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SERVQUAL Vis-à-Vis Output Driven Customer Loyalty Dynamics in Indian Banking Sector

Dindayal Swain

Keywords

Indian Banking Sector,
Technology Infusion,
Services Industry,
Customer Loyalty,
SERVQUAL,
Customer Delight.

Abstract

With a GDP growth of 7.6 per cent in 2015-16 *(source: http://indianexpress.com/article/business/economy/gdp-7-9-percent-its-official-india-is-now-the-fastest-growing-economy-in-the-world/)* India is moving through an interesting phase in the history. Services sector with an annual growth rate of 10% contributes 61% (source: Joint report of CII-KPMG;http://timesofindia.indiatimes.com/business/india-business/Service-sector-growing-at-10-annually-CII-KPMG/articleshow/51913068.cms) to the GDP. With 26 public sector banks, 25 private sector banks, 43 foreign banks, 56 regional rural banks, 1,589 urban cooperative banks and 93,550 rural cooperative banks, in addition to cooperative credit institutions Indian banking sector is all set to change the dynamics of Indian economy. With a contribution of 7.7% to the GDP (source: RBI) banking sector has tremendous growth potential for not only Indian economy but also Indian customers with the infusion technology in the post liberalized era. Banking sector in India has tremendous promise of growth in times to come. Banks whether foreign, PSU's, private all are approaching customers with the state of the art services backed by tremendous technology. Banks in India leaving no stone unturned to create customer delight on sustainable basis. In this research paper there is a sincere effort to find out the impact of SERVQUAL dimensions on customer loyalty for a particular bank. The researcher used structured questionnaires for data collection. Various statistical tools like mean, standard deviation and regression analysis have been injected for the data analysis and representation of the findings.

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Author Correspondence

Dindayal Swain, PhD
Full Professor of Marketing
Dean- Research and International Relations
Institute of Management and Information Science, Bhubaneswar. India

Introduction

With the entry of more and more private and foreign players in the Indian Banking sector, competition is gearing up for an eternal advantage to the customers. One stop financial service shopping malls with wide product portfolio is the order of the day and is placed high in the customer's priority list. With the above precedence, cross selling and up selling is becoming order of the day for banks and they are becoming ready with better weapons to shoot accurately as per the requirements of the modern and ever changing demographic expectations. In the backdrop of increased youth demographic dividend in the country and their expectation for a better , faster and on demand services, banks need to gear up with faster channel of distribution, innovative products, unique pricing with highly effective communication format to meet customer expectation. The success or failure of service organization depends on its service quality. (Parasuraman et al 1985). According to SERVQUAL model, service quality is combination of Reliability, Assurance, Tangibility, Empathy & Responsiveness. This research study focuses on the impact of these SERVQUAL dimensions on customer loyalty for banks. Parasuraman et al (1985) questionnaire with five dimensions and 22 variables been distributed to the customers. (Parasuraman et al questionnaire have been installed).

With the increase in internet facility, better smart phone penetration, gradual up gradation in the communication & infrastructure facility, increase in disposable income backed by the paradigm shift in the aspirations in the semi urban and rural centers are also emerging as an opportunity for the Indian banking industry. With so much dynamics of change simultaneously, meeting customer expectation is becoming a serious challenge for the players in the Indian banking industry. In this research Endeavour the researcher tried to measure quantitatively the customer's satisfaction parameters with the use of SERVQUAL. The research is motivated with the quote of Lord William Thomson Kelvin (1824-1907) "if you can't measure it, you can't improve it".

