



Explicating Service Quality –A Study of Commercial Banks in Indian Banking Sector

KEYWORDS

Service Quality, Service Bonding, Accessibility, Tangibles, Competence

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ABSTRACT *PURPOSE : The banking sector continues to be one of the prime drivers of economic growth. With India experiencing a cycle of growth, the Rs 81 trillion (US\$ 1.34trillion)-Indian Banking industry is poised to grow exponentially as the sector reflects the health of an economy . Banking sector faced with cut throat competition, induced by globalization and advances in technologies, has brought customer satisfaction to the center of the focus. Service Quality is one of the inflections of customer satisfaction and is critical for survival in today's competitive environment. Service quality, in fact, is dependent upon the service performance and how far it is able to satisfy customers. The present study makes an endeavour to gauge the service quality in selected Banks of India by garnering the views of the customers pertaining to their expectations and actual perception about the services being rendered to them. This is an empirical research. Study revealed that there exists differences in the perception and expectations of the customers as far as their evaluation of banks on various dimensions of service quality are concerned.*

Introduction:

India's Rs 81 trillion -banking industry is the backbone to the economy and has witnessed tremendous growth in the last few years . The sector emerged strong from global financial turmoil and proved its mettle when the developed economies were shaking (IBEF 2014). India's banking sector is on a high-growth trajectory with around 3.5 ATMs and less than seven bank branches per 100,000 people, according to a World Bank report.

Currently, there are 26 public sector banks, 20 private sector banks and 43 foreign banks. These are complimented by 61 regional rural banks and more than 90,000 credit co-operatives. (KMPG- 2013).

Indian banking sector is expected to become fifth largest in the world by 2020. Bank credit is expected to grow at a compounded annual growth rate (CAGR) of 17 per cent in the medium term, eventually leading to higher credit penetration in the economy. (KMPG- Dec 2013).

During the last decade Banking Industry has undergone a paradigm shift resulting in modification in the structure, scope, functions of the banking industry. The focus areas of organizations have also changed from profit maximisation to customer satisfaction and retention. Now organisations recognise that unless customer needs are identified and taken into consideration for designing and delivering services, one cannot achieve growth and competitive advantage. Customers would like and always expect the services to be perfectly streamlined and standardised so that they can effortlessly receive good quality services. It is therefore vital to measure the service quality as to evaluate their level and identify the gap thereby if any. Service quality can thus be used as a strategic differentiation weapon to build a distinctive advantage which competitors would find difficult to copy. The present study includes an assessment of customer's expectations and perceptions of Indian banks' service quality. This analysis of service quality would enable management to better direct financial resources to improve banks operations in those areas that have the most impact on customer perceptions of service quality. This evaluation is essential in today's competitive environment.

Literature Review:

Parasuraman et al (1985) identified ten requirements useful for customers' evaluation of the quality of services: reliability, responsiveness, tangibles, communication, credibility, security, competence, courtesy, understanding the customers and service accessibility. Berry et al (1990) are of the view that the sole judge of service quality is the customer to get a positive feedback from him; the service companies should implement the five imperatives of service quality viz. Reliability, Assurance, Tangibles, Empathy and Responsiveness in their services. Cronin et al (1992) criticized SERVQUAL scale as it measures customer satisfaction on perception-expectation model and not on attitude model and developed the SERVPERF model to measure service quality by considering only the customer perceptions dimension. Yavas et al (1997) in their study have revealed a positive relationship of good service quality with customer satisfaction and long term commitment of the customers to the bank. The relationship between good service quality and complaint behavior of the customers, however, has been found to be negative. Lassar et al (2000) proposed that in comparison to different quality dimensions the functional dimension is most significant in affecting the satisfaction measures. Thus, the customers of high customer service firms rely on functional dimension to distinguish between alternate service providers. Srivadas et al (2000) have found a high degree of positive correlation in between service equality and satisfaction level of the customers. Govender (2002) emphasized that by using formal and informal strategies to socialize their customers, service providers could positively influence their customers' perception of service quality. Kim et al (2009) revealed that a firm's service improvement efforts facilitate positive evaluation of the firm by its customers. Service operations efficiency creates more customer satisfaction, and if a firm employs a service operations strategy to improve the service quality, more profit can be realized. Shanka (2012) has emphasised that there is a positive correlation between the dimensions of service quality and customer satisfaction. Also it was found that offering quality service have positive impact on overall customer satisfaction and proved that empathy and responsiveness plays the most important role in customer satisfaction level followed by tangibility, assur-

ance, and finally the bank reliability.

