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# SERVICE EXCELLENCE AND ITS IMPACT ON CUSTOMER LOYALTY TOWARDS BANKS

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## ABSTRACT

*In the case of banking industry, the service providers are delivering homogeneous products/services to the customers. Hence, there is a cut through competition in the market. In order to sustain in the competition, the banks should focus on services to differentiate their offerings. There is no exclusive recent study which is related to the impact of service excellence on customer loyalty in banking sector especially at the Tamilnadu level. The present study aims to measure the level of service excellence and customer loyalty towards banks as per the view of the bank customers; and to evaluate the impact of service excellence on the customer loyalty towards banks. The descriptive and diagnostic research design is applied. All the components of service excellence have a significant contribution on customer loyalty. The important components are customers' value and customer competitive advantage. It infers that the service excellence which create customers value and which yield comparative and competitive advantage to their customers result in customer loyalty towards the banks.*

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**KEYWORDS:** *Service excellence, customer loyalty, customer value, competitive advantage*

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## 1 INTRODUCTION

Service excellence is the strategic tool to differentiate the service provider from other competitors (Doherty et al., 2006). Service excellence is the provision of high level of service quality by the service provider which generates higher customer satisfaction (Wintz and Zeithaml, 2018). The task of service providers to deliver the services to the customers which is highly convinced them by superior quality (Hansel, 2009). The service providers have to meet the customers' expectations and even aim for customer delight (Berry and Bendapudi, 2003). The service excellence is essential to achieve business excellence (Barari, et al., 2020).

In the case of banking industry, the service providers are delivering homogeneous products/services to the customers. Hence, there is a cut through competition in the market. In order to sustain in the competition, the banks should focus on services to differentiate their offerings. (Tingalayya, 1997). Services are intangible offerings. Once any differentiation is introduced in services, it is difficult to imitate it by the competitors (Twittle, 2013). But the service differentiation should be continued by delivering superior services to their customers namely; on time delivery, faster response, quick solution to complaints and online problem solving and others (De Vine, et al., 2012). There is a dare need for effective customers analysis and design the services as per the need of the customers to keep the service excellence established (Parasuraman, et al., 1995). In this scenario, the present study focuses on two important aspects namely what are delivered by service excellence to the customers, what is the level of customers perception on these, what is the consequence of that service excellence maintained by the banks and How the aspects in service excellence is linked with the customer loyalty in banking industry.

## 2 REVIEW OF LITERATURE

Fareed (2021) identified by the significant impact of service excellence on the performance of banks. Khandwal (2019) mentioned the effective implementation of service excellence is made because of the financial sector reforms in India. Kalyan (2017) noticed the need for the implementation of service excellence through external internal and interactive marketing processes. The digitally enabled customer offerings are made to attain service excellence in banking (Indian Bank's association, 2022). Islam and Ali (2011) noticed the role of service quality in the determination of service excellence in banks. Bahia

and Nantel, (2000) tested the validity of variables to measure the service quality and excellence in banks. Farquhar and Panther (2008) revealed the impact of service excellence in acquiring and retaining customers in banks. Cohen, et al., (2017) stated the importance of service excellence to retain the customers in Newzealand.

There are so many studies related to the service excellence in various service industries including banking but all these are related to foreign banking sector. In India, the previous studies are related to the measurement of service excellence and its determinants. But there is no exclusive study which is related to the impact of service excellence on customer loyalty in banking sector especially at the Tamilnadu level. Hence the present study has made an attempt to fill up the research gap with the help of confined research objectives.

### Research Objectives

The objectives are (i) to measure the level of service excellence and customer loyalty towards banks as per the view of the bank customers; (ii) to evaluate the impact of service excellence on the customer loyalty towards banks.

### Theoretical Framework of the Study

The present study includes two important constructs namely service excellence and customers loyalty towards banks. The service excellence consists of customers competitive advantage, customers' value, cost effectiveness customers' delight and customers satisfaction. The measurement of the above said constructs are presented below.

### Service Excellence in Banking (SEB)

The service excellence delivered by the banks is estimated by the perception on various aspects in service excellence offered by banks (Ayya and Singh, 2014). It is also called as the service excellence performance achieved by the banks (Aziz and Wahiddin, 2010). The service excellence is the delivery of excellent services offered to customers which results in customers delight (Bantl, 2012). The aim of the service excellence is to differentiate the service provider from other service providers in the same industry (Cina, 1990). In the case of financial services, the homogeneous products and services are delivered to customers. In order to retain the existing customers and attract the new customers, there is a dare need for service excellence (Dobni, 2002). In the present study, the service excellence in banks is measured by variables drawn from reviews (Ken, et al., 2003; Pritchard, 2013).

