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Article

Association Between Perceived Quality and Customer Loyalty in the Banking Sector - An Empirical Study

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Abstract

Banking sector has grown phenomenally over last few decades with proliferation of more banks, branches and wider penetration of the services. As the competition surges up, the customers will have wider choices and consequently show up tendency of churn or migration when they are not happy with the services or perceive the quality of services to sub-standard. An attempt to know pulse of the customers as to the quality of services rendered by the banks and the level of loyalty would help the banking sector to come up with appropriate measures to improve the service quality and enhance the customer loyalty. The present research focuses on perceived quality of services rendered by banks and its impact on customer loyalty with 489 sample population in Bengaluru city, India. Results show significant association between some of the respondent attributes such as education, annual family income, marital status, mode of opening account and span of association, and customer loyalty. The regression model shows influence of perceived quality on customer loyalty with adjusted R^2 *value of .522 at 99 percent confidence level. A more comprehensive study conducted in larger geographical area in the coming years would help in capturing the consumer pulse better.*

Key words: *Banking Sector, Demographics Customer Loyalty and Perceived Quality.*

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1. Introduction

Banks play a vital role in the operations of the financial system and are vital country's economic growth and development. Customer satisfaction holds the key for success of any business organization. As the banking sector has been increasingly becoming competitive, acquiring new customers, serving them and maintaining proper relations with them to attain desired results is a tough challenge. This rise in customers' demands for better quality of service is forcing banks to get the deeper insights of the consumer and their behaviour. While banks were largely expected to serve the needy by providing liberal credit in early decades of bank nationalisation in India, the post-reform era ushered in in the year 1991 heralded an era of intense competition across all the verticals, and the banking sector was no exception. Consequently bankers- both in public and private sectors started focusing on attracting more customers, strengthen their brands by offering wider range of services and improving service quality to be profitable. In a way, the banks were rather obligated to transform themselves into profit-seeking businesses alongside contributing to improving the lives of people on the one hand and the economy on the whole on the other. Banks like other commercial organisations focus on service quality and customer relationship to identify, serve and satisfy their customers. Banking sector has been growing exponentially over the decades owing to policy support from the government and adoption of breakthrough technologies that help banks to reach out to unbanked population with least cost. The share of services sector in Indian economy stood at 53.89 percent of GDP during the year 2020-21 (Ministry of Statistics and Programme Implementation updated on 17 June 2021) and Banking sector encompasses 7.7 percent. The current research paper throws light on quality of services rendered by the banking sector as perceived the most important stakeholders-customers.

2. Review of Literature

Nguyen, Thi Thu Cuc. (2021) studied the impact of customer loyalty on switch behavior in the use of personal banking services at commercial banks in Vietnam and found negative association between the two. Sadia Jahanzeb (2013) found that higher service quality had a strong and positive impact on corporate credibility and affected customer perception for better towards value of a service brand. Service quality is an important and direct antecedent of customer loyalty as it facilitates the customers to be able to differentiate a brand from its competitors (Pappu et al., 2005), Yoo et al. (2000). Previous researches also confirmed that perceived value is correlated strongly with customer willingness to pay a premium (He and Li, 2011; Netemeyer et al., 2004). Bindu K Nambiar et al (2019) emphasised that banks have to be increasingly customer-oriented so as to be profitable. Alongside understanding the customers' needs thoroughly, the banks need to constantly emphasise on nurturing proper relationship with the customers (Ghazizadeh, 2010). Banks that develop warm relationship with the customers reap benefits such as greater commitment, repeat purchase, trust, emotional attachment to the bank, and liking (Ragins & Alan, 2003).

