Exploring Relationship between Service Quality and Positive Word of Mouth at Retail Banks in Rural India

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ABSTRACT

One of the major concerns of management in today’s competitive business world, is to deliver superior customer service leading to satisfaction, loyalty, and positive word of mouth (+WOM). This study explores perceived service quality and identifies most significant predictors of +WOM at rural banks. Taking a cue from extant service quality literature, five dimensional performance-only SERVPERF scale was developed in English and later translated into vernacular Hindi employing back translation method. Structured research instrument was administered on 480 customers, who were contacted at the premises of designated rural branches of public sector banks located in the most populous province of Uttar Pradesh in India. To extract relevant factors, statistical tools such as Exploratory Factor Analysis (EFA), t-Test, and linear regression were employed. Reliability, predictive validity, and dimensionality of the scale has also been explored. To detect multi-collinearity and data structure, Variance Inflation Factor (VIF) and box-plot technique have been used. Study reports high levels of perceived service quality across all five dimensions while results of regression analysis show that reliability and empathy are potent contributors in explaining +WOM. Original 22-item SERVPERF scale was not found to be universally applicable and thus the study proposes a refined and shorter 13-item SERVPERF scale for assessing service quality at rural banks in India. Findings can be of vital importance to banking industry in re-structuring and prioritizing service quality dimensions and also developing appropriate promotional strategies by highlighting relevant aspects of service quality for generating desired +WOM.

Keywords: Bank, India, Refinement, Rural, Service Quality, SERVPERF, Word of Mouth

DOI: 10.4018/jcrmm.2013070104
1. INTRODUCTION

Previous researches have shown that proper management of service quality is critical to survival and success of service organizations. A great deal of research has been devoted to exploring the relationship of service quality on customer retention and firm profitability (Caru & Cugini, 1999; Fournier & Mick, 1999; Anderson & Mittal, 2000; Meuter et al., 2000; Ladhari, 2009; Adil, 2012). An ever increasing number of organizations are making efforts to improve their levels of service quality in order to enhance customer satisfaction in the hope of generating desired behavioural outcomes such as loyalty and recommendation or positive word of mouth i.e. +WOM (Ehigie, 2006; Baumann et al., 2007; Kassim & Souiden, 2007; Ladhari, 2009). It is therefore imperative on the part of service organizations such as banks to stress upon both service quality and +WOM, in order to expand their customer base and profitability, thereof.

Needless to say that in the banking sector, service quality has become a critical factor for survival and success. Previous research shows that high overall service quality leads to enhanced customer satisfaction (Nguyen & Leblanc, 1998; Grace & O’Cass, 2004; Arasli et al., 2005; Adil, 2012; Adil et al., 2013), high customer retention (Nguyen & Leblanc, 1998; Al-Hawari, 2006) and a favourable overall image for the financial institution/bank (Nguyen & Leblanc, 1998; Ladhari, 2009). Despite these findings, relatively few studies have addressed the relationship between service quality and +WOM in the context of banks in general and India in particular. Empirical studies focusing on exploring the relationship between service quality and +WOM at retail banks in rural India are even more scant. The extant literature primarily delves into service quality attributes important for urban consumers. Thus, there is a pressing need to bridge this gap by carrying out studies focusing on rural consumers in an emerging economy like India. In order to bridge this gap, this research focuses on assessing the contribution made by each of the five dimensions of service quality in explaining +WOM. Also, it tries to explore the varying importance being attached to the five dimensions of service quality. Utilising customer survey data, the present study aims to test the applicability of SERVPERF scale suggested by Cronin and Taylor (1992) in terms of reliability, validity and dimensionality in the context of Indian rural bank settings. In order to better allocate limited organizational resources, it is advisable as well as beneficial to identify varying levels of importance attached to these dimensions by rural bank customers so that these banks may focus on relevant dimensions which are likely to play a significant role in predicting +WOM.

The remainder of this paper is organised as follows. After the introduction, the subsequent section focuses on SERVPERF instrument and reviews the extant literature on the measurement of service quality in banks. The following section describes the methodology used in the study followed by analysis and discussion. Towards the end, researchers have presented a summary of the major conclusions, managerial implications, limitations, and directions for future research.

2. LITERATURE REVIEW

Service quality has been a significant determinant of customer’s retention and loyalty and is increasingly being considered as a key strategic differentiator, particularly within the financial services sector, with major players undertaking some form of quality initiatives. Where service quality assessments are high, customers behave favorably towards strengthening the relationship with the service provider as also engage in +WOM.

2.1. Service Quality

Services have four basic characteristics that differentiate them from products—viz. intangibility, heterogeneity, perishability and inseparability (Ladhari, 2009). These four distinctive characteristics mean that service quality is a more elusive and abstract construct than product
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