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Service Quality, Transaction Cost and Customer satisfaction of the Customers of Co-operative Rural Banks in Kandy, Sri Lanka.

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ABSTRACT

The role of the banking sector has increased due to the higher demand for financial services. For a variety of reasons, the rural masses are somewhat reluctant to access financial institutions. Therefore, rural banks take the lead in attracting the rural masses to the financial system and meeting their financial needs. Although service quality and customer satisfaction have been measured in relation to various banks, the number of studies measuring service quality, customer satisfaction, and transaction cost in Co-operative Rural Banks (CRBs) in Sri Lanka is low. Therefore, this study aimed to examine the effect of service quality of CRBs on customer's transaction costs and their satisfaction. Both convenient and snowballing sampling methods were employed to gathered data from 121 customers of CRBs in Kandy district. Partial Least Squares Structural Equation Model (PLS-SEM) was the analytical tool of this study. As shown by the outcomes of this study, service quality has a positive influence on customer satisfaction. It also stated a significant negative association between service quality and transaction costs. Further, transaction cost has an inverse significant impact on customer satisfaction. The transaction cost which is considered as an intermediate variable performs a complimentary mediation role between service quality and customer satisfaction. Adaptation to modern technologies, development of staff capabilities, competencies, attitudes, and simple service procedures will assist to improve service quality, customer satisfaction and the minimize the transaction cost of customers.

***Key Words**: Co-operative Rural Bank, Customer Satisfaction, Service Quality, Transaction Cost.*

1. INTRODUCTION

In developing countries, the financial needs of the majority of the population especially in the rural sector are met by informal lenders (Bouman & Houtman, 1988) since the formal financial sector is reluctant to provide financial services for rural people due to several reasons, such as high risk, high cost, etc. Therefore, rural people concentrate to satisfy their financial needs over the Small Financial Institutions (SFI) and other informal institutions (Jayamaha & Mula, 2011). Sri Lankan financial system has undergone a major transformation over the past 3 decades due to some upheavals (i.e., globalization, technological advancement, and deregulation) (Seelanatha, 2010). For a country to have rapid economic development, its financial system must be efficient, healthy, and very solid (Edirisuriya, 2007). The financial service sector of Sri Lanka is made up of two sub-sectors, an organized sector, and an unorganized sector. Licensed Commercial Banks (LCBs), Licensed Specialized Banks (LSBs), Registered Finance Companies (RFCs) and Specialized Leasing Companies (SLCs) are included in an organized sector while the SFI like Co-operative Banks, Sanasa Development Bank, Samurdhi Development Bank, and individual money lenders and pawn holders are members of the second part of the financial service sector. CRBs, which have been identified as one of the leading formal SFIs in Sri Lanka is providing a great service in the rural financial sector (Jayamaha & Mula, 2011). CRB was established in 1964 in the village of Menikhinna, Kandy district with the view of cater to microcredit facilities for the households living in remote areas. Initially, of CRBs were conducted under the supervision of the People's Bank, and CRBs accounting and finance system was introduced by People's bank (Jayamaha & Mula, 2011). CRBs took the lead in meeting the financial needs of rural households like credit requirements, savings mobilization, and so on. The customers of each organization can be considered as its base and the satisfied customers will have a positive impact on a particular organization's profitability. As well as stimulate others to deal with those organizations (Anjalika & Priyanath, 2018). An organization with a strong base can be sustainable for a long time in the industry. Service quality is an invisible force for reach maximum satisfaction (Anjalika & Priyanath, 2018). As a result of increasing customer demand for quality services create competition among business firms. Consequently, they induce delivering quality services to gain a competitive advantage (Anjalika & Priyanath, 2018). Otherwise, they fail to satisfy the customer and standing with other institutes. Most previous scholars have focused on evaluating service quality of services like health, education, consumer goods, travel, and tourism sector. Hence, numerous studies were conducted to assess the service quality of the banking sector. But there has been little attention given to assessing the service quality of CRBs in Sri Lanka. Furthermore, existing studies paid lower attention to measure the transaction cost of customers related to the banking sector. The lack of

previous studies has contributed to the literature on the impact of service quality on transaction cost. However, a handful of studies can be seen which evaluate the impact of transaction cost on customer satisfaction.