Application of latest technology by the banks in service delivery helps to reduce coasts and uncertainties (Joseph. M et al, 1999). Intense competition in the contemporary business environment warrants high quality of services for enhancing customer satisfaction and loyalty (Khan et al, 2014). The factors such as transactions with speed and accuracy, employee expertise, less waiting time, confidentiality and responsiveness significantly enhance customer satisfaction in the banking sector (Appannan et al, 2013). A higher perception of service quality of banks leads to increased revenue, higher customer satisfaction and greater customer retention rate (Kumar et al., 2010). Service quality leaves a positive impact on customer satisfaction (Thaichon et al, 2017). The two vital components of service quality and service value play a significant role in establishing customer loyalty (Putra IWJA, 2013)

Parasuraman, A et al. (1988) purported that the customer's perception of service quality can be boosted by constantly anticipating and meeting their needs and expectations. Superior service quality gives credibility to the customers and fosters positive word-of-mouth communications, augments customers' perception of value and lifts the morale and loyalty of employees and customers' alike. Kumar, M. et al (2010) mentioned that banks obtain a competitive edge in the marketplace which is largely undifferentiated through superior service quality. Sri Wahyuni et al (2019) studied the effect of perceived quality and trust on brand loyalty and found the existence of strong positive association between the two. R. Chinomona and E.T. Maziriri (2017), C. Kocoglu, D. et al (2015) also found in their study that better the perceived quality of bank products and services, greater the customer satisfaction and loyalty towards the bank.

Goyal, K et al (2021) tried to draw the synthesis upon various factors affecting Personal Financial Management Behaviour (PFMB) and found that financial satisfaction, financial success, quality of life, happiness, relationship satisfaction, financial vulnerability/resilience and financial well-being have significant influence. Sánchez-Camacho, C. et al (2021) studied the domain of bank marketing under 12 major thematic areas. The initial periods exhibit less emphasis on bank marketing which significantly increased during the most recent periods. Introduction of mobile banking, online banking, showed significant impact on customer satisfaction, loyalty and trust.

3. Research Design

The study has been carried out in Bengaluru, India using both primary and secondary sources of data. Major objectives of the study included the following:

- To study the perceived quality of services by the customers in the select geography- Bengaluru city, India
- To study the level of customer loyalty towards the banks they are dealing with in the select geography
- To study whether there exists significant difference between the respondent attributes, and the way the quality is being perceived and customers ore showing loyalty
- To study the impact of perceived quality on customer loyalty
- To offer constructive suggestions

The primary data were collected using structured questionnaire, which was administered in person and sent to email or WhatsApp number of the target respondents for data collection. The questionnaire consisted 8 questions pertaining to respondent attributes, 10 items relevant to perceived service quality, 7 items related to loyalty. Secondary data were collected from published articles in the national and international journals- both print and electronic versions, speeches, comments, analyses by the industry stalwarts, database and the like from publicly available sources. A total of 2000 potential respondents were contacted using both convenience and judgmental sampling technique for the purpose of data collection and the responses submitted completely by 489 respondents were considered for the analysis. After extensive review of literature, a total of 10 statements related to perceived quality of services rendered by the banks and 7 statements relating to customer loyalty, measured on 5-point Likert scale, were included in the questionnaire. Those who completed minimum 18 years and currently operating at least any one of the types of bank accounts in the list consisting 4 types were picked up for the study. As it was likely that the respondents held accounts in multiple banks, they have been advised to reckon the experience with the bank in which have primary account to mark the responses in the questionnaire.

4. Data Analysis

The data were analysed using SPSS and the results were examined using descriptive and inferential statistical tools such as mean scores, standard deviation, Anova and regression model.

4.1 Descriptive statistics

In this section, the data analysis pertaining to respondents' attributes and their responses to the questions regarding perceived quality and loyalty has been shown as mean scores and percentages

4.1.1 Respondent Attributes

The survey included 65.8 percent of males, 33.1 percent females and the rest 1.1 percent chose not reveal the gender. The respondents were more or less normally distributed in terms of age- 35.6 percent and 35.2 percent falling in the age groups of 26-40 years and 41-60 years respectively. About 16.4 percent were under 25 years (above 18 years) and the rest 12.8 percent were over 60 years. About 12 percent completed UG level of education while over 75 percent had pursued PG or professional studies. While majority 60 percent of respondents are currently employed, 15 percent are self-employed/ running their own business, 14 percent are unemployed/ retired/ homemaker and the students form 11 percent of total respondents. The respondents were almost evenly distributed in terms of annual family income- 20 percent fall in up to Rs 5 Lakhs per Annum category; 28.2 percent in Rs 5-10 Lakhs per annum; 25.2 percent in Rs 10-20 Lakhs per annum and 26.6 percent in above Rs 20 lakhs per annum.

