Study on Customer Satisfaction, Customer Loyalty and Banking Service Quality in Indian Banking Sector

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ABSTRACT

The major aim of the research paper is to measure the quality of service offered by private banks operating in India. Apart from that, it tries to investigate the relationship between service quality, customer satisfaction & loyalty. In order to achieve the above mentioned objectives, both primary & secondary sources of data were used. The primary data was collected through self design questionnaire. Correlation & Multiple Regressions were used to investigate the relationship between dependent & independent variable. The research proves that understanding the queries and solving them efficiently plays the most important role in customer satisfaction level followed by tangibility, assurance, & finally the bank reliability. The research findings also indicate offering high quality service increase customer satisfaction, which in turn leads to high level of customer commitment & loyalty.

Key Words: Customer Satisfaction, Customer Loyalty, Service Quality, Private Banking, SERVPERF Model.

Introduction :

The economic liberalization of the financial sector started in early 1990's when India adopted a new economic policy for the development of the nation. It laid the foundation of expansion of private banks in India. These banks were called new generation tech savvy banks and were the result of rapid technological advancement & improved communication systems. This policy has contributed to the increasing integration & resemblance amongst banks in financial sector. As a result banks are now faced with very high & intense competition (Harvey 2010).

Banks operating in India is therefore put into a lot of pressures due to intense rise in competition. Various strategies are formulated to keep the customer happy & Achilles heel is to maintain the service quality level. Service quality can provides high level of customer satisfaction or can become a major source of losing clients, and hence it becomes a key to competitive advantage (Ahmossawi, 2001). In addition, service quality has a significant impact on a bank's success & performance (Mouawad&Kliener 1996). These days, service quality has received much consideration because of its obvious relationship with costs, financial performance, customer satisfaction & customer retention.

A concretegroundwork in defining and measuring service quality was emanated in the mid eighties by Gronroos (1984) andParsuraman et al (1985). They were amongst the earliest scholars who laid down the foundation for the definitions as well as development of service quality.

Defining service quality is difficult as compared to product quality due to some features unique to services including intangibility, inseperabilty,heteroginity and perishability (Chang &Yeh, 2002). In presence of these limitations, Parasuraman came up with a comprehensive way of defining service quality.

Gronroos (1978) suggests that service quality is made of two components- technical quality & functional quality. Technical quality refers to what service provider delivers during the service provision while functional quality is how the service employee provides the service. Parasuraman et al (1988) define service quality as a difference between customer expectation of service & customers' perception of the actual service. Kasper et al (1999) defines service quality as the degree to which the service offered can satisfy the

expectations of user. It can be deciphered that customers can only be the key resource for judging service quality. They evaluate the quality of service by comparing their expectation with perception.

Measuring Service Quality :

For this study SERVPERF Model is used. Many studies have been conducted by adopting this model.

Service Quality & Customer Satisfaction :

Kotler & Armstrong (2012) preach that satisfaction is the post purchase evaluation of products or services taking into consideration the expectations. Researchers are divided over the antecedents of service quality & satisfaction. Whilst some believe service quality leads to satisfaction, others think otherwise (Ting, 2004). The studies of Lee et al. (2000); Gilbert &Veloutsou (2006); Sulieman (2011) &Buttle (1996) suggest service quality leads to customer satisfaction. To achieve a high level of customer satisfaction, most researcher suggests that a high level of service quality should be delivered by the service provider as service quality is normally considered as antecedent of customer satisfaction. As service quality improves, the probability of customer satisfaction increases. Quality was only one of the dimensions on which satisfaction was based; satisfaction was also one potential influence on future quality perceptions (Clemes, 2008).

Service quality is an important tool to measure customer satisfaction (Hazlina et al. 2011). Empirical studies show that the quality of service offered is related to overall satisfaction of the customer. Sulieman (2011) found that reliability, tangibility, responsiveness & assurance have significant & positive relationship with customer satisfaction.

Customer Satisfaction & Loyalty :

Customer Satisfaction is a key factor in formation of customer's desires for future purchase (Mittal & Kamakura, 2001). Furthermore, the satisfied customers will probably talk to others about their good experiences. Although satisfaction has been defined as the difference between expectation & performance, but there are differences between quality & satisfaction. Parasuraman et al. (1991) say that satisfaction is a decision made after experience while quality is not the same.

Many service organizations have developed customer loyalty programs as a part of relations development activities. Customer loyalty is a complicated concept. In service domain, loyalty has been defined in an extensive form as "observed behaviors" (Bloemer et al, 1999).

