RELATIONAL BONDS, SERVICE QUALITY, CUSTOMER SATISFACTION AND CUSTOMER LOYALTY

(A COMPARATIVE STUDY AMONG PUBLIC, PRIVATE AND FOREIGN BANKS)

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ABSTRACT: Banking Sector has undergone various transformations in the past few decades. The introduction of technological innovations and participation of Private Banks and Foreign Banks, paved way for competitions among the different types of banks and therefore to be competitive and to sustain in the market, banks have to maintain long term relationships with their customers and also provide excellent Relational Bonds, Service Quality, Customer Satisfaction and Customer Loyalty. Against this background, this paper attempts to identify differences among the Public, Private and Foreign Banks with reference to Relational Bonds, Service Quality, customer satisfaction and customer loyalty. The respondents for the study are customers of Public, Private and Foreign Banks in Chennai City. The standardized questionnaire is adopted for the study and Multiple Discriminant Analysis is carried out using SPSS package.

Key Words: Relational Bonds, Service Quality, Customer Satisfaction and Customer Loyalty.

INTRODUCTION:

Banks play a vital and dynamic role in the financial and economic development of a country. Banks have to provide customer satisfaction, by developing a long term and sustainable relationship so that their customers can be committed and loyal. Banking institutions adopt a marketing strategy that gives a touch of good personal service by creating a two-way communication and building an aged-long relationship that is mutually beneficial to the customers and the banks (Dibb and Meadow, 2001). In addition, Wong & Sohal (2003) study revealed the existence of positive relationship between service quality and customer loyalty. At the same time, they also found that this dual relationship is stronger at the company level rather than at the interpersonal level. Booming service organizations always struggle to maintain and superior service quality in all exchanges in order to gain customer loyalty. With Liberalization, Privatization and Globalization the entry and participation of Private and Foreign Banks have resulted in tough competition to Public (Nationalized) Banks. Therefore, this study is an attempt to compare Public, Private and Foreign Banks with reference to Relational Bonds, Service Quality, Customer Satisfaction and Customer Loyalty.

LITERATURE REVIEW:

RELATIONAL BONDS:

Lin et al., (2003) identified that businesses can be built through customer relationships by developing one or several types of bonds. Berry and Parasuraman (1991) were the authors who first introduced the three levels of bonds namely financial, social and structural bonds. Financial bonds (Berry, 1995) are the multiplicity of economic benefits that tie the customers to the firm. Social bonds are personal ties or linkages produced during interaction between a buyer and seller (Berry 1995). Structural bonds are where the customers are tied at the organizational level but not at the individual level e.g. salespersons (Berry, 1995; Smith,1998).

SERVQUAL DIMENSION:

Service Quality can be defined as meeting the needs and expectations of the customer (Smith, 1998). Five dimensions of SERVQUAL have been developed for the service sectors: tangibility, reliability, assurance, responsiveness and empathy (Van Iwaarden et al., 2003). Tangibility represents physical facilities, equipment and appearance of personnel. Reliability refers to the ability to perform the promised service dependably and accurately. Assurance is the ability of the employee's to inspire trust and confidence in them. Responsiveness represents the willingness to help customers and provide prompt service and empathy represents the personalized attention that firms provide to its customers.

CUSTOMER SATISFACTION:

Customer satisfaction provides an essential link between cumulative purchase and post-purchase phenomena in terms of attitude change, repeat purchase and brand loyalty (Churchill & Surprenant, 1982). Satisfied customers always suggest to others to buy the product/service while dissatisfied customers will most probably recommend others not to use the product/service (La Barbera and Mazurky,1983).

CUSTOMER LOYALTY:

Customer Loyalty is an asset. Wernerfelt (1991) pointed that consumers are ready to pay more for a brand. Day (1969) suggested that loyalty should be evaluated through both attitudinal and behavioural measures. Czepiel and Glimore (1987) suggested that attitudinal loyalty is a specific desire to continue a relationship with a service provider. Behavioural Loyalty means the purchases happens over a defined period of

time, which can be measured by considering purchasing frequency (i.e., Liljander and Strandvik, 1993), proportion of purchases (i.e., Backman and Crompton, 1991), purchase sequence (i.e., Kahn et al., 1986), and probability of purchase (Massey et al.,1970).

OBJECTIVE OF THE STUDY:

To identify the differences among Public, Private and Foreign Banks with reference to Relational Bonds, Service Quality, Customer satisfaction and Customer Loyalty.

