



A Study on Customer Satisfaction in Indian Retail Banking

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Abstract: *Objective of the study was to study the factors affecting Customer Satisfaction in Retail Banking Sector of India and to find the relationship between Service Quality, Customer Satisfaction and Customer Loyalty. Research design of the study is quantitative and surveys research method has been used in it. Data was collected from Bhavnagar city. Data has been collected through already tested structured questionnaire from 72 respondents. Results of this study show that there is significant relationship between service quality attributes and customer satisfaction. It also revealed that positive relationship exists between customer satisfaction and customer loyalty. With the help of this study we can conclude that service quality leads to satisfied customers and customer satisfaction leads to customer loyalty. In today's competitive world banks can get competitive advantage by providing superior services to their customers.*

Keywords: *Service Quality, Customer Satisfaction, Customer Loyalty.*

I. INTRODUCTION

The retail banking industry has experienced major changes over the past 30 years. In recent times the banking industry faced with increased competition among banks and non bank financial services, the adoption of new advanced technology and the evolving customer's preferences are some of the factors that have had a huge impact in the financial industry. These changes, together with the current economic climate means that banks need to find alternative strategies to differentiate themselves from their competitor. In order to compete effectively and differentiate themselves in the market, banks need to offer more than just low prices and innovative services. There is a need for the banks to understand factors impinging upon customers' banking experiences, commitment and loyalty to a service provider. A sustainable competitive advantage cannot be achieved by only looking at the traditional elements of price, quality and service bit by focusing on customer experience. The consumers have become sophisticated and very demanding. As a result many customers are looking for something more than just competitive prices and good services; they want memorable experiences.

All the commercial banks in India offer the same standard facilities find anywhere in the world including, debit cards, credit cards, travelers cheques, money transfers, personal loans, car finance, etc. selected banks also offer specialized services such as VIP accounts, ladies accounts, minor and student's accounts, plus e-banking platforms such as telephone and PC banking which offer 24/7 access. Particularly, the expansion in private banking business, along with customized services, has created a cut-throat competition in this sector (Khalid & Irshad, 2010). Customer satisfaction is the real diamond and competitor advantage over other companies. Today businesses compete for customers and customer satisfaction is becoming a key performance indicator and an essential element of business strategy. Customer expectations are key drive behind customer satisfaction. Customer Satisfaction is an indicator of customer purchase intentions and brand loyalty.

Companies are trying to have high customer satisfaction and trying to keep their current customers rather than spending additional resources to attract potential new customers. Therefore the producers and marketers tried to keep their customer satisfied so that they may become brand loyal and in the way companies can get maximum share in the market. So after knowing the above mentioned problem the purpose of the study was to find the interrelationship between service quality, customer loyalty and Customer Satisfaction, in banking sector of India. This study is an attempt to explore the interrelationship between service quality, customer satisfaction and customer loyalty in India context. This will be a real contribution for the banks because in this way, banks can seek guidance to improve their service quality in order to retain their customers and seek competitive advantage by getting more loyal customers.

II. LITERATURE REVIEW

A. Customer Satisfaction

Concept of customer satisfaction has a central position in marketing as it is a major outcome of marketing activity and it links the processes of purchase and consumption or use of the product or service to attitude change, repeat purchase and ultimately brand loyalty. Origin of the concept is related to the marketing concept that profit is generated through satisfaction of customer needs and wants. Business Dictionary defines Customer Satisfaction as: The degree of satisfaction provided by the goods or services of a company as measured by the number of repeat customers. Concept of customer satisfaction is new to many



companies, who have been focused on price and availability of products. So, it is important to be clear the exact meaning of on exactly the term. Customer satisfaction is a state of mind that customers have about a product or services after using that product and service offered by a company in return of customer expectations about the products. Customer satisfaction leads to product repurchase that ultimately leads to brand loyalty. In early 1970's customer satisfaction emerged as a legitimate field of study. U.S department of agriculture's Index of Consumer satisfaction was the first study to report direct information on consumer satisfaction (Pfaff 1972). Customer Satisfaction Brand Loyalty and Profitability are linked to one another (Roger Halllowell 1996).

