



Investigating the Service Quality Dimensions to Customer Satisfaction and Loyalty of New Private Sector Banks in Tamilnadu –An Empirical Study

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Abstract

The main objective of this study is to find the interrelationships between service quality Attributes, customer satisfaction and customer loyalty in the retail banking sector in Tamilnadu.. The study sought to identify the most important attributes in bank settings, which may be used to review characteristics of the banks as experienced by customers.

This is an analytical study based mainly on the primary data collected through a scientifically developed questionnaire. The questionnaire have been personally administered on a sample size of 100, chosen on a convenient basis from Three Private banks, ie.ICICI, AXIS and HDFC Bank. The questionnaire has been designed on the basis of the study of previous scholars such as Berry et al., Parasuraman et al., Zeithaml and Bitner, and Stafford. Questionnaire elicited information on socio-demographic variables along with SERVQUAL dimensions of service quality survey was conducted to collect data.

The result shows that all the service quality attributes are positively related to customer satisfaction and customer satisfaction is positively related to customer loyalty in the retail banking settings in Tamilnadu.

Key words: Retail Banking, Service Quality, Customer Satisfaction, Customer Loyalty.



Introduction:

The main aim of this study is to find the interrelationships between service quality, customer satisfaction and customer loyalty in one frame in the retail banking sector in Erode District, Tamilnadu. The interrelationships between service quality, customer satisfaction and customer loyalty may provide creative ideas for improving services in order to gain a competitive advantage in the retail banking sector in Tamilnadu. Service quality is one of the critical success factors that influence the competitiveness of an organization. A bank can differentiate itself from competitors by providing high quality service.

Service quality is one of the most attractive areas for researchers over the last decade in the retail banking sector (Avkiran, 1994; Stafford, 1996; Johnston, 1997; Angur *et al*, 1999; Lasser *et al*, 2000; Bahia and Nantel, 2000; Sureshchandar *et al*, 2002; Gounaris *et al*, 2003; Choudhury, 2008). However, this study will again investigate the factors that enable banks to attract and maintain their customers.

Banks have to improve the service level continuously. There is no guarantee that what is excellent service today is also applicable for tomorrow. To survive in the competitive banking industry, banks have to develop new strategies which will satisfy their customers. That is why service marketing and bank marketing are important areas in the marketing literature.

Customer satisfaction is one of the important outcomes of marketing activity (Oliver, 1980; Surprenant and Churchill, 1982; Spreng *et al*, 1996; Mick and Fournier, 1999). In the competitive banking industry, customer satisfaction is considered as the essence of success. File and Prince (1992) argued that the customers who are satisfied tell others about their experiences and this increases WOM advertising. In this way, banks can increase customers.

Prabhakaran (2003) mentioned that the customer is the king. High customer satisfaction is important in maintaining a loyal customer base. To link the service quality, customer satisfaction and customer loyalty is important. Kumar *et al* (2009) stated that high quality of service will result in high customer satisfaction and increases customer loyalty.

Heskett *et al* (1997) argued that profit and growth are stimulated primarily by customer loyalty and loyalty is a direct result of customer satisfaction. Parasuraman *et al* (1988) and Naeem and Saif (2009) found that customer satisfaction is the outcome of service quality. Caruana (2000) developed a mediational model that links the service quality and service loyalty via customer satisfaction and applied this model in the retail banks in Malta.

Literature Review:

Service Quality Concept:

Fogli (2006, p.4) define service quality as “a global judgement or attitude relating to a particular service; the customer’s overall impression of the relative inferiority or superiority of the organization and its services. Service quality is a cognitive judgement”.



Bahia and Nantel (2000) conducted a research to develop a valid measurement of perceived service quality in the Retail Banking sector in Canada. They argued that the SERVQUAL approach has not except from critics; therefore, they developed a new measurement for perceived service quality in Retail Banking. They proposed a scale that was called Bank Service Quality (BSQ). It comprises 31 items classified across six dimensions as: effectiveness and assurance, access, price, tangibles, range of services offered and accuracy and reliability. They proved that the dimensions of BSQ are more reliable than the dimensions of SERVQUAL.

The applicability of the SERVQUAL measure is well established in the retail banking industry. As mentioned earlier, Angur *et al* (1999) stated that SERVQUAL is the best measure of service quality in the retail banking industry in the developing country.