2. OBJECTIVE

The main objective of this study is to examine the impact of service quality of Co-operative rural banks on the transaction cost of customers and their satisfaction with special reference to the customers of CRBs in Kandy district.

3. THEORETICAL BACKGROUND

Service quality (SQ): Services are a collection of intangible activities, that are offered by one party to another. Several tangible characteristics (i.e., shape, size, style, and color) facilitate the assessment of the quality of a particular good before purchasing it (pre-purchase evaluation). However, the fact that intangible nature of the services prevents evaluation of them before purchasing (Paul, Mittal & Srivastav, 2016). An organization's performances such as better profitability expanded market portion and customer satisfaction can be achieved easily through delivering quality services (Oh & Parks, 1996). Through supplying high-quality services business ventures endeavor to retain their existing customers due to having to spend more to entice new customers to the business (Ghotbabadi, Feiz & Baharun, 2015). Consumers are always select a supplier to fulfill their service needs under maximum satisfaction. The customer measures the quality of service by comparing it with his expectations and the service they receive. Therefore, organizations should pay more attention for establish new tactics that can accomplish client's wishes (Yilmaz, Ari & Gürbüz, 2018). For a product or service to prove to be of high quality, it needs to accomplish customer needs in a timely and efficient manner when compared with other rivals (Yilmaz, Ari & Gürbüz, 2018). SQ is a mismatch between customer's expected service and genuine service that is offered by firms, also it is an assessment of a service that is done by customers (Sagib & Zapan, 2014). SQ can be considered as the provider's source of customer satisfaction. SQ is the level of overall service performance that satisfies the client's anticipation. The gap model is an SQ model developed by Parasuraman et al. (1985) and it highlighted four voids (knowledge gap, design, and standard gap, service performance gap, and communication gap) that can appear in an organization. Customer anticipation of SQ may be influenced by those voids. These gaps interrupt to supply of quality services to the customers. Transaction Cost (TC): The transaction cost theory refers to the cost of a transaction (Priyanath, 2017). Bowen and Jones (1986) point out two major origins of TC as performance ambiguity (hard to judge the performance of one party to the other) and goal incongruence (goal mismatch of the parties who involve in the exchange process). As for performance ambiguity increase during a transaction, various additional costs are incurred such as

the cost for searching information, negotiation, monitoring, and enforcing the agreement. Due to the intangible nature of the services consumers face some difficulties during the service evaluation process and as a consequence both performance ambiguity and TC will arise. Goal mismatch (goal incongruence) can be seen as a barrier to reaching agreements between client parties. Opportunism is fueled by the self-interest act of all parties. Asymmetric information leads to opportunistic behavior in two ways as ex-ante opportunism (disguise of information before the transaction) and ex-post opportunism (occur when hiding information later transaction). So dealing with fake people can be costly compared to genuine people due to spent time and money on avoiding counterfeits of them (Priyanath, 2017). To determine the degree of TC occupied some factors like asset specificity (number of resources needed to accomplish a transaction that can be employed for other alternatives without reducing its value), uncertainty, bounded rationality, and (people have a limited physical ability to accurately assess all possible decision options, even if they intend to make a logical decision) opportunism (Kemp, 2006). If a transaction takes place internally instead of through an open market, the cost is minimal. So, vertical integration can be utilized to enhance the efficiency of a market with high TC (Hobbs, 1996). This avoids the cost of external activities (i.e., agency cost) due to the business is being coordinated internally (Hobbs, 1996). Likewise, TC simplifies several obstacles i.e., strategic effect of information system, allocation of resources, and decision making associated. Customer Satisfaction (CS): In the business world, the consumer is considered as the king and businesses cannot exist without customers who are the foundation of the businesses. Gratified customers have the power to contribute to improving the performance of a business via repeat purchasing, inspiring others to consume, and brand loyalty (Agyapong, 2011). Businesses compete with each other not only in competitive prices but also in the quality of service to improve CS (Jiang & Zhang, 2016). So, CS has become a principal objective of each venture. Also, CS is considered by the firms as an asset to be supervised and controlled. Satisfied customers can boost and dissatisfied customers able to degraded the business firm. The existing attributes of the service can determine the level of CS (Jiang & Zhang, 2016). If the customers do not have any hassle during the purchase, they are satisfied (Paul, Mittal & Srivastav, 2016). Oliver's study (1981) delineated CS as the ruling that a consumer gives to after consuming a product (Hammoud, Bizri & Baba, 2018). As stated by Gilbert et al. (1998) CS is the customer’s reaction give back about the product they have consumed. CS is a good pointer to appraise an organization’s management practices.

