



Measuring Customers' Perception On Service Quality In Indian Banking Sector

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Abstract :

Customer satisfaction is an increasing challenge for banking companies. In the last few years, the banking sector has witnessed a substantial growth and rapid changes. Customer satisfaction is a critical issue in the success of any business system. This paper describes the customer perceptions towards service quality in banking sector. To evaluate perception levels of customers, SERVQUAL instrument covering Reliability, Assurance, Empathy, Responsiveness and Tangibles has been used. For the analysis item-to-correlations, means, standard deviations, scale's reliability, factor structure, and validity have been used. The results of the study indicated that the overall service quality provided by the banks was good. Tangible was rated as the most important dimension followed by assurance, responsiveness, reliability, and empathy. Further, the findings also found that the Alpha coefficients are considered sufficient enough to imply reliability and proved the internal cohesiveness of the items forming each dimension. Factor analysis reveals that customers are happy with the appearance of physical facilities, equipment, personnel, and other materials and employees' knowledge and courtesy and their ability to inspire trust and confidence. On the other hand the dimensions reliability, responsiveness and empathy scored lesser than the tangibility and assurance. This reflects that there is a need for service improvements in these areas.

Keywords: Customer service, SERVQUAL dimensions, Service quality, Banking

Introduction

Banks play a vital role in the economy, as one of the biggest service provider. With increased competition among banks, organizations need to improve quality of their services. Customers must be given quality service because an industry has become so competitive that customers now have variety of alternatives. If the customer is lost, it can be extremely difficult to win back the individual and most customers do not complain when they experience problems. These customers simply opt out and take their business else where. Unlike goods quality, which can be measured objectively by such indicators as durability and number of defects (Crosby 1979; Garvin 1983), service quality is an abstract and elusive construct because of three features unique to services: intangibility, heterogeneity, and inseparability of production and consumption (Parasuraman, Zeithaml, and Berry 1985). In the absence of objective measures, an appropriate approach for assessing the quality of a firm's service is to measure consumers' perceptions of quality.

Service Quality

Service quality has been defined from different perspectives and orientations. Gronroos (1984) has defined the perceived service quality as "the outcome of an evaluation process, where the customers compare their expectations with the service they have received". Parasuraman, Zeithaml and Berry (1985) defined service quality as the consumer's comparison between service expectation and service performance. Cronin and Taylor (1992) stated that the concept of service quality should be based on customers' attitude towards the service. Teas (1994) suggested that performance or perception is the only measure of service quality, and it is no longer necessary to consider the expectation. Recently, service quality has been extensively researched, as it has become vital for service firms to pay attention to it due to increased competition (Bouman & Wiele, 1992). Service quality is a way of thinking about how to satisfy customers so that they hold a positive attitude towards the services they has received (Ostrowski, O'Brian & Gordon, 1993).

Service Quality In Banks

Service quality has become an increasingly important factor for success and survival in the banking sector. Banks and other financial service providers are increasingly developing service quality initiatives (Al-Hawari & Ward, 2006; Lewis, 1993). The competition among the various banks has resulted in increased need to identify the customers' needs and satisfy them to retain customers. Service quality has become a competitive strategy in the Indian Banking sector. The Indian banking sector recognized the importance of customers' needs and paying more attention towards the attributes of service quality. Therefore, service quality is becoming more critical for banks to retain their customer base. Delivering quality service to customers is one of the ways for banks to respond and compete for

success and survival (Samli & Frohlick, 1992, Sudesh, 2007). Thus it is important to explore the perception of service quality in Indian Banking sector.

The SERVQUAL Method

Parasuram A, Zeithaml V.A and Berry LL, a group of researchers in marketing proposed ten quality dimensions originally: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding the customer and tangibles. Later they were pooled ten dimensions into five dimensions: tangibles, reliability, responsiveness assurance and empathy (Rampal and Gupta, 2002). Many researchers have used this 22-item scale to study service quality in different sectors of the services industry including financial institutions (Gounaris *et. al.* 2003; Arasli *et. al.* 2005).

