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## RELATIONSHIP BETWEEN SERVICE QUALITY AND CUSTOMER LOYALTY

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### ABSTRACT

**T**he banking industry has been facing new challenges and risks for the past few years. The purpose of this study is to be investigated the relationship between service quality and customer loyalty in banking sector. Systematic random sampling technique is adopted for this study. The total population is 1000, and the sample 415 is considered for this study. Descriptive statistics, correlation and regression analysis have used for measured the degree of relationship between to variables. It is observed that the service quality dimensions are significantly influenced on the customer loyalty of the bank.

adopt holistic methods of measurement that capture financial, marketing and internal business processes perspectives. Building relationship with customers is emerging as an alternative strategy for increasing service quality and customer loyalty. This in turn impacts on business performance.

Despite their relevance in modern society, banking service providers can only thrive and effectively play their roles when they focus on delivering innovative, affordable and quality products and services in exchange for customer loyalty and positive customer experience to good word-of-mouth promotion. Service quality encourages consumers to provide

constructive comments on the bank performance.

In 1999, the International Standards organization (ISO) defined quality as "the totality of features and characteristics of a product or service that bears on its ability to meet a stated or implied need". Crosby (1979) defines quality as "conformance to requirement". It is the need of customers from product producer or service provider. Thus, it is important to note that satisfying the customers' needs and expectations.

There was however little understanding of the differences between the concept of quality in the manufacturing industry and the concept of quality in the service industry. Yet the service industry has important characteristics

**KEYWORDS:** Tangibility, Reliability, Responsiveness, Assurance, Empathy and Customer loyalty.

### INTRODUCTION:

Banking sector face many strategic problems at the market place today. As competition becomes intense, firms strive to adopt strategies which enable them to gain market share and improve their performance. The traditional measures of performance that are based on financial metrics are reliable only to the extent of past information about an organization. To depict future performance, firms



that differentiate it from manufacturing in terms of quality.

The concept of perceived service quality was picked up by researchers in North America (first and predominantly by Parasurman, et. al., 1985, 1988) and was extended to the gap model (Gronroos, 2006). Quality of service therefore, can be the measure of success in providing excellent products and service, as viewed by the customer receiving the products and service. As a result, many researchers and quality scholars recognized the need to develop measures of service quality.

Service quality has been viewed as an important issue in the banking industry (Stafford, 1994) because its apparent relationship to costs (Crosby, 1979), profitability (Rust and Zahorik, 1993), customer satisfaction (Bolton and Drew, 1991; Boulding, et. al., 1993), customer retention (Reichheld and Sasser, 1990), and positive word of mouth. It is widely regarded as a driver of corporate marketing and financial performance (Buttle, 1996).

Customer loyalty 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 and Taylor, 1992; Narayandas, 1996; Prus and Brandt, 1995) and willingness to pay a price premium (Zeithaml, Berry, and 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 and Lee, 2001). Customer loyalty expresses an intended behavior related to the product or service or to the company.

In the banking sector, loyal customers are more profitable because they are attached to the bank and thus are easier to serve than those who are non-loyal. Bowen and Shoemaker (1998) stated that a small increase in loyal customers can result in a substantial increase in profitability. Furthermore, the longer a loyal customer stays with a firm, the more profitable to that firm (Kim and Cha, 2002). Reichheld and Sasser (1990) found that firms could improve their profits from two to eight percentages by reducing customer defections by five percent. Thus, keeping loyal customers represents a strategy for achieving distinct and sustainable competitive advantage (Roberts, et.al., 2003). The banking industry globally is facing a very competitive environment that is forcing it to enhance the development and sustainability of loyalty opportunities.

## NEED FOR THE STUDY

Public sector banks are facing increasingly more competition, whereas foreign and private sector banks are trying to win customer loyalty by providing them better quality services. Service quality has become a competitive strategy in the Indian banking sector.

## RESEARCH METHODOLOGY

The main objective of this study is to analyse the relationship between service quality and customer loyalty in banking sector. Service quality has been divided into five dimensions namely tangibility, reliability, responsiveness, assurance and empathy. Systematic random sampling technique is adopted for this study. The total population is 1000, and the sample 415 is considered for this research. Descriptive statistics is used to describe the sample to show the numbers and percentage of the items falling in categories and Correlation and regression analysis have used for measured the degree of relationship between to variables.

**ANALYSIS AND RESULT**

**Table-1 Opinion towards customer loyalty**

Statements	Mean	S.D	C.V
Say positive things	5.36	1.35	0.25
Recommend this bank	4.98	1.45	0.29
Encourage friends and relatives	4.82	1.57	0.32
Consider this bank as first choice	4.69	1.67	0.35
Do more business	4.87	1.56	0.32

Source: Primary data computed

The respondents are asked to rate their loyalty with the bank. Here loyalty is measured with the five statements. The respondents opinion are recorded in the seven point scale for each statement. Here seven standard for strongly agree and one stands for strongly disagree. The collected data are analysed with descriptive statistic namely mean, standard deviation co-efficient of variation. The calculated values are displayed in the table 4.9. While observing the mean are ranged between 5.36 to 4.69. It is inferred that the customer are having higher level of opinion towards loyalty statements. However, the customer are rated that they said positive things of the banks to others (5.36) followed by they recommend this bank to others (4.98), they also do more business with this bank (4.87), they encourage the friends and relative to do transaction with this bank (4.82) and they considered this bank as the first choice of them. It is found that bank has the first choice of them. Customers are having higher level of loyalty with this bank. Because of that only they are positively passing the message about their bank and also recommend, encourage their friends and relative to have the operation with this bank.

