

Perceptual Study of Service Quality and Customer Loyalty from Firms' Perspective in Banking Services

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Abstract

Technology-based self-service has greatly changed the way that service firms and consumers interact, and are raising a host of research and practice issues relating to the delivery of services which have become increasingly important not only in determining the success or failure of banks business, but also in providing consumers with a superior experience with respect to the interactive flow of information. The purpose of this research paper was to establish the relationship between service quality and customer satisfaction and loyalty from employees' perspective in the banking industry in Pune city. The research was carried through random survey design which questioned respondents on banking services. The population of study mainly constituted of employees of banks in Pune city. The respondents of the study were employees of banks providing banking services (internet banking, mobile banking and ATM etc). The sample in this study consists of 100 respondents selected 10 each randomly from 10 service providing private sector banks who are engaged in providing different banking services. The findings of study revealed that, modern managers and employees of private sector banks accord high priority to customer complaint management, customer defection management, giving special care and attention to loyal customers and remain eager to bear short term loss to generate customer satisfaction and loyalty.

Keywords:

Loyalty, Customer satisfaction, Customer retention, Service Quality & Banking Industry.

Introduction

Service quality can be seen as the extent to which a service meets customer's needs and expectations (Lewis and Mitchell, 1990). Service quality can thus be defined as the difference between customer expectations of service and perceived service. If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs (Parasuraman et al., 1985). Service quality has been recognised as having the potential to deliver strategic benefits, such as improved customer

retention rates, whilst also enhancing operational efficiency and profitability (Cronin, 2003; Rust et al., 2001; Zeithaml, 2000). Al-Hawari and Ward (2006) demonstrate that service quality impacts on customer satisfaction which in turn affects the financial performance of banks. Technology also provides customer information that it would be much more expensive to provide on a person-to-person basis. Electronic banking is an umbrella term for the process by which a customer may perform banking transactions electronically without visiting a brick-and-mortar institution. The following terms all refer to one form or another of electronic banking: personal computer (PC) banking, Internet banking, virtual banking, online banking, home banking, remote electronic banking, and phone banking. PC banking and Internet or online banking is the most frequently used designations. It should be noted, however, that the terms used to describe the various types of electronic banking are often used interchangeably (Dirk de Villiers, 2003). Automated Teller Machines (ATMs) are also known as electronic cash machine, it is an electronic machine that enables customers to withdraw paper money or carry out other banking transactions on insertion of an encoded plastic card. Now ATMs are providing a number of services and facilities to the customers.

The banks are offering a whole range of financial service to their customers. These are all kinds of private loans and investments, financial advisory, insurance policies, etc. In contrast to the previous presented service branches, the core service is rather intangible. What banks sell to their customers is mainly expertise concerning financial request, such as the customer's wish to loan or to invest money. This indicates that the bank business is highly people based, even though technical equipment supports bank employees in the efficient performance of their work. As the all banks offer more or less the similar core products, it is especially true for the bank business that the competitive edge can be seen in the provision of secondary and delighting services.

Literature Review

Service quality is the level of service that is delivered by the operation (Sasser *et al.*, 1978) Service quality is concerned with the ability of a company to meet or exceed customer expectations. The measure of performance is perceived service quality. As stated by various authors (Ballantayne *et al.* 1996; Berry, 1986; Collier, 1994; Schneider and Bowen, 1995): it is easier - and much cheaper - to keep existing customers than to get new ones. Additionally, another benefit from achieving satisfied customers is the fact that the willingness to repurchase is much higher for satisfied customers than for dissatisfied and indifferent ones. According to Parasuraman *et al.* (1995), the larger the gap between a company's and customer's perception concerning both service product and service delivery the smaller the

probability of satisfying the customers. This indicates that service providing companies and to have a more profound understanding on their crucial question an investigation of the relationship between service provision and customer satisfaction appears therefore of interest.

Objectives

However, it has been chosen to conduct our research from the firm's perspective in order to gain insights into how managers in banking services evaluate their own perception of services, and their orientation towards customers' needs.

1. To study the relation between service performance and customer satisfaction.
2. To study the relation between complaints handling mechanism and customer satisfaction.

Research Methodology

Research Design: Focus of the empirical study is to investigate elements affecting customer satisfaction in practice. This problem forced researcher to limit our analysis geographically to the area of Pune city and to limit the size of the research sample.

Sampling units: Researcher selected ten private sector banks located in the city of Pune viz. ICICI Bank, HDFC Bank, Axis Bank, Ingvesya Bank, Kotak Mhindra Bank, Yes Bank, City union Bank, IndusInd Bank, The Karur Vysya Bank, The Federal Bank and Dhan Laxmi Bank. From each bank 10 service providing employees are selected randomly.

Sample Size: 100.

Sampling Technique: Simple random sample.