RESEARCH METHODOLOGY:

An instrument for assessment of Relational Bonds, Service Quality, Customer Satisfaction and Customer Loyalty has been designed by adopting standardized questionnaires of various authors. 17 items measuring Financial Bonds, Social Bonds and Structural Bonds were adopted from the study of Lin et al.,(2003) and Robert et. al.,(2003). 20 items have been adopted from the SERVQUAL model of (Parasuraman et al., 1988) to measure Service Quality. Customer Satisfaction has been measured by adopting eight items from the study of DeWulf et al. (2001) , Morgan and Hunt (1994) , Moorman et al. (1992) and Roberts et al. (2003). Both Attitudinal Loyalty and Behavioural Loyalty have been measured by adopting 5 items each from Too et. al's.,(2001) study. Five point Likert scale ranging from "5=strongly agree" to "1= strongly disagree" was used to measure all the statements in the questionnaire. Primary data was collected from 673 customers of Public, Private and Foreign Banks of Chennai city by adopting Stratified random sampling technique. Reliability test was conducted and Cronbach's Alpha Score of 0.93 revealed the reliability of the questionnaire to be good. The analysis was carried out with SPSS Version 18 and the tools used were percentage and Multiple Discriminate Analysis.

DATA ANALYSIS AND INTERPRETATION:

PROFILE OF RESPONDENTS:

The demographic profile of the surveyed Bank customers (n=673), which includes that majority of the bank customers are salaried and graduate males in the age group of '41-50 years', with experience of '6-10 years' and monthly family income of 'Rs 25,001 to Rs 50,000'. Of the total respondents 50% are customers of Public banks, 40% of Private banks and 10% of Foreign banks

MULTIPLE DISCRIMINANT ANALYSIS:

It is a technique for analyzing data when three or more categories are involved and the criterion or dependent variable is categorical and the predictor or independent variables are interval in nature. In the present study, dependent variables are the types of Banks (Public, Private and Foreign Banks) and independent variables are Financial Bonds, Social Bonds, Structural Bonds(components of Relational Bond's), Tangibility, Reliability, Responsiveness, Assurance, Empathy(components of Service Quality), Customer Satisfaction, Attitudinal Loyalty and Behavioural Loyalty(components of Customer Loyalty). The significant differences among Relational Bonds, Service Quality, Customer Satisfaction and Customer Loyalty of the three banks have been analyzed with the help of mean scores and one way analysis of variance. The discriminant power of the constructs has been measured with the help of Wilks' Lamda. The smaller the Wilks' Lambda for an independent variable the more that variable contributes to the discriminant function Table 1, given below shows the mean value scores and tests of equality of group means which include Wilks' Lambda, F-value and its significance.

Table 1 Types of the Bank customers-Mean values and Tests of Equality of Group Means

SNO	Constructs	Public Banks	Private Banks	Foreign Banks	Wilks' Lamda	F	Sig
1.	Financial Bonds	16.07	16.49	15.82	0.990	3.354	0.036
2.	Social Bonds	25.54	26.75	24.70	0.972	9.702	0.000
3.	Structural Bonds	22.31	23.59	21.42	0.963	13.003	0.000
4.	Tangibility	15.21	15.78	15.46	0.989	3.892	0.021
5.	Reliability	15.00	15.21	14.37	0.991	3.208	0.041
6.	Responsiveness	12.89	13.39	12.82	0.994	1.860	0.157
7.	Assurance	15.33	15.46	14.64	0.991	2.904	0.055
8.	Empathy	12.67	13.52	12.40	0.984	5.618	0.004
9.	Customer Satisfaction	30.85	31.12	29.94	0.996	1.498	0.224
10.	Attitudinal Loyalty	18.69	19.15	18.12	0.992	2.833	0.060
11.	Behavioural Loyalty	19.24	19.40	17.99	0.985	5.125	0.006
12.	N Value	337	269	67			

From the above table it is inferred that there exists significant differences among the Public Bank, Private Bank and Foreign Bank customers for the constructs Tangibility, Financial Bonds, and Reliability since their respective 'F' statistics are significant at five percent level and their respective Wilks' Lambda are 0.989, 0.990 and 0.991 with high discriminating power. Similarly, it is also found that the dependent variables ie. type of banks vary with respect to the constructs Structural Bonds, Social Bonds, Empathy and Behavioural Loyalty since their respective 'F' statistics are significant at one percent level with Wilk's Lambda amounting to 0.963, 0.972, 0.984 and 0.985 respectively. Wilks' Lambda for the remaining four constructs namely Customer Satisfaction (0.996), Responsiveness (0.994), Attitudinal Loyalty (0.992) and Assurance (0.991) are not statistically significant. So, these constructs do not contribute to discrimination among all the three bank types.

