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QUALITY SERVICE AND ITS IMPACT ON HFC BANK'S (GHANA) PROFITABILITY

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Abstract

The study examined customers' view on HFC bank's service quality and its impact on the bank's profitability. The study adopted the descriptive survey design. The population for the study was 127. The sample size used was 39. The sampled elements were selected using convenient sampling procedure. The data was analysed using mean, standard deviation and multiple regression analysis. The study found that though customers perceive HFC bank's service quality positively, it does not increase the bank's profitability directly. It does so only if it boosts customer' satisfaction, and also if this satisfaction induces customers' loyalty to the bank. It is recommended that management of HFC bank, Cape Coast should ensure that they develop, nurture and maintain appropriate quality services by being reliable, tangible, empathy, assurance and responsible in the branch. This will bring about customer' satisfaction and loyalty which will in turn increase the firm's profitability in the long run.

Keywords: Banking sector, Service quality, Customer satisfaction, Profitability, Ghana

INTRODUCTION

In response to the pressure of globalisation, increasingly competitive markets, and volatile market dynamics, many organisations in the financial and banking industry are actively seeking ways to add value to their services and improve their service quality. Organisations are usually keen on making operational efficiency a priority. Most financial institutions have emphasised the optimisation of operational processes as a means to profitably deliver value to customers and also to meet or even exceed customer expectations (Kano, Seraku, Takahashi & Tsuji, 2004). Substantial research has been devoted to such topics as designing, managing, and optimising service delivery systems, with a view to raising service quality and operational efficiency (Anderson, Fornell & Lehmann, 2004; Barcia & Striuli, 2006; Hill, 2007).

Many firms have enthusiastically applied many operational approaches that focus on service quality dimensions such as tangibles, reliability, responsiveness, assurance and empathy. These firms have demonstrated the relevance of these dimensions in improving organisational efficiency (Barcia & Striuli, 2006; Hill, 2007). Nevertheless, the impact of service quality on firm's profitability has often been overlooked (Boudreau, Hopp, McClain & Thomas, 2007; Johnston, 2009). The importance of employee attributes, such as job satisfaction, employee loyalty and organisational commitment, and their impacts on operational performance have largely been neglected by the banking industry (Janda, Trocchia & Gwinner, 2009).

On the other hand, issues related to human resources have been widely investigated in the disciplines of organisational behaviour and psychology for many decades. The pervasive interest in human resources among organisational behaviour researchers and practitioners is grounded on the premise that customers and employee attributes are crucial to organisational effectiveness (Parasuraman, Zeithaml & Berry, 2011), which ultimately influences a firm's profitability.

Nowadays, individuals choose various financial institutions to protect themselves and their properties. Due to different reasons, people pursue several financial packages offered by these institutions according to variations available such as savings, investment, advisory services, and so on. Customer satisfaction is a business philosophy which tends to create value for customers, anticipate and manage their expectations, and demonstrate ability and responsibility to satisfy their needs. Quality of service and customer satisfaction are critical factors for success of any business. As asserted by Akbar and Parvez (2009), enterprises exist because they have a customer to serve. The key to achieve sustainable advantage lies in delivering high quality service that result in satisfied customers (Zeithaml, Berry & Parasuraman, 2010). Therefore, organisations must ensure that their consumers' overall impressions of the relative superiority of their services are in good terms or viewed positively.

The banking industry in Ghana has experienced an influx of new entrants, new competition and a new way of doing business in recent years. Banks lose the majority of their customers because the service rendered to them is not satisfying and sufficient, so they tend to switch from one bank to the other (Akbar & Parvez, 2009; Bagozzi, 2012; Haghtalab, Ahrari & Amirusefi, 2013; Amonoo, 2014). Most of the products and services that are offered by commercial banks in Ghana are now offered by most rural banks and microfinance institutions. This has increase the competitive nature of the banking industry, especially among commercial banks. Customers normally use premier and other large commercial banks service delivery as a standard for evaluating the quality of service delivered by other new commercial banks such as HFC bank, Cape Coast, Ghana. Therefore, the problem is that some of the banks and other financial institutions render insufficient service to customers and due to that they become dissatisfied, all because customers are recently becoming more demanding (Amonoo, 2014; Mohammed & Mohammad, 2009). These challenges, as indicated, motivated the researcher to survey HFC bank, Cape Coast customers view on quality service and its impact on profitability.

