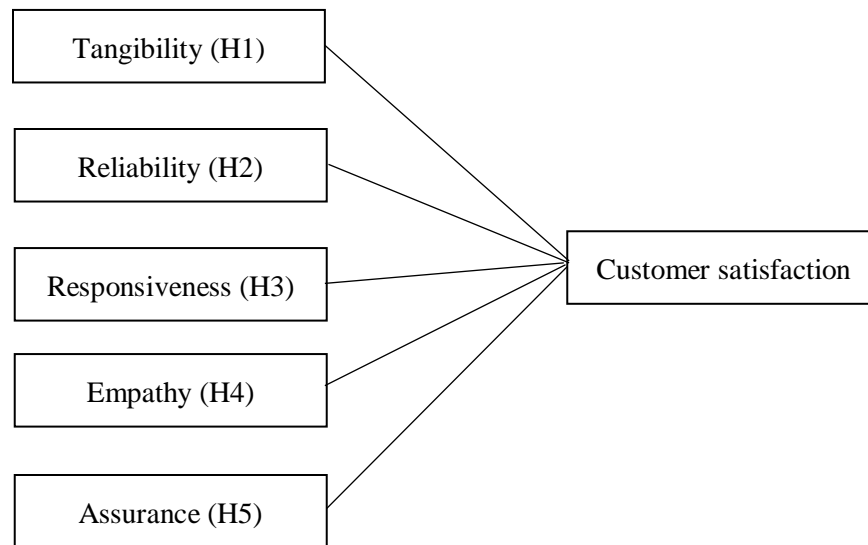


Figure 1: Conceptual Framework

4.2 Data sampling and Questionnaire

In the research, Primary data collected from one hundred customers who get financial service from Khaan Bank by Facebook and Google form. Questionnaire design has twenty-five items, and Items of Service quality covers 15 questions of total items. Four items of other ten questions relate to Customer Satisfaction, and remaining items are demographic information such as Gender, Education, Marital Status, Monthly Income, and Banking experience.

4.3 Data Analyzing

Data analyzing is the procedure of collecting, cleansing, modeling, transforming, and inspecting to produce useful information and conclusion. To produce an analyzing result, research study planned to do according to 4 steps. These are defining demographic information, reliability test, correlation analysis, and regression analysis. First of all, Reliability test is vital to analyze and other analysis reason from the data reliability. Second, Demographic information shows detailed information related to sampling size, and there is age, gender, income, and education. Third, Correlation analysis defines the direct relationship of two variables. Fourth, Regression analysis shows complicated relationships among the independent and dependent variable. These analyses integrally related to each other and especially, reliability, correlation, regression analyses are essential to produce the right results.

4.4 Demographic Information

Below table shows demographic information of a hundred participants at the survey, and followings express it.

1. 69% percent of respondents have 26-37 years old, and it means the people more actively participated in the survey.
2. 63% of respondents are single, and 37% is married.
3. Half or 54% of participants have an undergraduate, or bachelor degree, and others have a high school, master, and doctor degree.

4. 66% of participants have 400,000-1000,000₮ monthly income or higher than minimum wage in Mongolia.
- 5.

Table 1: Demographic information of Respondents

Age		Education	
22-25	15%	High school	14%
26-29	29%	Bachelor	54%
30-33	22%	Master	25%
34-37	18%	Doctor	7%
38-41	11%	Monthly Income	
42-45	5%	<400	16%
Marital Status		401-800	34%
Married	37%	801-1000	32%
Single	63%	1000>	18%

4.5 Reliability analysis

The reliability result is expressed by Cronbach's value, which locates among 0 and 1. If the Cronbach's is near to 1, it means the data has high internal consistency. Most of the researchers approve that Cronbach's alpha needs to be higher than 0.5. Table 2 show reliability result of each variable, and all of the values are higher than 0.5. It means our collected primary data has high reliability.

