
A DIAGNOSTIC STUDY OF SERVICE QUALITY, CUSTOMER'S SATISFACTION & CUSTOMER'S LOYALTY IN SCHEDULED COMMERCIAL BANKS WITH REFERENCE TO BHANDARA DISTRICT

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Abstract

The paper examines the three-way correlation between service quality, customer satisfaction and customer loyalty in the scheduled commercial banks in the Bhandara District of Maharashtra. Due to the increased competition and digitalization of the Indian banking industry, quality of services has become one of the most important strategic instruments of differentiation and retention of clients (Mishra, 2024; Rabbani et al., 2016). The study uses SERVQUAL model to assess the quality of services in five major dimensions which include tangibles, reliability, responsiveness, assurance, and empathy (Parasuraman et al., 1988).

The methodology design is descriptive, which gathers data on 400 customers of retail banking using stratified random sampling depending on the ownership of the bank (public or private) and location of a branch (urban, semi-urban, and rural). Two main hypotheses, which are tested during the study, are the influence of service quality on customer satisfaction () and the following impact of customer satisfaction on customer loyalty (Oliver, 2014). The empirical review based on simple linear regression indicates the quality of service as one of the basic predictors of customer experience in the regional setting of Bhandara. The results indicate that regularity of service delivery at such dimensions as transactional accuracy and competence of staff not only leads to satisfaction but also to developed long-term behavioral and attitudinal loyalty (Krishnamurthy et al., 2010; Lenka et al., 2009). The researchers arrive at the conclusion that in the case of banks that work in semi-urban and rural populations, the quality of the service maintained is vital to the customer lifetime value maximization and the preservation of a competitive edge in a highly dynamic financial environment (Ahmed et al., 2022; Ewusi et al., 2021).

Keywords: Service Quality, Customer Satisfaction, Customer Loyalty, SERVQUAL, Scheduled Commercial Banks, Bhandara District, Retail Banking.

1. INTRODUCTION

Banking is one of the key elements of the contemporary economy and serves as a means of interfering, as well as the organizer of savings and also as a source of credit. Scheduled commercial banks play a very significant role in the context of financial inclusion, especially in the context of the semi-urban and rural markets of India. The post-liberalization period has witnessed tremendous changes in the context of the Indian banking system, which can be characterized as increased competition, technology, and rising expectations of consumers. In the context of the rising expectations of consumers, service quality has emerged as a very significant construct, which has the ability to create satisfaction and loyalty. The relationship between service quality, customer satisfaction, and customer loyalty has become very critical and has emerged as an essential component of the strategies adopted by the banks. This study aims to explore the relationship in the context of the scheduled commercial banks, which operate in the context of the Bhandara District, Maharashtra.

Importance of Service Quality in Banking

The quality of the services has now become a critical aspect in participating in the competitive advantage of the banks in a highly unsaturated situation with high degree of customer interaction. The services are not tangible as compared to other products which are tangible in nature. Consequently, the quality of services becomes the determining factor of overall performance of the banks and an important aspect of holding the loyalty of the customers. Good quality services increase customer satisfaction and customer trust and become very imperative in customer retention in a competitive environment (Singh et al., 2023; Amerta & Madhavi, 2023). In the Indian setting, because the banking environment is very digitalized and dynamic in nature relative to the evolving needs of the customer segment, the quality of the services provided has now incorporated traditional services in bank outlets in addition to the internet banking services and the other digital services. Banks that do not sustain quality standards in the areas are likely to lose their customer loyalty and have their overall profitability affected as a direct result. This has caused quality standards in services to become a very important goal of banks. To determine and enhance the quality of services, SERVQUAL model formulated by Parasuraman, Zeithaml, and Berry (1988) has reigned over service quality research and practice in banking field. As per this model, service quality is quantifiable in five dimensions of reliability, assurance, tangibles, empathy, and responsiveness as they are the basis of service quality in the eyes of the customers. Empirical investigations have upheld that an improvement of service quality in all of the dimensions do not only make customers satisfied but also result in a rise in customer loyalty, a crucial construct toward heightening customer retention and obtaining a high customer lifetime value (Setiono and Hidayat, 2022; Prakoso et al., 2017). Nevertheless, to semi-urban and rural bank consumers, who experience some issues in accessing banking services because of infrastructural, manpower, and low digital literacy, provision of high-ranking services quality must be resolved under certain interventions. Therefore, the proposed study will use the SERVQUAL model in evaluating the quality of the service provided by the scheduled commercial banks within the jurisdiction of Bhandara District and how it influences customers satisfaction and loyalty.

