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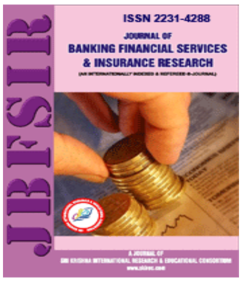

SERVICE QUALITY, CUSTOMER SATISFACTION AND CUSTOMER LOYALTY: A STUDY WITH SPECIAL REFERENCE TO INDIAN BANKING INDUSTRIES

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ABSTRACT

The purpose of the research article is to examine effect of service quality and customer satisfaction on customer loyalty among the group of customers in Indian banking industries. Data has been collected from 298 customers of the Indian banking industries; this study is cross sectional and descriptive in nature. With the help of the result of the study we can say that customer satisfaction is significantly and positively related with customer loyalty customer satisfaction is also to be found important mediator between service quality and customer loyalty. In the last of the study we also have discussed that banking service provider follow right course of action to win customer satisfaction by providing better service quality in order to create loyal customer base.

INTRODUCTION

Quality in the banking industries has become ever more important in improving customer satisfaction in order to create loyal customer base, especially in banking industries agree that customer service is one of the most vital factor that contribute in establishment of reputation and credibility among the people. Now a days service quality play vital role in the growth of service industries (including Banking) we also can say that no industries can survive with out providing better service to their ultimate customer, How ever it is to be say that the measurement of service quality is very difficult because of its unique characteristics. The objective of this research article to measure the customer satisfaction in order to create loyal customer base in Indian banking industries today's many banks subscribe to that fact that highest satisfaction will be lead to greater customer loyalty (Yi, 1991; Anderson and Sullivan, 1993; Boulding et al., 1993) which, in turn, leads to future revenue (Fornell, 1992; Bolton, 1998). For that matter, many organizations (including banks) that resorted to having superior service quality have been found to be market leaders in terms of sales and long-term customer loyalty and retention (Anderson and Sullivan, 1993; Boulding et al., 1993; Eklo¨ f and Westlund, 2002). Examples of such banks include IDBI Bank and ING Vyasa Bank, Standard Chartered bank (Stand Chart), City Bank ,etc

BANKING INDUSTRIES IN INDIA

The growth in the Indian Banking Industry has been more qualitative than quantitative and it is expected to remain the same in the coming years. Based on the projections made in the "India Vision 2020" prepared by the Planning Commission and the Draft 10th Plan, the report forecasts that the pace of expansion in the balance-sheets of banks is likely to decelerate. The total assets of all scheduled commercial banks by end-March 2010 is estimated at Rs 40,90,000 cores. That will comprise about 65 per cent of GDP at current market prices as compared to 67 per cent in 2002-03. Bank assets are expected to grow at an annual composite rate of 13.4 per cent during the rest of the decade as against the growth rate of 16.7 per cent that existed between 1994-95 and 2002-03. It is expected that there will be large additions to the capital base and reserves on the liability side. The Indian Banking Industry can be categorized into non-scheduled banks and scheduled banks. Scheduled banks constitute of commercial banks and co-operative banks. There are about 67,000 branches of Scheduled banks spread across India. As far as the present scenario is concerned the Banking Industry in India is going through a transitional phase. The Public Sector Banks (PSBs), which are the base of the Banking sector in India account for more than 78 per cent of the total banking industry assets. Unfortunately they are burdened with excessive Non Performing assets (NPAs), massive manpower and lack of modern technology. On the other hand the Private Sector Banks are making tremendous progress. They are leaders in Internet banking, mobile banking, phone banking, ATMs. As far as foreign banks are concerned they are likely to succeed in the Indian Banking Industry. In the Indian Banking Industry some of the Private Sector Banks operating are IDBI Bank, ING Vyasa Bank, SBI Commercial and International Bank Ltd, Bank of Rajasthan Ltd. and banks from the Public Sector include Punjab National bank, Vijaya Bank, UCO Bank, Oriental Bank, Allahabad Bank among others. ANZ Grindlays Bank, ABN-AMRO Bank, American Express Bank Ltd, Citibank are some of the foreign banks operating in the Indian Banking Industry.

