

FACTORS INFLUENCING CUSTOMER'S PERCEPTIONS OF SERVICE QUALITY, SATISFACTION AND LOYALTY IN THE BANKING SECTOR

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Abstract-The purpose of the study is to explore the factors influencing service quality, satisfaction, and loyalty in the banking sector. This study found, convenience, reliability, empathy, physical atmosphere, and customer to customer interaction as the critical factors that influence service quality. This study proposed a conceptual model establishing causal paths between service quality factors, customer satisfaction, and loyalty. Finally, this study also proposed that service quality influence loyalty through satisfaction. Theoretical and practical implications are discussed.

Keywords: Service quality; Satisfaction; Customer loyalty; Banking sector

1. Introduction

Service quality is considered as the major determinants of customers' satisfaction and loyalty. Since the pioneering work (Parasuraman, Zeithaml, & Berry, 1985) a wide number of studies have discussed this topic in various service settings. The application of SERVQUAL was found in all the marketing settings. The findings of all those studies revealed that service quality is a key aspect of service consumption (Grönroos, 1984).

Service quality and satisfaction are considered key aspects of any business, scholars studied service quality as antecedent and satisfaction as consequence (Lassar, Manolis, & Winsor, 2000). This study made an attempt to examine the relationship between service quality and satisfaction in the banking sector.

Customer loyalty is a major goal of all the service organizations (Butcher, Sparks, & O'Callaghan, 2001). Literature found that service quality and satisfaction leads to customer loyalty (Bahia & Nantel, 2000). Thus, this study investigated the relationship among service quality, satisfaction, and loyalty.

The following section provides a literature review of service quality factors, satisfaction and customer loyalty, followed by methodology, theoretical contribution, practical implications, and limitations and future research.

2. Literature review

2.1. Service Quality

Service quality refers to the gap between customer expectations of service and perceived service performance. A huge number of studies have discussed the importance of service quality in the marketing literature. Even though the roots of service quality appeared long before, (Parasuraman et al., 1985) work is considered as the pioneering work. Before service quality, scholars used to measure customer satisfaction as the tool to measure customers' evaluation of service (Grönroos, 1984). Later studies have clearly differentiated the concepts of service quality and satisfaction (Spreng & Mackoy, 1996). It was contended that service quality is antecedent and satisfaction is the consequence.

Service quality was measured by various scholars in the various service settings. Such as retail, travel, tourism, spots and online (Atilgan, Akinci, & Aksoy, 2003; Dabholkar, Thorpe, & Rentz, 1996). Every study has proposed various factors that influence the service quality. This study explored factors that influence service quality.

2.1.1. Convenience:

Convenience is one of the critical element of service quality (Brown, 1990). Customers prefer to visit banks that are near and convenient to them. Moreover, in the banking sector, customer make frequent visits to do transactions (Arnold, Lampe, Masselli, & Sutton, 2000; Farquhar & Rowley, 2009). Also, the service failure also seems to be high in banks. Even though the online banking options are provided to the customers, still customers visit personally because the risk perceptions of online banking are high (Ittamalla, 2018). Thus, banks that consider the customer's convenience factor can benefit with better service quality evaluations.

2.1.2. Reliability

Reliability is the major aspect of the service consumption (Bahia & Nantel, 2000). Reliability refers to the consistency of the service for the long term (Parasuraman et al., 1985). Customers always observe the service provider that their brand reliable or not. Various studies in the marketing literature have examined the importance of reliability. Specifically, in the banking sector,

reliability plays a major role. Unlike any other sector, banking sector customer feels very personal because of the risk that he is banking(Newman, 2001). Hence, the reliability factor plays a vital role that can provide differentiation comparing to other banks.

2.1.3. *Empathy*

Another important service quality factor is empathy. Humans are social beings. Eventhough customer visits service factory for the consumption of the service their interaction with service provider influences their satisfaction very much(Bahia & Nantel, 2000). It was contended that mere the dressing sense of the employees can influence the approach behavior of the customer. That is why the service provider insists their staff carry the dress codes(Holmlund & Kock, 1996). Similarly, in the banking sector, the customer interacts with the employee for various services. If the employee is not responding properly their satisfaction is more likely to be decreased. Thus, empathy plays a key role in service quality evaluations.

2.1.4. *Physical atmosphere*

Inseparability is one of the characteristics of the service. Thecustomer has to visit the factory to consume the service. Thus, the customer interacts with physical environments of the service setting(Wakefield & Blodgett, 1999). Moreover, this physical setting is a tangible factor as the service is intangible. Beautifulambiance can positively influence the customer service quality evaluations(Wall & Berry, 2007). Similarly, customer visits the banks for the service transactions. If the physical surrounding of the bank looks attractive, the customerfeels happy and make a positiveimpression of the service provider. In contrast, if the service setting is not attractive, they hesitated to revisit the bank.

2.1.5. *Customer to customer interactions*

Service consumption happens in the public. Thus, one cannot avoid the presence of the other customers in the service setting. Thus the behaviors of the other customer can have a profound impact on overall service quality(Choi & Mattila, 2016). For instance, other customers are not dressed properly can give a poor quality impression of the service provider. Similarly, in the banking sector, a group of people will visit banks. Suppose one shouts loudly or does not follow the cues this can influence the emotions of the other customers(Ittamalla, 2017). Thus proper management of the customers is a critical factor of service quality.

