IMPLICATIONS OF SERVICE QUALITY ON CUSTOMER SATISFACTION, LOYALTY AND PERFORMANCE OF SELECTED BANKS

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ABSTRACT

The banking sector in India has undergone changes in terms of uncertain market, modern technology, economic uncertainties and demanding customer services which has resulted in fierce competition. In the present context customer satisfaction is considered as the essence of success in today's highly competitive world. Higher level of satisfaction helps in increasing customer loyalty, repurchase process, awareness of the people about the firm, decrease the price flexibility, the cost of gaining new customers and prevent the customers being affected from competitive enterprise. The success of the service providers depends on how well they understand customer's behavioural intentions. This can be achieved by improving service quality and thereby gain loyal customers and improve their performance. To achieve the objectives of the paper Kruskal Wallis test, one way Anova and structural equation model was used to test the relationship between the constructs. The findings of the study revealed that there was a significant difference in the expectation and perception level of the customers on various dimensions of service quality across various categories of banks. The private sector banks have the least gap and were in a better position to satisfy their customers followed by multi state coop banks and finally public sector banks. Further it was also observed that there is a significant association between service quality and customer satisfaction, between service quality and customer loyalty across, but no significant relationship was observed in case of performance in all categories of banks under study.

KEYWORDS: Service quality, customer satisfaction, customer loyalty, performance and Structural equation model.

Introduction

The banking industry in India have witnessed drastic changes since post independence era like the banking sector reforms, financial sector liberalization and opening up of the economy which has lead to stiff competition. Further commercial banks have been trying their level best to satisfy their customers by ensuring quality service. Customers of banks are not satisfied on account of poor quality services, increased level of awareness of customers, betterment in the field of IT infrastructure and wide range of options open to them which has raised their expectation and needs, thus the banks today in order to maintain their market share are compelled to cope up with the emerging changes. In the present situation bankers in order to sustain the growth and increase the market share have to try their level best to satisfy their customers'. In today's E-commerce economy, where innovation is likely to offer various advantages to the customers, thus the bankers have to realise that by satisfing the customers is the only way to survive in the business and sustain competition. The present study assesses the status of customers' satisfaction with respect to various dimensions of service quality in selected public, private and cooperative banks and analyse its impact on loyalty and performance of the banks across various sectors.

Literature review

Some of the researchers believe that service quality can increase the performance of a firm since it plays an important role in increasing profit, market share, development of good image, and to provide competitive advantage. The following is the literature which studies the impact of service quality on customer satisfaction and customer loyalty which in turn influences profitability.

Leeds (1992) in his study stated that an increase in service quality and professional behaviour resulted in greater customer satisfaction, reduced customer erosion and helped in increasing the performance of the business.

Duncan and Elliot (2002) in their paper found that there is a significant relationship between service quality and financial performance.

Mukherjee et al. (2003) found a relationship between resources, service quality and performance of banks.

Ghannadian and Goswami, (2004) in their study it was recommended that profit and loss sharing option is very attractive for the bank, as it helps the bank to reduce risk and monitor costs.

Al- Hawari and Ward (2006) in their found that customer satisfaction plays an inter mediator role in the relationship between service quality and financial performance of the banks in Australia. Akroush (2008) in his study concluded that quality implementation initiatives mediate the relationship between service quality and bank performance.

Chi and Gursoy (2009) have stated that a satisfied customer turns into a loyal one and a loyal customer, in time, will lead to higher sales and therefore higher financial returns for the company.

Objectives of the Study

The objectives of the research are as follows:

1) To know the expectation and perception level of the customers across various categories of banks pertaining to quality of service.

2) To analyse the satisfaction levels of customers and identify the determining dimensions of service quality.

3) To analyse the relationship between customer satisfaction, loyalty and performance of the banks under study.

Research Methodology

Primary Data-The primary data is collected with help of a predesigned questionnaire based on servqual model of expectation and perception level of customers pertaining to the banks under study.

Secondary data-The secondary data was collected from the financial statements pertaining to banks under study from F.Y 2007-08 to F.Y 2016-17 i.e. for a period of ten years.

Sample size
A total of 618 respondents have been interviewed with the help of pre-designed questionnaire to the customers of selected banks from public, private and cooperative banks under study.

