



## Determining the Degree of Service Quality, Customer Satisfaction and Loyalty: An Empirical Study of Retail Banking in Ghana

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**Abstract:** *The intangible nature of services makes it difficult for an organisation to understand how its customers perceive and evaluate the quality of its services. The pressing need for banks to ensure customer satisfaction and loyalty makes it imperative for them to assess their service quality levels. The purpose of this study was to determine the degree of service quality, customer satisfaction and loyalty among retail banking customers in Ghana. The GAP analysis technique was applied to help in identifying the strengths or deficiencies in the service quality, customer satisfaction and customer loyalty levels, as judged by respondents. The results showed that the extent of Service Quality in Ghana's banking industry is reasonably high. Also, the extent of Customer Satisfaction, which was rated, based on the single item question, recorded a higher rating over and above service quality. The mean score for Overall Customer Loyalty was 5.08 (Gap score=1.92), indicating a slightly high rate of customer loyalty among bank customers in Ghana. Overall, Customer Loyalty has a relatively high Gap score of 1.92, compared with Service Quality (Gap = 1.75) and customer satisfaction (Gap of 1.50). This points to the existence of lower levels of customer loyalty for the Ghana banking industry, followed by service quality and then customer satisfaction. The study further concluded that the Ghanaian banks should particularly pay attention to behavioural loyalty to help improve on the overall customer loyalty.*

**Keywords:** Service Quality, Customer Satisfaction, Customer Loyalty, Retail Banking

### 1. INTRODUCTION

Service industries are playing an increasingly important role in the overall economies of both developed and developing countries (Angelova and Zekiri, 2011). The services sector of every country therefore contributes significantly to its economic development, as service remains one of the three key components of gross domestic product (GDP), with the two other sectors being agriculture and industry. Currently, there is a growing importance of the services sector in the world economy (Araslı et al., 2005), as compared to the other two sectors. The Central Intelligence Agency (2014) world factbook estimates that services contributed 63.5% of world gross domestic product (GDP) in 2014. The estimates for Ghana, from the same study are; agriculture 21.4%, industry 29.2% and services 49.4%. Over the years, researchers have tried to define service in slightly different ways. Wei (2013) gives a relatively modern definition as an activity or a series of activities in intangible form which usually takes place between customers and service providers.

Services, unlike physical products, generally exhibit characteristics of intangibility, inseparability, heterogeneity and perceived risk, that set them apart from physical products (Bitran and Lojo, 1993, Zeithaml and Bitner, 1996). The implications of these characteristics are that it is often difficult for customers to evaluate services at pre-consumption, consumption and post-consumption stages of the consumer decision-making process (Legg and Baker, 1996). The intangible nature of services makes it difficult for an organisation to understand how its customers perceive and evaluate the quality of its services (Parasuraman et al., 1985). Customers, however, make inferences about service quality based on other tangible issues such as the state of buildings, physical layout and décor in and around the service environment, and these have significant impact on customers' affective responses and their behavioural intentions (Dabholkar et al., 1996, Wakefield and Blodgett, 1999).

The complex nature of services, coupled with the growing prominence of the services sector, has also increased the need for organisations to improve service quality. In view of this, service quality is increasingly recognized as one of the key strategic values of organisations in both the manufacturing and service sectors (Lewis, 1991). Service quality results in the satisfaction and possible retention of customers and employees, which could lead to a reduction in customer attrition and employee turnover as well as encourage repeat purchase behaviour and attract new customers through positive recommendations, (Caruana, 2002, Lewis, 1991, Newman, 2001, Wang et al., 2003). In Ghana today, the banking industry is characterised by heightened competition, customer sophistication, technological advancement, general high cost of doing business, easy availability of substitute products and stiffer regulatory regimes.

The combined effects of these are dwindling incomes and rising costs, and hence affecting profits adversely. Banks therefore require stellar service quality to beat out the competition, as high levels of service quality is said to lead to improved customer satisfaction, loyalty, market share growth and higher financial performance. Agreeing with these, Radomir et al. (2011) opined that; high service quality leads to competitive advantage as customers feel satisfied and thus are more probable to further buy the company's services, to recommend them to others and to ignore the competitors' offer. It is therefore necessary to continuously measure service quality in order to establish those areas that need improvement. Researchers generally share the view that service quality is an important tool for measuring customer satisfaction (Kadir et al., 2011). Service quality has a clear positive and significant impact on customer satisfaction (Ming, 2003) and also influences the financial performance of companies (Ashiqullah, 2006). Many researchers (Firdaus et al., 2011, Mukesh et al., 2010, Parasuraman et al., 1985) believe that service quality is an elusive concept, and there are considerable arguments among researchers on how to conceptualise this phenomenon.