Table 2: Result of Reliability analysis

Dimensions	Cronbach's Alpha
Customer satisfaction	0.512
Service quality	0.834
Tangibles	0.632
Reliability	0.714
Responsiveness	0.567
Assurance	0.832
Empathy	0.642

4.6 Correlation Analysis

The analysis defines a linear relationship between two variables, and relation power is expressed by the Pearson Coefficient. If the value is equal to 1, There is a perfect positive relationship. In the case of the value is negative, it shows a perfect negative relationship.

Table 3: Result of Correlation Analysis

	TA	REL	RES	AS	EM	SQ
TA						
REL	.378**					
RES	.429**	.356**				
AS	.387**	.278**	.456**			
EM	.612**	.431**	.578**	.294**		
SQ	.434**	.384**	.463**	.542**	.489**	
CS	.243**	.589**	.367**	.532**	.372**	.478**

** . Correlation is significant at the 0.01 level (2-tailed).

In the upper table, Service quality and it’s dimensions such as Tangibility, Reliability, Responsiveness, Assurance, Empathy have positive and highly significant relationship with customer satisfaction (TA->CS: $r=.243$, $p<0.01$, REL->CS: $r=.589$, $p<0.01$, RES->CS: $r=.589$, $p<.532$, AS->CS: $r=.532$, $p<0.01$, EM->CS: $r=.372$, $p<0.01$, SQ->CS: $r=.478$, $p<0.01$).

4.7 Regression Analysis

Regression analysis defines the impact of a unit change in the independent variable on the dependent variable as well as find the best fitting line to determine the relationship of variables. R-squared value is essential in regression analysis, and the value define how near the data placed to the fitted regression line. Table 4 and 5 shows the regression result of service quality dimensions and service quality on customer satisfaction.

Table 4: Regression model summary

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1	.432 ^a	.387	.384	.5432

a. Predictors: (Constant), SQ, TA, RL, RE, EM, AS

b. Dependent Variable: CS

In the upper table, Adjusted R Square is 0.384, and it means that the model is explaining 38.4% of the variance in the data. Additionally, Other section or 61.6% can’t explain by the model or external factors are affecting the dependent variable.

Table 5: Regression result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.352	0.276		1.363	0.022
1 SQ	0.402	0.286	0.178	1.085	0.012
TA	0.231	0.123	0.213	1.795	0.021
RL	0.452	0.078	0.389	2.767	0.038
RS	0.145	0.084	0.085	2.532	0.005
AS	0.378	0.042	0.341	0.798	0.046
EM	0.143	0.094	0.067	1.726	0.813

a. Dependent Variable: CS

In the above table, the Regression result was illustrated by the summary table, and according to the literature review, the following hypothesis confirmed and rejected.

H1: Tangibles has a significant and positive relationship with Customer satisfaction ($\beta=0.402$, $p<0.05$)

H2: Reliability has significant and positive relationship with Customer satisfaction ($\beta=0.231$, $p<0.05$)

H3: Responsiveness has significant and positive relationship with Customer satisfaction ($\beta=0.145$, $p<0.01$)

H4: Assurance has significant and positive relationship with Customer satisfaction ($\beta=0.378$, $p<0.05$)

H5: Empathy hasn't significant and hypotheses four was rejected by the result

H6: Total service quality has a significant and positive relationship with Customer satisfaction ($\beta=0.402$, $p<0.05$)

According to the literature review, our proposed hypotheses were approved, but hypothesis 5 was rejected by the result. Tangibles, Reliability, and Assurance dimensions have most definite positive relationship compared to another result. Lowest and rejected dimensions are Responsiveness and Empathy. It means that Mongolian consumers give more importance Tangible, Reliability, and Assurance dimensions of service than Empathy and Responsiveness dimensions. Generally, Total service quality positive effect on customer satisfaction.

5.CONCLUSION AND SUGGESTION

From analyzing the result, following suggestion and conclusion were produced:

1. Mongolian private banks have to give more attention to tangibles, such as office interior design, comfortable furniture, advertisement materials. Because customers want to get

financial service in the comfortable environment, which can increase consumer trust related to bank.