Period of study
The period for collecting primary data from bank customers i.e. from March 2018 to June 2018 and secondary data pertaining to banks under study is collected for a period of ten years from F.Y 2007-08 to F.Y 2016-17.
<u>**Collection of data:-**</u>

Table 1→ No. of Bank customers

Public Sector Banks	Private Sector Banks	Cooperative Sector Banks	Total
208	210	200	**618**

(Source- Primary data)

Analysis and discussion

Table 2→ Cronbach's Alpha

To check the reliability of data collected for the study pertaining to service quality Cronbach's alpha is used.

Reliability Statistics

Dimensions of service quality	Cronbach's Alpha	No. of Items
Bank Infrastructure	.743	15
Employee assurance	.851	09
Employee empathy	.794	11

(Source: Primary data)

The results of the reliability test on the data collected is analysed with help of Cronbach's alpha which is above 0.7 which indicates that the data is reliable for carrying out the study.

H1- There is no significant difference in the expectation and perception level of services delivered to customers pertaining to public, private and multi state cooperative banks.

Table 3→ Expectation and perception level of customers

Domain	Group	N	Mean	SD	Mean Rank	Kruskal-Wallis Test
Expectations(E)	Public	208	150.4	13.89	404.63	Chi.Sq(2)=27.306, p = .000
	Private	210	152.7	13.6	448.49	
	Co-op	200	156.5	11.93	522.1	
	Total	618	152.4	13.59		
Perceptions(P)	Public	208	111.0	27.48	376.93	Chi.Sq(2)=89.314, p = .000
	Private	210	126.8	19.14	559	
	Co-op	200	116.5	20.16	412.33	
	Total	618	117.3	24.5		
Service Quality Gap	Public	208	39.33	32.18	475.45	Chi.Sq(2)=60.272, p = .000
	Private	**210**	**25.94**	**19.40**	**351.1**	
	Co-op	200	40.04	23.46	518.58	
	Total	618	35.10	27.50		

(Source: Primary data)

From the above table the service expectation and perception level of customers, it is clearly observed that there is significant difference in the expectation and perception level of the customers pertaining to banks under study since the p value is significant at 0.05, thus we reject the null hypothesis. Further from the above table it is clearly observed that service gap exists in all sectors of banks under study on account of higher expectations of the customers which the bankers cannot meet on account of actual experience of the customers with their respective banks. Further it is observed lowest service gap exists in case of private sector banks on account of superior service quality followed by public sector banks and finally cooperative banks.

H2- There is no significant difference in the dimensions of service quality across public, private and multi state cooperative banks.

Table 4→ Dimensions of service quality(Bank infrastructure)

Domain	Group	N	Mean	Std. Dev	Mean Rank	Kruskal-Wallis Test
Bank Infrastructure(E)	Public	208	64.58	6.31	407.01	chi.sq(2)=22.826, p = .000
	Private	210	65.51	5.75	450.5	
	Co-op	200	66.85	5.3	513.88	
	Total	618	65.37	5.99		
Bank Infrastructure(P)	Public	208	48.55	11.68	378.31	chi.sq(2)=80.69, p = .000
	Private	210	55.11	8.2	552.49	
	Co-op	200	50.92	8.69	419.33	
	Total	618	51.2	10.44		
Bank Infrastructure (Gap)	Public	208	16.03	13.76	476.4	chi.sq(2)=57.299, p = .000
	Private	**210**	**10.39**	**7.953**	**352.9**	
	Co-op	200	15.93	9.727	513.85	
	Total	618	14.16	11.60		

(Source: Primary data)

Table 5→ Expectation and perception level of customers(Employee assurance)

Domain	Group	N	Mean	Std. Dev	Mean Rank	Kruskal-Wallis Test
Employee Assurance (E)	Public	208	47.29	4.7	404.75	chi.sq(2)=24.813, p = .000
	Private	210	48.15	4.56	452.5	
	Co-op	200	49.29	3.93	515.69	
	Total	618	48	4.56		
Employee assurance (P)	Public	208	34.05	9.17	382.01	chi.sq(2)=80.561,p = .000
	Private	210	39.26	6.66	553.63	
	Co-op	200	35.68	6.95	409.6	
	Total	618	36.1	8.28		
Employee assurance (Gap)	Public	208	13.233	10.873	473.64	chi.sq(2)=50.451, p = .000
	Private	**210**	**8.893**	**7.061**	**358.78**	
	Co-op	200	13.61	8.131	510.78	
	Total	618	11.89	9.434		

(Source: Primary data)

Table 6→ Expectation and perception level of customers (Employee empathy)