From the above, the main objective of this study is to establish the applicability of the known five dimensions of service quality and also determine the degree of service quality, customer satisfaction and loyalty among retail banking customers in Ghana. The specific questions to be answered therefore are;

- What constitutes service quality in retail banking?
- What is the extent of service quality, customer satisfaction and loyalty prevalent in retail banking?
- In what ways are retail banking customers loyal to their banks?

## **2. LITERATURE REVIEW**

### **2.1. Service Quality**

Service quality is acknowledged as a 'critical prerequisite for establishing and sustaining satisfying relationships with valued customers' (Lassar et al., 2000, p.244). Many researchers believe that service quality is an elusive concept, and there are considerable arguments among researchers on how to conceptualise it. It is a subjective phenomenon that hinges on the individual perceptions of customers (Schneider and White, 2004), and this explains why there is a high number of definitions attributed to service quality (Radomir et al., 2011). Some recent definitions of service quality include; the consumer's overall impression of the relative inferiority or superiority of a company and its services (Siddique et al., 2011), a measure of the extent to which the service delivered fulfils the customers' expectations (Wei, 2013), customer's judgment about a service (Culiberg and Rojs'ek, 2010) and the difference between customers' expectations of service and their perceptions of actual service performance (Zeithaml and Parasuraman, 2004), among others. It is also acknowledged in literature that service quality is a dynamic, multidimensional concept, incorporating a number of aspects of both past and present service experiences (Ab.Aziz et al., 2014). Literature is replete with research findings that service quality remains a critical factor in the success of most businesses. Kadir et al. (2011) opine that service quality is an important tool for measuring customer satisfaction and also influences performance of companies. High service quality leads to competitive advantage as customers feel satisfied and thus are more probable to further buy the company's services, to recommend them to others and to ignore competitors' offers (Radomir et al., 2011). It is therefore necessary to continuously measure service quality in order to establish those areas that need improvement".

### *2.1.1. Assessing Service Quality*

The most widely used models for measuring service quality in the banking sector are the SERVQUAL and SERVPERF models (Shanka, 2012). The SERVQUAL framework was developed by Parasuraman et al. (1988), based on their own gap model, Parasuraman et al. (1985). Since the introduction of SERVQUAL, many researchers have used, extended or further developed the scale to study service quality in different sectors of the services industry (Adil et al., 2013, Buttle, 1996, Newman, 2001). The SERVPERF scale by Cronin and Taylor (1992) is one such improvement over the SERVQUAL scale. Unlike the SERVQUAL, which identifies gaps between customers' expectations (E) and their perceptions of the performance (P) of services, the SERVPERF measures service quality, using perceptions only. Based on its overwhelming adoption and usage in recent studies (Beerli, 2004, Lee and Hwan, 2005, Mensah, 2010, Sulieman, 2011, Wang, 2003, Zahoor, 2011), this study uses the SERVPERF scale to measure the service quality in Ghana's banking industry.

## **2.2. Customer Satisfaction**

Customer satisfaction has been gaining increasing attention from researchers and practitioners as a recognized field of scholarly study as well as a fundamental tool used by financial institutions for enhancing customer loyalty and, ultimately, organisational performance and profitability (Mohsan et al., 2011). The subject remains an important factor in the performance and competitiveness of banks (Belás et al., 2015, Chavan and Ahmad, 2013, Keisidou et al., 2013), as they seek to grow their businesses sustainably. Munari et al. (2013) posit that comprehensive customer care and the bank customer satisfaction agenda is currently at the centre of attention of researchers and bankers as it represents an important marketing variable for most companies. Hsien-Ta et al. (2010) defined customer satisfaction as the gap between customer expectations and perceptions regarding service quality, whilst Farris et al. (2010) defined satisfaction as the percentage of total customers, whose reported experience with a firm, its products or services exceeds expected satisfaction goals. On their part, Dominici and Guzzo (2010) defined customer satisfaction as a business philosophy which tends to the creation of value for customers, anticipating and managing their expectations, and demonstrating ability and responsibility to satisfy their needs.