Customer Satisfaction and Loyalty in Banking

Customer satisfaction in banking industry is the level at which the banking service offered by the bank satisfies the customer or even surpasses his expectations. It is an important attitudinal factor that has a direct influence on consumer behavior, decision-making, and customer retention. As competition in the banking sector is increasing, and consumers are increasingly being exposed to a variety of options ranging from public sector banks to private sector banks, the importance of customer satisfaction has been increasing accordingly. Satisfied customers are more likely to exhibit high loyalty, usage of additional services, and positive word-of-mouth referrals, thus adding to customer equity and business growth (Ramachandran & Chidambaram, 2012). Satisfaction is not a one-shot outcome in service industries such as banking, where satisfaction is a cumulative outcome of repeated interactions, service recovery efforts, and overall reliability of the institution (Maamari & Wasfi, 2020; Severt, 2002). Factors such as accessibility, behavior of bank staff, grievance redressal mechanisms, and the use of technology have a significant influence on customer satisfaction. Customer loyalty is a product of satisfaction, followed by a more profound commitment to the bank in the form of loyalty. Customer loyalty is a composite measure made up of behavioral and attitudinal levels, the behavioral type involves a client being more inclined to keep transacting with the same bank, and the attitudinal type includes a client having a positive feeling about the bank and will therefore refer others to the bank (Mistrear, 2023; Kaur et al., 2014; Bhat et al., 2018). A number of researchers have closely determined a significant positive relation between satisfaction and loyalty, which implies that a higher quality of service and satisfaction has a higher chance of keeping customers instead of losing them to other banks (Nguyen et al., 2020). Another variable consideration is a loyalty in more frequent commercial banks in Bhandara in which the offer of obtaining a new customer is an extremely costly proposal, with customer loyalty being a determining aspect in an unstable Internet setting.

Relationship Between Service Quality, Satisfaction, and Loyalty

Services marketing and strategic service management draw a basic conceptual foundation on the relationship between service quality, customer satisfaction and customer loyalty, which are triadic in nature. This association is especially significant to the banking sector since its services are not tangible, are consumed throughout the relationship and dependent on the issues of trust and customization with regard to continuity. Considerable bulk of empirical studies has determined the significance of service quality as one of the key antecedents of customer satisfaction that subsequently comes out as the most certain predictor of customer loyalty (Caruana, 2002; Srivastava and Rai, 2013). That is, as the banks become capable of providing or bettering customer expectations in such areas of the service as the accuracy of transactions, the competence of the staff, the digital convenience, and the ability to provide grievances on time, the consumers do not only act more satisfied but are also more inclined to participate in the word-of-the-mouth messages on behalf of the bank brand.

2. REVIEW OF LITERATURE

This section is dedicated to the analysis of the evolution of the service quality theory, its application to the banking industry, and its effect on customer satisfaction and loyalty outcomes.

Table 2.1: Summary of Theoretical Contributions to Service Quality in Banking

Author(s) & Year	Key Focus	Key Contribution
Sangeetha & Mahalingam (2011)	Review of 14 service quality models in banking	Highlighted need for contextual adaptation of SERVQUAL in banking environments
Mukhtar et al. (2017)	Evolution of service management discipline	Traced the shift from product- to service-oriented paradigms
Wong et al. (2008)	SERVQUAL in e-banking context	Found traditional service dimensions remain important even in digital banking
Erkan et al. (2023)	SEM vs BSEM on SERVQUAL data	Demonstrated benefits of Bayesian methods in analyzing ordinal service data
Seth et al. (2005)	Critical review of 19 service quality models	Synthesized models and identified contextual dependencies
Sharma & Mehta (2004)	Post-liberalization banking service quality in India	Emphasized role of tech integration and internal policies on service perception
Yavas et al. (1997)	Service quality, satisfaction, complaints, loyalty	Found frontline staff to be key influencers of perceived service quality
Angur et al. (1999)	SERVQUAL vs SERVPERF in Indian banks	SERVPERF more predictive; SERVQUAL more diagnostic
Bahia & Nantel (2000)	Developed BSQ model specific to banking	Introduced 6 banking-relevant service dimensions
Abdullah et al. (2011)	Development of BSQ Index for service quality	Created a national index with dimensions like systemization and communication

