

# SERVICE QUALITY MEASUREMENT AND ITS IMPACT ON CUSTOMER LOYALTY -A STUDY ON FOREIGN BANKS IN CHENNAI

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## ABSTRACT:

Gone are the days when banks focused on just satisfying its customers, now they are more focused on designing a delightful banking experiences. In fact most of the banks concentrate on delivering the “Wow Experience” to their customers. In this modern world, customers are more concerned with quality. They are considered as ‘final judge’ for the evaluation of the quality of any type of services and they are continuously expecting same from their service providers. This expectation of customers generates more pressure to the service providers to perform better with respect to the creating and delivery of high quality of services to their customers. Introduction and delivery of electronic or digital banking services in addition to the conventional banking services is one of the results of such pressures created by the customers of the banks. The various researches relating to the service delivery proved the statement and also validated that when a customer perceived high quality of service, they are better satisfied with the banking performance and have positive intention to continue the banking services. Therefore, identifying and understanding the factors that affecting customers’ perception, satisfaction on conventional and electronic banking services and their influence on the service continuance intention is important for the bankers in order to achieve competitive advantage. The current research was conducted to investigate the relationship between service quality and customer loyalty of the customers of the foreign banks in Chennai. The SERQUAL model was used to measure the relationship between service quality and customer loyalty among the foreign banks in Chennai. The questionnaire was used to collect data from 350 customers of the select foreign banks in Chennai. The data was analysed using correlation and multiple regression analysis.

**Keywords:** Customer satisfaction, Service quality, Loyalty, SERQUAL Model and Foreign banks.

## 1. INTRODUCTION:

In this modern world, customers, in any country, are more concerned with quality particularly with respect to the service from where they are receiving. They are considered as ‘final judges’ for the evaluation of the quality of any type of services and they are continuously expecting same from their service providers. This expectation of customers generates more pressure to the service providers to perform better with respect to the creating and delivery of high quality of services to their customers. Introduction and delivery of electronic or digital banking services in addition to the conventional banking services is one of the results of such pressures created by the customers of the banks.

A bank is a financial institution which is involved in borrowing and lending money. Banks are the heart-beat of an economy of any country. They provide an overview of how the financial activities and economic growth of a country would be performed. India is one of the fastest growing countries with respect to banking and financial sector in the world. The well-organized banking sector is one of the key factors that sustain such notable growth of the Indian economy. This growing tendency of Indian economy has attracted many international companies and nations to invest in India. With such international investment coming in, India needs more foreign banks that can ease the international and national transactions. This is one of the reasons why the Reserve Bank of India (RBI) and Government of India (GOI) have established guidelines that can attract more foreign banks to India. The foreign banks in India not only provide international transaction they also provide services like the normal Indian banks.

## 2. LITERATURE REVIEW:

Inder Pal Singh and Payal Bassi (2017) in the research stated that e-banking is the future and the customers should be provided with customer friendly interface.

Rishi Kant, Deepak Jaiswal and Suyash Mishra (2017) empirically validated a measurement model using structural equation modelling (SEM) through path analysis. The study revealed that tangibility and assurance are the most important service quality dimensions to increase the customer satisfaction.

Ngo Vu Min and Nguyen Huan Huu (2016) tested the hypothesis using Confirmatory Factor Analysis (CFA) and the Structural Equation Modelling technique (SME). The study revealed that customer loyalty depends mainly on service quality and customer satisfaction.

Malik Shahzad Shabbir et al., (2016) stated that automated services and conventional services has a strong relationship on customer satisfaction.

Jugurnath et al., (2016) researched about the most important service quality in Mauritian banks. The findings show that responsiveness was the most important service quality dimension valued by most of the customers.

Ray J. (2018) stated that the customers of private banks in Dinajpur city of Bangladesh were more loyal when compared to public banks, which helped the private banks to improve their level of customer satisfaction.

Vershinina. (2017) stated that banks employees' impression definitely had a positive impact on the future of the banks in Russia.

H. Hennayake. (2017) in his study stated that the administration quality had an impact on the customer loyalty which in turn helped the banks in increasing the customer satisfaction.

Patel H. and Desai Indian M. (2016) had proved by his studies that there is a connection between service quality dimensions and customer satisfaction.

Sakthi K. and Eswaran R. (2016) conducted a research which concluded that the service quality had a positive impact on the customer satisfaction.

### 3. RESEARCH PROBLEM

The research problem identified in this research is:

How the demographic factors of the respondents influence the dimensions of Service Quality?

How the Quality of Service dimensions influence the Satisfaction level of Customer on Conventional and Electronic Banking Services and Service Continuance Intention towards the banking services of Foreign Banks in Chennai city?'

### 4. OBJECTIVES OF THE STUDY

The following are the objectives of the study:

- To identify the Service Quality Gaps if any with respect to Traditional and Electronic Service Quality in Foreign Banks in Chennai.
- To analyze the level of Customer Satisfaction towards the Service Quality in Foreign Banks in Chennai.
- To assess the impact of Service Quality on Customer Loyalty in Foreign Banks in Chennai.