### *2.2.1. Assessing Customer Satisfaction*

Customer satisfaction has been gaining increasing attention as a recognized field of scholarly study as well as a fundamental tool used by financial institutions for enhancing customer loyalty and, ultimately, organisational performance and profitability (Mohsan et al., 2011). Although confusion still exists between the two concepts of service quality and customer satisfaction, several authors have pointed to their differences (Radomir et al., 2011). Synthesising the various definitions of customer satisfaction, leads to the conclusion that customer satisfaction is an attitude or behaviour that customers vocalize or exhibit post-consumption. Being a determinant of satisfaction, most researchers have used the five dimensions of service quality to measure customer satisfaction. In this study, however, customer satisfaction was measured by soliciting responses to a single question: "Overall, I am satisfied with this bank". The problems associated with the use of a single response variable were mitigated by the simplicity of the question; the suggestion by Yi (1990) that a single overall satisfaction measure score, is "reasonably valid" (p. 71).

## **2.3. Customer Loyalty**

Customer loyalty is a concept that has enjoyed wide currency and usage within the field of consumer behaviour for many years (Saeed et al., 2011). Customer loyalty has attracted the interest of managers and researchers alike in the recent past (Khan, 2012). Researchers point to many benefits an organisation can derive as a result of improving loyalty levels (Zairi, 2009). This has consequently led companies to initiate various measures to increase the loyalty of their customers (Khan, 2012). Despite efforts to make customers more loyal, researchers have found that even 'loyal' customers are willing to switch, if provided with the appropriate opportunity (Khan, 2012). This has led researchers to believe that loyalty research has been unable to produce 'generalizable' results as we do not fully understand the concept of loyalty from a customers' perspective (Khan, 2012).

### *2.3.1. Assessing Customer Loyalty*

There exist slightly different approaches for determining customer loyalty by researchers and practitioners. In their study on customer loyalty assessment in Iran, Dehghan and Shahin (2011)

compiled several of the applicable questionnaire used by previous researchers for measuring customer loyalty. These included Butcher et al. (2001), Chaudhuri and Holbrook (2001), Colwell et al. (2009), Foster and Cadogan (2000), Kassim and Abdullah (2010), McMullan (2005), Pedersen and Nysveen (2001), Sirdeshmukh et al. (2002), Taylor et al. (2004), Thuy and Hau (2010), Wong (2004), Wong and Sohal (2003). Most of these previous works classified their questionnaires according to the type of customer loyalty being evaluated. Synthesising these resources, therefore, the customer loyalty questionnaire for this study was composed of 13 questions on behavioural loyalty and 14 emotional loyalty questions.

**3. METHODOLOGY**

**3.1. Research Design and Sampling Procedures**

Quantitative research paradigm emphasizes the importance of generalizability and reliability (Henn et al., 2006) in the choice of a sample, which ought to be statistically representative. Based on this, a sample size of 1,020 was used, from which a total of 850 usable questionnaires were generated for this study. This was deemed appropriate as a sample size of between 200 and 500 is generally accepted for SEM analysis (Phau and Shanka (2014).

**3.2. Survey Instrument**

This study employed a survey questionnaire to collect raw data from bank customers for analysis. The questionnaire was made up of initial 10 questions, covering the key profiles of respondents and 22 service quality questions per the Cronin and Taylor (1992) SERVPERF scale. Customer satisfaction was measured by soliciting responses to a single question: “Overall, I am satisfied with this bank”, while customer loyalty was measured with 13 questions on behavioural loyalty and 14 on emotional loyalty, drawn from several research works cited in Dehghan and Shahin (2011).

**3.3. Data Analysis**

To determine the degree of service quality, customer satisfaction, and customer loyalty, the study employed the gap analyses technique. This techniques was applied to help in identifying the strengths or deficiencies in the service quality, customer satisfaction and customer loyalty, as judged by respondents.

