



Impact of Customer Service on Customer Loyalty – A Case Study of HDFC Bank

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Abstract

Banking plays a significant role in the economic development of any country. There are number of challenges like increased competition, policies of government, technological developments and changing customers' needs in the banking industry. In such competitive and dynamic situation, banks need to keep a close eye on customer service. Banks are trying to win customer satisfaction and loyalty by providing better quality services. The main objective of this study is to study the impact of customer service on customer loyalty in HDFC bank with the help of correlation and regression analysis. 150 customers are included in the sample by using convenience sampling technique. Findings of the study showed significant and positive correlation (relationship) between customer service and customer loyalty and customer service is the significant predictor of customer loyalty.

Keywords: Customer, Customer Service, Customer Loyalty, HDFC Bank.

Introduction:

Customers are the lifeline of any business. Meeting their needs and ensuring their satisfaction is imperative. Unless an organization cares about its customers, customers won't reciprocate in a similar manner. So company must build customer loyalty so that they can establish long term relationship with customer, which is ultimately beneficial to both company and customer.

Customer service in banking is one of the most important ways to keep customers coming back. It includes responding to customers' questions and complaints in a thorough and timely manner and interacting with customers through face-to-face meetings, telephone, mail, fax and email. Because of increased competition, banks are required to become more and more customer-focused, according to Washburn Financial Services. It is more costly to acquire new customers than to retain existing customers. Retaining customers requires customer service staff in banks to provide service that is quick, error-free and convenient. Good customer service is the heart of banking. Today banks have a wide variety of competitors for business. Banks are trying to win customer satisfaction and loyalty by providing better quality services.

Customer loyalty can be said to have occurred if people choose to use a particular shop or buy one particular product, rather than use other shops or buy products made by



other companies. Customers exhibit customer loyalty when they consistently purchase a certain product or brand over an extended period of time.¹

So impact of customer service on customer loyalty towards HDFC bank will be studied in this research paper.

About HDFC Bank:

HDFC Bank was incorporated in 1994, with its registered office in Mumbai. HDFC Bank is India's largest private sector lender by assets. It was ranked 69th in 2016 BrandZ Top 100 Most Valuable Global Brands. It has 84,325 employees. As of June 30, 2017, the bank's distribution network was at 4,715 branches and 12,260 ATMs across 2,657 cities and towns. The bank also installed 4.30 Lacs POS terminals and issued 235.7 Lacs debit cards and 85.4 Lacs credit card in FY 2017.

Literature Review:

Bontis, Nick, Booker, Lorne and Serenko (2007) studied the relationship between customer satisfaction and customer loyalty in the North American banking industry and found that there is positive association between customer satisfaction and customer loyalty.²

Arokiasamy A. et al (2013) studied the impact of customer satisfaction on customer loyalty and intentions to switch in the banking sector in Malaysia. The objective of study was to find out the impact of customer satisfaction on customer loyalty and their intentions to switch banks. The researcher has prepared a questionnaire and collected response from 165 walk-in customers who had accounts with the banks serving in Ipoh, Perak, Malaysia. The results of the study indicated that there is a positive correlation between customer satisfaction and customer loyalty but showed negative correlation with customer intentions to switch.³

Mohsan F. (2011) studied impact of customer satisfaction on customer loyalty and intentions to switch: Evidence from banking sector of Pakistan. The purpose of the study was to find the impact of customer satisfaction on customer loyalty and intentions to switch. The data were collected from 120 customers visiting the banks counters. The results of the study revealed that customer satisfaction was positively correlated with customer loyalty and negatively correlated with customer intentions to switch.⁴

Khan I. (2013) studied impact of customer satisfaction and customer retention on customer loyalty. The study was pertaining to telecom industry in Pakistan. The purpose of this study was to examine the importance of future customer's relationship using customer satisfaction and customer retention on customer loyalty in telecom industry of Pakistan. Questionnaires were distributed through electronic mail and self-administered for data collection. The results show that customer satisfaction has significant while customer retention has insignificant impact on customer loyalty.⁵

Patel and Desai (2016) studied the relationship between customer satisfaction, customer loyalty and retention level related to banks of Surat city. Researcher has also tried to identify the impact of demographic factors towards selection of bank. NonProbability convenience sampling method has been used to collect data from 350



respondents. The result suggests that there is relationship between Customer Satisfaction and Customer Loyalty.⁶

Indian banking is the lifeline of the nation and its people. Banking has helped in developing the vital sectors of the economy and usher in a new dawn of progress on the Indian horizon. In the recent scenario, there is a throat cut competition between banks and customers also are willing to switch to bank if they are getting better service at other bank.