4. HYPOTHESES

SQ and TC: “Use the modern technology and equipment to provide services" is an item that is frequently used to measure tangibility, which performs a vital role in SQ dimensions (Kim & Li, 2009). The asymmetric information issue can be solved through new technologies. The clarity of the transaction can be enhanced by avoiding the fraudulent behavior of the economic agents. Consequently, some costs can be reduced such as searching cost, monitoring and enforcement cost. Lower TC inspires the customer to continue transactions from the business (Cheng & Lee, 2011). It is sometimes troublesome to keep records of everything that happens in a service delivery process (i.e., errors in reporting, document misplaced, wastage of time). One of the best ways to avoid these troubles is to use new technology (i.e., website) to store and manipulate information. This will enable us to maintain effective communication with the parties involved and deliver perfect service. Consequently, enhance the efficiency of the organization and makes access to information easier. It saves time and money. So, can be assumed that,

H1: The service quality of CRBs has a negative impact on the transaction cost of the customers of CRBs.

TC and CS: When the exchange takes place the customers always pick out the most advantageous way and are most happy with it (Kim & Li, 2009). Through home delivery services, online payment systems, and effortless purchasing procedures aid to save customers time, money. This gives the customer great satisfaction. So, TC negatively impacts CS (Cheng & Lee, 2011). Consumers repurchase intention is highly affected by the cost of the transaction. One of the reasons a consumer becomes unhappy and switches to another business is when they have to make more effort to obtain information about output, price, etc. (Kim & Li, 2009). Hence, able to develop hypotheses as,

H2: The transaction cost of the customers of CRBs has a negative impact on their satisfaction.

SQ and CS: *“Ability to complete the promised service dependably and accurately”* is a definition for reliability presented by Parasuraman et al. (1985). In order to fulfill the customer needs with reliability, services must be delivered in the right manner and on time as promised (Rao, 2013). As said by Hammoud et al. (2018) reliability is the strongest aspect of SQ that can have a positive influence on CS. Tangible features of service i.e., equipment, machinery, or the man-made physical environment known as services cape (tangibility) (Sureshchandar, Rajendran & Anantharaman, 2002) As stated by Rao (2013) features like physical infrastructure, the appearance of employees (pleasant, attractive, elegant) have a huge impact on CS. Mohammad

and Alhamadani (2011) showed a significant positive but weak impact of tangibility towards CS. Responsiveness is another dimension of SQ and it means the customer's perception of getting help when they needed it (Sagib & Zapan, 2014). The customers highly anticipate the friendliness of the service providers (Virima, 2019). What makes a customer happier is that they received quickly to respond to their needs. According to Virima (2019) responsiveness are one of the factors that can strongly influence CS. Assurance is how a customer deals with a business without any fear and with confidence. Trustworthiness is a compulsory construct of the assurance which assists to greater CS (Rao, 2013). Customers often prefer personalized service. Empathy is concerned as a forceful predictor of CS. Empathy and CS have moderate, but direct association (Sagib & Zapan, 2014). Finally, previous scholars have proved that the SQ made up of the above dimensions has a positive effect on. So, can be assumed that,

H3: The service quality of CRBs has a positive impact on customer satisfaction of the customers of CRBs.