Service quality dimensions are tangibles, reliability, responsiveness, assurance and empathy. Tangibles (4 items) - Appearance of physical facilities, equipment, personnel, and other materials; Reliability (5 items) - Ability to perform the promised service dependably and accurately; Responsiveness (4 items) - Willingness to help customers and provide prompt service; Assurance (4 items) - Employees' knowledge and courtesy and their ability to inspire trust and confidence; and Empathy (5 items) - Caring, individualised attention given to customers (Zeithaml and Bitner, 2003).

Literature Review

A brief literature review was done to examine the literature to identify the gap in the literature. Based on the gaps, objectives were formulated and research questions were framed and examined.

Unlike goods quality, defining and measuring quality in services is difficult due to its characteristics: intangibility, inventory, inconsistency and inseparability. Many of the researches on service quality have been carried out within the framework of widely accepted service quality model (SERVQUAL instrument) developed by extensive research by Parasuraman *et. al.* (1985, 1988, and 1991).

Sandip Ghosh Hazra, Kailash B.L. Srivastava (2010) examined the strength of association among the service quality and customer satisfaction, loyalty and commitment. The results showed that customers value four dimensions of perceived service quality: assurance-empathy, tangibles, security, and reliability.

In the banking industry, the study on service quality has been undertaken by Yavas *et. al.* (1997), Bahia and Nantel 2000; Lassar *et. al.*, 2000; Duncan and Elliott, 2002; Jabnoun and Al-Tamimi, 2002; and Arasli *et. al.*, 2005. The number of studies undertaken in banking sector in the application of servqual are Kangis and Voukelatos 1997; Angur, Natarajan and Jahera, 1999; Jun *et al.*, 1999; Jabnoun and Al-Tamimi, 2002; Al-Tamimi and Al-Amiri, 2003; Arasli, Katircioğlu and Mehtap-Smadi, 2005b; Lee and Hwan, 2005).

Methodology

The Banking space in Indian is becoming highly competitive day by day so it is necessary to know the perception of customers towards the service provided by the banks. By knowing the perception of the customers the service provider can know the preferences of the customers and can develop the strategies to serve the customers better.

Researcher conducted a survey using the SERVQUAL questionnaire method with a sample size of 226 bank customers from twin cities of Hyderabad and Secunderabad, Andhra Pradesh, India. The SERVQUAL method typically measures the service quality of a service organization with respect to five dimensions i.e. tangibility, reliability, responsiveness, assurance and empathy.

For the study, 22 items have been used to study the perception of quality among the customers. A five-point likert scale is used to measure the customer perception across the five dimensions of the study. The purpose of this study was to examine the level of service quality in the banking sector from the perspective of bank customers.

Researcher selected various banks for assessing the service quality.

Using the SERVQUAL instrument, score for 22 items have been obtained.

An average score for each dimension by assessing the scores for each of the statements that constitutes the dimension and dividing the sum by the number of statements making up the dimension has been obtained.

The analysis and tests utilized in the study include frequency and mean, standard deviation, factor analysis and reliability analysis. Reliability assessments were based on the internal consistency of the items (using the coefficient alpha) representing the same dimension of service quality as well as the overall scale.

Findings And Discussion

The analysis of the study is presented in four parts: Part 1 Demographic Profile, Part 2 Servqual score, part 3. Reliability measure, and part 4. Factor Analysis Results.

Demographic Profile

The findings related to demographic profile are as follows. The sample of bank customers consisted of 51 percent males and 49 percent females. 44 percent of the respondents were in age group of below 25, 19 percent were between 26-35 age groups, 21 percent were between 36-45 age group and 16 percent were age group of above 45. With regards to educational qualifications 41 percent reported to be post graduates, 30 percent to be graduates, 14 percent to be under graduates and 15 percent being other

qualification. In terms of occupational status 24 percent were private employees, 29 percent were students, 16 percent were government employees, 12 percent were businessmen and 19 percent were others. This indicates that majority of the respondents are engaged in private jobs. With regard to the income of the respondents 33 percent were in the income group of 10,000-20,000, 14 percent were having below 10,000 income, 29 percent had nil income, remaining were falling under 20,000-30,000 and 30,000-40,000 income group.