Table 2 Eigen values and Wilks' Lambda

Function	Eigen Value	% of Variance	Cumulative %	Canonical Correlation	Wilks' Lamda	Chi-Square	df	Sig.
1	0.070(a)	67.7	67.7	0.256	0.904	67.196	22	0.000
2	0.034(a)	32.3	100.0	0.180	0.968	21.942	10	0.015

(a) First 2 canonical discriminant functions were used in the analysis

Canonical Correlation 0.256 indicated 67.7% variance explained by function 1

Canonical Correlation 0.180 indicated 32.3% variance explained by function 2

The above table shows that both the functions are statistically significant. Wilks' Lambda for function 1 is 0.904 with χ^2= 67.196 ; df=22 and p-value=0.000. Test of function 2 shows Wilks' Lambda is 0.968; χ^2= 21.942 ; df=10 and p-value=0.015. The first function is statistically significant at1% level and second function is also statistically significant at 5% level. Thus the functions together, discriminate significantly among the three types of banks. Since the chi-square statistics corresponding to Wilks' Lambda is statistically significant for function 1 and function 2, it is concluded that there exists relationship between the dependent groups and the independent variables.

Further the effectiveness of the discriminate function is explained through Eigen values. The Eigen value is a ratio of the between groups sum of squares to the within group or error sum of squares. The above table shows Eigen value of 0.070 for function 1 and 0.034 for function 2. This indicates that the first discriminant function is the most capable in differentiating among types of bank customers and the second discriminant function is the second most useful function.

The canonical correlation is the multiple correlations between the predictors and the discriminant function. In the above table a canonical correlation of 0.256 and 0.180 for function 1 and 2 respectively suggests function 1 explains 67.7 percent of variance and function 2 explains 32.3 percent of variance among the three types of bank customers respectively.

Table 3 Standardized Canonical Discriminant Function Coefficients

SNO	Constructs	Functions	
		1	2
1.	Financial Bonds	-0.002	-0.160
2.	Social Bonds	0.616	-0.106
3.	Structural Bonds	0.793	0.216
4.	Tangibility	-0.014	-0.940
5.	Reliability	-0.160	0.560
6.	Responsiveness	-0.130	-0.093
7.	Assurance	-0.271	0.396
8.	Empathy	0.588	-0.088
9.	Customer Satisfaction	-0.607	-0.250
10.	Attitudinal Loyalty	0.018	-0.183
11.	Behavioural Loyalty	0.014	0.915

The Standardized coefficients for each of the eleven constructs namely Financial Bonds, Social Bonds, Structural bonds, Tangibility, Reliability, Responsiveness, Assurance, Empathy, Customer satisfaction, Attitudinal Loyalty and Behavioural Loyalty are provided in Table 3. The standardized coefficients denote the partial correlation coefficient of each of the construct to the discriminant function. The interpretation of the discriminant coefficients (or weights) is like that in multiple regression analysis. The table above provides an index of the importance of each construct like the standardized regression coefficients (beta's) did in multiple regression. A large standardized coefficient denotes greater contribution of the respective construct to the discrimination among the three types of bank customers. Since the first function has more validity and reliability, this function alone has been taken for the purpose of interpretation. In Function 1, Structural Bonds has the highest discriminating power with coefficient of 0.793, followed by Social Bonds with coefficient of 0.616 and Customer Satisfaction 0.607.

To examine the relative discriminating power of each variable, discriminant loading, sometimes called structural correlation is scrutinized because it is regarded as a better measure than the discriminant coefficient (Grover,1993). The discriminant loadings denote the correlation between the constructs and the discriminant function. The larger the discriminant loadings, the stronger will be the relationship between the construct and the discriminant function. The discriminant loadings, presented in Table 4 denote the correlations between the constructs and the discriminant function.