Data Collection: The study is primarily based on collection of primary data, although some secondary data have also been used wherever felt necessary.

For collection of primary data a questionnaire based on Likert scale ranging from 1-5 (1 being strong disagreement, 2, disagreement, 3 neutrality 4, agreement and 5 being strong agreement) was developed. The questionnaire so developed was served on the respondents and researcher himself and with the help of surveyors got filled in the questionnaire from each and every respondent.

Duration of study: The study was conducted between April to June 2014.

Scope of the study-

This research deals with banking services providing companies. The focus kept solely on private banks' services operating in Pune city. Ten banks which operate in Pune city (Both in PMC and PCMC area) have been selected for the purpose of study.

Research Hypotheses:

The research study is based on following two premises-

$H_{1,0}$: There exists no relationship between complaint management and developing customer loyalty and satisfaction.

$H_{1,1}$: There exists a positive relationship between complaint management and developing customer loyalty and satisfaction.

$H_{2,0}$: There exists no relationship between customer care and loyalty.

$H_{2,1}$: There exists a direct and positive relationship between customer care and loyalty.

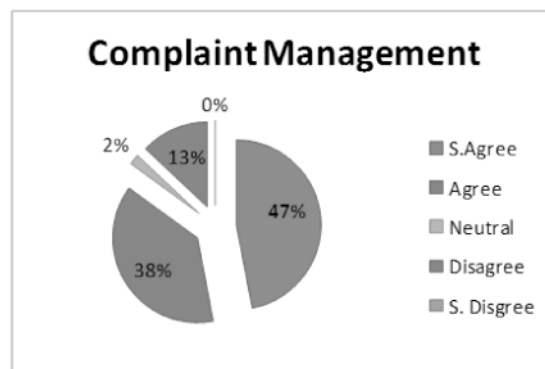
Selection of Parameters

To conduct this research study and to examine the relationship between service quality and customer loyalty from banks' perspective in Pune city, researcher selected four parameters namely complaint management, customer defection registration, customer loyalty and profitability, and Willingness to accept short-term loss to retain loyal customers.

Analysis and Interpretation of Data:

It is of interest to investigate the situation where customers are dissatisfied with the delivered service quality. Two issues appear thereby of interest. First, how private banks' handle the complaints from dissatisfied customers. Secondly, in cases where the customer does not complain, the objective was to find out whether the private banks have developed procedures for registering customer defections. In addition to this, as it has been argued in the theoretical foundation that loyal customers are profit generators for service companies it is, therefore, of interest to investigate the attitude of private banks' towards loyal customers. Hereby assessing their awareness concerning the importance of having loyal customer for a long-term profitability is in focus, which will provide the opportunity to identify the preferred marketing strategy of a particular service branch.

1. Complaint Management: Complaint management assumes greater significance in developing customer loyalty and generating customer satisfaction and therefore, respondents were asked "whether complaint management develops customer loyalty and generates customer satisfaction. The responses received have been shown in Figure 1.1 below.



Analysis of responses received reveal that 85 percent respondents are of the opinion that complaint management helps in developing customer loyalty and generation of customer satisfaction, whereas only 13 percent respondents held opinion otherwise. Respondents expressed that they use complaints received in two ways. First as a direct reaction to a service failure, and thus making efforts to turn one specific dissatisfied customer into a satisfied one. Secondly, the complaints are seen as sources of inspiration and are used to constantly enhance future service deliveries.

Validation of Hypothesis#1: This query supports the hypothesis#1. As per the responses received, the computed value of χ^2 is 91.3 which much greater than Table value of

$\chi^2_{0.5,4}$ 9.4888, hence **Null hypothesis is rejected and alternate hypothesis i.e. "there exists a positive relationship between complaint management and developing customer loyalty and satisfaction, is accepted.**

2. Customer Defection Registrations: Retaining customers for long term and on sustainable basis is crucial for survival and success of banking business. Therefore, respondents were asked "In your opinion customer defection mechanism is essential for banking business". The responses received have been presented with the help of Figure 1.2 below-

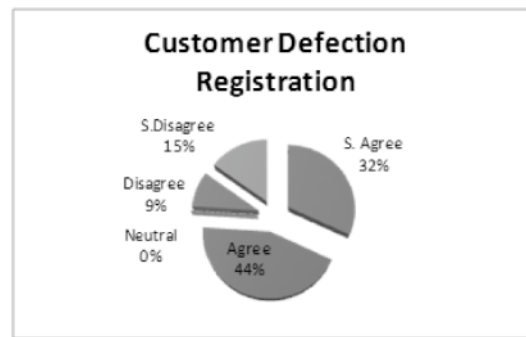


Figure 1.2: Customer Defection Registration

The study indicates that more than $3/4^{\text{th}}$ (76 per cent) acknowledged that customer defection mechanism is essential for banks whereas remaining respondents expressed their opinion otherwise. In cases where the customer does not complain, it is assumed that a dissatisfied customer informs other people about his bad service experience, which can have a negative impact on the reputation of the service banks, and thus on potential customers.