STATEMENT OF PROBLEM

Extensive work has been done on the customer satisfaction and customer loyalty in the banking industries. Only few studies find out the perception of customer about the quality of service provided by the banking industries in India, it is also to be say that no more studies segregated the banks customer in to sex, age, location, and education, they also don’t looked customer view in the deep and also don’t looked what customer want and he is satisfy with banks present service or not. Today’s customer has many problems in banks service including Indian banks like banks working hour from 10:30 am to 04:00 pm. Besides the banking hours, other issue consumers also are facing in queuing up at some banks. Standing in line for a long time at the banks is non-productive and a sheer waste of time a suggestion box placed at the foyer or entrance of the bank or a well-conducted survey is a good start to learn about consumer needs. For the purpose of this Paper, feedbacks from the survey revealed the reasons that led to customer satisfaction. It was demonstrated that in order to maintain the grip on customer, many banks have now set up suggestion and complaint avenues such as hotlines, 24-hour call services and online services. At a glance, the issues in relative to consumer banking have seen some changes in the past decade, specifically:-

• The economy crisis during the 90s'

• The wake of the bank mergers

• The change in banks' operation hours

• The introduction of the telephone banking

• The rapid growing of the internet banking

• Branch banking:

• Improving Risk Management Systems:

REVIEW LITERATURE

SERVICE QUALITY

The primary objective of the service provider is identical to that of the tangible goods producer, i. e. to develop and provide offerings that satisfy customer needs thereby ensuring their own economic survival. To achieve this objective, service providers will need to understand how customers evaluate the quality of their service offerings, how they choose one organization in preference to another and on what basis they give their long-term patronage. Service quality is one of the most dominant themes of research in services (Fist et al., 1993). During its infancy, service quality research based its foresight on consumer behavior and the confirmation/disconfirmation paradigm. According to this paradigm, as customers consume a product they compare the quality they have experienced to that of their prior expectations (Swan and Comb, 1976), which leads to an emotional reaction manifested in the satisfaction/dissatisfaction with the products or service purchased (woodruff et al., 1983). Thus, instead of using quality concepts from manufacturing, services marketing researchers based their work on developing a service quality concept on models from consumer behavior (Brown et al., 1992). Following extensive research on the so-called perceived service quality model, it had been recognized that customers evaluate service quality by comparing the service provider's actual performance perceptions with what they believe service performance would be 'expectations' in their service experience (Gronroos, 1982; Lehtinen & Lehtinen, 1982; Lewis & Booms, 1983; Lindqvist, 1987; parasuraman et al., 1985; Zeithaml et al., 1988). According to Lewis and Booms (1983), service quality is a measure of the degree to which the service delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis. Extensive study on service quality conducted by researchers Parasuraman, Berry and Zaeithaml have proposed the notion that service quality can be measured (Parasuraman et al., 1988, 1991 b, 1994) using the SERVQUAL instrument and managed using expectations the performance gap model (Zeithaml et al., 1988; Zeithaml & Bitner, 1996). Despite criticisms of the general applicability of the perceived service quality model (SERVQUAL instrument) by Cronin and Taylor (1994), this instrument is a concise multiple-item scale with good reliability (Lewis & Mitchell, 1990) and has been widely accepted as a valid instrument (Carman, 1990; Clark et al., 1992; Finn & Lamb, 1991; Fisk et al., 1993) in the measurement of service quality.