Objectives of the Study:

The research objectives are:

- 1) To measure the levels of customer service and customer loyalty in HDFC bank.
- 2) To study the relationship between customer service and customer loyalty in HDFC bank.

Hypothesis of the Study:

The hypotheses of the study are:

- 1) There is no significant difference in the level of customer loyalty among customers based on age, gender, educational level and occupation.
- 2) Customer service does not statistically explain the variance in customer loyalty of customers of HDFC bank.

Research Methodology:

Research Design:

Cross - sectional research design is used in this study. It is a descriptive and correlational research in which quantitative method is used.

Data Collection:

In this study both primary and secondary data are used. Primary data are collected by administering questionnaires to the customers of HDFC bank. A five-point Likert scale is used to measure customer service and customer loyalty. Customers were asked to choose one of five response options: from "strongly disagree" (1) to "strongly agree" (5). Secondary data are collected through books, journals and website of HDFC bank.

Selection of Sample:

This study is confined to the customers of HDFC bank in Vaijapur city. The sampling technique used is non - probability convenience sampling wherein the respondents are chosen as per the convenience of the researcher. Sample size for this study is 150.

Statistical Tools and Techniques:

The collected data is analyzed using appropriate statistical techniques such as Frequency, Percentage, Arithmetic Mean, Standard Deviation, T-Test, One Way ANOVA,



Pearson Product Moment Correlation Coefficient and Regression Analysis. The Statistical Packages for Social Sciences (SPSS 12.0) and Microsoft Excel 2007 are used for processing data. All the hypotheses are tested at 1% ($p = 0.01$) significance level.

Analysis and Discussion:

Demographic Profile of the Sample:

It is very important to categorize the customers according to demographic characteristics because it helps bankers to analyze the demographic factors which influence and are associated with the customer loyalty. The demographic characteristics of 150 customers are presented in Table 1. These characteristics include age, gender, educational level and occupation.

As per Table 1, the sample includes 18.67% customers from the age groups of below 25 years, 21.33% customers from the age group of 26-35 years, 46.67% customers from the age group of 36-45 years and 13.33% customers from the age group of above 45 years. Out of 150 customers, 69.33% of customers are male and 30.67% of customers are female. 23.33% customers are having education upto HSC, 56.67% graduates, 16.67% post graduates and 3.33% customers are having professional qualification like M.B.B.S., C.A. etc. From the study, it is also seen that 26.67% of the customers doing business, 50% are in service, 8% of the customers are professionals like lawyers, engineers, doctors etc. and remaining 15.33% of the customers are farmers, daily laborers, contract workers etc.

Table 1: Demographic Profile

Demographics	Category	Frequency	Percentage (%)
Age	Below 25 years	28	18.67
	26-35 years	32	21.33
	36-45 years	70	46.67
	Above 45 years	20	13.33
	Total	150	100.00
Gender	Male	104	69.33
	Female	46	30.67
	Total	150	100.00
Educational Level	Upto HSC	35	23.33
	Graduate	85	56.67
	Post Graduate	25	16.67
	Professional	05	3.33
	Total	150	100.00
Occupation	Business	40	26.67
	Service	75	50.00



	Profession	12	8.00
	Others	23	15.33
	Total	150	100.00

Source: Primary Data.

Measurement of the Levels of Customer Service and Customer Loyalty:

The descriptive statistics shown in Table 2 indicates that the arithmetic mean for customer service of the sample is 3.83 with a standard deviation of 0.84. The mean score of customer service indicates that customers agree that their bank deliver good quality services to satisfy their diversified. The standard deviation of customer service is also quite low which means variability of the responses on service quality is less and overall reliability of the score is better. The mean score of customer loyalty is 3.88 with a standard deviation of 0.81. The mean score of customer loyalty is also close to 4 which show that customers agree that they are loyal towards their bank with less variability in the responses as indicated by the standard deviation of customer loyalty.

Table 2: Descriptive Statistics for Customer Service and Customer Loyalty

	Mean	Standard Deviation
Customer Service	3.83	0.84
Customer Loyalty	3.88	0.81

Source: Primary Data.

Relationship between Customer Service and Customer Loyalty:

Table 3 indicates the relationship between customer service and customer loyalty.

Table 3: Correlation between Customer Service and Customer Loyalty.