B. Customer Loyalty

Albert Caruana (2000) examined customer loyalty plays a mediating role in the effect of service quality on service loyalty among retail banking customers in Msida, Malta. Effects of a number of demographic indicators on service loyalty were also reported. Ahmad & Sana ul Allah (2011) concluded that easy availability of spare parts, easy availability of technicians, parts replacement, warranties and customization services have positive significant impact on consumer buying behavior, also economical spare parts, compatible spare parts, and service centers have insignificant impact on consumer buying behavior of automobile consumers in India. Manufacturers and importers of automobiles need to ensure easy availability of spare parts and mechanics, parts replacements, warranties and customization to affect consumer buying intentions. Positive relationship exists among customer satisfaction, customer relationship, trustworthiness and customer loyalty. Long term success and reputation of an organization depends on customer loyalty. Customer is always right and attainment of customer loyalty is a golden principal for businesses. Gronholdt et al., (2000) have found that companies with low price strategy had a much higher loyalty than expected from their customer satisfaction. On the other hand, companies that had used a lot of energy on branding indeed had a high customer satisfaction but they did not have a correspondingly high loyalty. While Oliver (1999) examined that forced loyalty could be established through creating exit barriers as well.

Loyal behavior may also result from inertia. Inertia means customer does not move to another vendor due to comfort or relatively low importance. If the choice has low importance, there is no point to spend time and effort on searching for alternatives. Thus, based on his faith in the suitability of the current product, the customer continues to use it without checking alternatives. It is in accordance to Oliver's approach of cognitive loyalty: the loyalty that is based on brand belief only. "Cognition can be based on prior or vicarious knowledge or on recent experience-based information. If the transaction is routine, so that satisfaction is not processed (e.g. trash pickup, utility provision), the depth of loyalty is no deeper than mere performance.

Hofmeyr and Rice (2000) say that one of the reasons that customers do not switch brands is that when they are dissatisfied. They feel that alternatives are just as bad as the brand they are using or even worse. Several studies like Heskett et al., (1994) revealed that there exists a direct connection between satisfaction and loyalty: satisfied customers become loyal and dissatisfied customers move to another vendor. Again Anderson et al., (2000) narrated the primary objective of creating American Customer Satisfaction Index (ACSI) in 1984 was to explain the development of customer loyalty. In ACSI model customer satisfaction has three antecedents: perceived quality, perceived value and customer expectations. Gronholdt et al., (2000) examined the European Customer Satisfaction Index (ECSI) model perceived quality is divided into two elements: "hard ware", which consists of the quality of the product or service attributes, and "human ware", which represents the associated customer behavior towards the product/service. Reichheld et al.,

(2000) found in both models increased level of satisfaction leads to increased customer loyalty. When the satisfaction is low customers have the option to exit (e.g. going to a competitor) or express their complaints. Researchers have shown that 60 to 80% of customers who defect to a competitor said they were satisfied or very satisfied on the survey just prior to their defection. Customer satisfaction measurement must be undertaken with an understanding of the gap between customer expectations and attribute performance perceptions.

C. Service Quality

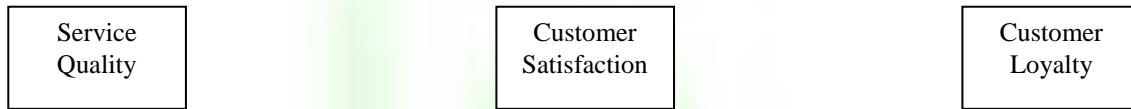
Service quality has been increasingly recognized as a critical factor in the success of any business (Parasuraman et al., 1988), and the banking industry in this case is not exceptional (Hossain & Leo, 2009). Service quality has been widely used to evaluate the performance of banking services (Cowling & Newman, 1995). The banks understand that customers will be loyal if they are provided greater service than their competitors (Dawes & Swales, 1999), and on other hand, banks can only earn high profits if they are able to position themselves better than competitor within specific market (Davies et al., 1995). Consequently, banks need to focus on service quality as a core competitive strategy (Chaoprasert & Else, 2004). Gronroos (2000) defined service as, "A service is a process consisting of a series of more or less intangible activities that normally take place in interactions between the customer and service employees or physical resources or goods and/ or systems of service provider, which are provided as solutions to customer problems". Fogli (2006) defined term service quality as "a global judgment or attitude relating to particular service; the customer's overall impression of the relative inferiority or superiority of the organization and its services". Parasuraman et al. (1985) identified then determinants of service quality. They are: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding, tangibles.

