

## **INTER RELATIONSHIP OF SERVICE QUALITY ASPECTS, CUSTOMER SATISFACTION AND CUSTOMER LOYALTY IN BANKING SECTOR OF INDIA: A STUDY OF RETAIL BANKING SECTOR**

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### **ABSTRACT**

Due to increase in globalization and liberalization, the environment of the country become competitive and to survive in this competition, the need of the Indian banking sector is to develop such competitiveness through service quality. Therefore, service quality is an important aspect for banking sector. Now a day's customer retention is very much important because introducing new customer costs banks more as compared to the retaining of old customer . But the customer loyalty is must for retaining them and customer satisfaction leads the customer loyalty. Thus, the present study focuses on finding the relation between service quality aspects & customer satisfaction and secondly customer loyalty and customer satisfaction in the retail banking sector in Delhi. A sample of 100 banking customers was taken and analyses done with the help of SPSS tool.

**KEYWORDS:** Service Quality, Customer Satisfaction, SERVQUAL Model, Customer Loyalty

### **INTRODUCTION**

Due to the Liberalisation and Globalisation, banking sector is also progressing at a very fast pace and due to which problem arises is of competition in the banking industry. It is very difficult for banks to survive in this highly competitive world if they are unable to satisfy their customers.

Now days it is very important for any organisation to retain their customers and for retaining the customers banks need to assure loyalty factor in the customers and for loyalty customer must pass the test of satisfaction. Because service is an intangible concept and therefore, it is very difficult to measure its quality and it is service quality that determines the level of satisfaction of the customers from a particular bank.

For measuring the firm performance Customer satisfaction plays a vital role. The ability to satisfy customers is vital for a number of reasons. The measurement of customer satisfaction in service industries, compared to manufacturing industries, requires special consideration due to difficulties of finding accurate measurement parameters. Of all the service industries, the banking and financial sector has a dominant position and a discussion of customer satisfaction-based performance measurements in the financial sector requires special attention.

The main objective of this research paper is to investigate what quality of service customer expect from their bank and to determine the most important factor contributing to service quality and to study the relation between service quality, customer satisfaction and customer loyalty.

### **REVIEW OF LITERATURE**

Past studies have proved that the longer a customer stays with an organization; more it will be beneficial for the

organization. This is the result of a number of factors that relates to the time the customer spends with the organization. These include cost of introducing new customer, word of mouth, etc.

Other than the benefits that the longevity of customers brings, research findings also suggest that the costs of customer retention activities are less than the costs of bringing or introducing new customers. For example, Rust and Zahorik (1993) argue the financial implications of attracting new customers may be five times as costly as keeping existing customers.

### **Service Quality**

Service Quality means the quality of service delivered by the organization. As it is an intangible concept therefore, it's very difficult to measure. It can be measured by calculating the difference in the expectation of the customer from the service delivered by the organisation and the perception of the customer about the service rendered by the organisation. The model of gap analysis between the expectation and the perception is given by Parasuraman in the SERVQUAL model.

The researches on service quality have been carried out within the framework of widely accepted service quality SERVQUAL instrument. (Parasuraman et. al.(1985, 1988, and1991). Since then, many researchers have used the 22-items scale to study service quality in different sectors of the service industry including financial institutions (Gounaris et. al. 2003; Arasli et. al. 2005). The service quality model was derived from the magnitude and directions of five gaps as follows:

**Gap 1:** Difference between consumer's expectation and management's perceptions of those expectations, i.e. not knowing what consumers expect.

**Gap 2:** Difference between management's perceptions of consumer's expectations and service quality specifications, i.e. improper service-quality standards.

**Gap 3:** Difference between service quality specifications and service actually delivered i.e. the service performance gap.

**Gap 4:** Difference between service delivery and the communications to consumers about service delivery, i.e. whether promises match delivery?

**Gap 5:** Difference between consumer's expectation and perceived service. This gap depends on size and direction of the four gaps associated with the delivery of service quality on the marketer's side.

According to this model, the service quality is a function of perception and expectations.

Gaps 1 to 4 affect the way service is delivered and these four gaps lead to Gap 5. Therefore, the extent of Gap 5 depends on the size and direction of these four gaps (Gap 1, Gap 2, Gap 3 and Gap 4)

### **Dimensions of Service Quality**

The central idea in this model is that service quality is a function of difference scores or gap between expectations and perceptions. The five dimensions of SERVQUAL Includes:

#### **Tangibles**

It includes Physical facilities, Equipments\Appearance of personnel and appearance of Bank

### **Reliability**

Ability to perform the promised service dependably and accurately.

### **Responsiveness**

Willingness to help customers and provide prompt service.

### **Assurance**

Knowledge and courtesy of employees and bank's ability to inspire trust and confidence.

### **Empathy**

It includes caring and individualized attention that the firm provides to its customers.

