

The Relationship between Customer Satisfaction and Customer Loyalty in Banking Services

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Abstract

The main purpose behind of this study is to find out the major factors that have impact in customer satisfaction and customer loyalty in case of SBI Bank in Kamareddy Town, Telangana State. The paper tries to explore whether there exists any relationship between service quality dimensions, customer satisfaction and customer loyalty. After testing the hypotheses using various techniques, it was found that service quality dimensions such as tangibility, reliability, responsiveness, empathy and assurance had significant positive impact on customer satisfaction and customer loyalty.

Keywords

Customer Satisfaction, Customer Loyalty, Assurance, Empathy, Tangibility Reliability and Responsiveness.

Introduction

Banks are competing intensely in a highly competitive environment to offer quality oriented services according to customers' expectations. Various important parts of banking sector like operations, service quality, employee satisfaction, customer satisfaction, financing products, efficiency, financial performance are being studied by many researchers to better understand and serve the community at large (Arokiasamy, 2013).

The high-quality relationship with customers is the main influence of a successful service provider (Panda, 2003) "which determines customer satisfaction and loyalty" (Lympelopoulou, Chaniotakis, & Soureli, 2006). Organizational outcome such as performance superiority is primarily influenced by the service quality (Portela, & Thanassoulis, 2005), "increasing sales profit" (Levesque & McDougall, 1996) and "market share" (Fisher, 2001), progressing customer relations, improving corporate image and promote customer loyalty (Newman, 2001; Caruana, 2002). "Furthermore, service quality and customer satisfaction were found to be related to customer loyalty through repurchase intentions" (Levesque & McDougall, 1996; Newman, 2001; Caruana, 2002). Banks must convey quality service to ensure success and survival in today's competitive banking. It is logical that a satisfied customer will become at the end... a repeat purchaser and a loyal buyer for many causes. This relationship between satisfaction and buyer loyalty should conclude in improved marketing performance for a variety of reasons.

Today, constant progress in service quality from the bank is a crucial need for their customers to stay loyal, due to the increasing awareness among bank customers' rights, their changing demands, and competition. This research intends to test whether the bank customers are satisfied with the services provided to them, which will eventually lead to loyalty.

Literature Review

"Regarding the competitive environment, there is a need for banks to plan their strategies that will differentiate them from another. This can be achieved through the delivery of high service quality. The practice of excellent service quality has been proven that customer satisfaction will significantly lead to customer loyalty" (Caruana A. , 2002; Caruana, Money, & Berthon, 2000).

“Customer satisfaction is one of the most important issue concerning business organization of all types, which is justified by the customer oriented philosophy and the principles of continues improvement in modern enterprise” (Arokiasamy, 2013).

The marketing concept suggests that a satisfied buyer will be more likely to repurchase again, or at least has the intention of repurchasing again, than those who are dissatisfied. They consider that customer satisfaction and retention the most important long-term objectives of firms. Reichheld and Sasser (1990) suggested that new buyers cost more to serve than repeat customer, which means that repeat customers are benefiting a firm’s cost structure.

A firm’s primary strategic objectives are to minimize customer regress and to maximize customer intention rates to buy, as evidenced by the recent emphasis on customer relationship management. Thus, previously satisfied buyers may help firms both reduce marketing costs, and develop more stable levels of sales when a large number of satisfied buyers are retained to purchase again in the future. There are several definitions of customer satisfaction in the marketing literature. It is generally accepted that satisfaction is a psychological state that results from consumer experiences after consumption (Pleshko & Heiens, 1996).

According to a widely accepted conceptualization, customer satisfaction is “a customer’s post-consumption evaluation of a product or service” (Mittal & Carly, 2010). This only “occurs if the perceived performance of a product or service meets or exceeds customers’ prior expectations” (Bearden & Teel, 1983; Oliver & Richard, 1980; Oliver R. , 2010). Thus, overall customer satisfaction with a company’s offerings is determined by comparisons between customers’ expectations of the company’s products or services and their perceptions of the products’ or services’ performance (Oliver & Richard, 1980; Oliver R. , 2010).