A significant majority of the respondents have been maintaining the primary account in the respective banks for more than 3 years, 9.2 percent have it during last 1-3 years and only 4.9 percent operate the bank accounts in within last one year. The respondents were also asked what prompted them to open the account in their bank and 4 possible scenarios were presented and percentage of respondents in each category has been summarised below-

- I opened the account when I wanted to open and complied with all requirements (77.9)
- I had to open the account due to an obligation to a personal contact (4.7)
- I opened A/C since the Bank offered to open Zero balance account without any fee/ Salary Account (13.9)
- The bank organised special drive and helped me to open the A/C on the spot (3.5)

4.1.2 Perceived Quality

Table 1: Table showing the mean scores of variables studied under Perceived Quality

Sl No	Variables studied under Perceived Quality	Mean
1	The bank has high quality of services	3.624
2	The bank provides error- free statements, bills etc.	3.765
3	The bank does service right the first time.	3.546
4	The bank deals with complaints appropriately.	3.497
5	This bank provides innovative products and services	3.452
6	The bank provides timely service	3.620
7	When I have a problem, the bank shows sincere interest in solving	3.515
8	The bank provides customized e-banking services	3.663
9	The bank uses a widely accepted payment system	3.926
10	The bank provides active, interactive support systems like chatbots, interactive media like videos etc	3.618

Source: Primary data

4.1.3 Customer Loyalty

Table 2: Table Showing the mean scores of variables studied under Customer Loyalty

Sl No	Variables studied under Customer Loyalty	Mean
1	It makes sense to buy/continue services from my bank instead of any other brand, even if they are the same	3.738
2	Even if another bank has the same features as my bank, I would prefer my bank.	3.738
3	If there is another bank as good as mine, I prefer my bank	3.748
4	I say positive things about the bank to other people.	3.761
5	When practical, I provide positive written feedback on this service provider (e.g., recommendation blogs, ratings, and comments on review websites).	3.593
6	I take the initiative to actively promote this service provider (e.g., passing on details of this service provider)	3.411
7	I have managed to convince other people to deal with this bank.	3.395

Source: primary data

Out of 10 statements under perceived quality dimension, the 5th item- This bank provides innovative products and services was given least mean score of 3.452 and 9th item- The bank uses a widely accepted payment system was given highest mean score of 3.926. In the customer loyal dimension, the item no. 4- I say positive things about the bank to other people was given highest mean score of 3.761 while the item no. 7- I have managed to convince other people to deal with this bank secured least score of 3.395.

Inferential Statistics

The researchers examined whether there exists significant difference between respondent demographics and perceived quality, and loyalty using Anova. Impact of perceived quality of services on customer loyalty is being assessed to logical regression.

4.2.1 Hypotheses

H1: There exist significant difference between respondents' demographics such as gender, age, education, occupation, annual family income, mode of opening account in the bank and span of association, and perceived quality

H2: There exist significant difference between respondents' demographics such as gender, age, education, occupation, annual family income, mode of opening account in the bank and span of association, and loyalty

H3: There exists significant association between respondents; perceived quality and loyalty

4.2.2 ANOVA

A1: Annual family income vs Perceived Quality

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	60.765	37	1.642	1.441	.049
Within Groups	514.130	451	1.140		
Total	574.896	488			

A2: Education vs Loyalty

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	11.788	28	.421	1.537	.041
Within Groups	126.008	460	.274		
Total	137.796	488			

A3: Annual family income vs Loyalty

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	52.891	28	1.889	1.665	.019
Within Groups	522.005	460	1.135		
Total	574.896	488			

A4: Mode of opening A/C vs Loyalty

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	29.907	28	1.068	1.471	.049
Within Groups	334.048	460	.726		
Total	363.955	488			

A5: Span of Association vs Loyalty

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	14.824	28	.529	2.245	.000
Within Groups	108.489	460	.236		
Total	123.313	488			

The results of Anova show the existence of significant association with respect to some demographic attributes and the outcome variables such as perceived quality and loyalty. The attributes that significant association are shown in the above tables A1 to A5.