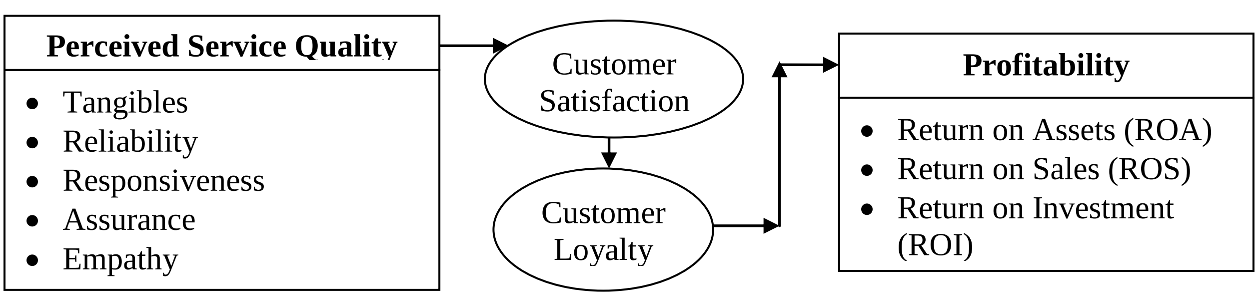
This study seeks to examine HFC bank, Cape Coast customers' view on the firm's products and services delivery and its impact on the bank's profitability. Specifically, the study examines customers' view of HFC bank, Cape Coast, Ghana service quality and the indirect effect of service quality on the bank's profitability.

The findings from the study will revise the concept that highly perceived service quality will lead to higher customer satisfaction and loyalty which will in turn increase firms profitability. The output of this study would equally be useful to marketing professionals and practitioners, academics, researchers and students as a source of reference for further research that relate to quality service, customer satisfaction, customer loyalty and profitability.

CONCEPTUAL FRAMEWORK

The conceptual framework for this study took into consideration all possible factors from the literatures and from observations to derive the dependent, independent and mediating variables for analysis. The dependent variable is the bank's profitability while perceived service quality which comprises tangibles, reliability, responsibility, responsiveness, assurance and empathy constitute the independent variables. Customer satisfaction and customer loyalty serve as intervening variables. The conceptual framework is illustrated in Figure 1.

Figure 1: Conceptual framework for examining the effect of perceived service quality on HFC bank's profitability



Source: Adapted from Mohammed and Mohammad, 2009.

Perceived service quality in general comprises the tangibles, reliability, responsiveness, assurance and empathy. The study agrees that these perceived service quality do influence firm's profitability positively. However, the study argues that this influence is not direct but rather indirect through customer satisfaction and customer loyalty. The study treats customer satisfaction and customer loyalty as intervening variables and that they enhance the potency of the influence of the independent variables on the dependent variable. The general argument is that, if the bank's service quality such as tangibles, reliability, responsiveness, assurance, and empathy are perceived positively or are in good shape, the bank's profit in terms of ROA, ROS and ROI will increase significantly. However, this influence is not direct as it seems. It can be seen as complex influence because the fact that the service quality of the bank is perceived positively by customers does not mean the bank's profit will increase significantly as expected. Customers must first be satisfied with the products and services of the bank which will lead to their increase loyalty to the bank.

METHODOLOGY

As pointed out earlier, the study aims at finding out the influence of service quality on hfc bank, Cape Coast profitability. Since the study entailed a survey of the bank's customers' view on the issues, situations and processes, the descriptive survey design was deemed the most appropriate. Due to lack of time, the study accessible population was all premium customers of the bank within the Cape Coast Metropolis. Records from the human resource division of the bank show that there are 127 customers who are classified as premium customers (Hfc Bank Ghana Limited, 2013).

Researchers such as Ary, Jacobs, Razavieh and Sorensen (2006) and Malhota and Birks (2010) are of the view that it is appropriate to use 10 to 30 percent of the accessible population as the sample in a descriptive survey design. Based on this recommendation, the researcher used 30 percent (39) of the accessible population as sample for the study. The sample size does not necessarily need to be large but how it truly represents most of the characteristics of the elements in the accessible population is what one must look at. Convenience sampling procedure was used to select all the 39 respondents sampled.