Review of Literature

According to Lowis (1990), the success of a service organization depends on the satisfaction of its customers. Gummesson (1991) stressed the need of reliability and user friendliness in technology based services. Bandyo Phadhyaya (1994) in his study stressed the importance of innovation in retaining the customers in services. Pereira (1995) has identified the influencing factors in banking business, which include mergers and acquisitions, deregulation, increased competition, changing information systems and technology and human resources with different skills. Jacob Mankidy (2000) conducted a research on factors for low quality in bank services and identified ignorance, overpowering, neglecting colleagues by bank managers as causes. Mukesh Kumar, et al (2010) has studied SERVQUAL scale in conventional banks and finds tangibility, reliability, competence and convenience as its factors. Trivedi and Agarwal (2009) examined and highlighted the five dimensions of customer satisfaction i.e. RATER. Balkrishan (2010) observed that the value of services provided should be measured in terms of quality and quantity. The success of the banks depend upon not only "hi-tech" for the customers but also "hi- touch" with the customers. Ghosh (2010) measured the satisfaction level of customers by using factors such as service quality, customer loyalty and customer commitment. Mishra (2010) in his study mentioned adopting different types of marketing strategies to retain and satisfy the customers. Sodurland (2001) says that these are two main categories of loyal customers. The first category is of loyal customers. Within the loyal category there are satisfied and un-satisfied customers. The satisfaction is not an essential requirement for loyalty, so satisfied customers do not have to be loyal but there is a correlation between the satisfied customers and loyal customers. Anderson et al, (2007) suggested that when the perceived value was low, customers would be more inclined to switch to competing businesses in order to increase perceived value, thus contributing to a decline in loyalty. Technology can't replace effective human interaction. Trust has been defined as the willingness to rely on an exchange partner in whom one has confidence (Moorman et al. 1993) or confidence in an exchange partner's reliability and integrity (Morgan & Hunt 2004). Chaudhuri & Holbrook (2002) define brand trust as the customer's willingness to rely on the ability of the brand to perform its stated function. Commitment is frequently defined as a desire to maintain a relationship (Moorman, Deshpande & Zaltman 1993; Morgan & Hunt, 1994). Dwyer et al. (1987) describe it as a pledge of continuity, and Pritchard, Havitz and Howard (1999) as resistance to change. In a conceptualization and study of employees' commitment to an organization, Allen and Meyer (1990) identified three types of commitment to an organization: affective, continuance and normative. Affective (or emotional) attachment exists when a strongly committed individual identifies with, is involved in, and enjoys membership in an organization (Allen & Meyer, 1990).

Affective commitment is defined as an affective state of mind that is based on a person sharing, identifying with and internalizing the values of an organization and thereby implies liking and emotional attachment (Morgan & Hunt, 2004).

Objectives

1. To study the demographic profile of the customer's vis-à-vis their loyalty status.
2. To find out the influence of SERVQUAL on customer loyalty towards their banks.
3. To find the relevance of SERVQUAL and bank strategy design.

Research Design Table.1

1	**Gender**		
	Male	1270	72
	Female	1105	28
2	**Age in Years**		
	Below 24	475	20
	25-34	665	28
	35-44	855	36
	Above 44	380	16
3	**Marital Status**		
	Married	1520	64
	Unmarried	760	32
	Other	95	4
4	**Monthly Income**		
	Up to 15,000	570	24
	15,001 to 20,000	855	36
	20,001 to 25,000	665	28
	Above 25,000	285	12
5	**Educational Status**		
	Undergraduates	570	24
	Graduates	950	40
	Post graduates	475	20
	Others	380	16
6	**Employment Status**		
	Self-employed	760	32
	Service related work	855	36
	Professional	570	24
	Others	190	8

Source: Authors Primary Data

Type of design: Descriptive research was undertaken to deduct the service quality and customer loyalty towards their banks.

Sampling Method and Sample Size: convenience sampling has been used with a sample size of 2375with a rejection of 125 out of total sample initiated 2500. This covers Bhubaneswar, Cuttack, Puri districts of Odisha, India.

Data Analysis

The study of demographic features is also useful in formulating the bank's marketing strategy. The demographic profile of the respondents is framed in Table 1. Table 1 shows that among the 2375 respondents, 72% were male and 28% female. Further, age wise, 20% were in the age group of below 24 years, 28% in the age group of 25 to 34, 36% in the age group of 35 to 44 and 16% in the age group of 44 years above. As for marital status, 64% were married, 32% were single and only 4% consisted of others. The survey shows that 24% of the respondents come under the income group of below Rs.15,000, 36% are in the group of Rs. 15,001 to 20,000, 28% lie between Rs.20,001 to 25,000 and only 12% in the group of above Rs.25,000. Similarly the education level shows that 24% are undergraduates, 40% graduates, 20% postgraduates and 16% others. Further in employment status, 32% are self-employed, 36% are engaged in service related work, 24% are professionals and 8% in other jobs. Impact of Servqual Dimensions on bank loyalty Regression analysis with bank loyalty has dependent variable and reliability, assurance, tangibility, empathy and responsiveness as independent variables have performed. The results are presented below;

