

## **Customer Loyalty in Banking Industry: An Empirical Study In Madurai District**

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### **ABSTRACT**

Banks face heavy competition due to changing customer expectations, variety of services offered by foreign banks, comparatively low pricing for services etc. Providing service quality to the expectation of customers, building a brand image, thereby satisfying them are important to build customer loyalty. This paper determines the customer loyalty in Banks and evaluates the impact of determinants like bank image, customer satisfaction and service quality on customer loyalty in banks. Multiple regression analysis is used.

**Keywords:** Customer loyalty, Bank image, service quality, customer satisfaction.

### **INTRODUCTION**

The banking sector coped with a lot of deregulation during 1980s. The banks are facing stiff competition from the financial and non-financial institutions (Hull, 2002). The automation and e-banking adopted by the banks are generating the competition to a higher level (Gonzalez and Guerrero, 2004). The customers in banking industry are becoming highly educated and also informative (Beckett, et al., 2000). They are becoming highly price and service conscious in their financial services (Colgate, 2000). The customers switching from one bank to another is becoming a common phenomenon in the industry (Ojan et al., 2012). The banks adopt customer retention strategies in order to retain the existing customers (Carole and Ye, 2003). The Indian Banking system has been witnessing a lot of changes, modifications, innovations especially during the past 2 decades (Ranjit et al., 2018). They are struggling to generate customer loyalty towards the banks.

## **Customer Loyalty in banks**

In the competitive banking environment, the banks are competing with each to deliver better services and service quality to establish the customer loyalty (Kama, 2013). The customers' satisfaction on banks plays an important role in the growing and diversifying financial sector (Bodton, 2000). Service quality is a non-price competitive weapon to generate the customer loyalty in Indian Banking sector (Bansal, 1999). Banks are establishing the committees to observe the changes in the customers' needs and the trends in banking at global level in order to achieve customer loyalty (Mahapatra and Kumar, 2017). But, the level of customer loyalty is not fully achieved by Indian Banks (Manoj and Sunil, 2011) even they are capable to produce customers satisfaction (Sharma and Patterson, 2000). Banks are trying to establish a world class standard committed to excellence in customers service (Arokiasamy, 2013).

## **Review of Previous Studies**

Al Hawani (2015), Amni (2016) and Khan and Parvez (2009) identified that the customer loyalty in banking industry is very low because of frequent changes in customers' expectations. Coetze et al., (2013) and Gera (2011) revealed the significant influence of service quality on the customer loyalty in banking industry. Ho and Lin (2010) measured the direct relationship between e-banking service quality and customer loyalty. Kandampully et al., (2015) and Vera and Trujillo (2018) revealed the mediator role of customers satisfaction in between service quality and customer loyalty in banking industry.

## **Objectives of the Study**

The objectives of the study are confined to (i) to measure the level of customer loyalty and its determinants among the customers; (ii) to evaluate the impact of determinants on the customer loyalty in banking.

## Research Methodology

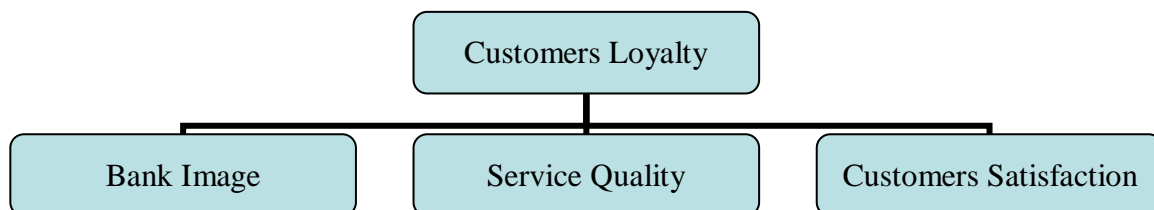
The present study is descriptive in nature. The sample selected for the study is confined to the bank customers in Madurai city. The sample size of the study is determined by the

formula of  $n = \left[ \frac{Z\sigma}{D} \right]^2$  Whereas n – Sample size, Z–Z statistics at five per cent level =

1.96;  $\sigma$ –Standard deviation of customer satisfaction on banks at pilot study = 0.4268; and the D-Degree of error acceptance -0.05. The determined sample size is 280 customers. The 288 customers are equally distributed to all 56 bank branches in Madurai. A special care was taken to design the interview schedule to collect the primary data. The schedule includes the various concepts generated for the study.