2.2. *Customer satisfaction*

Customer satisfaction refers to the differentiation between what is expected and what is received by the customer(Spreng & Mackoy, 1996). This is also called disconfirmation theory. Majority of the studies has examined the relationship between service quality and satisfaction. Their findings suggested that service quality is one of the strongest determinants of the satisfaction(Grönroos, 1984). Thus, it was contended that better the service quality better the customer satisfaction. Therefore, managers should improve the service quality in order to improve the customer satisfaction. Specifically, in the banking sector, banks should provide quality services to satisfy their customers.

2.3. *Customer loyalty*

Customer loyalty is the ultimate goal of any company. Customer loyalty brings the profits to the company. Because it was contended that attracting a new customer is more costly than retaining the old customers(Pullman & Gross, 2004). Customerloyalty is measured byrevisit and word of mouth behavior. Revisitintention refers to the customer actually revisiting the company(Gracia, Bakker, & Grau, 2011). Word of mouth behavior refers to customersreferring the company to others and sharing their experiences with others. Various studies have examined the relationship between service qualityand loyalty(Bloemer, De Ruyter, & Peeters, 1998). Service quality influences customer loyalty. Some of the studies also found that service quality influence customer loyalty through satisfaction.

3. **Methodology**

This study adopted an exploratory method to identify the factors influencing service quality in the banking sector. Thus, this study has reviewed past studies on service quality. It has considered top journals to review.

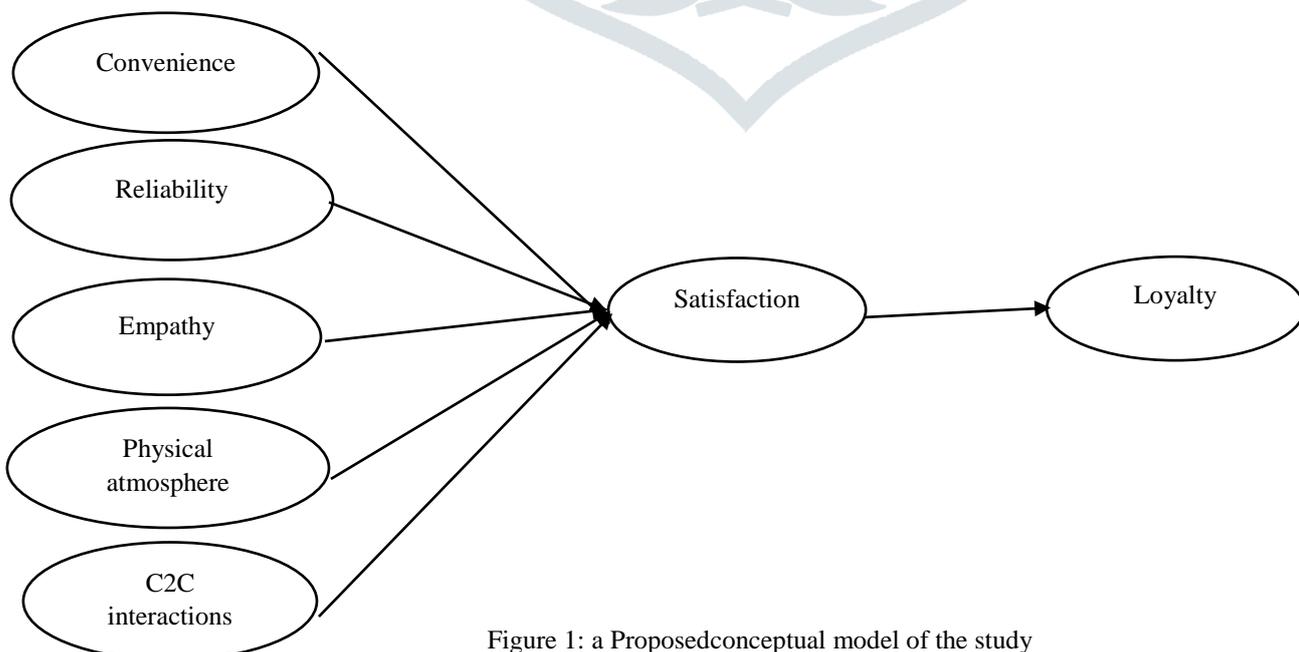


Figure 1: a Proposedconceptual model of the study

4. The contribution of the study

4.1. Theoretical contribution

This study contributes to the literature by exploring the factors that affect service quality in the banking sector. All the variables such as convenience, reliability, empathy, physical atmosphere, and customer to customer interactions can influence the service quality, satisfaction, and customer loyalty. This study also reviewed the relationship between service quality factors and satisfaction.

4.2. Practical implications

This study advises bank managers to consider the factors like convenience, reliability, empathy, physical surroundings of the service settings. Proper design of these factors can improve the customer satisfaction and loyalty. They should consider these factors in their marketing strategy to attract and retain their customers.

5. Limitations and Future Research

This study reviewed the previous literature and found service quality determinants. Further study can empirically measure them. This study is limited to the banking sector. Further studies can explore the service quality factors in the other sector such as retail and travel.

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