Service Quality Score

This analysis was done in order to measure the perceptions of the bank customers on the service quality provided by the banks. The questionnaire consisted of 22-items were grouped under five dimensions. An analysis is done per: each item, each dimension, and overall measure and presented in table 1.

Q.No.	Tangibles	Reliability	Responsiveness	Assurance	Empathy
1	3.75	3.28	3.45	3.37	3.13
2	3.50	3.46	3.55	4.01	3.22
3	3.70	3.31	3.47	3.40	3.20
4	3.61	3.40	3.11	3.76	3.20
5	3.75	3.48	3.45	-	3.39
Average	3.66	3.38	3.40	3.63	3.22
Overall Service Quality = 3.45					

Table 1: Average Means for Five Dimensions of Service Quality (Question-Wise)

Respondents reported high average perception scores, above 3.20 for all five dimensions of service quality. Tangibles rated high with mean value of 3.66 while "Empathy" rated lowest with mean value 3.22. This indicates that the banks are investing in modern-looking equipments, appealing physical activities, neat appearance of staff and materials associated with the service are visually appealing; and neglecting the Individual attention given by staff, convenient operating hours, employees give Personal attention, staff giving customers best interest at heart, and understanding the specific needs of customers.

Reliability Measure

Reliability test was carried out using SPSS 17.0 and reliability measure is given in table 2. It can be seen that reliability value is .882 in the reliability method applied. So the questionnaire is highly reliable. Items for each dimension of service quality were subjected to reliability assessment. Corrected item-to-total correlations were also examined. Overall alpha coefficient as the reliability analysis is 0.870. Items for each dimension were also subjected to reliability analysis. The alpha coefficients for

Tangibles, Reliability, Responsiveness, Assurance, and Empathy were 0.879, 0.875, 0.873, 0.878, and 0.876 respectively. The Alpha coefficients are considered sufficient enough to imply reliability and proved the internal cohesiveness of the items forming each dimension.

Reliability Statistics	
Cronbach's Alpha	N of Items
.882	22

Table 2: Reliability Statistics

Of the individual items, four items (item-3, 9, 15 and 19) had a correlation with the total scores that was lower than the 0.35 cut-off value according to Saxe and Weitz (1982). These items are: item- 3: Neat appearance of staff (.205), item-9: Insist on error-free records (.191), item-15: Customers feel safe in their transactions (.172), and item-19: Convenient operating hours (.214). The other items ranged from .367 to .639. Item –to-total correlations, reliabilities, means and standard deviations analysis results are presented in table 3.

Items	Item-to-total correlations	Mean	Standard deviation
Tangibles (Cronbach alpha=0.879)			
1. Modern-looking equipments	.454	3.75	.824
2. Appealing physical activities	.401	3.50	.879
3. Neat appearance of staff	.205	3.70	.964
4. Materials associated with the service are visually appealing	.367	3.61	.889
Reliability (Cronbach alpha= 0.875)			
5. Staff keeping promise	.614	3.28	1.157
6. Sincere interest in solving customers' problems	.639	3.46	.945
7. Staff performing services right the first time	.556	3.31	.997
8. Provide services at the time they promise to do so	.526	3.40	1.003
9. Insist on error-free records	.191	3.48	1.008
Responsiveness (Cronbach alpha=0.873)			
10. Staff telling customers exactly when services will be performed	.550	3.45	.992
11. Prompt service	.588	3.55	.842
12. Staff willingness to help	.635	3.47	.945
13. Prompt response from staff	.602	3.11	.972
Assurance (Cronbach alpha=0.878)			
14. Behaviors of staff instill confidence in customers	.581	3.37	.877
15. Customers feel safe in their transactions	.172	4.01	.880
16. Friendliness and courtesy of staff	.535	3.40	.899
17. Staff having knowledge to answer questions	.375	3.76	.831
Empathy (Cronbach alpha=0.876)			
18. Individual attention given by staff	.603	3.13	1.039
19. Convenient operating hours	.214	3.22	1.095
20. Employees give Personal attention	.547	3.20	.970
21. Staff giving customers best interest at heart	.523	3.20	.978
22. Understanding the specific needs of customers	.542	3.39	.956

