

EFFECT OF SERVICE QUALITY ON CUSTOMER LOYALTY: EMPIRICAL EVIDENCE FROM CO-OPERATIVE BANK

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Abstract

Co-operative banks are playing important role in the Indian Financial System and also well being of rural people. The banks are providing loans to the rural people for their economic stability. However, the service quality of the banks should be analyzed from the rural customer point of view. Hence, this study is to find the effect of service quality of Primary Agricultural co-operative Bank and customer loyalty. For that 415 customers are studied from a particular Primary Agricultural Cooperative Bank at Thanjavur District, Tamil Nadu. Service quality dimension are tangibility, reliability, responsiveness, assurance and empathy are used to measure service quality of the bank. Customer loyalty is measured with five statements. The collected data are analyzed with descriptive statistics, correlation and regression analysis. The result shows that service quality has the impact on customer loyalty. However, empathy and reliability is the dimension significantly influenced on customer loyalty. It is judged that the bank must improve the services in terms of the tangibility, responsibility and assurance.

Keywords: *Primary Agricultural Co-Operative Bank, Service Quality, Customer Loyalty.*

1. Introduction

In today's banking environment, banks' profitability levels have been compressed due to increased competition and spread reductions. Banks are relied on services to make their profit margin in the highly regulated market place. Basically, consumers are the deciders, to choose the bank based on their needs and wants. Hence, today banks are driven by consumers, they demand service quality. Banks need to realize good quality of services, in order to keep consumers and maximize profitability. It is important that employees realize a common banks goals and to work on implementation of strategies to achieve those goals.

Service quality is one of the most effective means of establishing a competitive position and improving profit performance. To establish a competitive position, banks must measure and determine their level of service quality, if they desire to keep their consumers and satisfy their needs.

Service quality has been viewed as an important issue in the banking industry (Stafford, 1994) because it's 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)

A common definition of service quality is that the service delivered should fulfill the customers' requirements, expectations and satisfactions. Customers play an important role with regard to the perception of effect on quality of service delivered (Gan,et.al.,2006; Oyeniyi and Joachim, 2008). Since service quality is constructed from multi-elements, it may be assessed based on the characteristic of service delivery system and the level of customer satisfaction (Yasin,et.al.,2004; Chase and Bowen, 1991; Klaus, 1985; Parasuraman,et.al., 1988).

Service quality has been defined as the degree and direction between customer service expectations and perceptions (Newman, 2001). Perceived service quality is defined as the evaluation of the service across the episodes when compared to some explicit or implicit standard (Storbacka et al., 1994). Further, it can

be seen as how well a service satisfies the expectations of customers (Bouman and Van Der Wiele, 1992).

2. Customer Loyalty

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.

Pearson (1996) has defined customer loyalty as the mindset of the customers, who hold favorable attitudes toward a company, commit to repurchase the company's product or service and recommend the product or service to others. Customer loyalty is very significant in the creation and maintenance of competitive advantage in the service industry.

3. Objective of the Study

After the liberalization, privatization and globalization policy, the Indian banking sectors are changed their strategy to compete with in themselves. Nowadays, varieties of schemes are introduced by the private banks and foreign banks. Customer attitude are changed towards co-operative banks. Customers are assumed private bank and foreign bank are providing better services than co-operative banks. Thus, the question of this research is, what is the strength of association between service quality of the co-operative bank and loyalty of the customer. Hence the objective of this study is to examine the strength of relationship between service quality and customer loyalty towards the co-operative bank.

3. Methods and measurement

Data were collected from 415 respondents of Primary Agricultural Co-operative Bank. The bank mainly located in Thanjavure District, Tamilnadu. The respondents those who had contacts with the banks on a regular basis over the last three years and visited the bank frequently for transactions were only considered. Purposive sampling method was used to collect the data. In order to measure service quality, Parasuraman et.al (1985) tool was adopted. This tool consist of 22 items which are measured five dimensions namely, tangibility, reliability, responsiveness, assurance and empathy. BIB developed by Zeithamal et.al (1996), where, 5 items related to loyalty to wards service providers. This is adopted for this study. The respondents are asked to rate their opinion in the seven point scale. Where 7 stands for strongly agree and one stands for strongly disagree. Further, collected data were analyzed with descriptive statistics, correlation and multiple regression analysis using SPSS.