**Table1.** Descriptive Statistics and Service Quality/ Satisfaction Gaps

Service Quality Variables		N	Mean	Std. Deviation	Std. Error Mean	Gap	
Q1	Tangibility	T1	849	5.44	1.32	0.05	1.56
Q2		T2	850	5.48	1.25	0.04	1.52
Q3		T3	848	5.77	1.14	0.04	1.23
Q4		T4	844	5.39	1.31	0.05	1.61
Q5	Reliability	R5	848	5.05	1.46	0.05	1.95
Q6		R6	845	5.18	1.36	0.05	1.82
Q7		R7	845	5.1	1.47	0.05	1.9
Q8		R8	847	5.09	1.43	0.05	1.91
Q9		R9	842	5.05	1.53	0.05	1.95
Q10	Responsiveness	RS10	847	5.18	1.39	0.05	1.82
Q11		RS11	846	5.12	1.39	0.05	1.88
Q12		RS12	848	5.27	1.36	0.05	1.73
Q13		RS13	848	5.07	1.45	0.05	1.93
Q14	Assurance	A14	829	5.29	1.29	0.05	1.71
Q15		A15	832	5.57	1.28	0.04	1.43
Q16		A16	830	5.31	1.33	0.05	1.69
Q17		A17	827	5.42	1.24	0.04	1.58
Q18	Empathy	E18	831	5.06	1.43	0.05	1.94
Q19		E19	831	5.41	1.43	0.05	1.59
Q20		E20	831	5.05	1.41	0.05	1.95
Q21		E21	829	5.17	1.44	0.05	1.83
Q22		E22	828	5.09	1.39	0.05	1.91
<b>Total Service Quality</b>				<b>5.25</b>	<b>1.37</b>	<b>0.05</b>	<b>1.75</b>
Q23	<b>Satisfaction</b>	<b>CS23</b>	<b>796</b>	<b>5.5</b>	<b>1.33</b>	<b>0.05</b>	<b>1.5</b>

Source: Survey data, 2016

NB: Mean scores computed from the average of the indicators of each construct

Table 1 shows the gap (difference) between the maximum measurement scale item and the mean scores associated with each indicator of service quality, customer satisfaction and loyalty. The larger the difference or gap score, the lower the level of perceived service quality, satisfaction or loyalty. In this regard, variables with higher gap scores need more urgent or require critical management attention.

**4. FINDINGS/RESULTS**

It is observed that all the 22 service quality indicators had mean scores higher than 5, an indication that service quality is reasonably high for each of the 22 items. A variable like T3 (followed by A15, T2 and T1) has one of the largest mean scores (Mean = 5.77, Std. Dev. = 1.14) and consequently one of the lowest gap scores (Gap=1.23). On the other hand, a variable like R5 (also R9 and E20) has one of the lowest mean scores (mean = 5.05; Std. Dev. = 1.46) and hence one of the largest gap scores (Gap=1.95). Generally, T4 (Gap=1.61), A14 (Gap=1.71), A16 (Gap=1.69), and RS12 (Gap=1.73) are moderate performers with gap scores that are slightly lower than the average gap of 1.75.

Twelve variables, comprising R5, R6, RS10, RS11, R7, R8, R9, R13, E18, E20, E21 and E22 have large gap scores (ranging from 1.82 to 1.95) and therefore reflect relatively low level of perceived quality. The top six attributes with small gap scores are T3: (Gap=1.23), A15: (Gap=1.43), T2: (Gap=1.52), T1: (Gap=1.56), A17: (Gap=1.58) and E19: (Gap=1.59), an indication that these attributes attracted the highest ratings from customers. From Table 2, the overall service quality gap of 1.75 is larger than the customer satisfaction gap of 1.5, demonstrating that the source of satisfaction goes beyond satisfaction with service quality attributes.

**Table2.** Ranking of Attribute Means and Quality Gaps

<b>Ranking of Attribute Means and Quality Gaps</b>					
<b>VARIABLE</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Std. Error</b>	<b>Gap</b>
TANGIBLES	843	5.52	1.04	0.04	1.48
ASSURANCE	824	5.39	1.06	0.04	1.61
RESPONSIVENESS	844	5.16	1.13	0.04	1.84
EMPATHY	826	5.15	1.13	0.04	1.85
RELIABILITY	837	5.10	1.12	0.04	1.90
<b>TOTAL SERVICE QUALITY</b>	<b>849</b>	<b>5.25</b>	<b>1.37</b>	<b>0.05</b>	<b>1.75</b>
<b>SATISFACTION</b>	<b>796</b>	<b>5.50</b>	<b>1.33</b>	<b>0.05</b>	<b>1.50</b>

Source: Survey Data, 2016

Tangibles was rated highest by bank customers, followed by Assurance, Responsiveness, Empathy, with Reliability being last as illustrated on Table 2.