In the banking sector, loyal customers are more profitable because they are attached to the bank and thus are easier to serve than those who are non-loyal. Bowen and Shoemaker (1998) maintain that a small increase in loyal customers can result in a substantial increase in profitability.

**Table-2 Service quality and loyalty**

Service Quality	Loyalty	
	r-value	p-value
Tangibility	0.248	0.001*
Reliability	0.445	0.001*
Responsiveness	0.467	0.001*
Assurance	0.379	0.001*
Empathy	0.555	0.001*

Primary data computed, \*significant at one percent level

Table-2 explains the relationship between service quality dimensions and loyalty toward bank.

Ho: There is no relationship between service quality dimensions and loyalty.

In order to test the above stated hypothesis, Pearson correlation analysis is carried out. The calculated p-values are significant. Hence, the stated hypothesis is rejected. The r-values are having positive value. Hence, service quality dimensions such as tangibility, reliability, responsiveness, assurance and empathy are positively related with customer loyalty. The r-value is ranged from 0.55 to 0.248. Empathy, responsiveness and reliability lead higher level of customer loyalty towards the bank. Whereas, tangibility and assurance leads have lower level of customer loyalty.

**Table-3 Effect of Service quality dimension on customer loyalty**

R-Value	R-Square Value	Adjusted R Square Value	F-Value	P-Value
0.589	0.348	0.399	43.49	0.001

Service Quality	B	Std. Error	Beta	t- Value	P-Value
Content	8.277	1.601	-	5.145	0.001
Tangibility	0.016	0.069	0.018	0.227	0.821(NS)
Reliability	0.224	0.056	0.198	3.998	0.001*
Responsiveness	0.079	0.071	0.069	1.118	0.244(NS)
Assurance	0.029	0.070	0.021	0.410	0.682(NS)
Empathy	0.385	0.060	0.390	6.370	0.001*

Source: Primary data computed

\* Significant at one percent level; Ns - Non - significant

The researcher has been measured service quality of banks with five dimension namely tangibility, reliability, responsiveness, assurance and empathy. Further customer loyalty is measured with five statements then the total score of the five statements is considered as overall loyalty the customers with the bank. The objective of the research is to measure the effect of service quality dimension on customer loyalty with bank. For that multiple regressions has been applied. The regression result is displayed in the table -3.

Ho: There is no effect on service quality on customer loyalty.

From the model summary, it has been stated that the hypothesis is rejected because the calculated F-value is 43.49 which is significant at one percent level (P-value = 0.001). Here, the R-square value indicates that the percentage level of effect among the independent variables on the dependent variable. Here, tangibility, reliability, responsiveness, assurance and empathy are treated as independent variables and loyalty is considered as a dependent variable. The R-square value is found to be 0.39, it is inferred that independent variables are significantly influenced on dependent variable at 39.9 percent level. Further the standardized coefficient beta value indicates the relative importance of the independent variables on dependent variable. It is expressed by the equation.

$$\text{Customer Loyalty} = 8.277 + 0.385 (\text{empathy}) + 0.224 (\text{reliability})$$

The equation is explained that the empathy and reliability are having positive effect on customer loyalty. To have one unit increases in customer loyalty, the empathy services of the bank is likely to be increased at 0.385 levels while other factors remain constant. And like, if reliability increases by 0.224 levels, customer loyalty is increased by one unit, while other factors remain constant. From above discussion it is found that the service quality dimensions are significantly influenced on the customer loyalty of the bank. However, empathy and reliability are the dimensions having more impact on customer loyalty. Hence, the bankers should give more importance to empathy services and also reliability aspect.

Service quality has also been associated with customer loyalty. While some researchers have reported that customer satisfaction exerts a stronger influence on purchase intentions than service quality (Cronin and Taylor, 1992) Buzzell and Gale (1987) have found that service quality leads to customer loyalty. A research by Zeithaml et al. (1996) concluded that when organisations enhance the quality of their services, customers' favorable behavioral intentions are increased while unfavorable intentions are decreased simultaneously.

Amy wong and Amik shoal (2003) The study found that service quality is positively associated with customer loyalty and that the relationship is stronger at the company level rather than at the interpersonal level. The tangible dimension is the most significant predictor of customer loyalty at a company level and empathy is the most significant predictor of customer loyalty at an interpersonal level.

## CONCLUSION

Customers are having higher level of loyalty with the banks Because of that only they are positively

passing the message about their bank and also recommend, encourage their friends and relative to have the operation with this bank.. From above discussion it is concluded that the service quality dimensions are significantly influenced on the customer loyalty of the bank. However, empathy and reliability are the dimensions having more impact on customer loyalty. Hence, the bankers should give more importance to empathy services and also reliability aspect.

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