The main instrument used for data collection was the questionnaire. A questionnaire is described as a formalised framework consisting of a set of questions and scales designed to generate primary raw data (Ary et al., 2006). The questionnaire was used because it was considered to be more convenient for respondents.

Before administering the questionnaires to the premium customers, the researcher sought permission from the branch management of HFC bank, Cape Coast, Ghana. The consents of the customers were sought before the questionnaire was given to them. The customers were informed about the purpose of the research and what objective it sought to achieve. They were encouraged to feel free and air their views as objectively as possible and that they have the liberty to choose whether to participate or not. They also had the option to withdraw their consent at any time and without any form of adverse consequence. Anonymity and confidentiality were guaranteed and the research did not cause harm or mental stress to those who chose to participate. On the whole, out of the 39 respondents contacted, 37 provided completed questionnaires. However, the remaining questionnaires were given back uncompleted. This resulted in 94.9 percent response rate.

The data that were collected were coded using numerical values (coded manual) for the variable view of the Statistical Product and Service Solution (SPSS) Version 17.0. After this, the data were entered into the variable and data view respectively to complete the process. When these were done, the data were cleaned and extracted for presentation and discussion in the form of tables in the subsequent section of this study. The first specific objective was analysed using mean and standard deviation while multiple regression analysis was used to analyse the second objective.

EMPIRICAL RESULTS AND DISCUSSION

Customers' view of HFC bank, Cape Coast service quality

The rationale for the first specific objective was to know the views of hfc bank's customers within the Cape Coast Metropolis. The views of the customers were described using descriptive statistics such as mean and standard deviation. Each of the main dimensions of service quality was made up of many items (See Appendix A) that were pooled together using average responses with the help of the SPSS Version 17.0. Based on the five-point numerical scale used, the average response score used in categorising the data into positive and negative was the mean score of 3.0. That is (1 + 2 + 3 + 4 + 5) / 5 = 3.0. The results showing the views of the customers are provided in Table 1.

Table 1: Customers' view on hfc bank's service quality

Service quality dimensions	Mean (M)	Standard deviation (SD)
Reliability	4.25	0.52
Responsiveness	3.85	0.50
Tangible	3.31	0.48
Assurance	4.10	0.56
Empathy	3.99	0.46

As depicted in Table 1, hfc bank's customers within the Cape Coast Metropolis viewed reliability (M = 4.25, SD = 0.52) to be the most dominant service quality dimensions they consider most, followed by assurance (M = 4.10, SD = 0.56), empathy (M = 3.99, SD = 0.46), responsiveness (M = 3.85, SD = 0.50) and tangible (M = 3.31, SD = 0.48). All the dimensions of service quality were rated moderately in positive terms with regard to customers' view on hfc bank's service quality. The strongest dimension of service quality viewed by customers was reliability and the weakest was tangible. The results therefore mean that hfc bank's customers view the bank's service quality in positive terms. The findings corroborate with the assertions of Zeithaml et al. (2010) who posit that the key to achieve sustainable advantage lies in delivering high quality service that result in satisfied customers. Therefore, hfc bank, Cape Coast must ensure that its customers' overall impression of the relative superiority of the bank's products and services are viewed positively.

The indirect effect of service quality on hfc bank's profitability

The last objective of the study examined whether customers' views on service quality have a direct or indirectly effect on the bank's profitability. Multiple items were used to elicit data on the main variables concerned. Customer's view on hfc bank's service quality was used as the independent variable while the bank's profitability was treated as the dependent variable. However, customers' satisfaction and loyalty were treated as mediating variables in the conceptual framework. Results of the analysis are shown in Table 2.