2. Service reliability is most essential in the banking industry, and customers never get the service again from the certain bank when bank workers or banking system made a mistake such as transaction delay, transferring to the wrong account and losing customer information. Thus, the bank needs to develop always the reliability of manual and automatic operations in financial service by constantly monitoring.
3. Customers always want to feel their individualized value from anyone. When the bank gives more attention, customers have more satisfaction and loyal. Thus, the Bank has to frequently give attention to customers by calling and mailing to customers.

Finally, Service quality is the fundamental reason for customer satisfaction in the banking industry, and the bank who can provide the most valuable service compared to competitors can attract new potential customers and save current consumers. Therefore, they have to constantly evaluate and develop service quality to survive in the financial market.

REFERENCES

- Hussain, R., Al Nasser, A., & Hussain, Y. K., (2015). Service quality and customer satisfaction of a UAE-based airline: An empirical investigation. *Journal of Air Transport Management*, 42, 167-175.
- Zeithaml, V. A., Parasuraman, A., Berry, L. L., & Berry, L. L. (1990). Delivering quality service: Balancing customer perceptions and expectations.
- Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). Servqual: A multiple-item scale for measuring consumer perc. *Journal of Retailing*, 64(1), 12.
- Akbaba, A., (2006). Measuring service quality in the hotel industry: A study in a business hotel in Turkey. *International journal of hospitality management*, 25(2), 170-192.
- Ali, M., & Raza, S. A., (2017). Service quality perception and customer satisfaction in Islamic banks of Pakistan: the modified SERVQUAL model. *Total Quality Management & Business Excellence*, 28(5-6), 559-577.
- Ismail, M. B. M. (2016). Customer Satisfaction of Selected Branches of Bank of Ceylon in Batticaloa District. *Journal of Business Studies*, 3(2).
- Ennew, C. T., Binks, M. R., & Chiplin, B. (2015). Customer satisfaction and customer retention: An examination of small businesses and their banks in the UK. In *Proceedings of the 1994 Academy of Marketing Science (AMS) Annual Conference* (pp. 188-192). Springer, Cham.
- Mihelis, G., Grigoroudis, E., Siskos, Y., Politis, Y., & Malandrakis, Y. (2001). Customer satisfaction measurement in the private bank sector. *European Journal of Operational Research*, 130(2), 347-360.
- Shanka, M. S., (2012). Bank service quality, customer satisfaction, and loyalty in the Ethiopian banking sector. *Journal of Business Administration and Management Sciences Research*, 1(1), 001-009.
- Siddiqi, K. O., (2011). Interrelations between service quality attributes, customer satisfaction, and customer loyalty in the retail banking sector in Bangladesh. *International Journal of Business and Management*, 6(3), 12.
- Rod, M., Ashill, N. J., Shao, J., & Carruthers, J. (2009). An examination of the relationship between service quality dimensions, overall internet banking service quality, and customer

-
- satisfaction: A New Zealand study. *Marketing Intelligence & Planning*, 27(1), 103-126.
- Sureshchandar, G. S., Rajendran, C., & Anantharaman, R. N. (2002). The relationship between service quality and customer satisfaction—a factor specific approach. *Journal of services marketing*, 16(4), 363-379.
- Hapsari, R., Clemes, M., & Dean, D. (2016). The mediating role of perceived value on the relationship between service quality and customer satisfaction: Evidence from Indonesian airline passengers. *Procedia Economics and Finance*, 35, 388-395.
- Olorunniwo, F., Hsu, M. K., & Udo, G. J. (2006). Service quality, customer satisfaction, and behavioral intentions in the service factory. *Journal of services marketing*, 20(1), 59-72.
- Bloemer, J., De Ruyter, K., & Peeters, P. (1998). Investigating drivers of bank loyalty: the complicated relationship between image, service quality, and satisfaction. *International Journal of bank marketing*, 16(7), 276-286.
- Rod, M., Ashill, N. J., Shao, J., & Carruthers, J. (2009). An examination of the relationship between service quality dimensions, overall internet banking service quality, and customer satisfaction: A New Zealand study. *Marketing Intelligence & Planning*, 27(1), 103-126.