5. METHODOLOGY

This study was handled adopting a quantitative approach. Primary data were employed to test hypotheses. Data was collected from the Kandy district's CRBs customers. This is because as of 2010, the highest number of branches in the Central Province has been operated in the Kandy district (136 branches) (Jayamaha, 2014). Both convenience and snowballing sampling techniques were used to select 130 respondents for the investigation. Of those, 121 questionnaires were used for analysis, and the remaining incomplete questionnaires were removed. Data were gathered using a four-part structured questionnaire (demographic profile, assessment of service quality, assessment of customer satisfaction, evaluation of transaction cost). Questionnaires were developed using previous scholar's questionnaire items adopted by Parasuraman et al. (1985); Krishna Naik, Gantasal and Prabhakar (2010); Shanka (2013). SERVQUAL model which was introduced by Parasuraman et al. (1985) has been applied to measure SQ and it comprised 5 dimensions as reliability, tangibility, responsiveness, assurance and empathy. Accepting the Morawakage (2014) CS was measured utilizing 6 dimensions as attitude, switching, recommendation, expectation, satisfaction and intention to repurchase. TC was assessed using 4 dimensions namely, searching cost, negotiation cost, monitoring cost and enforcement cost. All the 48 questionnaire items were assessed using a 7-point Likert scale that ranging from 1(strongly disagree) to 7 (strongly agree). Employing Partial Least Square - Structural Equation Modeling (PLS-SEM) analyzed gathered data. PLS-SEM facilitates the investigation of the interrelationship among multiple regression, as well as helps to assess the association among more than one item simultaneously. Model

specification, evaluation of the outer model, evaluation of the inner model was the steps that have to be followed when using PLS-SEM to data analysis.

6. RESULTS AND DISCUSSIONS

Outer model evaluation is the first stage that is used in the PLS-SEM procedure to evaluate results. It assists to check the questionnaire item's reliability/validity. For that 4 tests were executed namely, indicator reliability (outer loading and T statistics), internal consistency reliability (composite reliability and Cronbach's Alpha), convergent validity, and discriminant validity.

Table 1: Reliability and validity of variables

Indicators		Loading		T Statistics	Composite Reliability	Cronbach's Alpha	AVE
1	Service Quality						
1.1	Reliability(R)				0.85	0.73	0.65
	Quick resolution of issues	0.84		35.03			
	Right service in the first time	0.82		26.45			
	CRB's service process is flawless	0.75		15.08			
1.2	Tangibility(T)				0.81	0.55	0.68
	pleasant and professional staff	0.86		27.58			
	Availability of materials and equipment	0.79		11.16			
1.3	Responsiveness (RE)				0.88	0.81	0.73
	Quick response to complaints and requests	0.81		20.46			
	Prompt service	0.89		48.58			
	Preference to serve customers	0.85		35.79			
1.4	Assurance(A)				0.91	0.87	0.72
	Availability of well-behaved staff	0.85		34.22			
	Safe and secure	0.89		48.91			
	Polite staff	0.83		23.73			
	Knowledgeable staff	0.81		19.43			
1.5	Empathy(E)				0.87	0.78	0.70
	Individual attention	0.81		21.53			
	Employee's understanding of customer needs	0.88		40.78			

	Effective communication	0.88	40.78			
2	Customer Satisfaction					
2.1	Attitude (AT)			0.97	0.95	0.92
	Happy with the received service	0.97	152.09			
	Customer's positive word of mouth	0.92	83.73			
	Impressed with the received service	0.97	205.27			
2.2	Switching(S)			0.58	0.25	0.71
	Continuous transaction	0.90	76.42			
	Switch to another bank.	-0.70	9.49			
	Satisfied with received service	0.91	85.00			
2.3	Recommendation (RC)			1	1	1
	Recommend to other bank's customers	1	0.00			
	Recommended to new customers	1	0.00			
2.4	Fulfillment of expectation (EX)			0.92	0.88	0.81
	Economical	0.90	62.79			
	Excellent service	0.90	64.01			
	Easiness	0.89	49.63			
2.5	Satisfaction with use (ST)			0.89	0.75	0.80
	Creative and innovative	0.88	38.78			
	Proper service	0.91	83.65			
2.6	Intention to repurchase(I)			0.93	0.85	0.87
	Willingness to get more services	0.92	70.22			
	Willingness to continue the deal	0.93	101.84			
3	Transaction cost					
3.1	01.Searching Cost (SC)			0.91	0.86	0.79
	The time cost of search information	0.86	30.18			
	The financial cost for find new services	0.92	60.97			
	Cost of transportation	0.86	31.69			
3.2	Negotiation Cost (NC)			0.90	0.78	0.82