### **Customer Satisfaction**

In today's competitive world, it is very important for an organisation to satisfy their customer if they want to survive in the market. For which, it is required by the organisation to measure the satisfaction level of the customer where as satisfaction achieved from the particular service is very difficult to measure.

Oliver (1994) has defined the customer satisfaction as the customer's fulfilment response which is an evaluation as well as emotion based response to a service.

Cronin et al.(2000) measured satisfaction from services using attributes like enjoyment, surprise, choice anger and doing the right thing.

### **Customer Loyalty**

However, maintaining high levels of satisfaction will not, by itself, ensure customer loyalty. Banks lose satisfied customers who have moved, retired, or no longer need certain services. As a consequence, retaining customers becomes a priority. Previous research shows, however, that longevity does not automatically leads to profitability (Colgate, Stewart, and Kinsella, 1996).

Reichheld (1996) suggests that unsatisfied customers may choose not to defect, because they do not expect to receive better service elsewhere. Additionally, satisfied customers may look for other providers because they believe they might receive better service elsewhere. However, keeping customers is also dependent on a number of other factors. These include a wider range of product choices, greater convenience, better prices, and enhanced income (Storbacka et al., 1994).

Ioanna (2002) further proposed that product differentiation is impossible in a competitive environment like the banking industry. Banks everywhere are delivering the same products. For instance, there is usually only minimal variation in interest rates charged or the range of products available to customers. Bank prices are fixed and driven by the marketplace. Thus, bank management tends to differentiate their firm from competitors through service quality.

## **RESEARCH METHODOLOGY**

### **Research Objectives**

- To study various dimensions of Service Quality given in SERVQUAL model.
- To study the correlation between Customer Satisfaction and Service Quality.
- To study the correlation between Customer Loyalty and Customer Satisfaction.

### Scope of the Study

Scope of the study is limited to retail banking sector in Delhi region only.

### Data Collection

Data collected through primary source by using a close ended questionnaire including 22 questions based on five dimensions of SERVQUAL model and some questions taken from the scale given by Caruana(2002) for Customer Loyalty.

### Tools Used

Statistical Package for Social Services i.e SPSS used for analyzing the data.

### Sample Size

100 respondents based on convenience sampling method from Delhi Region.

### Hypothesis

**H<sub>0</sub>**: There is no correlation between customer satisfaction and Tangible attributes in a banking sector.

**H<sub>0</sub>**: There is no correlation between customer satisfaction and Reliability in a banking sector.

**H<sub>0</sub>**: There is no correlation between customer satisfaction and Assurance in a banking sector.

**H<sub>0</sub>**: There is no correlation between customer satisfaction and Responsiveness in a banking sector.

**H<sub>0</sub>**: There is no correlation between customer satisfaction and Empathy in a banking sector.

**H<sub>0</sub>**: There is no correlation between customer satisfaction and Customer Loyalty in a banking sector.

[Note: H<sub>0</sub> is Null Hypothesis]

## FIGURES / TABLES AND ANALYSIS

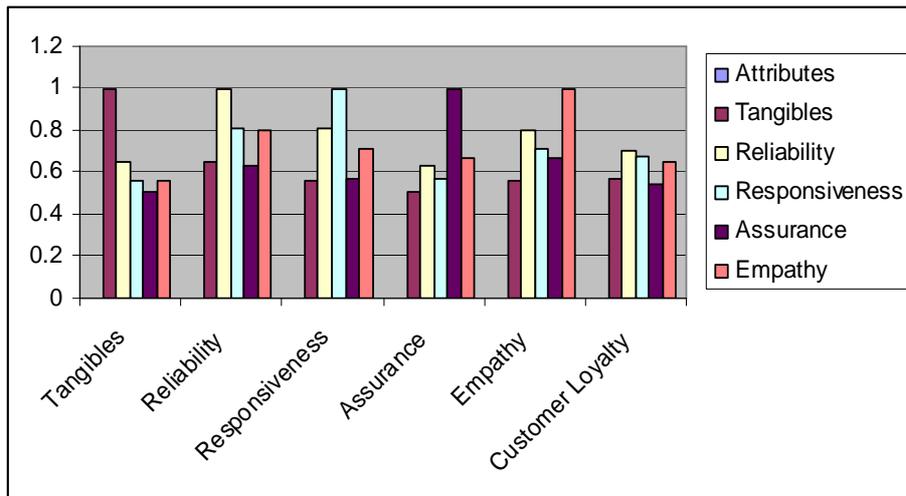
**Table 1: Mean and Standard Deviation of Various Attributes**

Attributes	Mean	Standard Deviation
Tangibles	5.15	0.80
Reliability	5.05	0.79
Responsiveness	4.99	0.98
Assurance	5.20	0.78
Empathy	5.10	0.82
Customer Satisfaction	5.20	1.01
Customer Loyalty	5.14	1.08

As per the above data where mean value ranges from 4.99 to 5.20 and standard deviation range from 0.78 to 1.08 which reflects that the data is widely spread.