Objective of the Study :

The research is conducted to address the following objectives:

● Tostudy the relation between customer satisfaction and service quality of bank.

● Tostudy the relation between customer satisfaction and customer loyalty.

● Tostudy the relation between customer loyalty & service quality of bank.

Research Methodology :

The research is conducted in Indore city. In this study both primary and secondary sources of data were used to collect the needed information from the sources. The primary data was collected through administrating questionnaire from customers.

The questionnaire has four sections consisting of 32 questions. The first part of the questionnaire consists of issues related to the personal information of the respondent. It included age, gender, educational qualification & frequency of use of the respondents. The second part was concerned with the questions used to access service quality of the private bank. The questions are based on SERVPERRF Model.

The customer satisfaction on service offered by service quality offered by banks was measured using five-point Likert scale. Customers' loyalty comprised four items adapted from Zeithaml et al. (1996). It comprised

of questions that can be used to measure the passangers' willingness to recommend the service to other people, their future commitment and intention to repurchase. It was also measured using five-point likert scale.

According to Cronin & Taylor (1992), their performance based SERVPERF scale is better method of measuring service quality. To examine reliability of the scale dimensions Cronbach alpha was calculated and was 0.91. Thus it can be concluded that the measures used in this study are valid & reliable.

Table 2. Characteristics of the respondents

	Frequency	**Percentage**
Gender		
Male	59	47.2
Female	66	52.8
TOTAL	125	
Age		
18-30	98	78.4
31-50	21	16.8
51 above	5	4
Educational Background		
Diploma & Below	39	31.2
Undergraduate	35	28
Postgraduate & above	32	25.6
Professional Degree	19	15.2
Frequency of use		
Daily	None	None
Weekly	4	3.2
Monthly	20	16
Other	101	80.8

Results

Demographic Characteristics of the Respondents

The result of table 2 provides the data of all the respondents who answered. It includes variables like age, gender, educational qualifications & frequency of use. The sample includes 125 respondents of private banks. Females make 52.8% of the customers on the other hand male respondents (47.2%) of the whole survey. The largest group of respondents (78.4%) is aged between 18 to 30 years. With regards to educational level ; respondents with diploma and below make 31.2% of customers. Regarding the frequency of use, majority of the respondents are not frequent users (101 & 80.8%); they don't have a specified usage frequency.

Table 3 shows the mean score for the five dimensions of service quality. The highest mean is scored by responsiveness followed by satisfaction &tangibility.

Table 3

Service Quality Dimensions	**Mean Score**	**Standard Deviation**
Satisfaction	4.14	0.358
Tangibility	4.07	0.327
Reliability	3.54	0.514
Responsiveness	4.38	0.324
Assurance	3.63	0.437
Empathy	3.73	0.533

(Source: Own Survey)

Table 4. Correlations results of service quality & customer satisfaction.

Variables	Customer Satisfaction	Tangibility	Reliability	Responsiveness	Assurance
Tangibility	.000				
Reliability	-0.30	.002			
Responsiveness	.101	.096	-.008		
Assurance	.001	.155	-.034	-.067	
Empathy	.094	.103	.002	.184	.006

Table 5. Coefficients results of customer satisfaction and loyalty.

Coefficients[a]			
		Unstandardized Coefficients	
Model		B	Std. Error
1	(Constant)	3.672	.671
	Tangibility	-.018	.101
	Reliability	-.020	.063
	Responsiveness	.097	.103
	Assurance	-.001	.076
	Empathy	.053	.063

Discussion :

While deciphering the service quality, all five dimensions of service quality were used. Among the five dimensions, the banks were found to be superior in providing responsiveness. The banks were also found to be better in other dimensions like empathy & assurance comparatively. The mean score values were highest for responsiveness and lowest for reliability. There are certain areas where bank needs to increase its efficiencies such as reliability & tangibility. The behavior of staff was appreciable in this case and they were skilled as well as trained. The result of the study shows that all service quality dimensions are positively correlated with customer satisfaction indicating responsiveness, assurance & empathy. According to correlation result, empathy & responsiveness are the utmost determinants of customer satisfaction. This indicates that the banks should have empathy & responsiveness for a successful establishment.

The positivesignificant coefficient of customer satisfaction and loyalty clarifies that customer satisfaction may lead to customer loyalty. Also banks need to market themselves properly and aggressively to make a mark in the market.

Conclusion :

The study was conducted to understand the impact does services of bank has on customer satisfaction level. It also judged the effectiveness of satisfaction towards loyalty. The research provides some significant facts and proves that service if provided in a better way with trained employees leads to higher satisfaction levels and can turn the customers into loyal customers.

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