Research Article

CUSTOMER SATISFACTION AND SERVICE DELIVERY IN RURAL CO-OPERATIVE BANKING: AN EMPIRICAL STUDY

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ABSTRACT

Service quality is a critical determinant of customer satisfaction, particularly in service-oriented industries like banking. This study investigates the relationship between service quality dimensions and customer satisfaction in the context of Primary Agricultural Co-operative Banks. Utilizing a systematic random sampling method, data were collected from 440 customers of the Cuddalore Primary Agricultural Co-operative Bank. Empirical results demonstrate that service quality significantly influences customer satisfaction, with empathy emerging as the most influential predictor among the SERVQUAL dimensions. These findings emphasize the need for banks to prioritize empathetic service delivery to enhance customer satisfaction and loyalty.

Keywords: Service Quality, Customer Satisfaction, Agricultural Co-operative Bank, SERVQUAL, Banking Sector.

INTRODUCTION

In today's highly competitive business environment, service quality has emerged as a crucial strategic differentiator, especially in industries where core product offerings are largely standardized and difficult to distinguish. One such industry is banking, where most financial institutions provide similar products—such as savings accounts, loans, credit cards, and investment services—and operate with comparable technological capabilities. Due to this high level of technological parity and product homogeneity, banks face significant challenges in differentiating themselves purely through their service portfolio. In this context, superior service quality becomes a vital element for gaining and sustaining a competitive advantage (Buttle, 1996; Arasli *et al.,* 2005).

Service quality in banking refers to the bank's ability to meet or exceed customer expectations during service delivery. As customers increasingly expect more personalized, convenient, and responsive services, banks are under constant pressure to innovate and improve their service delivery processes. High service quality not only enhances a bank's reputation but also helps create a positive customer experience that leads to increased satisfaction, loyalty, and long-term engagement. According to Zeithaml and Bitner (2003), customers tend to develop preferences and lasting relationships with banks that consistently deliver excellent service, even when product offerings are similar to those of competitors.

Furthermore, service quality plays a pivotal role in shaping customer satisfaction, which is directly linked to critical business outcomes such as customer retention, trust, cross-selling opportunities, and overall profitability (Zeithaml *et al.,* 2006). Satisfied customers are more likely to remain loyal, recommend the bank to others, and deepen their

relationship by purchasing additional services. On the other hand, poor service quality can result in customer dissatisfaction, switching behavior, and reputational damage—outcomes that are especially detrimental in the service-driven banking industry.

The concept of service quality has its origins in the field of marketing, particularly in services marketing, where the focus is placed on understanding and managing customer expectations. Service quality is generally defined as the gap between what customers expect and what they actually receive during the service encounter. This expectation-performance gap is central to how customers evaluate the quality of service delivered. If the actual performance matches or exceeds expectations, customers perceive the service as high quality; if it falls short, dissatisfaction arises.

To measure and improve service quality, researchers and practitioners often refer to the SERVQUAL model, which identifies five key dimensions that influence customer perceptions:

1. Reliability – The ability to perform the promised service dependably and accurately. In banking, this means transactions are processed correctly, services are delivered as promised, and errors are minimized.
2. Responsiveness – The willingness to help customers and provide prompt service. Banks must be quick in addressing inquiries, resolving complaints, and offering assistance.
3. Assurance – The knowledge and courtesy of employees, and their ability to inspire trust and confidence. Customers expect bank staff to be professional, informed, and capable.
4. Empathy – The provision of caring, individualized attention to customers. Personalized services and understanding customer needs are crucial here.
5. Tangibles – The physical aspects of the service, such as the appearance of facilities, equipment, personnel, and communication materials. Clean branches, user-friendly ATMs, and professional appearance contribute to this dimension.

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Collectively, these dimensions form the foundation of how customers perceive and assess the quality of banking services. They are integral to understanding how banks can better align their services with customer expectations and achieve long-term success in a commoditized marketplace. Service quality is not merely an operational concern but a strategic imperative in the banking sector. It serves as a key driver of customer satisfaction and loyalty, and therefore significantly contributes to a bank's ability to differentiate itself, build trust, and achieve sustainable growth.

LITERATURE REVIEW

Customer satisfaction is widely recognized as a cornerstone of business success, playing a pivotal role across disciplines such as marketing, economics, and consumer psychology. It is often regarded as a key performance indicator that reflects how well a company meets or surpasses customer expectations. According to Armstrong and Kotler (1996), customer satisfaction emerges from the psychological comparison between a customer's expectations and the actual performance or experience delivered by a product or service. When the delivered experience aligns with or exceeds expectations, satisfaction is achieved; conversely, a gap between expected and received service can result in dissatisfaction.

In their analysis, Pasha and Waleed (2016) conceptualize customer satisfaction as a subjective judgment that evaluates how effectively a product or service meets the needs and desires of consumers. This evaluation process is influenced by multiple factors including product quality, service delivery, pricing strategies, and customer support. Their definition emphasizes the evaluative nature of satisfaction, suggesting it is not a fixed state but a dynamic construct shaped by personal experience and external influences. The ability of a service to fulfill both functional and emotional needs of consumers becomes central to sustaining satisfaction over time.