Table 2: Effects of service quality on hfc bank's profitability

Variables	Model one	Model two	Model three
	Beta (Std. Error)	Beta (Std. Error)	Beta (Std. Error)
Reliability	0.348 (0.08)**	0.321 (0.07)**	0.076 (0.03)*
Tangibles	0.234 (0.06)**	0.049 (0.05)	0.004 (0.02)
Responsiveness	0.160 (0.07)*	0.061 (0.07)	0.058 (0.03)*
Assurance	0.153 (0.08)*	0.111 (0.07)	0.013 (0.03)
Empathy	0.195 (0.06)**	0.109 (0.05)*	0.014 (0.02)
Customer satisfaction		0.469 (0.04)**	0.101 (0.02)**
Customer loyalty			0.860 (0.03)**
Constant	1.140	1.405	0.069
R Square	0.341	0.468	0.800
Adjusted R Square	0.325	0.453	0.797

Dependent Variable: Firm's profitability **p < 0.01 *p < 0.05 (Sample Size = 37)

The multiple regression analysis involved testing of three models. In the first model the five dimensions of service quality were entered as independent variables. All the variables had significant effect on hfc bank's profitability. As Table 2 shows, the variables that predict hfc bank's profitability in order of importance are reliability (β = 0.348 (0.08), $p < 0.01$), tangibles (β = 0.234 (0.06), $p < 0.01$), empathy (β = 0.195 (0.06), $p < 0.01$), responsiveness (β = 0.160 (0.07), $p < 0.05$) and assurance (β = 0.153 (0.08), $p < 0.05$). It is however significant to observe that the proportional contribution of the five dimensions of service quality to the dependent variable was 0.341 with an adjusted R^2 of 0.325.

In the second model customer satisfaction was entered into the equation to serve as a mediating variable. The theory here is that the independent variables do not predict hfc bank, Cape Coast profitability directly, and that they do so indirectly through customers' satisfaction and loyalty to the firm. When the variable customer satisfaction entered the equation the beta coefficients of reliability and empathy variables shrank while tangibles, responsiveness and assurance became insignificant. As expected there was a slight increase with regard to the proportional contribution (R^2) of all the entered variables, including customer satisfaction to the dependent variable. It increased from 0.341 to 0.468 with an adjusted R^2 of 0.453, which means that when reliability, tangibles, responsiveness, assurance and empathy are present, their predictability of hfc bank's profitability becomes more potent when customers are satisfied.

In the third model, the variable customer loyalty to the firm was entered into the equation, and the result was that the beta coefficient of responsiveness regains its statistical significance level while empathy lost its significance. The confidence level of reliability also reduced from 99 percent to 95 percent. Customer loyalty was statistically significant when it was entered into the second model, which did change the beta coefficients of other significant variables in the third model. This means that the explanatory power of reliability, tangibles, responsiveness, assurance and empathy are shared with the mediating variables. That is, reliability, responsiveness and empathy affect hfc bank's profitability only when customers are loyal to the firm. The beta coefficients for all the independent variables shrank again. The beta coefficients of tangibles and assurance were still not statistically significant. Surprisingly, the proportional contribution (R^2) of the variables entered when customer loyalty was added increased from 0.468 to 0.800. Customer loyalty was found to be statistically significant (β = 0.860, $p < 0.01$) with an increase in adjusted R^2 (0.797) over model three.

What all the resultant shrinkages and statistical non-significance mean is that the independent variables do not generally (except reliability and responsiveness) directly influence hfc bank's profitability. They do so only when customers are satisfied and also loyal to the firm.

Therefore, the results show that customers' views on the firm's service quality do not directly predict hfc bank's profitability and that it does so indirectly. The findings are in line with the submissions of Mohammed and Mohammad (2009) who aver that the linkage between customer satisfaction, loyalty and profitability is a cornerstone of service improvement efforts. Measurement of customer satisfaction and loyalty are irrelevant if this linkage does not exist, because if variations in customer satisfaction and loyalty do not connect with variations in profitability, attempts to manipulate satisfaction and loyalty will have no impact on profitability.

CONCLUSIONS

Customers of hfc bank, Cape Coast have positive view on the bank's service quality as a whole. However, customers view on the bank's service quality does not predict the bank's profitability directly. It does so only if it boosts customers' satisfaction in the bank's products and services. If customers are satisfied with the bank' products and services, they are likely to be loyal to the bank which will in turn increase the bank's profitability. Whenever customers' views on the bank's service quality get them to be satisfied with its products and services, it makes the customers to be loyal to the firm as well. When that happens and there is critical mass of customers who are loyal to the bank, it will translate into a significant increase in the bank's profitability. It is therefore necessary for the bank to develop, nurture and maintain quality service that will make both old and new customers satisfied with the bank's packages in order for them to be loyal to it and thereby increase the bank's profitability in the long run.

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