Table 3: Perceptions Scale Item-to-Total Correlations, Reliabilities, and Item Means and Standard Deviations (N=226)

Factor Analysis Results

In order to find out the variables influencing the perception of service quality, spss 17.0 software was used. This analysis considered 22 items. A factor analysis was conducted using varimax rotation (Table-4). Before that a pre-analysis was made in order to check if the sample is suitable for factor analysis. The Kaiser-Meyer-Olkin measure of sample adequacy was 0.835, value close to 1.0 which indicates that

a factor analysis may be useful. Also the Bartlett test of sphericity (2265.613) was significant at $p < 0.01$, thus, indicating that the sample was suitable for factor analysis. After the interpretations of the results, factors with eigenvalues greater than 1.0 and factor loadings that are equal to or greater than 0.50 were kept. (Table 4). The data of the item was coded in SPSS software; then Eigen value is calculated which gave the value of total and variance. The Factor analysis is presented in Table 4.

Factor-1		Factor-2		Factor-3		Factor-4		Factor-5	
Tangibles		Reliability		Responsiveness		Assurance		Empathy	
Item	Loading	Item	Loading	Item	Loading	Item	Loading	Item	Loading
1	.556	5	.611	10	.648	15	.735	18	.649
2	.551	6	.684	11	.733	16	.522	19	.671
3	.660	7	.638	12	.598	17	.640	20	.569
4	.653	8	.625	13	.599	-	-	21	.634
-	-	9	.602	-	-	-	-	22	.657
Eigen value	6.86		1.97		1.45		1.23		1.19
% of variance	31		9		6		6		5
Total variance explained						57%			

Table 4: Factor Analysis Results

Factor analysis results showed five factors identified as Tangibles, Reliability, Responsiveness, Assurance, and Empathy. Tangibles, Reliability, Responsiveness, Assurance, and Empathy had an Eigen value of 6.86, 1.97, 1.45, 1.23 and 1.19 respectively, and altogether accounted for 57% of the variance. Only one item (item-14) out of 22 items leave outside with a factor loading below 0.5.

Description of Factors

Tangibles have emerged as the most important dimensions of service quality influencing the perceived service quality of banks with the total 6.68 and variance 31. Major element constituting this factor includes – Neat appearance of staff.

Reliability affect the perceived service quality with the total 1.97 and variance 8. Major item constituting this factor includes – Sincere interest in solving customers' problem with loading 0.684.

Responsiveness with total 1.45 and variance 6. Major item constituting this factor includes – Prompt service with loading 0.733.

Assurance is one of the important dimensions of service quality with the total 1.23 and variance 5. Major item constituting this factor includes – Customers feel safe in their transactions.

Empathy is the last dimension with total 1.19 and variance 5. Major element constituting this factor includes – Convenient operating hours.

It can be observed that the highest score arises in case of tangibility and assurance dimensions. It reveals that customers are happy with the appearance of physical facilities, equipment, personnel, and other materials and employees' knowledge and courtesy and their ability to inspire trust and confidence. On the other hand the dimensions reliability, responsiveness and empathy scored lesser than the tangibility and assurance. This reflects that there is a need for service improvements in these areas.

Conclusion

The study is aimed to measure the customer perception on service quality in banking sector using SERVQUAL on five dimensions i.e. tangibility, reliability, responsiveness, assurance and empathy. The purpose of this study was to examine the level of service quality in the banking sector from the perspective of bank customers. The sample profile indicates that majority of the service users are employees of private organization; young and middle aged; graduates, and monthly income is moderate. Average Scores of Servqual found that dimension "Tangibles" rated high while "Empathy" rated lowest among the dimensions of service quality. This indicates that the banks are investing in modern-looking equipments, appealing physical activities, neat appearance of staff and materials associated with the service are visually appealing; and neglecting the Individual attention given by staff, convenient operating hours, employees give Personal attention, staff giving customers best interest at heart, and understanding the specific needs of customers. This reflects that there is a need for service improvements in these areas. The Alpha coefficients are considered sufficient enough to imply reliability and proved the internal cohesiveness of the items forming each dimension.

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