Bank Consolidation and its Effect on Service Quality

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EXTENDED ABSTRACT

The perceived quality of customer service plays a significant role in high involvement products and services (Al Hakim & Maamari, 2017). Previous research in the area of bank service quality suggests that as a bank is acquired the quality of service at the new larger bank does not equal what customers received at their old smaller bank (Broaddus, 1998). Fast-growing, large banks have been seen to lessen their emphasis on the quality of customer service (Allred & Addams, 2000; Alvarez-González & Otero-Neira, 2020; Boraks, 2001; Miles & Rouse, 2011). In addition, a newly consolidated bank may eliminate tailored services and create customer dissatisfaction due to higher fees, lower levels of service, and credit availability (Broaddus, 1998). Although prior research has focused on specific aspects of bank services, a contribution to the literature can be made by examining this topic in the context of broader dimensions of customer service. Therefore the objective of this research is to determine 1) if overall customer service differs between small bank and large bank organizations and 2) if service quality dimensions of tangibles, reliability, responsiveness, assurance, and empathy differ between small and large bank organizations.

The sampling procedure involved obtaining data from commercial bank customers who used the banking services of small community banks and from bank customers who use the services of large national market holding company banks. A total of 700 surveys were sent out and a total of 308 were returned representing an overall 38.5 percent response rate. To test for reliability, each multi-item scale was subjected to reliability analysis and a computed Cronbach alpha coefficient score. All the reliabilities exceed the .70 criterion and were considered reliable. To test for validity the multi-item scales were factor analyzed and yielded one significant factor. Therefore, each of the scales was unidimensional and represented one construct. The measures in this research were based on SERVQUAL (Parasuraman et al., 1986). The SERVQUAL questionnaire included two sections, one for the customer's current bank and one for the customer's prior or old bank. In both sections the questions used included the original 22 perception items represented in the SERVQUAL scale. Specifically, items under each of the 10 dimensions were

reworded from the original SERVQUAL model to make the questions more germane to the banking context. In these questions, respondents were asked to rate and identify the various aspects of customer service at each banking organization.

Hypothesis 1 tested for the level of overall service quality between small and large bank organizations. Hypothesis 2, 3, 4, 5, and 6 test each individual service quality dimension between small and large bank organizations. A paired samples test for hypothesis 1 and an independent samples test was used for hypotheses 2-6. The data were tested in two scenarios for each hypothesis. In scenario 1 a test was performed between customers perceptions of prior experience with large and small banking organizations. In Scenario 2 a test was performed contrasting large and small bank organizations on customers' perception of current bank service quality performance.

The results of Hypothesis 1, Scenario 1 indicate that for overall service quality small bank organizations had higher performance ($t = 14.72$; $P < .05$). The results of Hypothesis 1, Scenario 2 indicate that for overall service quality small bank organizations had higher performance ($t = 6.88$; $P < .05$). The results of Hypothesis 2, Scenario 1 indicate that for tangibles small bank organizations had higher performance ($t = 26.78$; $P < .05$). The results of Hypothesis 2, Scenario 2 indicate that for tangibles small bank organizations had higher performance ($t = 5.05$; $P < .05$). The results of Hypothesis 3, Scenario 1 indicate that for reliability small bank organizations had higher performance ($t = 8.45$; $P < .05$). The results of Hypothesis 3, Scenario 2 indicate that for reliability small bank organizations had higher performance ($t = 5.19$; $P < .05$). The results of Hypothesis 4, Scenario 1 indicate that for responsiveness small bank organizations had higher performance ($t = 8.82$; $P < .05$). The results of Hypothesis 4, Scenario 2 indicate that for responsiveness small bank organizations had higher performance ($t = 4.19$; $P < .05$). The results of Hypothesis 5, Scenario 1 indicate that for assurance small bank organizations had higher performance ($t = 7.81$; $P < .05$). The results of Hypothesis 5, Scenario 2 indicate that for assurance small bank organizations had higher performance ($t = 4.69$; $P < .05$). The results of Hypothesis 6, Scenario 1 indicate that for empathy small bank organizations had higher performance ($t = 18.44$; $P < .05$). The results of Hypothesis 6, Scenario 2 indicate that for empathy small bank organizations had higher performance ($t = 5.38$; $P < .05$).

The study supports the literature regarding the diminution of customer service and service quality in commercial banks and that overall service quality is significantly higher for small bank organizations than for large bank organizations (Isaac, 1993; Moyer, 1999; Boraks, 2001). This finding is very important for managers to consider. In the case of holding company banks, managers must recognize that many of their customers view their service offering as impersonal and considerably different from the customer's recollection of previous bank experiences from small, local banks that were more relational in their orientation. An area for future research would be to replicate this study in a business-to-consumer banking environment. This line of research may be extended to other industries where the issue of service quality between large and small organizations represents a potential problem.

Keywords: *Bank, Consolidation, Customer Service, Service Quality.*

References are available on request.

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