	Time cost for resolve problem	0.92	82.62			
	Transportation cost to resolve problems	0.88	31.74			
3.3	Monitoring Cost (MC)			0.82	0.68	0.82
	Time and financial cost for documentation activities	0.76	11.73			
	Transportation cost for get certification	0.74	14.22			
	Communication cost for verifications	0.82	33.41			
3.4	Enforcement Cost (EC)			0.90	0.83	0.75
	The financial cost for post-service activities	0.81	21.05			
	Communication cost for solve transaction conflicts	0.90	45.92			
	Transportation cost for post-service activities	0.88	36.47			

Source: Survey data, 2020

Factor loading and t-statistics assist in the test construct's reliability. Represents indicator reliability (IR) in constructs with loading values greater than 0.7. Except for 7 items in this study, all other items fulfilled the IR condition and were statistically significant at a 95% confidence level (see table 1). After that, tested internal consistency reliability (ICR) of constructs using two tests. When Cronbach's Alpha (CA) and composite reliability (CR) values were higher than the minimum standard level of 0.7, it proved the ICR of the constructs. Several constructs have reported lower CR value than the accepted value of 0.7 viz, tangibility (CR=0.5213), switching (CR=-0.2532) and monitoring cost (CR=0.6851). On the other hand, the switching construct's CA value was lesser than the accepted level. However, all other constructs were attained the ICR. The average variance extracted (AVE) was employed to measure the convergent validity (CV) of constructs. To attained CV, AVE should be 0.5 or greater. All the constructs of this study explained over 50% of the variation of their items. After establishing reliability and CV of the constructs, then able to move to evaluate discriminant validity (DV) of constructs was measured after verifying construct's reliability and CV. After measure, the outer model using reliability and validity tests have to shift evaluate the relationships between the independent variable, dependent variable and mediate variable. Followed 5 steps introduced by Sarstedt, Ringle, Smith, Reams, and Hair (2014) to evaluate the structural model (inner model). These steps were measurement of collinearity, assess the significance and relevance of the structural model relationship, assessment of Coefficient of Determination (R^2), assessment of f square (f^2 -effect size) and assess the Predictive Relevance (Q^2). Tolerance and variance inflation factor (VIF) was the measurement utilized to check multicollinearity. Under the structural model evaluation, the second

step was hypothesis testing. Path coefficient and t-statistics were employed for that (see table 2).

Table 2: Path coefficients and significance

Hypotheses	Relationship	Coefficient	T Statistics	Result
H1	SQ -> TC	-0.6072	11.5612**	Supported
H2	TC -> CS	-0.2881	6.321**	Supported
H3	SQ -> CS	0.6789	15.7643**	Supported

**P<0.01 (99% confidential level)

Source: Survey data, 2020

The goodness of fit of the model was explained by using R^2. This fitted model recorded a strong R^2 of the dependent variable (CS) as 0.7817 and it indicates a considerable predictive accuracy level. Further, 0.3687 was the mediate variable's R^2 value. So, the fitted model has explained 78.17 percent and 36.87 percent variation of CS and TC respectively. The strength of the association among variables was expressed by the effect size (f^2). In this study when omitting SQ from the model f^2 between TC and CS noted as 1.3128, it implies a large effect size. On the other hand, after TC omit from the model f^2 appears as 0.221 between SQ and CS. It implies medium size association between SQ and CS. Q^2 states the capability of a model to forecast (Hair, Christian & Sarstedt., 2011). In this model Q^2 of CS is beyond zero ($Q^{2=}$ 0.667). Thus, the model has acceptable predictive accuracy. As shown in table 2 SQ positively influence on CS (β = 0.6789). As well as there is a significant relationship at a 95% confidence level (t- statistic = 15.7644). Consequently, the hypothesis is supported. It implies when the SQ goes up by a unit then the CS of CRB's customers will arise by 0.6789. That relationship has been proved by Siddiqi (2011); Rao (2013); Virima (2019) and Bader M. A. Almohaimmeed (2017). The customer of CRBs is very gratified with the flawless service and the bank's maximum involvement in resolving customer issues. The majority of CRBs staff continue a good relationship with their customers and there are a few workers who do not pay attention to the customer. Another reason for customer satisfaction is the ease of access and the less congestion in the bank. However, sometimes the customer is inconvenienced due to the unavailability of parking facilities in some branches. Due to the relatively low level of application of new technologies to the service delivery process, the attention of the youth community to the CRBs has diminished. Because of young generation prefer to deal with new technologies (i.e., internet banking). In some cases, due to the non-availability of expected services customers switched to another bank and spread a negative image about the CRB. Results of this study revealed that, significant inverse association between SQ and TC of customers (β = -0.6072, t-statistics = 11.5612). That indicated if the SQ increase by a unit consequently customer TC will reduce by 0. 6072. This is a unique outcome of this study that has not been identified in the previous studies. Higher TC appears due to ineffective communication, lower usage of new technologies, inefficient workers, etc.