### Outcome of Service Excellence (OSE)

It is the expected outcome of service excellence by any service provider (Sekhon, et al., 2015). All the service providers are expecting customer loyalty towards their service and the organization from their customers (Junarsion, 2010). The customer loyalty is

the result of deep customer satisfaction (Al-Eiswai, 2014) which is resulted from relative attractiveness and perceived value on the services (Kukanja, et al., 2017). The variables in customer loyalty are drawn from reviews (Saeida and Nejatian, 2015). The variables in service excellence and customer loyalty are presented in Table.1

### Variables in Service Excellence and Customer Loyalty

Sl. No.	Variables in Constructs	Sl. No.	Variables in Constructs
	<b>Service Excellence</b>		
<b>I.</b>	<b>Customer Competitive Advantage (Anderson, et al., 2010)</b>	<b>II</b>	<b>Customers Value (Wang, et al., 2004).</b>
1.	Better service pricing compared to competitors	1.	Service standardization
2.	Better Service quality compared to competitors	2.	Standardization in service process
3.	Service Reputation compared to competitors	3.	Standardization in products offering
4.	Attractiveness of service compared to competitors	4.	Standardization in customization
5.	Creativity on service compared to competitors	5.	Standardization in keep up of the promise
6.	Updation service technology compared to competitors	6.	Standard to customer segmentation focus
<b>III.</b>	<b>Cost Effectiveness (Hult, 2011)</b>	<b>IV.</b>	<b>Customer Delight (Zeithaml, et al., 1996)</b>
1.	Economy in service delivery	1.	Offered services are greater than its expected level
2.	Service benefit is greater than service cost	2.	Continuous enrichment of services
3.	Time savings in service process	3.	Leadership in service offering
4.	Immediate complaints redressal	4.	Higher customization
5.	Lesser waiting time for service process	5.	Individual customer focus
<b>V.</b>	<b>Customer Satisfaction (Chen and Chen, 2010)</b>	6.	Pride of being customer
1.	Satisfaction on Service quality	<b>VI.</b>	<b>Customer Loyalty (Yang, and Peterson, 2004)</b>
2.	Satisfaction on service innovation	1.	Increase transaction in future
3.	Satisfaction on relative attractiveness	2.	Hesitate to switch the service provider
4.	Satisfaction on perceived value	3.	Least bothers on service pricing
5.	Satisfaction on perceived risk involved	4.	Positive words-of-mouth about the service provider
		5.	Recommend to others

The respondents are asked to rate these variables at five point scale.

### 3 RESEARCH METHODOLOGY

The present study executes the descriptive and diagnostic research design since the study is focusing on the customers view on the various contents of service excellence and customer loyalty. It also makes an attempt to measure the degree of influence of the various components of service excellence on the customer loyalty towards banks. The number of public and private sector banks in Madurai district came to 68 to 127. In total, the total banks came to 195. From each bank, well experienced customers from each bank are identified with the help of concerned bank manager. The total sample size came to 390 bank customers. The applied sampling procedure is snowball sampling. The structured and pre-tested

questionnaire has been sent to the above 390 bank customers' address. Only 217 bank customers have responded the questionnaire at the fullest level. All these 217 customers have been included as the sample of the present study. The primary data collected from them are processed with the help of SPSS in order to get the meaningful results to fulfill the objectives of the study.

### Analysis of the Data and its Explanation

The data are analyzed at three different stages. At the first stage, the variables included in each construct are tested by reliability test whereas at the second stage, the measurement of the constructs is carried out. At the final stage, the influence of service excellence on customer loyalty is evaluated with the help of multiple regression analysis. The results of reliability test are presented in Table.2

**TABLE 2 Results of Reliability Tests**

Sl. No.	Constructs	Range of standardized factor loading	Composite reliability	Average variance extracted in (%)	Cronbach alpha	No. of variables in
1.	Customer competitive advantage	0.9026*-0.6549*	0.7842	53.29	0.7744	6
2.	Customer value	0.8738*-0.6801*	0.7701	52.96	0.7609	6
3.	Cost effectiveness	0.9171*-0.6309*	0.7676	51.73	0.7442	5
4.	Customer delight	0.8869*-0.6673*	0.7907	54.24	0.7942	6
5.	Customer satisfaction	0.9024*-0.6543*	0.8142	56.02	0.8149	5

6.	Customer loyalty	0.8917*-0.6642*	0.8033	55.49	0.8024	5
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\*Significant at five per cent level.

The content validity in all six constructs are proved since the standardized factor loading of variables are greater than 0.60 (Anderson and Gerbing, 1988). The convergent validity in these six constructs are also justified since the composite reliability and average variance of all constructs are greater than 0.50 and 50.00 per cent respectively (Batia and Nantel, 2000). The internal consistency in these constructs are verified since its Cronbach alpha are greater than 0.60 (Lancker, 1981).