		Customer Service	Customer Loyalty
Customer Service	Pearson Correlation	1	0.615*
	Sig. (2-tailed)	-	0.000
Customer Loyalty	Pearson Correlation	0.615*	1
	Sig. (2-tailed)	0.000	-

* Correlation is significant at the 0.01 level (2-tailed).

Pearson correlation coefficient ($r = 0.615$) between customer service and customer loyalty of customers of HDFC bank is significant at 0.01 level (as $p < 0.01$), so it is concluded that there is significant and positive correlation (relationship) between customer service and customer loyalty. Based on a guideline developed by Cohen (1988) about the interpretation of correlation coefficient, it can be said that the correlation between customer service and customer loyalty is moderate and positive.⁷



Testing of Hypothesis:

Hypothesis 1: “There is no significant difference in the level of customer loyalty among customers based on age, gender, educational level and occupation.”

The above hypothesis is tested with the help of T-Test and One Way ANOVA, the result of which is shown in the following table.

Table 4: T-Test and ANOVA to Determine Differences in the Level of Customer Loyalty.

Variable	Test	Sig.
Age	F = 1.525	0.146
Gender	T = 0.918	0.256
Educational Level	F = 2.530	0.078
Occupation	F = 1.726	0.185

Source: Primary Data *p < 0.05

The results from Table 4 indicate that ‘t’ value for the mean scores of customer loyalty of male and female customers and ‘F’ value for the mean scores of customer loyalty of customers having different age category, educational level and occupation are not significant at 0.05 level (as p > 0.05), so the null hypothesis stating that there is no significant difference in the level of customer loyalty among customers based on age, gender, educational level and occupation is accepted and it is concluded that there is no significant difference in the level of customer loyalty among customers of HDFC bank based on age, gender, educational level and occupation. Thus, mean differences could not reach the significance level.

Hypothesis 2: “Customer service does not statistically explain the variance in customer loyalty of customers of HDFC bank.”

For the purpose of determining the extent to which customer service explains the variance in customer loyalty, regression analysis was performed.

Table 5: Regression Analysis between Customer Service and Customer Loyalty

R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.615	0.378	0.370	0.388		
ANOVA					
	Sum of Squares	Degree of Freedom	Mean Square	F	Sig.
Regression	24.682	1	24.682	139.722	0.000*
Residual	38.375	148	0.163		



Variable	B	Std. Error	Beta	T	Sig.
Total	63.057	149			
Coefficients					
Variable	B	Std. Error	Beta	T	Sig.
(Constant)	1.294	0.205		6.143	0.000*
Customer Loyalty	0.648	0.049	0.615	10.812	0.000*

Source: Primary Data.*p < 0.01

Predictors: (Constant), Customer Service.

Dependent Variable: Customer Loyalty

Results of regression analysis indicate that the correlation coefficient between customer service and customer loyalty is 0.615. The R-Squared value (i. e. coefficient of determination) of 0.378 indicates that customer service explains 37.80% of the variance in customer loyalty. The F-statistic of 139.722 is statistically significant at the 0.01 level (as p < 0.01). So the null hypothesis stating that customer service does not statistically explain the variance in customer loyalty is rejected and it is concluded that customer service statistically explains the variance in customer loyalty. With a Beta value of 0.615, job involvement reaches a statistical significance at 0.01 level (as p < 0.01) and therefore customer service is the significant predictor of customer loyalty.

Conclusions of the Study:

Following are the conclusions of the study:

- 1) The mean scores of customer service and customer loyalty show that customers agree that they are satisfied towards the services provided by HDFC bank and are also loyal towards their bank.
- 2) The correlation (relationship) between customer service and customer loyalty towards HDFC bank is significant and positive.
- 3) Customer service statistically explains the variance in customer loyalty.
- 4) Customer service is the significant predictor of customer loyalty.

Suggestions of the Study:

The following general suggestions are offered by the researcher for improving customer service and customer loyalty:

- 1) All the queries of customers should be immediately resolved.
- 2) Banks should provide 24*7 services to the customers.
- 3) Real time information should be provided to the customers.
- 4) Make customers to feel valued, so that their engagement with bank would increase.
- 5) Strong customer relationships should be created by personalizing messaging and services.



Limitation of the Study:

The scope of this study is limited to a single bank due to time constraint and the results of which cannot be generalized. The subject scope of present study is to study the impact of customer service on customer loyalty towards HDFC bank in Vaijapur City.

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