Building on this foundation, Zeithaml, Berry, and Parasuraman (1996) delve into the consequences of sustained satisfaction, asserting that it leads directly to customer loyalty. Loyalty, in this context, is not merely an emotional attachment but manifests through measurable behaviors such as repeated purchases, positive word-of-mouth referrals, and resistance to competitive offerings. The researchers argue that loyalty is underpinned by the consistency and quality of customer experiences, which foster trust and commitment over time. Hence, cultivating loyalty requires more than transactional efficiency; it demands the creation of value-rich, personalized interactions that reinforce customer trust.

In sectors such as banking, where the service is largely intangible and long-term relationships are crucial, the role of customer satisfaction becomes even more pronounced. Financial institutions operate in highly competitive environments where switching costs for customers are relatively low. In this context, service quality acts as a strategic differentiator. High-quality service delivery enhances perceived value, increases satisfaction, and ultimately improves customer retention rates. This perspective aligns with the service-profit chain theory, which posits that internal service quality and employee engagement directly influence customer satisfaction and, by extension, profitability.

Therefore, for banks aiming to build enduring customer relationships and minimize attrition, strategic investments in service quality are imperative. This involves not only upgrading technological infrastructure and streamlining processes but also investing in employee training and customer engagement initiatives. Personalized services, quick response times, and consistent service delivery contribute significantly to the overall customer experience. When customers perceive that their financial institution is responsive, reliable, and attentive to their needs, their likelihood to remain loyal increases. The literature consistently affirms the centrality of customer satisfaction as a driver of loyalty and long-term profitability. Effective management of service quality is not just an operational concern but a strategic imperative that shapes customer perceptions, behaviors, and relationships across time.

RESEARCH PROBLEM

The competitive dynamics of the banking industry have intensified, compelling banks to differentiate themselves through superior service quality. In the co-operative banking sector, where customer interaction remains high-touch, service delivery quality plays a vital role in determining customer satisfaction. As customer demands increase, it becomes crucial for co-operative banks to evaluate service quality and adapt accordingly.

OBJECTIVES OF THE STUDY

1. To assess customer perceptions of service quality in the Primary Agricultural Co-operative Bank.
2. To analyze the relationship between dimensions of service quality and customer satisfaction.
3. To examine the effect of service quality on customer satisfaction using empirical methods.

HYPOTHESES

- H_0: There is no significant relationship between service quality dimensions and customer satisfaction.
- H_0: Service quality dimensions do not significantly influence customer satisfaction.

RESEARCH METHODOLOGY

Research Design and Sampling

A descriptive and causal research design was adopted. The study focused on Cuddalore Primary Agricultural Co-operative Bank, which serves 4,686 customers across several villages. Using Yamane's (1967) formula with a 95% confidence level and a 5% margin of error, a sample size of 400 was determined. An additional 10% was added to account for non-responses, resulting in a total sample size of 440. Respondents were selected through systematic random sampling.

Data Collection Instruments

- **Service Quality**: Measured using the SERVQUAL model (Parasuraman *et al.,* 1988), encompassing five dimensions: tangibility, reliability, responsiveness, assurance, and empathy (22 items).
- **Customer Satisfaction**: Assessed using a 7-point scale adapted from Were and Hay (1998), covering three core statements of satisfaction.

Analytical Tools

- Descriptive Statistics
- Pearson Correlation
- Multiple Linear Regression Analysis

DATA ANALYSIS AND RESULTS

Table 1 Respondents opinion towards service quality

Statements	Mean	S.D	C.V
Tangibility	5.41	1.38	0.25
Reliability	4.58	1.54	0.33
Responsiveness	5.16	1.40	0.27
Assurance	5.16	1.54	0.29
Empathy	4.23	1.58	0.34

Table 1 analyzes customer perceptions of service quality across five dimensions: tangibility, reliability, responsiveness, assurance, and empathy, using descriptive statistics such as mean, standard deviation, and coefficient of variation (C.V). The results show that tangibility—referring to the physical facilities, equipment, and appearance of personnel—received the highest mean score (5.41), indicating that customers are most satisfied with the modern and appealing physical infrastructure of the bank. Responsiveness and assurance also performed well with mean scores of 5.16, suggesting customers are fairly pleased with how promptly and confidently services are delivered. In contrast, reliability scored a mean of 4.58, suggesting some dissatisfaction or inconsistency in fulfilling service promises. Empathy scored the lowest mean (4.23), indicating that customers perceive the bank as less attentive to individual needs or lacking in personalized service.

The coefficient of variation (C.V) highlights the variability in customer opinions. While empathy showed the highest C.V (0.34), it also indicated the most inconsistency in customer experiences. Tangibility showed the lowest C.V (0.25), suggesting a more uniform perception among customers. Overall, this analysis reveals that while the bank performs well in terms of physical infrastructure and general responsiveness, it must improve in personalized service and emotional connection with customers to enhance overall satisfaction.