4. Result and Discussion

The main objective of this study is to examine the strength of relationship between service quality and customer loyalty. The data were analyzed using descriptive statistics, correlation and multiple regression analysis. Service quality of the bank has been measured with 5 dimensions, such as tangibility, reliability, responsiveness, assurance and empathy. The calculated mean and standard deviation value are shown in the table-1

Tangibility has been measured with the four statements. Respondents are asked to rate their opinion for each statements. The mean values are ranged from 5.48 to 4.58. It is noted that the respondents are highly rated that the bank is having modern looking equipment (5.41) followed by the bank employees are well groomed (5.16), the bank materials such as pamphlets, statement etc are visually appealing (5.12).But, appearance of physical facility is secured low mean score than others. The customer are very much appreciated that the bank has modern looking equipment and also the employees are well groosmed. However there is a lack of visual appearance of physical facilities. Tangible refers to the physical cues that are part of the service delivery process (Zeithaml et al., 2006; O'Neill and Palmer, 2003). They are used to communicate to the customer about the service that can be expected. Tangibles are the appearance of physical facilities, equipment, personnel and communication materials (Parasurman,et.al., 1988, 1991).

Reliability has been measured with the five statements. The mean values are lies from 5.06 to 4.40. From the mean values, it is observed that the bank provides its services at the time it promises with the mean score of 5.06 followed by promises to do something by a certain time (5.01), the bank performs the services right the first time (4.96) the bank insists on error free records (4.73) and the bank shows a sincere interest in solving problem (4.40). It is found that the bank provides its services as promised and the bank promises to do something by certain time factors are rated higher among the respondents. The customers are satisfied with promised services done by the bank. Reliability refers to account accuracy (keeping records correctly, accuracy in billing), keeping promises and meeting deadlines, providing a timely service (performing the service at the designated time), accurate information to customers, improved cash machines, availability and dependability and services provided, security of transactions and more tills open at peak time have Othman (2003), described reliability as the bank's ability to perform the promised service, with dependability and accuracy.

Responsiveness has been measured with the four statements. The mean values are ranged from 4.96 to 4.75. It is noted that the respondents are highly rated that the bank employees provide prompt services to the customer (4.96) followed by the bank employees exactly tell when services will be performed (4.78), employees are always willing to help it customers (4.57).But, they are too busy to respond the customer queries. The customers of the banks are agreed that the banks provide prompt services and also they received the message from the banks when the service will be performed exactly. However, the respondents are felt that the bank employees are busy to respond to solve the customer queries. Responsiveness refers to the willingness on the part of the service provider to deliver assistance to the customer (Zeithaml,et.al., 2006; O'Neill and Palmer, 2003). Responsiveness is staff willingness to help customers and provide prompt service (Parasurman,et.al., 1985-1994). Surshchandar,et.al. (2003) have described responsiveness as the provision of the prompt service.

Assurance has been measured with the four statements. Mean values are ranged between 4.92 to 5.51.It is noted that the respondents are stated that the bank is safety for transactions (5.51) followed by the employees behaviors (5.16), bank employees have the knowledge to answer the questions (4.93), the employees are consistently courteous (4.92).It is found that the customer of the bank are perceived better service relating to safe transaction and confidence building by the employee. Assurance is likely to be particularly important for services that the customer perceives as involving high risk or about which they feel uncertain about their ability to evaluate outcomes. For example, in banking, insurance, legal and medical services (Parasurman,et al.,1994) .

Empathy has been measured with the four statements. Mean values are ranged from 4.08 to 4.94. The respondents are highly rated that the bank employee do the services best interest at their heart (4.94) followed by the convenient operating hours of the bank to all its customers (4.66) the banks give individual attention (4.55) and the employee of the bank understand the specific needs of the customer (4.39) and the personal attention of the employee (4.08). It is found that the bank do the services as best interest of the customer and also have the convenient operating hours. But, there is lack of personal attention of the employees towards their customers. The essence of empathy is conveying, through personalized or customized service, that customers are unique and special. This dimension refers to the level of caring and individualized attention the bank provides for its customers. Here, the customer is treated in such a way that they feel important to the organization and that their needs are important to the organization, such as that they receive caring, individualized attention (Zeithaml, et.al., 2006; O'Neill and Palmer, 2003).