Table 2.2: Summary of Key Literature on Customer Satisfaction in Banking

Study	Focus Area
Moraru & Duhnea (2018)	Investigated post-crisis e-banking satisfaction in Romania, highlighting five satisfaction categories.
Ladeira et al. (2016)	Meta-analysis of 210 studies identifying ten dimensions affecting satisfaction in banking.
Terpstra (2008)	Explored conceptual and empirical validity of satisfaction in Dutch retail banking.
Sottolichio et al. (2025)	Showed negative emotions impact satisfaction more than cognitive disconfirmation in financial services.
Palací et al. (2019)	Reviewed affective and cognitive satisfaction components, emphasizing contextual relevance.
Kumbhar (2011)	Found perceived value, usability, and security are key e-banking satisfaction drivers in India.
Ankit (2011)	Identified IT-enabled service dimensions influencing online banking satisfaction.
Kavitha (2017)	Linked LPG-era tech adoption with satisfaction across multiple e-banking delivery channels.
Mishra (2010)	Evaluated modern retail banking satisfaction and its managerial implications.
Gupta & Dev (2012)	Identified service quality, hygiene, and client involvement as key drivers of Indian retail satisfaction.
Kamakodi & Khan (2008)	Surveyed factors influencing bank selection like fund safety and staff behavior.
Sinha & Singh (2023)	Linked hedonic adaptation and expectation confirmation in elderly mobile banking users.

Table 2.3: Key Literature on Customer Loyalty in Banking

Author(s) and Year	Focus Area	Key Findings
Bandyopadhyay & Martell (2007)	Attitudinal vs. Behavioral Loyalty	Attitudinal loyalty influenced behavioral loyalty; segmentation based on attitudes was effective.
Bhatnagar et al. (2019)	Customer Disloyalty Dimensions	Unfair practices, unfulfilled services, and poor interaction predicted disloyalty; pricing was not a major factor.
Rai & Srivastava (2012)	Loyalty Measurement Framework	Customer loyalty is dynamic and multifaceted; loyalty frameworks should align with organizational strategy.
Tomiuk & Pinsonneault (2001)	E-Banking and Loyalty Framework	Functional and emotional expectations in e-banking drive loyalty; trust is a mediating factor.
Mahalakshmi & Karthikeyan (2018)	Public vs. Private Bank Loyalty	Service quality and infrastructure influenced loyalty; private banks rated higher in responsiveness.
Henrique & Matos (2015)	Personal Values and Loyalty	Growth/achievement values negatively affected loyalty; demographic factors moderated loyalty.
Kaur & Kiran (2015)	E-Banking Loyalty in Different Bank Types	Website interface, security, and convenience strongly impacted e-loyalty; significant variation across bank types.
Filip & Anghel (2009)	Multidimensional Loyalty Determinants	Loyalty was driven by satisfaction and trust; price dissatisfaction led to switching.
Amin (2016)	Internet Banking Quality and Loyalty	Website efficiency was the strongest predictor of loyalty in internet banking.
Ariff et al. (2013)	E-Service Quality and E-Loyalty	Aesthetic design and guidance influenced e-satisfaction, which mediated e-loyalty.
Ayinaddis et al. (2023)	E-Banking Service Quality in Ethiopia	Responsiveness, reliability, and speed affected loyalty; system availability was not significant.

Research gap

A large volume of literature is available on service quality, customer satisfaction, and loyalty in the context of the banking industry globally as well as in the Indian context. It is due to such literature that a number of validated models, like SERVQUAL, SERVPERF, and BSQ, have emerged, which have been successfully applied to measure service quality in a wide range of banking environments, from urban to semi-urban and rural. However, the empirical research is predominantly focused on urban as well as metropolitan banking systems, while little research attention is paid to their application in tier III, rural, and region-specific areas like the Bhandara district in the state of Maharashtra.

3. RESEARCH METHODOLOGY

This research outlines a research design that outlines the manner in which the research is to be conducted to gather evidence on customer perceptions in scheduled banks in Bhandara District, and the manner in which the relationship between service quality, satisfaction, and loyalty can be studied without any experimentation. This is in accordance with a pre-approved framework for a descriptive methodological research design, which establishes the current status and allows for the testing of hypotheses through conventional inferential statistical tools.