Table 2 Service quality and customer satisfaction

Service Quality	Customer Satisfaction	
	r-value	p-value
Tangibility	0.225	0.001*
Reliability	0.327	0.001*
Responsiveness	0.442	0.001*
Assurance	0.359	0.001*
Empathy	0.533	0.001*

Source: Primary data computed, *significant at one percent level

Table 2 presents the findings of Pearson correlation analysis to test the relationship between each dimension of service quality and customer satisfaction. All five dimensions—tangibility, reliability, responsiveness, assurance, and empathy—show statistically significant and positive correlations with customer satisfaction, with p-values < 0.01, confirming strong relationships at a 1% significance level. Among these, empathy recorded the highest correlation coefficient (r = 0.533), signifying that customers who perceive higher empathy from the bank are more likely to report higher satisfaction levels. This underscores the emotional component of banking services; customers value being understood and treated as individuals. The next strongest predictors were responsiveness (r = 0.442) and assurance (r = 0.359), suggesting that prompt and confident service delivery also plays a significant role in shaping customer satisfaction.

Tangibility, despite receiving a high mean score in perception, had the lowest correlation (r = 0.225), indicating that although customers appreciate a modern banking environment, physical aspects alone are not as strongly related to their satisfaction levels. This analysis confirms the first null hypothesis (H□□) can be rejected—there is a significant relationship between service quality dimensions and customer satisfaction. More importantly, it highlights that empathy, more than any other factor, determines how satisfied customers feel with their banking experience. For co-operative banks striving for competitive advantage and customer loyalty, focusing on human-centered service delivery will yield substantial benefits.

Table: 3 Table Effect of service quality on customer satisfaction

R-Value	R-Square Value	Adjusted R- Square Value	F-Value	P-Value
0.747	0.558	0.552	85.914	0.001

Service Quality	B	Std. Error	Beta	t- Value	P-Value
Constant	1.832	0.959	_	1.910	0.057
Tangibility	-0.026	0.041	-0.023	-0.633	0.527 (NS)
Reliability	0.046	0.033	0.057	1.387	0.166 (NS)
Responsiveness	-0.014	0.042	-0.017	-0.332	0.740 (NS)
Assurance	0.058	0.042	0.059	1.381	0.168 (NS)
Empathy	0.142	0.037	0.199	3.810	0.001*

Source: Primary data computed *significant at one percent level;
Ns - Non - significant

Table 3 uses multiple linear regression analysis to evaluate how the five dimensions of service quality collectively influence customer satisfaction. The overall model is statistically significant (p = 0.001), with an R² value of 0.558, indicating that 55.8% of the variation in customer satisfaction can be explained by these five service quality factors. This is a strong model fit, underscoring the critical role service quality plays in shaping customer experiences in the banking sector. Among the five dimensions, only empathy was found to have a statistically significant effect (β = 0.199, p = 0.001). The regression coefficient (B = 0.142) indicates that for every one-unit increase in empathy, customer satisfaction increases by 0.142 units. This reinforces earlier correlation results that emphasized the central role of emotional engagement and personalized service in customer satisfaction.

Other dimensions—tangibility, reliability, responsiveness, and assurance—did not significantly predict satisfaction levels in the regression model, even though they showed positive correlations in the previous section. This suggests that while customers appreciate those elements, they are not independently strong enough to drive satisfaction when empathy is accounted for.

The model's F-value of 85.914 and adjusted R² of 0.552 support the robustness of the findings. These results provide evidence to reject the second null hypothesis (H□□), affirming that service quality dimensions do significantly influence customer satisfaction, with empathy as the most influential driver. Co-operative banks, therefore, must invest in training and customer service practices that promote empathy, care, and individualized attention to strengthen satisfaction and foster long-term loyalty.

CONCLUSION

The findings of this study underscore the critical role that service quality dimensions play in shaping customer satisfaction within the

co-operative banking sector. Through the lens of the SERVQUAL model, it was observed that all five dimensions—tangibles, reliability, responsiveness, assurance, and empathy—contribute meaningfully to the overall customer experience. However, among these, empathy emerged as the most influential predictor of customer satisfaction. This suggests that customers place high value on personalized attention, genuine care, and the perceived willingness of bank personnel to understand and address their specific needs and concerns.

In the context of co-operative banks—where community orientation and trust are fundamental—prioritizing empathy in service delivery is not merely a matter of customer relations but a strategic imperative. Strengthening interpersonal engagement, enhancing active listening, and demonstrating a sincere commitment to customer well-being can significantly enhance satisfaction and promote long-term loyalty. These factors not only differentiate co-operative banks from larger commercial institutions but also create a sense of belonging and trust that is essential for customer retention.

Furthermore, the study suggests that improving service empathy can directly impact bank performance by fostering positive customer perceptions, increasing repeat business, and reducing attrition. As such, management should invest in staff training, customer feedback systems, and relationship-building initiatives that reinforce empathetic service behavior. In conclusion, enhancing the human dimension of service—particularly empathy—is vital for co-operative banks aiming to thrive in an increasingly competitive financial landscape.

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