Table.2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.776[a]	.602	.598	.52993
a. Predictors: (Constant), Reliability, Assurance, Tangibility, Empathy & Responsiveness				
b. Dependant Variable: Loyalty for the Bank				

Source: Primary Data

R – "R" is the correlation between the observed and predicted values of dependent variable. For the present study it is .776 R-Square - This is the proportion of variance in the dependent variable (Bank loyalty) which can be explained by the independent variables (Assurance, Responsiveness, Reliability, Tangibility, and Empathy). This is an overall measure of the strength of association and does not reflect the extent to which any particular independent variable is associated with the dependent variable. For the present study R Square value is .602

Adjusted R-square - This is an adjustment of the R-squared that penalizes the addition of extraneous predictors to the model. Adjusted R-squared is computed using the formula 1 - ((1 - Rsq)((N - 1) /(N - k - 1)) where k is the number of predictors. Here, Adjusted R Square value is .598

Std. Error of the Estimate - This is also referred to as the root mean squared error. It is the standard deviation of the error term and the square root of the Mean Square for the Residuals in the ANOVA table (see below).

Table.3 ANNOVA

Model		Sum of Squares	Mean Square	F	Sig
1	Regression	159.062	32.616	114.522	.000[b]
	Residual	104.042	.277		
	Total	272.008			

Source: Primary Data

For the present study ANOVA is significant (0.000). It means regression model predicts the dependent (bank loyalty) variable significantly well. In linear regression analysis the test tests the null hypothesis that the coefficient is 0. The t test finds that both intercept and variable are highly significant ($p < 0.001$) and thus we might say that they are different from zero. This table also includes the Beta weights (which express the relative importance of independent variables) and the co linearity statistics.

Table.4: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig	95% Confidence Interval for B	
1		B	Std Error	Beta			Lower Bound	Upper Bound
	(Constant)	-.119	.099		1.204	.227	-.312	.072
	Reliability	-.271	.048	.295	5.543	.000	.167	.355
	Assurance	.143	.051	.146	2.689	.006	.040	.243
	Tangibility	.204	.034	.280	6.003	.000	.137	.268
	Empathy	.159	.047	.166	3.408	.001	.067	.250
	Responsiveness	.166	.055	.163	3.022	.003	.058	.274

Source: Primary Data

In present study, reliability has highest B value (.271) followed by tangibility (.204), responsiveness (.166), empathy (.159) and assurance (.143). Means, reliability contributes more for bank loyalty followed by tangibility, responsiveness, empathy and assurance.

Table.5: Coefficients

Correlations			Co linearity Statistics	
Zero Order	Partial	Part	Tolerance	VIF
.564	.124	.81	.375	2.488
.614	.136	.87	.350	2.674
.568	.264	.174	.378	2.475
.527	.279	.191	.476	2.036
.603	.165	.111	.426	2.231

Source: Primary Data

Multi-co linearity is a big problem for regression its violation impact the results. Multicollinearity exists when Tolerance is below .1; and VIF is greater than 10. In this case, there is no multi-co linearity.

Limitations of the Study

The geographical scope of the study was limited to three Districts of Odisha and does not represent the whole state.

Conclusion

In the era of severe cutting edge competition customers are becoming more demanding. To face the demanding customers banks are launching endless products and there is a fast pace widening of product portfolio. This result in banks is getting into self trap of obsession and self goal. Having a wider portfolio is not bad until you are in a position to manage it in the larger interest of the customers. In the above scenario customer loyalty for banks will not only help banks to race ahead of the competition but also it will act as a point of differentiation. Research shows that 80 per cent profit of organizations comes from 20 per cent loyal customers. Hence, Banks in India need to focus on creating, maintaining and sustaining loyalty.

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