From the above discussion it can be concluded that SERVQUAL is still suitable as an assessment tool to measure the service quality perceptions in the retail banking industry, whether it is based on difference score, gap score or performance only.

Customer Satisfaction:

Customer Satisfaction is one of the most important outcomes in the marketing literature. It serves to link processes culminating purchase and consumption with post purchase phenomena such as attitude change, repeat purchase, and brand loyalty (Surprenant and Churchill, 1982). This definition is supported by Jamal and Naser (2003) and Mishra (2009).

Devlin (2001) pointed out that “customers perceive very little difference in the services offered by retail banks and any new offering is quickly matched by competitors.” Zaim *et al* (2010) find out that tangibility, reliability and empathy are important factor for customer satisfaction, whereas responsiveness and assurance are important factor, found by Mengi (2009). Kumar *et al.* (2010) and Lai (2004) found that assurance, empathy and tangibles are the important factor, and on the other hand, Baumann *et al.* (2007) found that tangibles are not related to customer satisfaction and Ahmed *et al.* (2010) find out that empathy is negatively related to customer satisfaction.

According to Levesque and McDougall (1996), competitive interest rate is one of the important determinants of customer satisfaction in retail banking sector. They found that a good “employee-customer” relationship can increase the satisfaction level. They pointed out that problem-recovery is important to maintain the customer satisfaction.

However, the results did not confirm that satisfactory problem-recovery can increase satisfaction. At least, it can maintain the satisfaction level. Finally, they concluded that competitiveness and convenience of the banks are the two important determinants of customer satisfaction. Parasuraman *et al* (1988) defined service quality and customer satisfaction as “service quality is a global judgement, or attitude, relating to the superiority of the service, whereas satisfaction is related to a specific transaction”.



Customer Loyalty:

Walsh *et al.* (2005) mentioned that it is better to look after the existing customer before acquiring new customers. Gee *et al.* (2008) stated the advantages of customer loyalty are as:

- The service cost of a loyal customer is less than new customers
- They will pay higher costs for a set of products; and
- For a company, a loyal customer will act as a word-of-mouth marketing agent

Dick and Basu (1994) and Bloemer *et al.* (1998) stated that most research on customer loyalty has focused on brand loyalty; on the other hand, a limited number of researches on customer loyalty have focused on service loyalty. Levesque and McDougall (1996) pointed out that by increasing loyalty, a retail bank:

- a. Decreases its servicing cost (i.e. customers do not open or close their accounts)
- b. Fulfills customers need and gains knowledge of financial affairs
- c. Has an opportunity to cross-sell existing and new products and services.

Zeithaml *et al.* (2008) developed a conceptual model that correlates Service Quality, Customer Satisfaction and Customer Loyalty in one frame. According to the model, service quality is the outcome of reliability, assurance, responsiveness, empathy and tangibles. Customer satisfaction is influenced by the quality of service & product and price as well as the situational and personal factors.

Objectives of the study:

The objectives of the study are as follows:

1. To identify the critical factors of service quality in the retail banking sector in Tamilnadu.
2. To identify the critical factors of customer loyalty in the retail banking
- 3 To identify the interrelationships between service quality, customer Satisfaction and customer loyalty in the retail banking sector and to identify the benefits of this relationships

Interrelationships between service quality, customer satisfaction and customer loyalty in Retail banking sector

Several researchers attempt to find the interrelationships between service quality, customer satisfaction and customer loyalty in the retail banking sector.

Researchers argue that service quality and customer satisfaction are the predictors of customer loyalty (Tariq and Moussaoui, 2009; Han *et al.*, 2008; Ehigie, 2006). Veloutsou *et al.* (2004) found the positive relationship among service quality, customer satisfaction and customer loyalty in the banking sector in Greece.