Table 3 shows the Gap scores associated with customer loyalty and its indicators. It can be seen that the largest Gap score is associated with EL14: “No account with any other bank” (Mean = 3.99, Std. Dev. = 2.26; Gap = 3.01) followed by EL15: “Committed and unwilling to accept other banks” (Mean = 4.00, Std. Dev. = 1.95; Gap = 3.00) and EL25: “Will not switch, even if I had a problem with this bank” (Mean = 4.15, Std. Dev. = 1.82; Gap = 2.85). All three bottom placed indicators are from the Emotional Loyalty sub category.

**Table3.** Descriptive Statistics and Customer Loyalty Gaps

		<b>QUESTION ASKED</b>	<b>N</b>	<b>Mean</b>	<b>Std.Deviation</b>	<b>Gap</b>
		<b>I continue to patronise this bank because;</b>				
<b>Behavioural Loyalty</b>	BL1	Their service quality gives me total satisfaction	844	5.30	1.35	1.70
	BL2	Of some other reasons but not total satisfaction	843	4.92	1.51	2.08
	BL3	Of their products and services	843	5.28	1.35	1.72
	BL4	Their interest rates are favourable to me	844	4.92	1.50	2.08
	BL5	Of their image, adverts, branding, word-of-mouth	844	4.94	1.52	2.06
	BL6	Their branches are close to me	845	5.06	1.69	1.94
	BL7	Their extensive branch network	844	5.10	1.50	1.90
	BL8	Of the attitudes of their staff	844	4.99	1.46	2.01
	BL9	Of the absence of any better alternatives	843	4.22	1.81	2.78
	BL10	I believe other banks may be worse than this	842	4.42	1.80	2.58

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	BL11	Something always holds me back, each time I think of leaving this bank	840	4.53	1.70	2.47
	BL12	Of some reasons, other than loyalty	830	4.60	1.73	2.40
	BL13	Of their external visibility	838	5.08	1.65	1.92
	<b>Total Behavioural Loyalty</b>		<b>842</b>	<b>4.86</b>	<b>0.94</b>	<b>2.14</b>
Emotional Loyalty	EL14	No accounts with any other bank	819	3.99	2.26	3.01
	EL15	Committed and unwilling to accept other banks	837	4.00	1.95	3.00
	EL16	I often say things about this bank	838	5.09	1.49	1.91
	EL17	I will recommend this bank to anyone	838	5.21	1.40	1.79
	EL18	I deal with this bank because I want to, not because I have to	836	5.23	1.51	1.77
	EL19	Doesn't not matter which staff serves me	834	4.65	1.79	2.35
	EL20	This bank is the best choice for me	824	4.98	1.53	2.02
	EL21	I have emotional connection to this bank	824	4.71	1.55	2.29
	EL22	Relationship is very important to me	823	5.06	1.44	1.94
	EL23	I will do anything just to maintain this relations	824	4.78	1.59	2.22
	EL24	Will maintain business even if their prices change	823	4.47	1.71	2.53
	EL25	Will not switch, even if I had a problem	823	4.15	1.82	2.85
	EL26	Will keep business, if I had to do it all over again	823	4.74	1.60	2.26
	EL27	Has exceptional image, compared to others	824	5.03	1.39	1.97
	EL28	I have great respect for the image of this bank	823	5.37	1.34	1.63
EL29	Will maintain relations due to their image	821	5.26	1.44	1.74	
	<b>Total Emotional Loyalty</b>		<b>826</b>	<b>5.29</b>	<b>1.66</b>	<b>1.71</b>
	<b>Total Customer Loyalty</b>		<b>834</b>	<b>5.08</b>	<b>1.62</b>	<b>1.92</b>
NB: Mean scores computed from the average of the indicators of each construct						
Source: Survey Data, 2016						

At the other extreme end are the attributes with lower gap scores and hence relatively better rating for loyalty. These include EL28: "I continue to bank here because I have great respect for the bank's image" (Mean = 5.37, Std. Dev. = 1.34, Gap = 1.63), BL1: "I continue to bank here because their service quality gives me total satisfaction" (Mean = 5.30, Std. Dev. = 1.35, Gap = 1.70) and BL3: "I continue to bank here because of their products and services" (Mean = 5.28, Std. Dev. = 1.35, Gap = 1.72). The first of these top three attributes comes from Emotional Loyalty while the second and third are Behavioural Loyalty dimensions.

