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IMPACT OF SERVICE QUALITY ON CUSTOMERS' RETENTION IN COMMERCIAL BANKS AT VIRUDHUNAGAR DISTRICT

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ABSTRACT--*The customer retention is a very interesting and important topic in the service industry especially in banking sector. Service quality is usually understood as a measure of how well the level of the delivered services matches the customer's expectations (Santos, 2003). Most* of *the Indian Banks perform the same functions. Therefore, customers place service quality on the top in their priority list while choosing a particular bank. Banks prosper or decline majorly depends on the quality of service offered to the customers. Due to dependence on quality service majority of the banks in India have placed service quality at the top of the list of business strategy. In this study, the researchers have chosen sample respondents from six public banks and four private banks working in the Virudhunagar District, Tamilnadu, India. It is descriptive because descriptive data were collected through detailed customer survey and interviews. It is also explanatory since it tried to explain the relationship between the service quality in banking and customer retention, also realized that for better understanding of the relationship between service quality and customer retention. 120 Sample Respondents were selected for the study using simple random sampling. In this study, Service quality is commonly noted as a critical prerequisite for establishing and sustaining relationship with valued customers. Several studies have shown that a high level of customer service quality can exert a positive influence on customer satisfaction and retention. In this study, it is found that a positive and moderately significant relationship exists between Customer Retention and Service Quality.*

Keywords-- Customer Retention, Service Quality, Commercial Banks

I. INTRODUCTION

In the past few decades, service quality has received a lot of attention from researchers and practitioners because of its strong impact on business performance, customer satisfaction, customer loyalty and retention. It is understood as a measure of how well the level of the delivered services matches the customer's expectations (Santos, 2003). Gronroos (1984) describes service quality as "the outcome of an evaluation process, where the consumer compares his expectations with the service he perceives and he has received". Furthermore, Parasuraman et al. (1988) pointed service quality as "the overall evaluation of a specific service firm that results from comparing that firm's performance with the customers' general expectations of how firms in that industry

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should perform". Majority of the service provider deliver higher level of the services as a part of their business strategy in order to position themselves ahead in the market competition. Most of the Indian Banks perform the same functions and therefore customers place service quality on the top in their priority list while choosing a particular bank. Moreover, the banks carry their business with public money and hence customer expects better service from the bank. In such situation, customer select the bank based on the quality service offered to the customers. Therefore, banks prosper or decline majorly depend on the quality service offered to the customer and due to this reason majority of the banks in India have placed service quality at the top of the list of business strategy.

II. REVIEW OF LITERATURE

Since decades, service quality has been widely studied by many researchers but there is no common consensus about the conceptualization of service quality. Different researchers have focus on the different aspects of the service quality. The most common definition among the researchers for service quality is that "service quality is the customer's perception of service excellence which means quality is defined by the customer's impression of the service provided" (Berry et al. 1988; Parasuraman et al. 1985). The main assumption behind the definition of service quality is that customers build their perception of service quality based on their past experiences of service performance and therefore the customer's perception decides service quality. There are many other definition for the customer's perception of the service quality. Takeuchi and Quelch 1983 have studied that consumer's attitudes or judgements are resulting from comparisons by consumers of expectations of service with their perceptions of actual service performance. (Berry et al. 1988; Gronroos 1982). Berry (1980), along with Booms and Bitner (1981), argue that, due to the intangible nature of services, customer use elements associated with the physical environment when evaluating service quality. Managing the evidence and using the environmental psychology are often seen as important marketing tools. Levitt (1981) proposes that customers use appearances to make judgments about realities, and less tangible a product the more powerful is the effect of packaging in judging that product. Hostage (1975) for his part, believes that a service firm's contact personnel comprise the major determinant of service quality, while Lewis and Booms (1983) propose that service quality resides in the ability of the service firm to satisfy its customer needs, i.e. customer satisfaction. Lehtinen and Lehtinen (1982) have defined service quality in the context of physical quality, interactive quality and image quality about the company. Physical quality relates to the tangible aspects of the service. Interactive quality deals with the interactive nature of services and refers to the two-way flow that occurs between the customer and the service provider, or his/her representative, including both automated and animated interactions. Corporate quality refers to the image attributed to a service provider by its current and potential customers, as well as other publics. They alsosuggest that when compared with the other two quality dimensions, corporate quality tended to be more stable over time.

But the traditional approach for defining service quality emphasizes that service quality perception is a comparison of consumer expectations with actual performance (Gronroos 1984; Lewis and Booms 1983; Parasuraman et al. 1985; Parasuraman et al. 1990). Madu and Madu (2002) defined the 15 dimensions of online service quality: performance, features, structure, aesthetics, reliability, storage capacity, serviceability, security and system integrity, trust, responsiveness, product/service differentiation and customization, Web store policies, reputation, assurance, and empathy. Reichheld & Sasser (1990) stated that, longer the firm retains the customer, more profit customer generates. Authors also claimed that higher the retention rates leads to higher net present value of the customers. This is a result of various factors like effects of the higher cost of attracting new customers, increased cost of purchases over a period of time, expanded number of purchases, positive word – of- mouth and mutual understanding between customers & firm. According to Ahmad &Buttle (2002), Service firms must improve customer service quality and satisfaction in order to retain customers. Authors further advocated retention measurement and preventing customer disloyalty by analysing complaint and service data and identifying & creating deterrents to customer switching.Reichheld& Sasser (1996), suggested that in order to succeed in retaining the customers, firm should adopt the strategies like defining and measuring retention and seeking loyalty by focusing on the quality of the service. Moreover, strategy should also include changing the channel of distribution, reducing the number of undesirable customers through filtering, offering the rewards to service personnel for retaining the customers, using coupons to distinguish and reward the customer who re-purchase and designing the program to attract and retain the valued customers. Lassar et al (2000)'s research supportedthat the banking industry offered a proper setting for comparing models of service quality. The increased competition has led banking industry to focus on customer satisfaction and customer retention through improved service quality. Prior research on bank service provider and customers found that service provider's morale is strongly related to the customer satisfaction, customer retention and customer loyalty; that is when bank customers perceive the front-line service providers to be happy with their work, these customers are more likely to be satisfied and retain with the bank as per the research of the Allred (2001). Moreover, author also suggested that in order to maximize the customer retention in banking, service providers need to pay close attention to the customer needs and quality of services.