Objectives:

The major objectives of the study are as under:

- To examine the expectations of the customers of selected banks on various service quality fronts.
- To assess how the customers actually perceive service quality of their banks.
- To assess the gap if any in expectations and actual perception of the customers.

Hypothesis:

Keeping in mind the objectives of the study following hypotheses have been tested:

- There is no significant difference in the expectations and perception of the customers of the banks under study on service quality front.
- There is no significant difference in the service quality as imparted by selected banks.

Research Methodology:

This is an empirical study. The researchers have made use of both primary and secondary data to arrive at necessary conclusions. The primary data has been collected has been collected with the help of a structured questionnaire addressed to randomly approached 690 clients in National Capital Region and Haryana . The study is confined to four banks ,two each, in public sector/nationalized bank categories and private sector banks operating in India. The choice of the banks has been made on the basis of the judgement sampling considering the banks which are Large in Size in Terms of the bank Branches, Income and Deposits etc. and the banks which are comparatively lower in size in terms of the said Dimensions.The sample size of each selected bank varies according to the scope of activities of the banks. The secondary data incorporated in the research is the outcome of literature on service quality scanned by the researchers from various published and unpublished reports/journals and books etc. The data so collected have been analysed with the help of SPSS software using various statistical techniques like mean, standard deviation, combined t-test etc. and presented with the help of appropriate statistical tables.

The four selected banks are as follows:

- 1 State Bank of India(Public Sector Bank)
- 2 ICICI Bank(Private Sector Bank)
- 3 Vijaya Bank (Nationalised Bank)
- 4 Federal Bank(Private Sector Bank)

Research Thrust:

The researchers, after reviewing literature on service quality have devised their own dimensions concerning same to garner the views of the respondents. The thrust of this study is on the following dimensions of service quality.

- Service bonding: Ability to create bond with customers by performing the promised service accurately and dependably.
- Accessibility: The quality of being accessible and receptive to customers.
- Accuracy: The ability to ensure freedom from mistakes by keeping error free-records.
- Competence: Possession of specific range of skill, knowledge or ability.
- Timeliness: Ability to perform the service at the time agreed upon.

- Security: Ability to ensure security in each Transaction.
- Tangibles: The ability to create conducive atmosphere through physical facilities, equipments and personnel.
- Recovery: The quality to recover over the failed services to the satisfaction of the customer.

Analysis and Interpretation:

The response of the respondents on the above said dimensions of service quality is as follows:

SERVICE BONDING

Service bonding is the outcome of the reliable services. It occurs when any organisation fulfills its promises made for the services. When any organization keeps its promises made to the customers, they also give privilege to it by becoming loyal to the same. Hence, a sort of bond is established in between the organisation and customers. The performance of the selected banks on this front is depicted with the help of table 1.

Table 1 suggests all the selected categories of banks failing to meet the expectations of their customers on this front. This is evident from application of combined t-test which has detected a significant difference in perception and expectations of the customers of all the selected categories of banks. Comparatively speaking public sector banks, SBI with mean scores(-)2.6 and Vijaya bank with mean score (-)2.7 are found be performing better than private sector banks(ICICI with mean scores off(-)3.2 &Federal bank(-) 4.0)on this dimension. There is no denying fact that customers expectations these days are very high and are difficult to meet . Thus the private sector banks with negative mean score in excess have to be activated and make efforts to fulfill its promises made for the services.

SERVICE ACCESSIBILITY

The ease with which customers can approach service provider is an integral part of service quality. The performance of the banks under study on this aspect has been explained with the help of Table 2.

It is clear from table 2 that large size banks, SBI with mean score of (-) 1.7 &ICICI Bank with mean score (-) 2.0 are found to better perceived in terms of easy accessibility to its client. These banks have an admirable branch network and other facilities such as e banking and m banking. Small size banks Vijaya bank and federal bank with mean scores (-) 3.1& (-) 3.6 respectively have been found wanting an ensuring easy accessibility to its client. A further investigation revealed that customers of large size banks are quite satisfied with bank branches and ease of access. Customers of the small size banks, meanwhile, have not been able to make good impression on their customers with their branch network and convenience of access . Thus, the banks must try to get vigilant in order to delight their customers by ensuring proximity of services.