### 5. DISCUSSIONS

The extent of Service Quality in Ghana's banking industry is reasonably high, judging from the findings. Overall Service Quality was rated with a high mean score of 5.25 (Gap score=1.75). On the basis of the above, customers generally rated bank Service Quality high for the industry, with individual mean scores of each service quality dimension being higher than the scale mean of 5. This is similar to the findings by Aruban Banking Association and Centrale Bank Van Aruba (2013). The results also showed that eleven banks were rated above the industry average (Mean=5.25) with the remaining six falling short of this measure.

Two banks that require critical attention for service quality improvement are HFC (Mean=4.72, Gap=2.28) and Baroda (Mean=4.76, Gap=2.24), as they fell below the scale mean of 5. The best service quality indicators for the industry, by way of performance above the average score, were only ten. These include; T3 (This Bank's front-line employees are neat and well dressed), A15 (I feel safe in my transactions with this Bank), T2 (This Bank's physical facilities are visually appealing), T1 (This Bank has modern-looking equipment), A17 (Employees in this Bank have the requisite knowledge to answer my questions), E19 (This Bank's operating hours are very convenient for me), T4 (Materials associated with the service: such as brochures, account statements etc. are visually appealing to me), A16 (Employees in this Bank are consistently courteous towards me), A14 (The behaviour of employees in this Bank gives me all the needed confidence to do business with them) and RS12 (Employees in this bank are always willing to help me). The remaining twelve items recorded mean scores lower than the scale mean, indicating low levels of service quality.

The extent of Customer Satisfaction, which was rated, based on the single item question (Overall, I am satisfied with this bank), recorded a higher rating over and above service quality. The findings

reveal a relatively higher mean rating of 5.50 (Gap score 1.5), which is an indication of high customer satisfaction rate. This is in line with the findings of Bhatta and Singhal (2015), Haq and Muhammad (2012), Lohani and Bhatia (2012) who found similar high satisfaction rates. Nine banks performed below this average mean score of 5.5, with Zenith and FBN banks scoring below the scale mean of 5.0. The difference between the service quality mean score of 5.25 and the customer satisfaction mean score of 5.50 further demonstrates that the source of satisfaction goes beyond satisfaction with service quality attributes and therefore require further research. Eight banks received better ratings than the industry average mean score for satisfaction.

The mean score for Overall Customer Loyalty towards banks was 5.08 (Gap score=1.92), compared with the scale mean of 5.0. This indicates a slightly high rate of customer loyalty among bank customers. This finding is in line with the work of Aruban Banking Association and Centrale Bank Van Aruba (2013) who also found high loyalty among bank customers. With regards to the type of loyalty, Emotional Loyalty received a relatively higher mean score of 5.29 (Gap score=1.71) compared with the Behavioural Loyalty mean of 4.86 (Gap score=2.14). Based on these findings, it is advisable for the management of banks to improve customer loyalty rates by working to narrow the individual gap scores towards zero for the customer loyalty scale. They are particularly advised to pay attention to behavioural loyalty, as the mean score for this loyalty dimension is below the scale mean and therefore indicating lack of loyalty.

## **6. CONCLUSION**

Most of the respondents rated the quality of services provided by their banks as very high. Overall Customer Loyalty has a relatively high Gap score of 1.92 (Mean = 5.08, Std. Dev. = 1.62), compared with Service Quality Gap = 1.75 (Mean = 5.25, Std. Dev. = 1.37) and customer satisfaction Gap of 1.50 (Mean = 5.50, Std. Dev. = 1.33). This points to the existence of lower levels of customer loyalty for the Ghana banking industry, followed by service quality and then customer satisfaction. The outcome from this study provides motivation and insights to managers in the retail banking industry to further work to improve customer satisfaction.

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