Respondents who do not have any mechanism for customer defection registration are suggested that they develop a database of their customers comprising name, address, personal registration number and other personal information

of their customers. These customer databases provide the banks with the opportunity to monitor the purchase frequency of specific customers. Thus, the defecting customers can easily be detected. Moreover, it enables the banks to contact the customers, and to find out the reason behind the potential dissatisfaction.

3. Special attention and care to loyal customers: As it is evident that customer loyalty and profitability have direct and positive relationship, respondents were asked “Do you agree that you pay special attention and care to loyal customers to enhance profitability”? Responses received on this query have been depicted through a pie chart in Figure 1.3 below-

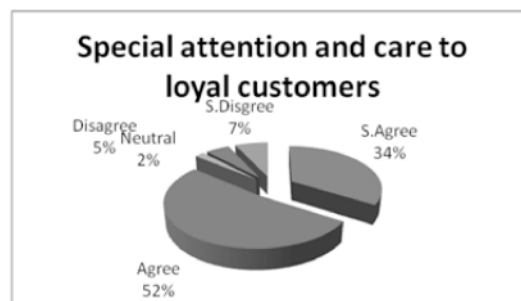


Figure 1.3.: Special attention and care to loyal customers

The purpose of this section is to examine the service managers' interest in long term relationships to their customers. This is viewed as a prerequisite for satisfying customers. An overwhelming 86 percent of respondents acknowledged that they pay special attention and care to their loyal customers. This indicates that a large percentage of the responding banks seem to have understood the importance of customers' repeat business for their long-term success. Thus, it is clear that these banks prefer a relationship oriented marketing.

Validation of Hypothesis#2. This query supports the hypothesis#2. As per the responses received, the computed value χ^2 is 96.9 which much greater than Table value of χ^2

^{0.5,4} hence **Null hypothesis is rejected and alternate hypothesis i.e. There exists a direct and positive relationship between customer care and loyalty is accepted.**

4. Willingness to Accept Short-term Loss: Some times banks have to incur short time losses to provide good services to customers and to retain them, develop customer loyalty and customer satisfaction. Therefore, researcher asked the respondents “Are you willing to incur short term loss”? The responses received have been depicted in the following figure 1.4

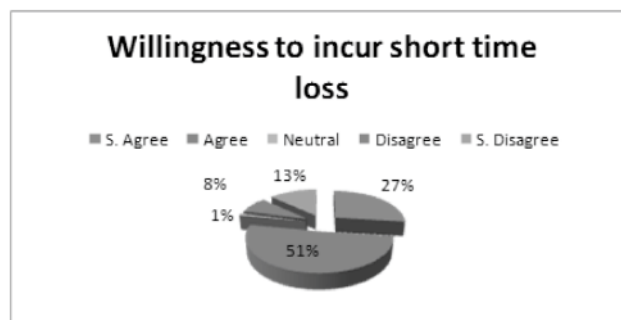


Figure 1.4.: Willingness to bear loss

The findings of study reveals that 78 percent of all respondents are willing to accept short-term losses when serving their customers. These numbers indicate that these executives view serving customers as a long-term investment, and are less focused on making short-term profits which correspond to a more transaction based marketing orientation.

Conclusion and Recommendations

A prerequisite for effective service quality is that the service provider gets feedback from the customer about the reason behind his dissatisfaction. In order to get such feedback it is necessary for these banks to evolve an effective complaint handling procedures which motivates the customers to complain. In cases where dissatisfied customers defect without complaining, the bank need to implement mechanisms which monitor customer defection. These mechanisms enable the banks to detect the reasons behind defection, and thereby provide them with the opportunity to discover potential service failures.

The empirical survey shows that the vast majority of the service managers treat customer complaints seriously. Moreover, the research reveals a clear tendency to register customer defections in banks. Due to the close interaction between banks and their customers, these service managers have access to information about their customers. The general reason behind the companies intense focus on customer satisfaction is that customer satisfaction leads to customer retention. It has been denoted that loyal customers provide the largest revenue to the banks, as the costs of serving regular customers are lower than the ones of attracting and serving new customers. The long term relationship between the service provider and their customers is considered in the concept of relationship marketing, which focuses on customer keeping instead of customer catching.

The empirical research discloses that banks have a tendency to emphasize building of long term relationships to their customers, hence, it is concluded that banks tend to pursue relationship marketing. This conclusion culminates in the

overall impression that bank managers puts a lot of efforts in stimulating customers to repeat their service purchase, by serving them with special care and attention.

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