Customer Loyalty

Customer loyalty broadly refers to customer behaviors that indicate a desire to better an ongoing relationship with a company (Palmatier, Dant, Grewal, & Kenneth Evans , 2006). The customer’s willingness to purchase again from the company, having a preference for the company, or recommending the company to others could be indications to customers’ desire to remain in a relationship with a company that demonstrate how much a customer is related to a company. Loyal customers are often worth the marketing effort, owing to their willingness to buy additional products and spread positive word of mouth as well as their reliability as a source of continuous revenues (Zeithaml, Berry, & Parasuraman, 1996).

The programs of customer retention could lead to a higher rate in buyer loyalty. Although that marketing manager’s primary concern is maintaining and increasing brand loyalty, there is no guarantee for loyal buyers, because today’s buyer might not be so in the future since loyalty is considered so transient.

“Loyalty is developed over a period of time from a consistent record of meeting, and sometimes even exceeding customer expectations “(Teich, 1997). Kotler et al. (Kotler, Ang, Leong, & Tan, 1999) claims that the cost of attracting a new customer may be five times the cost of keeping a current customer happy.

Customer loyalty is very difficult to be achieved. More and more unique ways are adopted to meet the ever-changing nature of the service industry. Additionally, time constraints are most often a barrier to customer satisfaction. Every organization in the market competes to develop advanced methods to keep on track. Technology, for example affects the service industry, since constantly meeting customer satisfaction over a period of time is the only way to achieve customer loyalty (Teich, 1997).

Service Quality

All the “definitions of service quality hold that this is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed” (Lehtinen & Lehtinen, 1982; Lewis & Booms, 1983; Parasuraman, Zeithaml, & Berry, 1985; Caruana A. , 2002). Service quality is defined as the degree of contradiction between customers’ perceptions of service performance and their normative expectation for service. (Parasuraman, Zeithaml, & Berry, 1985).

Interrelationship between Customer Satisfaction and Customer Loyalty

It is logic that satisfied buyers will probably return for future purchases and eventually become loyal. This is the formal concept and the basis for thought in marketing. “In fact, this relationship between satisfaction and loyalty has been shown to be the case throughout much of the literature. Recent studies support this strong correlation between satisfaction and loyalty. Additionally, in the financial services industry, it is shown that satisfaction should be treated as one of the main predictors of loyalty “(Al-Wugayan, Pleshko, & Baqer, 2008).

Need and Important of the Study

Customers became a center for all banking activities due to increased competition for greater market share. Focusing on customer satisfaction has been the key to increasing service quality according to customers’ expectations in the banking sector” (Zairi, 2000). Hanson (2000) suggested that the level of service quality is an indication of the organization's ability to meet customers' desires and demands. So, organizations must better their services to meet the customers' needs and requirements. Managers depend on customers’ anticipation of service quality for the competition in the market (Hoffman & Bateson, 2002).

Objectives of the Study

- To Assess service quality level of SBI bank in Kama Reddy District using SERVQUAL
- To Assess the relationship between Customer Satisfaction and Customer loyalty

Significance of Study

This study identifies quality dimensions significant to SBI Bank to enable the bank to develop strategies to improve the quality of service delivery. This will enhance the Bank’s competitive position in the banking industry and ensure survival of the bank, especially in this era of keen competition.

Hypotheses of the Study

H₀₁: There is no positive relationship between service quality dimensions and customer satisfaction

H₀₂: There is no positive relationship between customer satisfaction and customer loyalty

Scope of Study

The study is limited to service quality practices of SBI Bank in Kamareddy District. The Bank has 12 branches across the Kamareddy District in Telangana State. This study however focuses on the five branches of SBI Bank located in the Kamareddy Town.

Research Design and Method

Research Design

The present study utilise the descriptive and explanatory research was carried out to assess the service quality, customer satisfaction and customer loyalty in the SBI bank in Kamareddy District.

Study Area

Five branches of SBI Bank located in the Kamareddy Town

Population

Population refers to specific group of the units such as individuals, households, organization and similar that are targeted for definite study. For this present paper, all customers of five branches of SBI Bank located in the Kamareddy Town were identified.

Sampling Frame

After defining the population, the next step is to identify the sample frame. Sampling frame is the process of listing the elements so as to draw actual sample. For this paper, list of SBI banks branches in Kama Reddy District in Telangana State was obtained.

Sampling Procedure

Non-Probability sampling methods was used for data collection. Under this sampling procedure, convenience sampling procedure is appropriate for the present research.