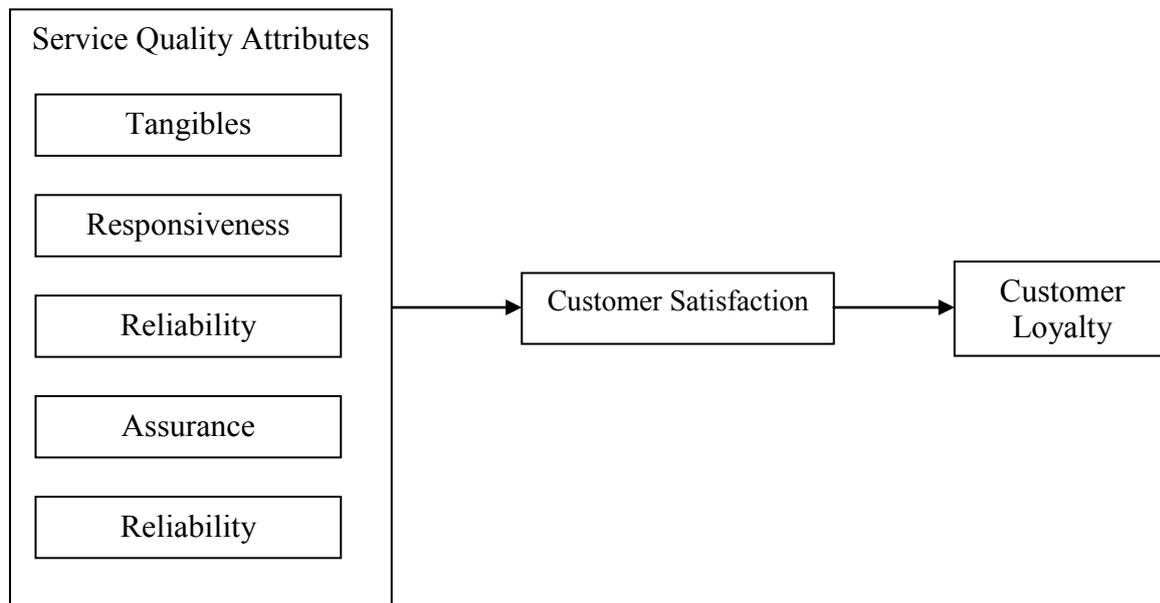
Caruana (2000) proposed a meditational model that links the service quality to the service loyalty via customer satisfaction. This model is supported by Santouridis and Trivellas, 2010; Cheng *et al.*, 2008; Bei and Chiao, 2006; Lewis and Soureli, 2006; Butcher *et al.*, 2001. Caruana (2000) mentioned that service quality, customer satisfaction and service loyalty are related to each other.



From the above discussion it can be concluded that there is a positive relationships between each of the study constructs. Most of the researchers pointed out that there is a positive relation between the service quality attributes and customer satisfaction and customer satisfaction is positively related to customer loyalty. Caruana (2000) found that service quality is positively related to loyalty mediated by customer Satisfaction. This study attempts to test this relationship in the retail banking sector in Tamilnadu.

The Research Model:

A research model is developed to find out the interrelationships between service quality, customer satisfaction and customer loyalty in the retail banking sector in Tamil nadu.. The research model is as follows:



Research Methodology:

Selecting Samples:

The main objective of this research is on the interrelationships among service quality, customer satisfaction and customer loyalty in the retail banking sector in Erode District Tamilnadu. Therefore, the sample for this study was selected from the New Private Sector retail bank customers in Erode District ,TamilNadu. Anderson *et al* (1998) suggested that the sample size of 100-200 is adequate for the structural equation modelling.

Data collection procedures:

Data were gathered from the retail banking customers in Erode District, TamilNadu. A set of questionnaire distributed to retail bank customers in Erode District, TamilNadu. The first part of the questionnaire consists of the general information of the respondent. Service quality attributes were used in the second part, which is the independent variable of this research. The third part of the questionnaire explains the customer satisfaction and this is the independent/dependent variable of this research. The final part consists of customer loyalty and this is the dependent variable of this research. The interviewers explained each part of the questionnaire to the respondents.



Data Analysis and Presentation of Findings:

Demographic Profile:

Based on the 100 sample bank customers, the percentage of male and female Respondents are 77 and 23 respectively, which shows the male dominance of bank customers. In the whole sample, 53% of respondents fell in the age range of 21-30, and 32% fell in the range of 31-40. In terms of qualification, the respondents are almost equal and that is, Undergraduate (31%), Graduate (33%), and Post Graduate (35%). 63% of respondents are service holder and 43% of respondents earn more than Rs.20000 per month.