III. OBJECTIVES

This study focuses on the following objectives:

- To identify the various service quality factors in Banking industry
- To analyse the impact of service quality factors on customer retention in Commercial Banks in Virudhunagar District.

IV. RESEARCH METHODOLOGY

- **Sample Size:** 120 Respondents
- **Sampling Method:** Probability Method
- **Sampling Technique:** Simple Random Sampling
- **Sample Area:** Virudhunagar District, Tamilnadu
- **Sample Unit:** 06 Public Sector Banks and 04 Private Sector Banks
- **Method of Data Collection:** Questionnaire
- **Analysis of Tools:**
    - ✓ Percentage Analysis

- ✓ CorrelationAnalysis
- ✓ Regression Analysis

- **Research Hypothesis:**

  H_o: There is no significant relationship between Service Quality and Customer retention

  H_o: Service Quality does not have positive effect on Customer retention

- Software used for analysis of data:
  - ✓ SPSS v.17

V. RESULTS AND DISCUSSION

Table 5.1

Demographic Profile of the Respondents

Particulars	Classification	Number of Respondents	Percentage
Gender	Male	80	66.67
	Female	40	33.33
Age	Upto 25 years	51	42.50
	26-35 years	45	37.50
	36-45 years	13	10.83
	Above 45 years	11	9.17
Marital Status	Married	47	39.17
	Unmarried	73	60.83
Education	Diploma	26	21.67
	Under Graduate	56	46.67
	Post Graduate	25	20.83
	Professional	13	10.83
Occupation	Govt. Employee	30	25.00
	Pvt. Employee	49	40.83
	Business	20	16.67
	Student	8	6.67
	Homemaker	13	10.83

Source: Primary data

66.67 per cent of the respondents are male and the remaining 33.33 per cent of the respondents are female. It is observed that most of the respondents are male who are associate with banks for financial transaction than female.

42.50 per cent of the respondents are in the age upto 25 years, 37.5 per cent of the respondents belong to the age group between 26-35 years, 10.83 per cent of the respondents are under the category of age between 36-45 years and 9.17 per cent of the respondents belong to the age of above 45 years. It is clear that more than one third of the respondents are in the age upto 25 years.

60.83 per cent of the respondents are unmarried and the 39.17 per cent of the respondents are married. It is observed that nearly two third of the respondents are unmarried. It was coincide with 75 per cent of the respondents are under the age of 35 years.

46.67 per cent of the respondents are graduates, 21.67 per cent of the respondents are diploma holders, 20.83 per cent of the respondents are post graduates and 10.83 per cent of the respondents possess professional degree as their qualification. It is clear that nearly half of the respondents possess graduates.

24 per cent of the respondents are working in Government sector, 40.83 per cent of the respondents are working in Private sector, 16.67 per cent of the respondents are self employed owning their own business, 10.83 per cent of the respondents are homemakers and 6.67 per cent of the respondents are students. It is observed that nearly two fifth of the respondents are working in Private sector. It was observed that, male after graduation intended to get into private jobs. It was found that majority of the respondents are male graduates under the age of 35 years.

H_0: There is no significant relationship between Service Quality and Customer Retention.

Table 5.2

Relationship between Service Quality and Customer Retention

	Customer Retention
Service Quality	r = 0.717**
	p<.001

** Significant at 1% level

Positive significant correlation is observed between Service Quality and Customer Retention (r = 0.717). Hence the null hypothesis "There is no significant relationship between Service Quality and Customer retention" is rejected at 1% level. This shows that Service Quality helps to retain the Customers in banking industry by 71.7 per cent

H_0: Service Quality does not have positive effect on Customer retention

Table 5.3

Regression analysis for Customer retention

Variables	**R^2**	**Beta**	**F-statistics**	**t- value**
Service Quality	0.621	0.712	**53.524****	27.251**
	Adjusted R^2			
	0.612			

** Significant at 1% level

It is observed from the table, the regression model's F value is **53.524** and it is significant, the null hypothesis "Service Quality does not have positive effect on Customer retention" is rejected at 1% level. The regression

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model's coefficient of determination (R^2) is **0.621** (62.1% of variability) and adjusted R^2 value of 0.612 seems to be healthy coefficients. One unit increase in Service Quality improves retention rate of employees by 0.712 units significantly at 1% level of significance.

Hence Service Quality significantly predicts and has positive effect on Customer retention. Service Quality improves Customer retention by 0.712 units in Commercial Banks in Virudhunagar district.

VI. CONCLUSION

The results revealed that the dimensions of service quality considered for the study can be effective and significant predictor of perceived service quality.The researcher was to explore the relationship between service quality and customer retention in the context of selected banks in Virudhunagar district of Tamilnadu. Data analysis revealed that a positive and moderately significant relationship exists between Customer Retention and Service Quality based on bivariate correlation (Pearson coefficient of correlation obtained).The simple regression analysis conducted to examine the predictive capacity of service quality to predict the level of customer retention was found significant as the results of standardised regression coefficient were found significant.

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