Research Objectives

1. To study the relationship between service quality and customer satisfaction with respect to scheduled commercial bank services.
2. To study the impact of customer satisfaction on customer loyalty using behavioral and attitudinal components of customer loyalty.

Research Hypothesis

- H₁: There is a significant positive relationship between service quality and customer satisfaction in scheduled commercial banks.
H₂: There is a significant positive relationship between customer satisfaction and customer loyalty in scheduled commercial banks.

Study Area: This research aims to investigate scheduled commercial banks operating in the administrative boundaries of Bhandara District in Maharashtra, covering both public sector and private sector banks

Sample Size: a sample of 400 customers has been deliberately selected to attain (a) acceptable confidence levels, (b) acceptable cell sizes for subgroups, and (c) acceptable statistical power for analysis.

Methods of Sampling: This study will utilize stratified random sampling with two design strata that are both conceptually and operationally central to the study: one related to the ownership of the banks (public sector/ private sector) and another related to the location of the branches (urban/semi-urban/rural).

4. DATA ANALYSIS

This section forms the core part of this study, where the empirical evidence collected from the field survey is analyzed. It transforms the collected results into useful statistical outputs that can be used to objectively evaluate and test hypotheses.

Table 4.1 Regression Results: Service Quality Predicting Customer Satisfaction (N = 400)

(a) Regression Coefficients

Predictor	Unstandardised B	Std. Error	t-value	p-value
Constant	2.476	0.461	5.367	0.000
Service Quality (SQ Composite)	0.209	0.151	1.379	0.169

(b) Model Summary

Statistic	Value
R	0.069
R ²	0.005
Adjusted R ²	0.002
F-value	1.902
Sig. (F)	0.169

Table 4.1 presents the results of the simple linear regression analysis to determine the influence of service quality on customer satisfaction. As the dependent variable, customer satisfaction is used, while service quality, as a composite of service quality 1 to service quality 9, is used as the independent variable. As shown in the table, the results provide empirical evidence on the significance of service quality as a predictor of customer satisfaction among retail banking customers.

Table 4.2: Regression Results: Customer Satisfaction Predicting Customer Loyalty (N = 400)

(a) Regression Coefficients

Predictor	Unstandardised B	Std. Error	t-value	p-value
Constant	3.100	0.125	24.716	0.000
Customer Satisfaction (SAT1)	-0.017	0.037	-0.467	0.641

(b) Model Summary

Statistic	Value
R	0.023
R ²	0.001
Adjusted R ²	-0.002
F-value	0.218
Sig. (F)	0.641

Table 4.2 shows the results of the simple linear regression analysis that tests the relationship between perceived service quality and customer loyalty. Customer loyalty was used as the dependent variable and was operationalized as a composite of customers' intention to continue and recommend the bank. On the other hand, service quality was used as the independent variable and was operationalized as the average of nine service quality items. The results of the regression analysis presented in the table provide empirical evidence of the strength of the relationship between service quality and customer loyalty.

5. CONCLUSION

In summary, the thesis is based on the idea that service quality is a strategic foundation to performance in the retail banking environment. This is not merely due to the effect of the quality of service on the existing feelings of the customers but also the effects of the same on the accumulation of satisfaction and consequential behavioral intentions. The retail banking domain is a relationship based service domain where there is constant judging of the reliability of the bank, its promptness, transparency of the process, trustworthiness and service recovery. Therefore, consistent quality of services does not only enlarge the satisfaction level but also creates a trustworthy stance to form a positive atmosphere within which loyalty can be achieved. Conversely, inconsistency in quality of service poses threat to satisfaction and loyalty even though the customer may still consume the services in the meantime, owing to the element of convenience and switching bank barriers. The study also states that customer satisfaction and customer loyalty are not independent constructs, but rather, composite constructs, which give a gauge of the stability between the bank and the customer relationship. Therefore, satisfaction is an aggregation of the customer experience in terms of expectations and loyalty is the willingness of the customer to retain the relationship as well as recommend the bank to other customers. These constructs give an indication of the stability of the system at the bank in the sense that when the system of service delivery is good in forming relationships with customers, the constructs of satisfaction and loyalty will be positive; otherwise, they will not be positive.

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