Domain	Group	N	Mean	SD	Mean Rank	Kruskal-Wallis Test
Employee empathy(E)	Public	208	38.53	4.09	403.3	chi.sq(2)=30.597, p = .000
	Private	210	39.12	4.21	446.7	
	Co-op	200	40.44	3.47	527.5	
	Total	618	39.13	4.07		
Employee empathy(P)	Public	208	28.46	7.36	383.4	chi.sq(2)=70.485,p = .000
	Private	210	32.46	5.08	545.6	
	Co-op	200	29.94	5.64	418.6	
	Total	618	30.08	6.57		
Employee empathy (Gap)	Public	208	10.06	8.59	473.2	chi.sq(2)=51.372, p = .000
	Private	**210**	**6.659**	**5.51**	**358.2**	
	Co-op	200	10.50	6.65	512.4	
	Total	618	9.046	7.48		

(Source: Primary data)

From the above table it is observed that there is significant difference within the dimensions of service quality pertaining to the banks under study thus we reject the null hypothesis since the p value of all dimensions across different categories of banks is less than 0.05. Further it is observed that the gaps in the service quality dimensions pertaining to infrastructure, assurance and empathy is least among private sector banks on account better services rendered to their clients followed by public sector banks and lastly cooperative banks.

H3- There is no significant relationship between dimensions of service quality and customer satisfaction pertaining to public, private and multi state cooperative banks.

Table 7→ One way Anova in case of Public sector banks

Dependent Variable	Dimensions	B	SE	T stat	sig	ANOVA	Adj. R sqr
Satisfaction	(Constant)	1.298	.202	6.434	.000	F(3,404) =33.510, p = .000	0.193
	Bank Infrastructure	-.025	.011	-2.150	.032		
	Employee assurance	.059	.015	3.899	.000		
	Employee empathy	.027	.020	1.344	.180		

(Source: Primary data)

Table 8→ One way Anova in case of Private sector banks

Dependent Variable	Dimensions	B	SE	T stat	sig	ANOVA	Adj. R sqr
Satisfaction	(Constant)	2.800	.263	10.649	.000	F(3,286)= 9.633, p = .000	0.082
	Bank Infrastructure	.029	.011	2.714	.007		
	Employee assurance	.005	.014	.367	.714		
	Employee empathy	-.014	.020	-.706	.481		

(Source: Primary data)

Table 9→ One way Anova in case of Cooperative sector banks

Dependent Variable	Dimensions	B	SE	T stat	sig	ANOVA	Adj. R sqr
Satisfaction	(Constant)	1.457	.321	4.544	.000	F(3,185)= 15.207, p = .000	0.185
	Bank Infrastructure	.036	.012	3.007	.003		
	Employee assurance	-.038	.017	-2.181	.030		
	Employee empathy	.050	.023	2.118	.035		

(Source: Primary data)

From the above table pertaining to service quality and customer satisfaction pertaining to banks it is observed that there is significant difference in the dimensions of service quality and customer satisfaction in all categories of banks, thus we reject the null hypothesis since p value is less than 0.05. Further it is observed that in case of public sector banks dimensions of bank infrastructure and employee assurance were having significant relationship with the satisfaction of the customers since the p-value was <0.05, in case of private sector banks infrastructure dimension was significant in the satisfaction level of the customers since the p-value was significant at 5% level of significance and in case of cooperative sector banks all factors were significant in determining the satisfaction level of the customers since all the dimensions were <0.05 level of confidence.

H4- There is no significant association between customer satisfaction, customer loyalty and performance pertaining to public, private and multi state cooperative banks.