On the other hand, due to the shortage of alternative sources to find service-related information, have to go to the bank. It generates an extra cost for employed customers as well as businesses owners when they have to visit the bank to obtain information. So, having information sources that are easily accessible (i.e., website, annual report publication) makes it easier for customers. Some plus points of the CRB's service delivery process (i.e., in the 1st time delivered the right service, provide services without delay and having skilled employees) exactly lessen the cost of transport, labor wastage and save the time of customers. Moreover, the negative significant impact of TC on CS (β = -0.2881) were addressed by this study (t-statistic = 6.3211). So, this output agreed with previous studies' outcomes such as Cheng & Lee (2011) and Kim and Li (2009). When taking into account the mediate function of the TC, it plays a significant complementary mediating role in the relationship between SQ and CS (t-statistic=5.25). That means 21% impact of SQ on the CS were absorbed by the TC. every rational customer expects maximum satisfaction at the lowest possible cost. The customers try to maximize their satisfaction and the business firms wish to reach maximum profit. Due to the availability of asymmetric information in the market, have to bear additional costs for all parties to obtain information. Another reason for the increase in TC is the need to obtain various documents (affidavits, Grama Niladari certificates) due to the complexity of certain service processes (loans). Through that customers become dissatisfied and it leads to customers switching to other cost-effective service providers.

7. CONCLUSION

The main purpose of this study was to explore the impact of service quality of CRBs on customer satisfaction and transaction cost. As stated by this study, there was an equally significant positive influence of each SQ dimension on CS. CRBs customer satisfaction or dissatisfaction directly influence by the both negative and positive features of the bank service process. SQ has an inverse effect on the TC of CRBs customers. Existence of certain weaknesses in the process of service delivery, CRBs customers have to bear higher TC. Through this study able to gain a practical understanding of the current state of the service delivery process of CRBs, the expenses bear by the customer to obtain services, and their satisfaction. It may facilitate the bank management to take necessary action for further service quality enhancement and to establish strategies for reducing transaction costs. This study is based on a few numbers of studies that have measured the transaction cost of banks. This study clearly illustrates the impact of service quality on transaction cost, a relationship not found in previous studies. These findings will help to fill the gaps in the literature. Training and educating staff to be customer friendly is a matter of great concern to the bank's management. Because, customers directly deal with the staff and if they treat carelessly, the customer will be dissatisfied at the initial stage of the service process. Some fraudulent behavior (such as concealment of information

required for the transaction, avoidance of payment) of the customer is detrimental to the trust between the bank and customer. Therefore, the bank management should implement various programs to provide proper training and knowledge to the bank staff on how to treat the customer and how to deal with them. There may be people of all walks of life dealing with the CRBs. Among them, there may be knowledgeable customers, as well as customers who are young and with different income levels. Sometimes they prefer to get their services and information easily without the hassle. In order to retain such customers with the bank, the bank must provide the services they expect. Improving strategies such as internet banking, mobile banking is an appropriate strategy for this and it is easy to satisfy each customer by having an appropriate service delivery process.

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