Study Elements	N	Minimum	Maximum	Mean	Std. Deviation
Customer Satisfaction	100	3	7	5.65	.90
Tangibles	100	2	7	5.60	.77
Reliability	100	3	7	5.57	.82
Responsiveness	100	2	7	5.31	1.03
Assurance	100	3.66	7	5.65	.728
Empathy	100	2.99	7	5.48	.86
Customer Loyalty	100	2	7	5.45	1.02

Table 1

Inference:

Tangibility ranges from 2 to 7 with the Mean of 5.60 and the Standard Deviation of 0.769. Reliability ranges from 3 to 7 and the Mean and Standard Deviation is 5.57 and 0.82 respectively. For Responsiveness, Mean and Standard Deviation is 5.31 and 1.03 respectively with the minimum and maximum value ranges from 2 to 7. Assurance ranges from 3.67 to 7 and the Mean and Standard Deviation is 5.65 and 0.73 respectively.

Empathy ranges from 3 to 7 and the Mean is 5.49 and the Standard Deviation is 0.86. The minimum and maximum value for customer satisfaction is 3 to 7 and the Mean and Standard Deviation is 5.64 and 0.90 respectively. Customer loyalty ranges from 2 to 7 and the Mean and Standard Deviation is 5.44 and 1.02 respectively. It has been observed in the table 3 that almost all the Mean are similar.

High Standard Deviation means that the data are wide spread, which means that customers give variety of opinion and the low standard deviation means that customers express close opinion.



Hypotheses Test:

Pearson Correlation:

A correlation coefficient is a very useful way to summarise the relationship between two variables with a single number that falls between -1 and +1 (Welkowitz *et al.*, 2006). Morgan *et al.* (2004) stated that:

- -1.0 (a perfect negative correlation)
- 0.0 (no correlation)
- +1.0 (a perfect positive correlation)

		CS	Tangibles	Reliability	Responsiveness	Assurance	Empathy	Customer loyalty
Customer Satisfaction	Pearson Correlation Sig. (1-tailed) N	1 ** .000 100	.487 .000 100	.479 .000 100	.492 .000 100	.524 .000 100	.546 .000 100	.672 .000 100
Tangibles	Pearson Correlation Sig. (1-tailed) N	.487 ** .000 100	1 .000 100	.652 .000 100	.559 .000 100	.499 .000 100	.555 .000 100	.562 .000 100
Reliability	Pearson Correlation Sig. (1-tailed) N	.479 .000 100	.623 .000 100	.1 .000 100	.758 .000 100	.625 .000 100	.792 .000 100	.686 .000 100
Responsiveness	Pearson Correlation Sig. (1-tailed) N	.492 ** .000 100	.557 .000 100	.749 .000 100	1 .000 100	.567 .000 100	.706 .000 100	.662 .000 100
Assurance	Pearson Correlation Sig. (1-tailed) N	.524 ** .000 100	.489 .000 100	.639 .000 100	.567 .000 100	1 .000 100	.662 .000 100	.435 .000 100
Empathy	Pearson Correlation Sig. (1-tailed) N	.546 ** .000 100	.554 .000 100	.792 .000 100	.705 .000 100	.662 .000 100	1 .000 100	.652 .000 100
Customer loyalty	Pearson Correlation N	.672 .000 100	.562 .000 100	.679 .000 100	.682 .000 100	.460 .000 100	.644 .000 100	1 .000 100

Table 2

** . Correlation is significant at the 0.01 level (1-tailed).



The Pearson correlation analysis obtained for the three intervals scaled variables in the table above. The sample size (N) is 100 and the significant level is 0.01 ($p < 0.01$).

Hypothesis Testing:

The hypotheses are as follows:

Hypothesis # 1

Tangibles:

H1aa: There is a positive correlation between tangibles and customer satisfaction in the retail banking sector in Tamilnadu.

H1a0: There is no correlation between tangibles and customer satisfaction in the retail banking sector in Tamilnadu.

In the table, it can be seen that the correlation (r) of tangibles is 0.487 and the significant level is 0.01 ($p < 0.01$). The table shows that the p -value is 0.000, which is less than 0.01. We therefore reject the null hypothesis, and concluded that there is a medium positive ($r = .487$) relationship between tangibles and customer satisfaction in the retail banking sector in Tamilnadu.