In 1988 Parasuraman et al. et al. through a quantitative research revealed an instrument for measuring consumer's perception of service quality, after that it became known as SERVEQUAL. In this research they minimized their dimensions from ten to five. The dimensions were: First is Tangibility- includes the physical facilities, appearance of personnel and equipment, infrastructure.



Second is Reliability – The ability to perform the promised service dependably and accurately. Third is Responsiveness means the willingness to help customers and provide prompt service. Fourth is Assurance (combination of items designed originally to assess Competence, Courtesy, Credibility, and Security) is the ability of the organization’s employees to inspire trust and confidence in the organization through their knowledge and courtesy. Fifth and last is Empathy (combination of items designed originally to assess Access, Communication, and Understanding the customer) personalized attention given to customer. While in our study we have included first four components and excluded empathy.

III. THEORETICAL FRAMEWORK



Variables	Dimensions	Elements	Proposed Questions	Reference
Service Quality	Tangibility	Premises	I am satisfied with the premises of the bank and it is visually appealing.	Siddiqui Qazi Umer (2011)
		Technological Up-to-date	I am satisfied with the technological up-to-date equipments of the bank?	
		Employee Dress	I am satisfied with the way employees dress.	
		Marketing Material	I am satisfied with the marketing materials distributed by the bank. They clear and give complete information.	
		Visually Clear Bank Statement	I am satisfied with the bank statement and it is visually clear.	
	Reliability	Service as Promised	I am satisfied with the services provided by the bank as promised.	
		Problem Handling	I am satisfied by the service of handling a problem (speed of problem solving).	
		Timely Services	I am satisfied with the way bank provides the services at the time they promised.	
		Operating Hours	I am satisfied with the operating hours of the bank.	
		Delivery on Up-to-Date Record	I am satisfied with the way bank delivers up to date record.	
	Responsiveness	Promptness	I am satisfied with the employees’ promptness in providing services in the bank.	
		Willingness to Help Customers	I am satisfied with the willingness of employees to help customers.	
		Timely Bank Statement	I am satisfied with the bank service of sending timely bank statement.	
	Assurance	Security	I am satisfied with the security of the bank.	
Eagerness		I am satisfied with the employee’s eagerness of instilling confidence to me.		
Knowledge of employees		I am satisfied of the knowledge of the employees (up to date knowledge about products, services, rules and regulations).		
Customer Loyalty	Customer Loyalty	Courtesy	The bank staffs are courteous.	Dwi Suhartanto, (2011)
		Trustworthiness	The bank staff is trustworthy.	
		Clarity of Information	If I need information, the bank staff could explain clearly.	
		Security of Transactions	The bank provides security for my money and transactions.	
		Timely Services	The bank staff provides service in a timely manner.	
		Modern Facilities	The facilities of bank are modern.	
		Right Service First time	The staff of the bank performs the service right the first time.	
		Excellent Service Quality	Overall, bank provides excellent service quality.	
		Reasonable Price	I consider the price of service is provided by the bank to be reasonable.	
		Online, ATM	The services (i.e credit and debit card, ATM, online transaction) I receive from bank are excellent compared to what I give (in terms of money).	
		Value for Money	Bank offers good value for money.	
Customer Satisfaction	Customer Satisfaction	Positive Things	Say positive things about the Bank to other people	Siddiqui, Qazi Umer (2011)
		Word of Mouth Marketing	Encourage friends and relatives to do business with Bank.	
		Intend to do Business	Intend to continue doing business with Bank.	
		Preference	Have strong preference on this Bank	



IV. HYPOTHESIS

As identified in the literature review service quality leads to customer satisfaction and customer satisfaction leads to customer loyalty. Many researchers used service quality attributes as a measure of customer satisfaction. Service quality attributes significantly affects customer satisfaction Siddiqi, (2011). Customer perceive highest satisfaction in the responsiveness area and lowest in the tangibles area. In order to achieve higher levels of service quality, the bank managers should redesign their strategies about customer satisfaction with respect to service quality Khalid, Babak, Abbas, & Hussain, (2011). Afsar et al (2010) analyzed that Perceived quality, satisfaction, trust, switching cost and commitment are the factors which influence the loyalty of the customers, where we have taken only one factor which is customer satisfaction that leads to customer loyalty.