## Measurement of Concepts

It shows the variables used to measure the concepts included for the study. The concepts and its path in the present study are given below.



The customer loyalty towards the bank shows the loyalty to service organizations (Gremier and Brown, 1996). It is a status of attachment with service organization among the customers (Dick and Basu, 1994). The variables used to measure customer loyalty are 6 (Jain, et al., 1987). The bank image represents the customer contacts, advice, society-driven, price, relationship driven and position in the market of a particular bank (Worcester, 1997). In the present study, it is measured by 6 variables (Yavas and Shenwell, 1996). The service quality in banks indicates its reliability, empathy, efficiency, expertise, assurance, access and procedures to satisfy the customers (Leuis, 1993). It is measured with the help of 14 variables (Oliver, 1993). The customers' satisfaction is the perceived service quality and services offered by the banks (Smith,

1992). The customers' satisfaction on banks is measured with the help of 8 variables (DeRuyter, et al., 1997).

A pilot study was conducted among 20 customers in 10 banks at Madurai City. The final schedule was used to collect the primary data. The data are processed with the help of appropriate statistical tools.

## Results and Discussion

The initial results indicate the measurement of various concepts included for the study.

**TABLE 1**  
**Concepts Included for the Study**

<i>Sl. No.</i>	<i>Concepts Used</i>	<i>Variables</i>	<i>Cronpach alpha</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>Co-efficient of variation (in %)</i>
1.	Customer loyalty	6	0.8081	2.5646	0.4171	16.26
2.	Bank Image	6	0.7673	3.1088	0.5842	18.79
3.	Service quality	14	0.7961	3.2406	0.5709	17.62
4.	Customers Satisfaction	8	0.7944	3.3445	0.4088	12.22

The included variables in all four concepts of the present study explain the concept to a reliable extent since its Cronbach alpha is greater than 0.60. It varies from 0.8081 in customer loyalty to 0.7673 in bank image. The level of customer loyalty on banks is very less since its mean score is 2.5646 which replicates the findings of Makanyeza and Chikaze (2017). The highly viewed determinants of customer loyalty is customers satisfaction on banks since it's mean score is 3.3445 which is similar to the findings of Sabir et al., (2014).

## Impact of determinants of Customer loyalty on banks

The impact of three determinants of customer loyalty on the customer loyalty on banks is examined with the help of multiple regression analysis. The basic regression equation for the study is:

$$CL = a + \beta_1 BI + \beta_2 SQ + \beta_3 CS + e$$

Whereas CL – Customer loyalty, a – intercept, BI-Bank Image, SQ- Service quality, CS-Customers Satisfaction;  $\beta_1 \dots \beta_n$  – regression co-efficient, a – constant; and error term co-efficients.

**Table: 2**

**Impact of determinants of Customer loyalty on banks**

Sl. No.	Particulars	Unstandardized co-efficients		Standardized co-efficient	't' statistics	Significance
		$\beta$	Standard error			
1.	Bank image	0.264	0.108	0.164	2.4444	0.0506
2.	Service quality	0.299	0.099	0.203	3.0202	0.0117
3.	Customers satisfaction	0.344	0.104	0.309	3.3077	0.0058
	Constant	0.474	0.159	0.789	2.9811	0.0334
	R <sup>2</sup>			0.7897		

All regression co-efficients are significant at five per cent level which indicates the significant influence of bank image, service quality and customer satisfaction on the customer loyalty on banks. The higher regression co-efficient is noticed in the case of customer satisfaction. It conveys that a unit increase in customers' satisfaction results in an increase in customer loyalty by 0.309 units. The R<sup>2</sup> (0.7897) reveals that the included three independent variables (determinants) explain the dependent variable (customer loyalty) to an extent of 78.97 per cent which is similar to the findings of Amit and Charles, (2018).

## Concluding Remarks

The present study justifies the validation of the scale developed to measure the customer loyalty, bank image, service quality and customers satisfaction. The level of customer loyalty on banks is only at lower level which is commonly seen among the customers in private and public sector banks. It shows the higher prediction of customer churn in banking industry. In order to establish the customer loyalty on banks, the commercial banks should concentrate on all three important determinants namely bank image, service quality and customer satisfaction. Among the three determinants, the primary focus should be on customers' satisfaction on banks.

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