Reliability

H1ba: There is a positive correlation between reliability and customer satisfaction in the retail banking sector in Tamilnadu

H1b0: There is no correlation between reliability and customer satisfaction in the retail banking sector in Tamilnadu

The table shows that the correlation (r) is 0.479 for reliability and the p -value is 0.000, which is less than the significant level (0.01). Therefore, the null hypothesis is rejected and concluded that reliability and customer satisfaction is positively (medium) related in the retail banking sector in TamilNadu.

Responsiveness

H1ca: There is a positive correlation between responsiveness and customer satisfaction in the retail banking sector in Tamilnadu

H1c0: There is no correlation between responsiveness and customer satisfaction in the retail banking sector in Tamilnadu. It can be observed in the table that the correlation (r) of responsiveness is 0.492 and the p -value is 0.000, which is less than 0.01. Therefore, the null hypothesis is rejected and it can be concluded that responsiveness is positively (medium) related to customer satisfaction in the retail banking sector in Tamil Nadu.

Assurance

H1da: There is a positive correlation between assurance and customer satisfaction in the retail banking sector in Tamilnadu.

H1d0: There is no correlation between assurance and customer satisfaction in the retail banking sector in Tamilnadu.

The table shows that there is a large positive correlation between assurance and customer satisfaction in the retail banking sector in Tamilnadu where $p < 0.01$. ($p = 0.000$) and $r = 0.524$. So, the null hypothesis is rejected.



Empathy

H1ea: There is a positive correlation between empathy and customer satisfaction in the retail banking sector in Tamilnadu

H1e0: There is no correlation between empathy and customer satisfaction in the retail banking sector in Tamilnadu.

According to the table, the strongest predictor of customer satisfaction is empathy.

The result indicates that the correlation (r) of empathy is 0.546 and the p-value is 0.000, which is less than 0.01. Therefore, the null hypothesis is rejected and concluded that there is a large positive correlation between empathy and customer satisfaction in the retail banking sector in Tamilnadu.

Hypothesis # 2

The second hypothesis examined the correlation between customer satisfaction and customer loyalty in the retail banking sector in Tamilnadu.. Most of the researchers found that customer The hypothesis is as follows:

H2aa: There is a positive correlation between customer satisfaction and customer loyalty in the retail banking sector in Tamilnadu.

H2a0: There is no correlation between customer satisfaction and customer loyalty in the retail banking sector in Tamilnadu.

Referring to the table, it can be observed that the correlation (r) of customer satisfaction is 0.672 and p-value is 0.000. Therefore, the null hypothesis is rejected and it can be concluded that customer satisfaction is positively (large) related to customer loyalty in the retail banking sector in Tamilnadu.

Table 4: Summary of the Null Hypotheses Test

Null Hypotheses	Descriptions	Results
H1a	Tangibles to Customer Satisfaction	Reject
H1b	Reliability to Customer Satisfaction	Reject
H1c	Responsiveness to Customer Satisfaction	Reject
H1d	Assurance to Customer Satisfaction	Reject
H1e	Empathy to Customer Satisfaction	Reject
H2a	Customer Satisfaction to Customer Loyalty	Reject



Applications and Discussion of Findings:

The applicability of the SERVQUAL measure is well established in the retail 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 retail banking sector in Tamilnadu. This study uses the SERVQUAL model to determine the relative importance of each of the service quality attributes which influence customer overall quality perceptions.

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.

Limitations:

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

- The sample size of the current study is 100. 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 retail banking settings. Other variables may influence customer decision making process in the retail banking industry, such as price, convenience, interest rates etc.
- This study covers the customers of only Private banks in Tamilnadu. The Government and Foreign banks that have a role in the retail banking industry in Tamilnadu were excluded from this study.

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 retail banks [including Government and foreign banks] in Tamilnadu.. In addition, more decision making variables should also be considered in the research model.

Conclusion:

The main objective of the current study is to find the interrelationships between Service quality, customer satisfaction and customer loyalty in the retail banking sector in Tamilnadu. The study sought to identify the most important attributes in bank settings, which may be used to review characteristics of the banks as experienced by customers. Hypothesis H2aa and H2a0 demonstrate that there is a large positive correlation between customer satisfaction and customer loyalty. That means that as the customers are satisfied, there is a high chance for loyalty.



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