### 5. RESULTS:

#### DESCRIPTIVE ANALYSIS – MEAN ANALYSIS

**TABLE 1: CUSTOMERS' PERCEPTION ON SERVICE QUALITY OF BANKING SERVICES OF FOREIGN BANKS**

VARIABLES	N	Mean	SD
PHYSICAL ASPECTS	350	18.0	4.2
RESPONSIVENESS	350	18.8	3.8
CREDIBILITY AND ASSURANCE	350	18.4	4.0

<b>SECURITY AND PRIVACY</b>	<b>350</b>	<b>15.6</b>	<b>3.3</b>
<b>ACCESSIBILITY</b>	<b>350</b>	<b>18.3</b>	<b>4.2</b>
<b>COMPLAINT MANAGEMENT</b>	<b>350</b>	<b>16.5</b>	<b>3.8</b>
<b>PERCEPTION ON SERVICE QUALITY OF FOREIGN BANKS</b>	<b>350</b>	<b>105.6</b>	<b>23.3</b>

(Primary Data Source)

#### INFERENCE:

According to the above table, customers' perceptions of the quality of banking services provided by foreign banks are higher in the categories of "responsiveness" (M = 18.8) and "credibility and assurance" (M = 18.4) when compared to other categories.

**H<sub>0</sub>: There is no significant relationship between the Customer Satisfaction on Conventional Banking Services of Foreign Banks and the Service Continuance Intention towards Banking Services of Foreign Banks.**

**TABLE 2: CUSTOMER SATISFACTION ON CONVENTIONAL BANKING SERVICES OF FOREIGN BANKS**

VARIABLES	'r' VALUE	P- VALUE	RELATIONSHIP	REMARKS	
				SIGNIFICANT	RESULT
Customer Satisfaction on Conventional Banking Services of Foreign Bank – Service Continuance Intention towards Banking Services of Foreign Banks	<b>0.68**</b>	<b>0.000</b>	<b>Positive</b>	<b>Significant</b>	<b>REJECTED</b>

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

#### INFERENCE

The Null Hypothesis is rejected. So there is a significant relationship between the Customer Satisfaction on Conventional Banking Services and the loyalty towards Banking Services.

**H<sub>0</sub>: There is no significant relationship between the Customer Satisfaction on Electronic Banking Services of Foreign Banks and the Service Continuance Intention towards Banking Services of Foreign Banks.**

**TABLE 3: CUSTOMER SATISFACTION ON ELECTRONIC BANKING SERVICES OF FOREIGN BANKS**

VARIABLES	'r' VALUE	P - VALUE	RELATIONSHIP	REMARKS	
				SIGNIFICANT	RESULT
Customer Satisfaction on Electronic Banking Services of Foreign Bank – Service Continuance Intention towards Banking Services of Foreign Banks	<b>0.66**</b>	<b>0.000</b>	<b>Positive</b>	<b>Significant</b>	<b>REJECTED</b>

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

#### INFERENCE

The Null Hypothesis is rejected. So there is a significant relationship between the Customer Satisfaction on Electronic Banking Services and the loyalty towards Banking Services.

**TABLE 4: THE COEFFICIENT CORRELATION BETWEEN ORIGINAL RESEARCH VARIABLES AND SERVICE QUALITY**

Dependent variable	Service Quality	Sig.
Tangibles (T)	0. 61	0
Reliability(R)	0. 79	0
Responsiveness (RE)	0. 81	0
Assurance (A)	0. 66	0
Empathy (EM)	0.66	0
Loyalty (L)	0. 71	0
Privacy / Security (P)	0.64	0
Website Design (WD)	0.59	0

From the above table it is evident that the relationship between the dependent variables and independent variables is positive, with responsiveness being the highest with 0.81, therefore the hypothesis is accepted.

#### **MULTIPLE LINEAR REGRESSION TO MEASURE CUSTOMER SATISFACTION:**

**TABLE 5: TABLE INDICATING R AND R SQUARE VALUE**

Model	R	R Square	Adjusted R Square	Std. error
	.81a	.64	.59	.86

To understand the impact of each service quality dimension on customer satisfaction, the multiple regression model is run. Customer Satisfaction is dependent variable and tangibles, reliability, responsiveness, assurance, empathy, loyalty, security/privacy, website design are independent variables. Above table shows that coefficient determination is .64, therefore about 64% of the variation in satisfaction is explained by independent variables. The regression equation appears to be very useful for making predictions since the value of  $r^2$  is .64. From the above table it is implied that the  $R=.81$ ,  $R^2=.64$  and adjusted R square =.59 with a standard error of 0.86.

#### **6. FINDINGS:**

The study clearly indicates there is a strong positive correlation between the service quality and the loyalty of the customers of the Foreign Banks in Chennai. The Dimension Responsiveness has the highest stronger relationship when compared to the other service dimensions. The study also confirms that there is a very good association between customer satisfaction with conventional banking and loyalty of the customers of the foreign banks in Chennai. The association between customers' satisfaction with electronic banking services is again good but it is not as strong as in the case of conventional banking.

#### **7. LIMITATIONS OF THE RESEARCH**

The sample size of 350 can never depict the true picture of the customers in Chennai and the study is relied on quantitative data which is again a limitation of the study. Only foreign banks customers have been studied. And the study is confined to only five banks (Citibank, Standard Chartered Bank, HSBC Bank, Royal Bank of Scotland, and DBS Bank).

#### **8. CONCLUSION**

Bankers in a competitive banking and financial services market are expected to compete on both traditional and electronic service quality, and it is also necessary for bankers to pay attention to customers' preferences and expectations in terms of both traditional and electronic service quality. The findings and conclusions of this study provide banking institutions, particularly

foreign banks, with a clear picture of their customers' perceptions, satisfaction, and loyalty regarding foreign bank banking services, which will help them formulate appropriate banking strategies.

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