SERVICE ACCURACY

Errors in services, on account of their unique characteristics viz. intangibility, inseparability, perishability and inconsistency are very difficult to be controlled completely. However, all possible efforts should be made to keep these to minimum possible to gain privilege of the clients. Accurate services, undoubtedly, may prove to be real asset to any organization especially the one operating in service sector.

Table 3 indicates that public banks, SBI with a mean score of (-) 1.9 &Vijaya Bank with mean score (-) 2.1 are slightly better than their private counterparts which have got

a negative mean rating (ICICI with (-) 2.2 & Federal bank(-)2.9) on "service accuracy" front. T-test indicates a significant difference between perception and expectations of clients. Maintaining accuracy is indeed a tough proposition and is very critical to attract and retain customers. Thus the banks should make sincere efforts to reduce mistakes so as to gain the confidence of the customers.

SERVICE COMPETENCE

Ensuring service quality without competent employees is a distant dream. It is thus imperative for any service provider to judge the incumbents for competency before selecting them and further giving them continuous doze of training. This will not only enhance their skill set but also keep their clients' happy and satisfied.

Table 4 indicates that clients are not satisfied with the competency of employees of the selected banks. It is really disappointing to note that the public banks, SBI with Mean score(-)2.3 and Vijaya Bank with mean score (-)2.4 are failing to match to the expectations of its clients while ICICI Bank and Federal bank with negative mean rating of (-)2.7and (-)2.9 respectively are following them on this front. Competent employees can communicate with others effectively, solve problems, , and are gifted at educating and persuading in a sales situation and resolving customer complaints in a customer service role, which enhances the quality of services. Thus banks should be careful while selecting employees.

SERVICE TIMELINESS

Delivering the service at the right time is the tool to judge the efficiency of an organisation. As time scarcity always haunts modern day customers, it becomes imperative for service providers to serve them within no time. Any organization that makes its customers wait generates a lot of ill-will for itself in their mind.

Table 5 indicates both the selected public banks failing miserably in adhering to time schedule. The selected public banks SBI and Vijaya Bank have got a negative mean scores of (-)3.2 & (-)3.5 respectively. Private banks are acting better with timely delivery of services(-) 2.2 mean score of ICICI Bank & (-) 1.9 is in case of the federal bank). Not abiding to time and making clients wait are virtually intolerable to customers as little delay in some of the services can cause a hefty trouble for them .Both the public banks need to recognize the same and make efforts to provide timely services .

SERVICE SECURITY

Safety and security are the major concerns of the customers while transacting with the banks. Any insecurity and doubt in the minds of the customers may dispel them from being loyal. Thus actions must be directed to ensure secure transactions.

Table (6) indicates public sector/ nationalized banks almost matching the expectations of their customers on this front. Combined t-test, as a matter of fact, has detected a significant difference in the expectations and perception of the customers of these banks at 5 per cent level of significance. SBI with mean rating (-)1.0 and Vijaya bank with (-)1.8 are performing better than their private counterparts .(ICICI Bank with negative mean rating (-)3.1 and federal with mean score of (-)2.9 . So it is desirable that private banks must also start following the track of public banks on service security front.

TANGIBLES:

Clients also evaluate the quality of services on tangibles like appearance of physical facilities, equipments, personnel and communication materials. Many a times the same is considered secondary to most other dimensions of service quality yet, it has its role to play in enhancing service quality.

Table 7 shows that both the selected private banks have surpassed Public banks in terms of ensuring good ambience by creating ideal physical evidence. The same is evident from table 9 which has shown selected public banks, SBI and Vijaya Bank getting negative mean ratings of (-)2.7& (-)3.8 respectively While ICICI and Federal Bank has got mean rating of (-)1.7&(-)2.2 respectively .Thus public banks must try to work on physical evidences of their banks to impress the customers.

SERVICE RECOVERY

It is the systematic efforts made a company to correct a problem following a service failure.It builds customer loyalty that brings a customer back from the brink of defection. Service recovery not only builds customer loyalty, it draws more customers to a business

Table 8 shows that Private banks ICICI bank with mean rating of (-)2.5 and Federal Bank with mean scores(-)2.8 are making good recovery efforts than public banks with mean scores(-)3.2 and(-)3.7 for SBI and Vijaya Bank respectively. But still the difference between perception and expectation of customer is significant as indicated by T test. All the categories of Banks need to understand that risk of defection is high when a variety of alternatives are available. Thus it is critical for the firms to have effective recovery strategies because even a single service problem can destroy a customer's confidence in the firm.