In this study, service quality perception is treated as the predictor variable and customer loyalty is considered as criterion variable. In order to examine the relationship between these variables, Pearson correlation analysis is carried out. The results are displayed in the table-2. The calculated p-values are significant. The r-values are having positive impact. It shows that service quality dimension such as tangibility, reliability, responsiveness, assurance and empathy are positively related with customer loyalty. The r-value as ranged from 0.55 to 0.248. Empathy, responsiveness and reliability lead to have higher level of customer loyalty towards the bank. Whereas, tangibility and assurance are leads to have lower level of customer loyalty

Here, none of these variables are highly correlated (>0.80). It shows that the multicollinearity among these variables is not found. It is indicated that all the variables are independent, though related with each other. Next multiple regression analysis is used to examine the strength of association between independent and dependent measure. The regression result is displayed in the table -3

From the regression analysis of model summary, the calculated f-value is 43.49 which is significant at one percent level (P-value is 0.001). Here, the adjusted r-square value indicates the percentage level of effect among the independent variables on the dependent variable. Where, tangibility, reliability, responsiveness, assurance and empathy are treated as independent variables and loyalty is considered as a dependent variable. From the model summary the independent variable are significantly influenced on dependent variable at 34.7 percent level. Further the standardized co-efficient beta value indicates the relative importance of the independent variables on dependent variable i.e customer loyalty. It is expressed by the following equation.

$$\text{Customer Loyalty} = 8.277 + 0.224 (\text{Reliability}) + 0.385 (\text{Empathy})$$

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. 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.

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. Furthermore, the longer a loyal customer stays with a firm, the more profitable it is 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.

Conclusion

This study examined the strength of the relationship between service quality and customer loyalty. The results showed that the customers were given more importance to service quality dimension. The customer were given more importance to modern looking equipment , do the services as promised, prompt services, safe transaction and do the services as whole heartedly. Hence, banks should pay more attentions to these services. Further, multiple regression results indicates, that the reliability and empathy are the dimensions predicting the customer loyalty, it shows other dimension tangibility, responsiveness, assurance, and empathy were found to be least predictors of customer loyalty in the co-operative banks. It is known fact the co-operative banks are still following traditional way. It is acceptable, but nowadays bank customer needs and wants changing due to technological advancement and other private and foreign banks services. Hence, the management must come forward to develop the new strategy to attract the customer and try to bring the customer from private bank and foreign banks. Becomes, customer is the prime premises.

Limitation and Scope for Further Research

The sample size was relatively small and drawn from a specific district. Hence the generalization of the result is not much more effective. Further, the data could be analyzed in the structural equation model and be tested in order to get on integrated result, to get better understanding of the relationship among the variables. Further it is possible to conduct the same study with other co-operative bank like central co-operative bank to compare the result.

Table-1, Customer's Opinion towards Service Quality

Service Quality	Statements	Mean	Std. Deviation
Tangibility	Modern looking equipment	5.41	1.38
	Physical facilities are visually appearing	4.58	1.54
	Employees are well groomed	5.16	1.40
	Materials are visually appealing	5.16	1.54
Reliability	Promises to do something by a certain time	5.01	1.58
	A sincere interest in solving problem	4.40	1.70
	Performs the services right the first time.	4.96	1.35
	Provides its services at the time it promises to do so.	5.06	1.47
	Insists on error free records	4.73	1.74
Responsiveness	Tell exactly when services will be performed	4.78	1.614
	Employees give prompt service	4.96	1.581

	Always willing to help	4.57	1.580
	Never too busy to respond to the queries	4.15	1.746
Assurance	The behavior of employees instills confidence	5.16	1.32
	Safe in transactions	5.51	1.49
	Employees are consistently courteous	4.92	1.63
	Have the knowledge to answer the questions	4.93	1.58
Empathy	Gives individual attention	4.55	1.69
	Convenient operating hours to all its customers	4.66	1.67
	Gives personal attention	4.08	1.74
	Best interest at heart	4.94	1.57
	Understand the specific needs.	4.39	1.54

Source: Primary data computed

Table – 2 Service Qualities and Loyalty

Service Quality	loyalty	
	R-Value	P-Value
Tangibility	0.248	0.001*
Reliability	0.445	0.001*
Responsibility	0.467	0.001*
Assurance	0.379	0.001*
Empathy	0.555	0.001*

Primary data computed, *significant at one percent level

Table -3 Effect of Service Quality on Customer Loyalty

Model summary	Service Quality	B	Std. Error	Beta	T- Value	P-Value
	Constant	8.277	1.601	-	5.145	0.001*
R-value -0.589	Tangibility	0.016	0.069	0.018	0.227	0.821
R- value -0.348	Reliability	0.224	0.056	0.198	3.998	0.001*
Adj.Rvalue-0.399	Responsiveness	0.079	0.071	0.069	1.118	0.244
F-value-43.49	Assurance	0.029	0.070	0.021	0.410	0.682
p.value-0.001	Empathy	0.385	0.060	0.390	6.370	0.001*

Source: Primary data computed, *significant at One percent level. NS = Non-Significant

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