Fig no. 8→ Structural Equation Model
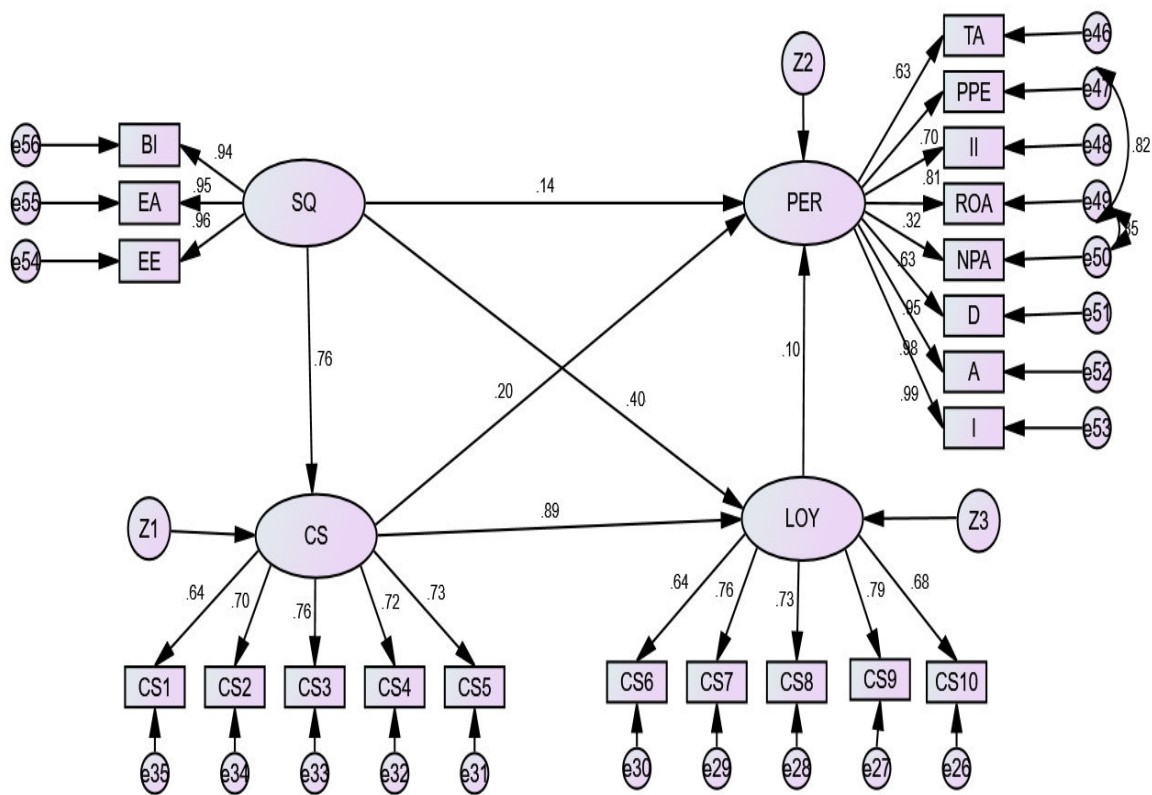
Source: Amos output

Where SQ→ service quality, CS→customer satisfaction, Loy→customer loyalty and Per→ financial performance of banks

Table 9→Model Fit indices:

Indexes	χ^2 (df)	GFI	CFI	NFI	RMSEA
Accepted values	<5	>.95	>.95	>.95	>0.08
Model fit scores	707.81, p = .000 (181)	0.854	0.618	.879	0.114

(Source: Amos output)

The above table represents some indicators of test of relative fit of the model. The goodness of fit index (GFI) is at 0.854, and the comparative fit index (CFI) is 0.618 for the selected banks. The root mean square error of approximation (RMSEA) has a value of 0.114. The values are close to fit indices and therefore the model shows acceptable fit.

Table 10→Regression paths

Regression paths			B	Std est	T-value	P value	Accept/ Reject
Customer Satisfaction	<---	Service Quality	.085	.004	21.278	***	Reject
Customer loyalty	<---	Customer Satisfaction	.835	.059	14.242	***	Reject
Customer loyalty	<---	Service Quality	.040	.050	8.00	***	Reject
Performance	<---	Customer loyalty	.040	.055	.725	.469	Accept
Performance	<---	Customer Satisfaction	.072	.057	1.254	.210	Accept
Performance	<---	Service Quality	.006	.002	2.348	.019	Reject

(Source: Amos output)

*** Significant at 5% level

From the above table it is observed that service quality of the banks influences the satisfaction level of the customer (β=.085, SE=.004) and is being found significant, since p < .01, further customer's satisfaction also influences customer's loyalty (β=.835, SE=.059), since the p value is found significant p < .01 and service quality also influences customer's loyalty of the banks (β=.40, SE=.050) since p value is significantly, p < .01. Service quality influences performance of the banks (β=.006, SE=.002) since p value is significantly, p < .05. Whereas, loyalty and customers satisfaction of the banks do not influence performance of the bank since p value is not significant, p >.05

Conclusion

From the study it can be concluded that there is significant difference in the expectation and perception of the customers and also various dimensions of service quality across categories of banks, where in the private sector banks with lowest gap were in a better position to satisfy their customers followed by multi state coop banks and finally public sector banks. Further the study examined the model to see the mediating role of satisfaction and loyalty between service quality and financial performance of the banks, the findings suggested a direct relationship between service quality and customer satisfaction, customer loyalty and satisfaction and service quality and customer loyalty. It was also observed that there is no direct relationship between service quality and customer satisfaction with the financial performance of the banks under study.

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