Sampling Size

Several factors such as money, time, statistical methods, population size and so on depends upon the question of sample size. For this research, as per the research convenience, 250 sample were taken.

Table 1 **Sample size**

Sno	Branch Name	Sample Size
1	SBI Bank Kamareddy branch main	50
2	SBI Bank, Indra Nagar Branch	50
3	SBI Bank-Sircilla Road Branch	50
4	SBI Bank-Ashok Nagar Branch, Kamareddy	50
5	SBI -Devanpally Branch	50
	Total	250

Reliability of The Instrument

In this study, the coefficient alpha analysis is performed on each scale measuring SERVQUAL, Customer satisfaction and Customer loyalty. The coefficient alpha values are shown in the table no 2. The coefficient alpha for SERVQUAL Dimensions is Tangible .865, Reliability .963, Responsiveness is .898, Assurance is .944, Empathy is .973, Customer Loyalty is .789 and for customer Satisfaction.

Table 2 **Cronbach's Alpha Coefficient for Constructs**

Sno	Measurement Scale	Number of items	Cronbach Alpha (α)
1	Tangible	4	.967
2	Reliability	5	.963
3	Responsiveness	4	.898
4	Assurance	4	.944
5	Empathy	5	.973
6	Customer Loyalty	4	.789
7	Customer Satisfaction	4	.792

Data Collection Tools and Procedures

The study made use of primary and secondary data sources in order to gather relevant information for the study. The primary data were collected from the selected respondents of the bank under study. The study employed mainly questionnaire in collecting the primary data and the analysis was substantially based on primary data. The secondary data which were collected from existing literature formed the literature review of this study. The sources of the secondary data included books, journals, articles obtained from the internet.

Variables in the Study

In this study, the following dependent and independent variables were included

Dependent variable: Customer Loyalty

Independent variables: Customer Satisfaction and SERVQUA Dimension.

Data Analysis

The study employed both descriptive and inferential tools in analyzing the data. The data collected was edited and coded. The coded data was then processed using Statistical Package for Social Sciences (SPSS).

Results

Table 3 Descriptive Statistics of Service Quality Dimensions, Customer Loyalty and Customer Satisfaction

Sno	Measurement Scale	Number of items	Number	Minimum	Maximum	Mean	Standard Deviation
1	Tangible	4	250	1	5	4.4367	.75122
2	Reliability	5	250	1	5	4.4460	.7432
3	Responsiveness	4	250	1	5	3.9947	.7345
4	Assurance	4	250	1	5	3.8697	.7325
5	Empathy	5	250	1	5	3.7673	.8348
6	Customer Loyalty	4	250	1	5	3.6500	.6624
7	Customer Satisfaction	4	250	1	5	3.4673	.7158

Here the mean value of all variable ranges between 3.46 to 4.44 respectively and standard deviation ranges from 0.6624 to 0.7512 respectively. Service quality Reliability and Tangible has a highest mean value of 4.44, 4.43 along with standard deviation 0.7432, .75122 in given table.

Table 4 **Correlation between SERQUAL dimension and customer satisfaction**

Customer satisfaction	n	r	Sig.
Tangible	250	.852**	.000
Reliability	250	.783**	.000
Responsiveness	250	.767**	.000
Assurance	250	.832**	.000
Empathy	250	.861*	.000
**. Correlation is significant at the 0.01 level (2-tailed).			
*. Correlation is significant at the 0.05 level (2-tailed).			

According to Table 4, SERQUAL dimension has the strongest positive association with the dependent variable (Customer satisfaction), Empathy which is $r = 0.861$. Then, it is followed by the positive correlation between Tangible ($r=0.852$, Significant at 0.01 level), Reliability ($r=0.783$, Significant at 0.01 level), Assurance ($r=0.832$, Significant at 0.01 level) Responsiveness($r=0.767$, Significant at 0.01 level).