- H₁: There is positive relation between service quality, customer satisfaction and customer loyalty.
- H₂: Service quality positively affects customer satisfaction.
- H₃: Customer satisfaction positively affects customer loyalty.

V. RESEARCH METHODOLOGY

The questionnaire has been designed on the basis of the study of researchers such as Berry et al., (1985), Parasuraman et al., (1985), Zeithaml & Bitner (1996), Stafford (1996). Berry et al. (1985) and Zeithaml & Bitner (1996) who identified five dimensions of service quality: tangible (equipment, written material, personnel, and appearance of physical facilities), reliability (ability to deliver promised service and accurately), responsiveness (willingness to help customers and providing prompt services), assurance (Knowledge and ability of employees to inspire trust and confidence), and empathy (Caring and providing individual attention to each customer). Parasuraman et al., (1985) indicates that service quality consists of eleven dimensions: reliability, competence, responsiveness, access, courtesy, communication, credibility, security, competence, tangibles, and understanding of customer. Reliability is considered as essential dimension of service quality. Stafford (1996), focused on customer services on seven dimensions, such as relationships, bank atmosphere, rates and charges, ATM, available and convenient services, facilities of bank counter (tellers), and honesty/reliability of bank personnel. For present investigation we have constructed four dimensions: Tangibility, Reliability, Responsiveness and Assurance.

VI. DATA COLLECTION METHODS

In this study quantitative method for data collection was used for data collection. 72 respondents were selected through convenience sampling. In this study surveys method was used due to some reasons. First it is widely used method in research for non experimental social science research. Second in the sample has been taken from real world. Third it provides a systematic, impartial, representative, theory-based, quantitative, self-monitoring, contemporary and replicable approach for data collection. There are two methods to collect data first one is questionnaires and second is interviews. In this paper data has been collected through questionnaires. The population of our study is banks of bhavnagar city, but due to unavailability of resources, lack of cooperation, unrelated population, geographic restrictions, and time and cost issues convenience sample technique has been adopted. Tool or instrument of the survey is questionnaire which has been adapted from previous researches. This questionnaire is more accurate to measure the relationship between service quality and customer satisfaction and customer loyalty because; its validity has already been tested in other context. The questionnaire consists of two sections. In first section questions related to personal information i.e. age, gender, qualification, family structure and experience have been asked while the second part consists of questions related to service quality, customer satisfaction and customer loyalty. Data was collected through survey method. Self administrated five scale likert scale questionnaire was used to collect data from customers of different banks. An already developed questionnaire was adapted to collect the data. Due to financial and time constraints convenience sampling was used in the study.

VII. DATA ANALYSIS METHODS

Data was analyzed using SPSS Software. First of all reliability of variables was checked then correlation was used to check the interrelationship between service quality, customer satisfaction and customer loyalty. Regression analysis was use to measure the impact of service quality of customer satisfaction and that of customer satisfaction on customer loyalty.

VIII. RESULTS

For data analysis SPSS-20 software was used in which data was analyzed into two parts where part one describes descriptive statistics to measure the central tendency (average) and dispersion (the spread of data or how close each other is to the measure of central tendency). In the second part Pearson's correlation was used between at least two continuous variables. If the value of Pearson's correlation is near (0.00) it means there is no correlation and if the value is near (1:00) strong correlation exists. Generally the value of Pearson's correlation coefficient is 0.80 is considered as high positive correlation. Multiple regressions: To estimate the coefficients of variable of a linear equation, linear regression analysis is used to determine the relationship of dependent and independent variable.