POLICY IMPLICATIONS AND CONCLUSION:

Quality has emerged as one of the most important issues in Indian banking sector. In spite of various initiatives by the banking industry, the customers' expectations on various imperatives of service quality are not matched. The survey has revealed rather lackluster performance of the selected category of Banks on service quality front. The Public Banks are enjoying an edge over its private counterpart on security, accuracy and bonding aspects. The private banks, meanwhile, has got better rating on Timeliness front and Service recovery . It is high time that service quality must be reviewed from customers' viewpoint and improved accordingly. This is how the banks can generate positive word of mouth.

Table 1 : Expectation and Perception on Service Bonding:

Name of the Bank	Mean (P-E)	Std. Deviation	Std. Error Mean	T	df	Sig. (2 tailed)
SBI	-2.68400	1.34140	.08484	-31.637	249	.000
ICICI	-3.27500	1.52348	.10773	-30.401	199	.000
VIJAYA	-2.79167	2.01213	.18368	-15.198	119	.000
FEDERAL	-4.02500	1.54736	.14125	-28.495	119	.000

Table 2 : Expectation and Perception on service accessibility:

Name of the Bank	Mean (P-E)	Std. Deviation	Std. Error Mean	T	df	Sig.(2 tailed)
SBI	-1.76800	1.10229	.06971	-25.360	249	.000
ICICI	-2.07000	1.34691	.09524	-21.734	199	.000
VIJAYA	-3.18333	1.58238	.14445	-22.038	119	.000
FEDERAL	-3.61667	1.79721	.16406	-22.044	119	.000

Table 3 : Expectation and Perception on Service accuracy:

Name of the Bank	Mean (P-E)	Std. Deviation	Std. Error Mean	T	df	Sig.(2 tailed)
SBI	-1.94000	1.27077	.08037	-24.138	249	.000
ICICI	-2.20500	1.48797	.10522	-20.957	199	.000
VIJAYA	-2.18333	1.53384	.14002	-15.593	119	.000
FEDERAL	-2.99167	1.47526	.13467	-22.214	119	.000

Table 4 : Expectation and Perception on Service competence

Name of the Bank	Mean (P-E)	Std. Deviation	Std. Error Mean	T	df	Sig.(2 tailed)
SBI	-2.31600	1.26433	.07996	-28.963	249	.000
ICICI	-2.75000	1.45881	.10315	-26.659	199	.000
VIJAYA	-2.45000	1.93095	.17627	-13.899	119	.000
FEDERAL	-2.95833	1.88491	.17207	-17.193	119	.000

Table 5: Expectation and Perception on Service timeliness

Name of the Bank	Mean (P-E)	Std. Deviation	Std. Error Mean	T	df	Sig.(2 tailed)
SBI	-3.29200	1.25100	.07912	-41.608	249	.000
ICICI	-2.22000	1.46709	.10374	-21.400	199	.000
VIJAYA	-3.52500	1.43171	.13070	-26.971	119	.000
FEDERAL	-1.95000	1.50545	.13743	-14.189	119	.000

Table 6: Expectation and Perception on Service Security

Name of the Bank	Mean (P-E)	Std. Deviation	Std. Error Mean	T	Df	Sig.(2 tailed)
SBI	-1.02800	1.01950	.06448	-15.943	249	.000
ICICI	-3.15000	1.28286	.09071	-34.725	199	.000
VIJAYA	-1.87500	1.04167	.09509	-19.718	119	.000
FEDERAL	-2.94167	1.33029	.12144	-24.224	119	.000

Table 7 Expectation and perception on Tangibles:

Name of the Bank	Mean (P-E)	Std. Deviation	Std. Error Mean	T	Df	Sig.(2 tailed)
SBI	-2.75600	1.47824	.09349	-29.478	249	.000
ICICI	-1.79500	.91496	.06470	-27.744	199	.000
VIJAYA	-3.80833	1.15443	.10538	-36.138	119	.000
FEDERAL	-2.20833	1.05237	.09607	-22.987	119	.000

Table:8 Expectation and Perception on Service Recovery:

Name of the Bank	Mean (P-E)	Std. Deviation	Std. Error Mean	T	Df	Sig.(2 tailed)
SBI	-3.27600	1.00990	.06387	-51.290	249	.000
ICICI	-2.53000	.91283	.06455	-39.196	199	.000
VIJAYA	-3.73333	1.23488	.11273	-33.118	119	.000
FEDERAL	-2.84167	1.02896	.09393	-30.253	119	.000

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