Table 5 multiple regression analysis between **customer satisfaction** and **SERQUAL dimension**

	Unstandardized coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.071	.064		1.116	.265
Tangible	.086	.046	.087	1.846	.066
Reliability	.387	.043	.388	9.051	.000
Responsiveness	.124	.041	.125	3.050	.003
Assurance	.097	.026	.105	3.684	.000
Empathy	.322	.028	.338	11.538	.000
R=.967	R²=.935	Adjusted R²=.934			
ANOVA					
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	536.966	5	107.393	702.932	.000 ^c
Residual	37.278	244	.153		
Total	574.244	249			
a. Dependent Variable: customer satisfaction					
b. Predictors: (Constant), SERQUAL dimension (Tangible, Reliability, Responsiveness, Assurance and Empathy)					

The table no 5 depicted the multiple regression results relating to influence of **SERQUAL dimension** on Customer Satisfaction. From, the table it is can be seen that R the correlation coefficient is 0.967 which indicates a strong and positive relationship between Customer

Satisfaction (dependent variable) and Tangible, Reliability, Responsiveness, Assurance and Empathy (independent variables). R square ($R^2=0.935$) shows that by 93.4% the effect of Tangible, Reliability, Responsiveness, Assurance and Empathy on Customer Satisfaction may be predicted by changes. To further explain this result, Customer Satisfaction were influenced by some factors or constants out of which 93.4% was from Tangible, Reliability, Responsiveness, Assurance and Empathy. This effect is respectable.

The Standardized Coefficients (table no 5) are .086, .387, .124, .097 and .322 for Tangible, Reliability, Responsiveness, Assurance and Empathy. This effect is respectable. Their p-values standing at .066, .000, .003, .000 and .000 which are significant at 5% level. Except, for Tangible dimension is not have a significant impact of Customer Satisfaction.

Furthermore, the combined predictable power of the model or the adjusted coefficient of multiple determinations (adj. R^2) indicates that about 93.4% of changes in Customer Satisfaction are explained by the independent variables.

The result at the ANOVA table above shows that the calculated F-value (702.932) is significance at 5% level is greater than the table value. Thus, the overall test statistics is significant. The alternatives hypothesis are accepted.

Table 6 Correlation between Customer Satisfaction and customer Loyalty

Customer Satisfaction y	n	r	Sig.
Customer Loyalty	250	.928**	.000
**.			
*.			

According to Table 6, customer Satisfaction has the strongest positive association with the dependent variable (Customer Loyalty), Which is $r = 0.928$ and it is significant at 0.01 level.

Findings

Service quality dimension such as tangibility, reliability, responsiveness, assurance and empathy have a significant relationship with customer satisfaction. This indicates that higher the service quality, greater the customer satisfaction. Usually in-service sector, customer satisfaction is determined with the help of service quality dimensions. This finding was supported by previous literatures of Mahamad & Ramayah (2010); Siddiqi (2011); Al-Azzam (2015); Lau et al. (2013). Furthermore, earlier studies conducted by M.M. Khan & Fasih (2014) also support these findings. However, the research conducted by Kheng et al. (2010) stated that only two dimensions of service quality (Empathy and Assurance) are positively related with customer satisfaction. Therefore, for this research, the results with respect to SBI banks supported that service quality dimensions were the vital factors for customer satisfaction.

The second hypothesis states that customer satisfaction acts as a vital variable to create loyalty in service sector like SBI bank. The research result concluded that customer satisfaction had a significant positive relationship with customer loyalty. This finding was also supported by earlier studies of Zafar et al. (2011); Lau et al. (2013); M.M. Khan & Fasih (2014). Similarly, the research conducted by Siddiqi (2011) in retail banking in Bangladesh also support this result. It stated that customer satisfaction and customer loyalty are positively related with each other. This means that higher the customer satisfaction, greater will be loyalty. However, prior study by (Badara, et al., 2013) stated that there is no positive significant relationship between customer satisfaction and customer loyalty in Nigerian Islamic banks. Nevertheless, it is concluded that satisfied customers are loyal with the services they received from banks.

Implication of the Study

This research is useful in the field of service marketing and understanding customer satisfaction and customer loyalty in Commercial Bank. It also provides clear insight to commercial banks manager to understand customer needs and wants in changing environments. It also facilitates the higher-level employees to take decision that helps to improve their business by managing service quality.

Furthermore, findings reveal that service quality dimension is vital to create customer satisfaction and customer loyalty. So, in order to exist in a sustainable manner, commercial banks need to upgrade their service quality and review their business strategy. Finally, managerial implication of this research will help managers to evaluate their business strategies and upgrade their strategy to face new competition by attracting more customers.

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