**Table 2: Pearson Correlation Analysis**

Attributes	Tangibles	Reliability	Responsiveness	Assurance	Empathy	Customer Loyalty
Tangibles	1	0.648	0.563	0.504	0.558	0.568
Reliability	0.648	1	0.812	0.629	0.801	0.699
Responsiveness	0.563	0.812	1	0.568	0.712	0.673
Assurance	0.504	0.629	0.568	1	0.671	0.540
Empathy	0.558	0.801	0.712	0.671	1	0.649



(p value is 0.000 and the significant level is 0.01 )

**Figure 1: Pearson Correlation Analysis between Various Attributes of Service Quality Given in the SERVQUAL Model**

Above table & figure shows that all the dimensions of Service Quality given by the SERVQUAL model are positively related to the customer loyalty. This means for ensuring customer loyalty, it is necessary for a bank to work on all five dimensions of service quality. But among all five dimensions, reliability is having the highest correlation with the customer loyalty.

**Table: 3 Pearson Correlation Analyses**

Attribute	Tangibles	Reliability	Responsiveness	Assurance	Empathy	Customer Loyalty
Customer Satisfaction	0.497	0.498	0.499	0.548	0.571	0.71

(p value is 0.000 and the significant level is 0.01 )

The Pearson’s correlation analysis obtained for analyzing the data. The sample size (N) is 100.

Above table shows the correlation between customer satisfaction and Tangible dimension of the SERVQUAL is 0.497 and p value is 0.000. So, we have to reject our first Null Hypothesis because as per that customer satisfaction and tangibles are having no correlation.

The correlation between customer satisfaction and Reliability dimension of the SERVQUAL is 0.498 and p value is 0.000 So, we have to reject our second Null Hypothesis because as per that customer satisfaction and Reliability are having no correlation.

The correlation between customer satisfaction and Responsiveness dimension of the SERVQUAL is 0.499 and p value is 0.000. So, we have to reject our third Null Hypothesis because as per that customer satisfaction and Responsiveness are having no correlation.

The correlation between customer satisfaction and Assurance dimension of the SERVQUAL is 0.548 p value is 0.000. So, we have to reject our fourth Null Hypothesis because as per that customer satisfaction and Assurance are having no correlation.

The correlation between customer satisfaction and Empathy dimension of the SERVQUAL is 0.571 p value is 0.000. So, we have to reject our fifth Null Hypothesis because as per that customer satisfaction and Empathy are having no correlation.

The correlation between customer satisfaction and Customer Loyalty is 0.71 p value is 0.000. So, we have to reject our sixth Null Hypothesis because as per that customer satisfaction and Loyalty are having no correlation. But it is showing that they are highly positively related.

## CONCLUSIONS

The hypotheses test confirms that all the service quality attributes are positively correlated with customer satisfaction. Empathy shows the highest positive correlation with customer satisfaction and Assurance demonstrates the second highest positive correlation with customer satisfaction. Tangibility reveals the least positive correlation with customer satisfaction. A large positive relationship between customer satisfaction and customer loyalty was demonstrated in the hypotheses test.

**Table 4: Summary of the Null Hypothesis Test**

Hypothesis 1	Tangibles to Customer Satisfaction	Reject
Hypothesis 2	Reliability to Customer Satisfaction	Reject
Hypothesis 3	Responsiveness to Customer Satisfaction	Reject
Hypothesis 4	Assurance to Customer Satisfaction	Reject
Hypothesis 5	Empathy to Customer Satisfaction	Reject
Hypothesis 6	Customer Satisfaction to Customer Loyalty	Reject

Hypothesis 6 and Table 3 shows that customer satisfaction and loyalty are highly and positively relates with each other.

The applicability of the SERVQUAL measure is well established in the banking industry. Angur et al. (1999) stated that SERVQUAL instruments are the best measure of service quality perceptions in the retail banking industry in developing country. The current study also uses the SERVQUAL instruments to measure the service quality perceptions in the banking sector in Delhi.

This study uses the SERVQUAL model to determine the relative importance of each of the service quality attributes which influence customer overall quality perceptions.

## LIMITATIONS OF STUDY

The current study presented exhibit limitations that should be considered. The limitations are as follows:

The sample size of the current study is 100 respondents. This sample size meets the minimum requirement. The researcher may use a bigger sample size to find out more about service quality, customer satisfaction and customer loyalty in the banking sector in Delhi region.

Other variables may influence customer decision making process in the banking industry, such as price, convenience, interest rates etc. needs to be considered for further research.

This study covers the customers of Retail Banks in Delhi. The Foreign banks are not included in this research.

## RECOMMENDATIONS FOR FUTURE RESEARCH

Several issues associated with the limitations inherent in this study require further research considerations. Future research should concentrate on a bigger sample size and all types of banks [including foreign banks]. In addition, more decision making variables should also be considered in the research.

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