CUSTOMER SATISFACTION

In businesses where the underlying products have become commodity-like, quality of service depends heavily on the quality of its personnel. This is well documented in a study by Leeds (1992), who documented that approximately 40 percent of customers switched banks because of what they considered to be poor service. Leeds further argued that nearly three-quarters of the banking customers mentioned teller courtesy as a prime consideration in choosing a bank. The study also showed that increased use of service quality/sales and professional behaviors (such as formal greetings) improved customer satisfaction and reduced customer attrition. Indeed, customer satisfaction has for many years been perceived as key in determining why customers leave or stay with an organization. Organizations need to know how to keep their customers, even if they appear to be satisfied. 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). Fornell (1992), in his study of Swedish consumers, notes that although customer satisfaction and quality appear to be important for all firms, satisfaction is more important for loyalty in industries such as banks, insurance, mail order, and automobiles. 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 example, 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. Service quality is an imperative element impacting customers' satisfaction level in the banking industry. In banking, quality is a multi-variable concept, which includes differing types of convenience, reliability, services portfolio, and critically, the staff delivering the service.

CUSTOMER LOYALTY

As identified by the researchers that customer loyalty as a construct is comprised of both customers' attitudes and behaviors. Customers' attitudinal component represents notions like: repurchase intention or purchasing additional products or services from the same company, willingness of recommending the company to others, demonstration of such commitment to the company by exhibiting a resistance to switching to another competitor (Cronin & Taylor, 1992; Narayandas, 1996; Prus & Brandt, 1995), and willingness to pay a price premium (Zeithaml, Berry, & Parasuraman, 1996). On the other hand, the behavioral aspect of customer loyalty represents- actual repeat purchase of products or services that includes purchasing more and different products or services from the same company, recommending the company to others, and reflecting a long-term choice probability for the brand (Feick, Lee, & Lee, 2001). It can be concluded that customer loyalty expresses an intended behavior related to the product or service or to the company. Pearson (1996) has defined customer loyalty as the mind set of the customers who hold favorable attitudes toward a company, commit to repurchase the company's product/service, and recommend the product/service to others. The researchers have used the definition of Pearson (1996) for this study.