IX. DESCRIPTIVE STATISTICS

	N	Range	Minimum	Maximum	Sum	Mean	Std. Deviation	Variance	Skewness	Kurtosis			
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error	Statistic	Std. Error		
Name of bank	58	14.00	1.00	15.00	347.00	5.9828	.40227	3.06360	9.386	.991	.314	.926	.618
Type of account	58	3.00	1.00	4.00	91.00	1.5690	.07821	.59566	.355	1.014	.314	2.842	.618
Gender	58	1.00	1.00	2.00	70.00	1.2069	.05365	.40862	.167	1.486	.314	.214	.618
Location	58	3.00	1.00	4.00	102.00	1.7586	.11875	.90438	.818	1.390	.314	1.501	.618
Marital status	58	3.00	1.00	4.00	85.00	1.4655	.07861	.59870	.358	1.407	.314	3.628	.618
Age group	58	5.00	1.00	6.00	148.00	2.5517	.12583	.95830	.918	1.768	.314	3.124	.618
Highest education	58	4.00	3.00	7.00	306.00	5.2759	.12247	.93270	.870	-.588	.314	.235	.618
Monthly income	58	7.00	1.00	8.00	178.00	3.0690	.18051	1.37474	1.890	.963	.314	2.440	.618
Profession	58	4.00	1.00	5.00	128.00	2.2069	.09764	.74360	.553	1.764	.314	4.024	.618
How long you working	58	4.00	1.00	5.00	126.00	2.1724	.12084	.92030	.847	1.602	.314	3.192	.618
Kind of family	58	3.00	1.00	4.00	100.00	1.7241	.10375	.79014	.624	1.424	.314	2.541	.618
Time of using bank	58	4.00	1.00	5.00	146.00	2.5172	.13526	1.03010	1.061	.501	.314	-.733	.618
Frequency of bank use	58	4.00	1.00	5.00	193.00	3.3276	.17632	1.34279	1.803	-.180	.314	-1.284	.618
Valid n (listwise)	58												

X. RELIABILITY

Reliability of the items of the variables is measured by Cronbach’s alpha. In our study there were three variables named as Customer Service Quality, Customer Loyalty and Customer Satisfaction. Cronbach’s alpha value was over 0.70 for all the variables, which shows there is reliability in the item of the variables. These alpha scores are acceptable which indicate that items within the variables are interrelated and there was a relationship between items.

**Table-1
Reliability Statistics Overall**

Cronbach’s Alpha	N of Items
.887	20

XI. CORRELATION

To check the interrelationship between variables Pearson Correlation was used. Value for correlation coefficient for Service Quality and Customer Satisfaction is 0.57, and for Service Quality and Customer Loyalty is 0.651 and it is 0.658 for customer satisfaction and customer loyalty. Positive values of correlation coefficient indicate that increase in one variable causes increase in other variable and decrease in one variable causes decrease in the other. Significance value (2-tailed) was less than 0.05. We can say that there is positive relation between Service Quality, Customer Loyalty and Customer Satisfaction.

**Table-2
Correlations**

		Customer Service Quality	Customer Loyalty	Customer Satisfaction
Customer Service Quality	Pearson Correlation	1	.651**	.570**
	Sig. (2-tailed)		.000	.000
	N	100	100	100
Customer Loyalty	Pearson Correlation	.651**	1	.658**
	Sig. (2-tailed)	.000		.000
	N	100	100	100
Customer Satisfaction	Pearson Correlation	.570**	.658**	1
	Sig. (2-tailed)	.000	.000	
	N	100	100	100

** . Correlation is significant at the 0.01 level (2-tailed).

Table 3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.739a	.546	.529	.43816	1.773

- a. Predictors: (Constant), Customer_Service_Quality, Customer Satisfaction
- b. Dependent Variable: Customer_Loyalty

XII. REGRESSION

Regression analysis was used to measure the degree of relationship between Service Quality and Customer Loyalty and between Customer Loyalty and Customer Satisfaction. In regression analysis customer loyalty was taken as dependent variable and service quality and customer satisfaction was taken as independent variables. Value of Durbin-Watson is 1.773 which shows there is no auto correlation between the variable. Strong positive value of coefficient of correlation shows that there is correlation between quality service quality and customer satisfaction and customer loyalty. Value of adjusted r^2 is 0.545 for Service quality which shows that 53 percent change in Customer Loyalty is due to Quality Services and Customer Satisfaction and Standard Error of estimate is 0.43 which shows that 43 percent of change in Customer Loyalty is due to other factors.

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	12.694	2	6.347	33.061	.000 ^b
1	Residual	10.559	97	.192		
	Total	23.253	99			

- a. Dependent Variable: Customer_Loyalty
- b. Predictors: (Constant), Customer_Service_Quality, Customer_Satisfaction

XIII. CONCLUSION

Results of this study show that there is positive relationship between service quality attributes and customer satisfaction which proves H_1 is accepted and it is proved that 54 percent of change in customer loyalty is due to Service Quality and Customer Satisfaction, which proves H_2 to is accepted. With the help of this study we can conclude that service quality leads to satisfied customers and customer satisfaction leads to customer loyalty. In today’s competitive world banks can get competitive advantage by providing superior services to their customers.

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