### Measurement of the Constructs

The level of all six constructs developed for the present study is measured by its mean score. The score of each construct is derived by the mean score of the variables in each construct. The discriminant validity is also measured by the comparison of the mean of AVEs of pair of all six constructs developed for the study and its square of correlation co-efficient. The results are summarized in Table. 3

**TABLE 3 Measurement of the Constructs and its Discriminant Validity**

Sl. No.	Constructs	Mean	C.V. in %	Mean of AVEs Square of correlation co-efficient	1	2	3	4	5	6
1.	Customer competitive advantage	3.4541	15.14			.5313	.5249	.5347	.5466	.5439
2.	Customer value	3.5103	14.03		.5042		.5233	.5692	.5449	.5423
3.	Cost effectiveness	3.3911	15.11		.4911	.5131		.5298	.5388	.5361
4.	Customer delight	3.4869	11.08		.4845	.4709	.5021		.5343	.5486
5.	Customer satisfaction	3.4024	19.33		.4733	.4844	.4886	.5245		.5576
6.	Customer loyalty	3.2962	21.68		.4679	.4906	.4739	.5011	.5245	

The highly perceived components of service excellence by the customers are customers' value and customer delight since its mean scores are 3.5103 and 3.4869 respectively. The higher consistency is noticed in the case of view on customers value since its co-efficient of variation is 14.03. The level of customer loyalty is only at a moderate level since its mean score is 3.2962 which are subjected with the co-efficient of variation of 21.68 per cent. The level of customer satisfaction is higher than the level of customer loyalty since its mean score is 3.4024.

The mean of AVEs between customer competitive advantage (0.5313) is higher than its square of correlation co-efficient (0.5042). The mean of AVEs between customer delight and customer satisfaction (0.5313) is greater than its square of correlation co-efficient (0.5245). The mean of AVEs between customer satisfaction and loyalty (0.5576) is higher than its square of correlation co-efficient (0.5245). The

same type of results are seen in the case of all possible pair of the constructs which indicate the discriminant validity between independent variables (the first five constructs) and between the independent and dependent variables (first five constructs and customer loyalty).

### Impact of Service Excellence on Customer Loyalty

The impact has been evaluated with the help of multiple regression analysis whereas the first five constructs are treated as independent variables (components of service excellence) whereas the customer loyalty is treated as dependent variables. The application of multiple regression analysis is free from multi collinearity problem since the discriminant validity among the independent variables is proved. The results of multiple regressions are given in Table.4

**TABLE 4 Impact of Service Excellence on Customer Loyalty**

Sl. No.	Independent variables	Unstandardized co-efficient	Standard error	t' value	p' value	β' value
1.	Customer competitive advantage	0.3089	.0499	6.1904	0.0000	0.2733
2.	Customer value	0.3604	0.0736	4.8967	0.0107	0.3396
3.	Cost effectiveness	0.1789	0.1344	1.3311	0.1179	0.1503
4.	Customer delight	0.2549	0.0548	4.6515	0.0173	0.2271
5.	Customer satisfaction	0.2897	0.0373	7.7667	0.0000	0.2634
	Constant	11.3639	-	-	0.0000	-
	R <sup>2</sup>	0.8249	-	-	-	-
	F-Statistics	81.0842	-	-	0.0000	-

The co-efficient of variation R<sup>2</sup> reveals that the changes in the perception on components of service

excellence explain the changes in the customer loyalty towards banks to an extent of 82.49 per cent

since its  $R^2$  is 0.8249. The significant 'F' value reveals the statistical viability of the fitted regression model. The results of regression analysis infers that significantly influencing components of service excellence on customer loyalty are customer competitive advantage, customers value, customers delight and customers' satisfaction since it's regression co-efficients are significant at five per cent level. The higher influence on customer loyalty is made by customers' value and customer competitive advantage since its regression co-efficients are 0.3396 and 0.2733 units respectively. The significant construct value reveals the importance of non-included variables in the present study in the customer loyalty towards banks. The analysis shows the significant influence of service excellence on customer loyalty towards banks.

#### Concluding Remarks

The present study concluded that the level of perception on all five components of service excellence made by the banks among their customer is above average level. The customer loyalty towards the banks is lesser than the level of perception in all components of service excellence. The study also confirms the statistical dependability between the service excellence and customer loyalty towards banks. Almost, all the components of service excellence have a significant contribution on customer loyalty. The important components are customers' value and customer competitive advantage. It infers that the service excellence which create customers value and which yield comparative and competitive advantage to their customers result in customer loyalty towards the banks. It can be utilized by the banking authority for future policy implications.

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