Table 4 Structure Matrix

SNO	Constructs	Functions	
		1	2
1.	Structural Bonds	0.727(*)	0.216
2.	Social Bonds	0.629(*)	0.182
3.	Empathy	0.488(*)	0.017
4.	Financial Bonds	0.373(*)	0.082

5.	Tangibility	0.371(*)	-0.241
6.	Attitudinal Loyalty	0.321(*)	0.190
7.	Responsiveness	0.280(*)	-0.028
8.	Behavioural Loyalty	0.266	0.555(*)
9.	Assurance	0.229	0.385(*)
10.	Reliability	0.279	0.349(*)
11.	Customer Satisfaction	0.184	0.249(*)

(*) The largest absolute correlation between each variable and any discriminant function

In the above table, Pearson co-efficients are the structure co-efficients or discriminant loadings which serve like factor loadings in factor analysis. It shows the correlation each variable has with each discriminant function. Like factor loadings, 0.30 is seen as the cut-off between important and less important variables. Thus from the above table it is inferred that, Structural Bonds with discriminant loading of 0.727 has the highest correlation with function 1 and strongly discriminates among the three types of bank Customers.

Table 5 Classification function Coefficients

		Types of bank		
SNO	**Constructs**	**Public Bank**	**Private Bank**	**Foreign Bank**
1.	Financial Bonds	1.202	1.213	1.244
2.	Social Bonds	0.203	0.283	0.199
3.	Structural Bonds	-0.060	0.038	-0.125
4.	Tangibility	0.610	0.667	0.846
5.	Reliability	0.752	0.682	0.617
6.	Responsiveness	0.488	0.473	0.510
7.	Assurance	0.708	0.628	0.624
8.	Empathy	0.189	0.280	0.181
9.	Customer Satisfaction	0.059	0.004	0.107
10	Attitudinal Loyalty	-0.284	-0.273	-0.252
11.	Behavioural Loyalty	0.419	0.376	0.243
	(Constant)	-35.023	-36.808	-33.507

The above table reveals that Financial Bonds is the construct which highly discriminates amongst the three types of banks, revealing that each bank has adopted different types of financial links or products for their customers.

Reliability has emerged as the second important discriminating construct with reference to Public and Private banks, whereas Tangibility has emerged the second important discriminating construct for Foreign banks. However assurance has emerged as the third important discriminating construct with reference to Public and Foreign banks, but Tangibility for Private banks.

Comparison of classification function coefficients among the three types of bank (Table 5) reveals that customers 'Public Bank' are high in Reliability and Assurance when compared to other two sectors. The customers are satisfied with the promised work and trust of employees. Social Bonds and Empathy are high in 'Private Banks' since customers have personal bond and separate attention from the employees. Financial Bonds and Tangibility are high in 'Foreign Banks', the customers are getting good priced products and services with good ambiance from the bank.

Table 6 Classification Results [(a)]

SNO	**Type of bank**	**Predicted Group Membership**			
		Public Bank	**Private Bank**	**Foreign Bank**	**Total**
1.	Public Bank	48(17.8%)	184(68.4%)	37(13.8%)	337
2.	Private Bank	240(71.2%)	55(16.3%)	42(12.5%)	269
3.	Foreign Bank	12(17.9%)	9(13.4%)	46(68.7%)	67
	Total	300	248	125	673

(a) 69.8% of original grouped cases correctly classified.

The examination of the Classification Table reveals that the discrimination amongst the three types of banks in terms of Financial Bonds, Social Bonds, Structural bonds, Tangibility, Reliability, Responsiveness, Assurance, Empathy, Customer Satisfaction, Attitudinal Loyalty and Behavioural Loyalty is successful in classifying 69.8% of the original grouped Bank customers.

CONCLUSION:

The importance of Public, Private and Foreign Banks in discriminating on constructs Financial Bonds, Social Bonds, Structural bonds, Tangibility, Reliability, Responsiveness, Assurance, Empathy, Customer Satisfaction, Attitudinal Loyalty and Behavioural Loyalty. Accordingly

the results are found. The variables which significantly contribute to the differentiation among the types of bank customers, namely Tangibility, Financial Bonds and Reliability at five percent level and Social bonds, Structural bonds, Empathy and Behavioural Loyalty at one percent level. From the structure matrix table it is found that Structural Bonds is the most important construct which highly discriminates among the three types banks. The classification function coefficients revealed Financial Bonds highly discriminates amongst the three types of banks. The original grouped cases classification showed that overall 69.8% were correctly classified.

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