4.2.3 Regression Model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.723[a]	.523	.522	4.42236

a. Predictors: (Constant), Perceived Quality

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10445.314	1	10445.314	534.088	.000[b]
	Residual	9524.408	487	19.557		
	Total	19969.722	488			

a. Dependent Variable: Loyalty

b. Predictors: (Constant), Perceived Quality

5. Discussion

The study has been taken up to study the perception of the consumers towards the quality of banking services in Bengaluru area, to study the level of loyalty, the most important factor for growth and success of any business organisation, and to see whether there existed significant association between perceived quality of services and the customer loyalty. The results showed significant association between some of the respondent attributes such as education, annual family income, marital status, mode of opening account and span of association with the bank. The vital demographic attributes such as gender and age do not show significant difference across various groups of the sample population. The groups in the higher income brackets perceive the quality better and show higher degree of loyalty. The time may be ripe for the banks to reach out to the lower income classes too more effectively with more innovative financial products and better services, while maintaining and augmenting the services rendered to the elite groups. The groups with higher levels of education show greater levels of loyalty, but shown no significant difference regarding perceived quality. Reaching out to the people with lower educational background through appropriate media and communication strategy would help the bankers to create better awareness among the customers about the range of banking services, use the services offered by the banks in a hassle-free manner and use the technology to the fullest advantage.

As the people open bank accounts under 4 different broad scenarios, but the ones who were put under obligation of their personal contacts to open the account show a lower patronage and loyalty. Banks that are force-selling their accounts (fixing targets for opening new accounts by their interns or new recruits) may reconsider the situation at ground level. The study shows significant difference between span of association of customer with the bank and their loyalty towards the same at 99 percent confidence level. Longer the span, better the loyalty. The banks certainly could do better to retain the customers over longer term so that the customers become more loyal and eventually become evangelists of the organisations. The present study is a pointer for the bankers to revisit their product portfolio and strengthen the same with more innovative products which the customer can afford and can easily access. Regression analysis was run to see the model fit between perceived quality and loyalty. The output shows model fit with adjusted R^2 value of 0.522 which suggests that over 52 percent customer loyalty may be attributed to perceived quality. The model is statistically significant at 99 percent confidence level.

The alternative hypotheses H1 and H2 stated in section 4.2.1 were partially accepted as significant association has been found between annual family income and perceived quality (ref Table A1), respondent education and customer loyalty (A2), annual family income and loyalty (A3), mode of opening account and span of association vis a vis loyalty (A4 & A5). The alternative hypothesis H3 is accepted with the model fit. The results showing no significant association between respondents' gender education, education, occupation, mode of opening account and span of association vis a vis may be understood that people seek quality services from the financial institutions like banks their demographic status, and they do get frustrated when their needs are appropriately met.

6. Conclusion

The current research throws light on the perceived quality of the services provided by the banks and attempted to assess the loyalty. The results provide much valuable insights to the bankers to improve their services and finetune their offerings that help in better service to the customers and in turn the customers showing more loyalty and patronage towards the banks. Consumers can become loyal to such organisations and not only make such banks as their reliable financial partners but also get involved in advocacy (Shivani Kapoor and NM Rani, 2021). Since the study has been carried out with specific reference to banking sector in Bengaluru city, India, similar studies in other geographies and other sectors would help in building a model which fits better for broader generalisation in services sector. In the wake of consolidation in the banking sector and merger of banks in the public as well as private sectors and fintech companies revolutionising the banking space, a more comprehensive study taken up in the coming 3-4 years' timeline would help bring out more interesting and meaningful insights.

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