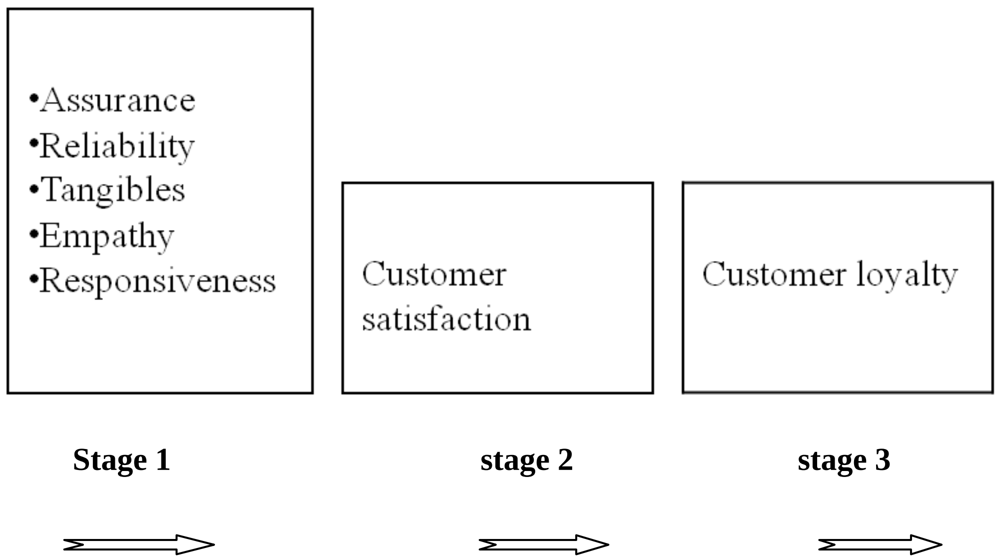
CUSTOMER SATISFACTION IN BANKING

Customer satisfaction and service quality are inter-related. The higher the service quality, the higher is the customer satisfaction. Many agree that in the banking sector, there are no recognized standard scales to measure the perceived quality of a bank service. Thus, competitive advantage through high quality service is an increasingly important weapon to survive. Measuring service quality seems to pose difficulties to service providers because of the unique characteristics of services: intangibility, heterogeneity, inseparability and perish ability (Bateson, 1985). Because of these complexities, various measuring models have been developed for measuring perceptions of service quality (Gro¨nroos, 1983; 1990; Parasuraman et al., 1985; 1988;, 1991; Stafford, 1996; Bahia and Nantel, 2000; Aldlaigan and Buttle, 2002). The SERVQUAL model of Parasuraman et al. (1988) proposes a five-dimensional construct of perceived service quality: tangibles; reliability; responsiveness; assurance; and empathy – with items reflecting both expectations and perceived performance. Service quality has become an important research topic because of its apparent relationship to costs (Crosby, 1979), profitability (Buzzell and Gale, 1987; Rust and Zahorik, 1993; Zahorik and Rust, 1992), customer satisfaction (Bolton and Drew, 1991; Boulding et al., 1993), customer retention (Reichheld and Sasser, 1990), and positive word of mouth. There are many research instruments developed to measure the perceived service quality. Among such general instruments, the most popular being the SERVQUAL model, a well known scale developed by Parasuraman et al. SERVQUAL has been widely acknowledged and applied in various services setting for variety of industries in the past decade. Examples include: health care setting, dental school patient clinic, business school placement centre, tire store, actual care hospital, large retail chains, banking, pest control, dry cleaning, and fast food restaurants (Babakus and Mangold, 1988: Babok and Garg, 1985; Bower el al., 1994; Carman, 1990; Cronin and Tayler, 1992; Teas, 1993). According to Nyeck, Morales, Ladhari, and Pons (2002), the SERVQUAL measuring tool "remains as the most complete attempt to conceptualize and measure service quality" (p. 101). Word has it that it has quite a number of benefits. Incidentally, the SERVQUAL measuring tool's main benefit is its ability that allows researchers to examine numerous service industries such as; healthcare, banking, financial services, and education (Nyeck, Morales, Ladhari, & Pons, 2002). The fact that SERVQUAL has critics does not render the measuring tool moot. Rather, the criticism received concerning SERVQUAL measuring tool may have more to do with how researchers use the tool. Nyeck, Morales, Ladhari, and Pons (2002) reviewed 40 articles that made use of the SERVQUAL measuring tool and discovered "that few Researchers concern themselves with the validation of the measuring tool" (p. 106). Originally, SERVQUAL formulated by Parasuraman et al. (1985) showcased ten various components. Later in 1988, these ten components were collapsed into five different dimensions are as under

- Assurance
- Reliability
- Tangibles
- Empathy
- Responsiveness

RESEARCH FRAMEWORK

Independent variable **mediator's** **dependent variable**



METHODOLOGY

DATA COLLECTION

In order for the research to produce a realistic outcome, the collation of data has to be distributed over a large population. Thus, the survey questionnaires are designed to apply to a heterogeneous population, where targeted respondents come from the general open public (from difference genders, races, age groups, marital status, education backgrounds, designations and professionalisms). Owing to the fact that different levels of the society have different expectations and needs, therefore, the idea of choosing respondents from different backgrounds will most certainly generate a more reliable outcome towards Service Quality by retail banks. While some responded promptly to the survey, others took a little bit time to digest the questions and enquiries. Nonetheless, overall, most of them are very helpful and kind to fill our questionnaire patiently and some even provided their own personal opinions. The survey questionnaires were conducted via face to face interviews plus through other avenues such as; email and fax, so as to ensure that the survey encompasses a broader geographical area.

SAMPLE

Data have been collected from 298 customers of the banking industries in India and the response rate was 86%. The average age of the respondents was 25-35 years. 54 % respondents were male and 46 % were female

DISCUSSION AND FINDING

The Descriptive statistics and the Reliability coefficients of the studied variables are presented in Table I. The reliability coefficient or alphas for the different constructs were computed using the reliability procedure in SPSS (version 12.0). The reliabilities of all the constructs used in this study found to be above the standard set by Nunnally (1978), which is 0.50-0.60.

TABLE1: SUMMARY OF RELIABILITY ANALYSIS

Variable	No. of item	Alpha
Reliability	4	0.73
Responsiveness	3	0.61
Assurance	4	0.65
Empathy	4	0.74
Tangibility	5	0.68
Customer satisfaction	4	0.56
Customer loyalty	5	0.69

TABLE 2: MEAN AND STANDARD DEVIATION

Variable	No. of item	Mean	S D
Reliability	4	4.31	0.47
Responsiveness	3	4.33	0.48
Assurance	4	4.31	0.49
Empathy	4	4.29	0.60
Tangibility	5	4.34	0.46
Customer satisfaction	4	4.36	0.42
Customer loyalty	5	4.55	0.38

Mean scores have been computed by equally weighting the mean scores of all the items. On a five-point scale, the mean scores of customers' perceived service quality of banking industries range from 4.29- 4.55 indicate that customers' perceive that quality of service being offered by the service provider is quite high.. The mean score of customer satisfaction is 4.36 (SD = 0.42) implies that the customers of the banking industries are highly satisfied. The mean score of customer loyalty is 4.55 (SD = 0.38). Apparently it seems that the customers are very loyal to the service provider.

The correlation procedure has been subject to two tailed tests of statistical significance at two different levels- highly significant (p<.01) and significant (p<.05). Correlation Matrix presented in Table III support all hypothesized positive relationships among the studied variables with high statistical significance. The variables significantly (statistically) and positively correlated with reliability were customer satisfaction (r = 0.40, p< .01), and customer loyalty (r = 0.24, p< .01). Responsiveness is found to be significantly and positively correlated with customer satisfaction (r = 0.29, p< .01), and customer loyalty (r = 0.35, p< .01).

TABLE 3: CORRELATION MATRIX FOR SERVICE QUALITY

(Reliability, Responsiveness, Assurance, Empathy, and Tangibility), Customer satisfaction, and Customer loyalty

	REL	**RES**	**ASSU**	**EMP**	**TAN**	**CUS. SAT**	**CUS. LOY**
REL	-	.51**	.46**	.51**	.48**	.40**	.24**
RES			.54**	.64**	.48**	.29**	.35**
ASSU				.64**	.45**	.21**	.19**
EMP					.55**	.23**	.22**
TAN						.32**	.26**
CUS. SAT						.14**	.31**
CUS. LOY							.48**

Assurance has been found to be significantly and positively correlated with customer satisfaction (r = 0.22, p< .01), and customer loyalty (r = 0.20, p< .01). Empathy is found to be significantly and positively correlated with customer satisfaction (r = 0.22, p< .01), and customer loyalty (r = 0.21, p< .01). Tangibility is found to be significantly and positively correlated with customer satisfaction (r = 0.32, p< .01), and customer loyalty (r = 0.24, p< .01). Customer satisfaction has been found to be positively and significantly correlated with customer loyalty ($r = 0.29$, $p < .01$). Customer satisfaction, and customer loyalty are found to be positively and significantly correlated ($r = 0.46$, $p < .01$).

CONCLUSION

In general, that result has supported more of the hypothesized relationship customer satisfaction performs an important mediator's role between service quality and customer loyalty. Hence the management should focus on customer for whom service quality is an important antecedent, because the impact of perceived service quality on preference loyalty to a more favorable disposition towards he service provider and increased commitment to re-patronize. This is absolutely true that customer value is an asset to the organization, hence in order to maintain the customer the organization need to maintain the customer, the organization need to ensure that right product and service supported by the right promotion and making it available at the right time for customer. While quality service and merchandise are essential in today's competitive market, it is equally important that a customer experience the "Wow Effect" that only superior customer service can deliver –a business that caters to their customer need well inevitably gain the loyalty of their custom

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