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Validating International Service Quality Scale: A study of Private Sector Banks in Ahmedabad

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ABSTRACT It has been witnessed, that post-liberalization (1991), various sectors in India, have opened up to new formats of business, pronounced entry of private and foreign players, and intensified competition. The banking sector has been at the forefront of this development and with the advent of private retail banking, competition has prompted banks to implement measures to differentiate themselves and satisfy customers through their service quality. As proposed by Sasser *et. al*. (1978) service quality is a construct of the consumer's expectations and perceptions. The present study is focused on assessing this construct of service quality in private sector retail banks in the city of Ahmedabad. Service quality assessment calls for a validated and reliable instrument. For this study we have used the SERVQUAL model of service quality measurement (Parsuraman*et al*., 1988). The celebrated tool for service quality assessment has received mixed reviews from researches conducted on various sectors of the service industry. In certain sectors like retailing researchers have questioned its validity in India and have suggested modifications in its construct to suit the Indian context. Thus, the paper also attempts to validate the model in the banking sector and further analyzes the outcomes of the collected responses. Inferences ofstatistical outcomes suggest that the instrument, though reliable (Cronbach's Alpha of reliability), has not been validated bythe CorrelationAnalysis. Therefore, the research was not able to make suggestions to retail banks on the measurement and implementation of service quality strategies as described through the dimensions of the SERVQUAL instrument.

KEYWORDS : Service Quality, SERVQUAL, Private Sector Banks, Retail Banking

1. Introduction

1.1 Banks

Banking Regulations Act, 1949, Section 5(c), defines a bank as:

'a banking company which transacts the business of banking in India.' Further, Section 5(b) of the Banking Regulations Act defines banking as:

'accepting, for the purpose of lending or investment, of deposits or money from the public, repayable on demand or otherwise and withdraw able, by cheque, draft, and order or otherwise.' (Gauba, 2012)

Development of banks is concomitant with development of the culture and financial system of any civilization (Hildreth, 1837). Banks play a significant economic role as an intermediary of any financial system, as they channelize funds from units with surplus to units with deficit (Mahesh, 2006).Post liberalization, in 1992, the Indian financial sector in general and as a part of it, the banking industry in particular has evolved greater autonomy and competition, which has led to a proliferation of private and foreign banks and more pronounced strategic marketing efforts (Mahesh and Rajeev, 2008).

1.2 Post – 1992 – FinancialSector Reforms

In his celebrated research on economic growth related to government policy, Lucas (1988) pointed out:

“Is there some action the government of India could take that wouldlead the Indian economy to grow like Indonesia's or Egypt's? If so, what, exactly? Theconsequences for human welfare involved in questions like these are simply staggering: Onceone starts to think about them, it is hard to think about anything else.”

One of the most significant policy reforms that have taken place in the recent past in India is the liberalization of our financial system. The liberalization policy and its outcomes maycontribute to increased growth in various ways. The quantum of investments may increase due to improved sharing of risk and the lowered cost of capital. Improved risk sharing not only leads to increased investment, but may also lead to investments in projects with forecast of high risk complimented with highexpected returns(Obstfeld, 1994).However, it may also lead to low risk-low return saving options suffering in the face of lowered savings, which may in turn reduce growth of this source of investment(Devereux and Smith, 1994). There is nowresearch evidence proving that enhanced growth can also be an outcome of improved financial intermediation (Greenwood and Jovanovic, 1990; Bencivenga and Smith, 1991; Saint-Paul 1992; Bencivenga *et al*., 1996). Evidence based policy implementation and up-gradation of institutions allows countries to adapt and benefit from state-of-the-art technology (Klenowand Rodriguez-Clare, 1997), similarly benefits fromfrontier financial technology can be availed by countries through financial liberalization.

The aim of the liberalization policy has been to substitute the strict and controlled system with a relatively liberalized management. Economic determinants like price,have been utilized to draw economic variables like cost, along with expectations from the private sector as aprecursor of dvelopment and growth (Bhaduri, 2005). Private sector will find preference over public sector when efficiency and profitability are at stake (Shleifer, 1998). Private sector not only brings in new technologies, greater choice for consumers, and higher competition, but also leads to improved customer service. Banking has witnessed the same transformation post-liberalization, through the advent of private sector banks.

1.3 Private Sector Retail Banks and Service Quality

By 2010 private sector retail banks accounted for almost 17% of the total net profit earned by the banking industry as a whole, out of a market share of only 2% from the perspective of business. This achievement of the private sector retail banks can be credited majorly to their high levels of service quality provided to the customers (Ananth *et al*., 2010). The statistics supporting private sector retail banks have only improved since, however, what has also increased is competition. With amplified competition, a key factor for maintaining competitive differentiation and maintaining long-term relationships with customers is service quality. Therefore it has also become a focus of academic research (Zeithaml *et al*., 2002). It is also decisive for banks to understand the measures of service quality, so that they may measure their own service quality and take corrective action wherever required. Service quality as a research topic has stimulated significant concern because it is not only difficult to define it but it is also difficult to measure it where researchers are not able to come down to a consensus on either issues (Ananth *et al*., 2010).This research also attempts to answer both the concerns.

1.4 Research Objectives

The researchers have identified two seminal models on the topic of measuring service quality of retail organizations. SERVQUAL (Parasuraman *et al*., 1988) and RSQS (Dabholkar *et al*., 1996). However, since retail banking does not involve any merchandise and is tilted more towards a service organization in the continuum of tangible-intangible offerings,we have focused on the SERVQUAL Model (Parasuraman *et al*., 1988) for this study. We are attempting to validate the five dimensions and their latent items of service quality measurement defined by the SERVQUAL. Further, upon validation we would be using EFA to assess the acceptance of the constructs by the Indian consumers (specifically from the city of Ahmedabad, Gujarat). Lastly based on the inferences drawn from the analysis of data, we would recommend areas where banks need to focus attention to improve their service quality scores for their customers.

2 Research Questions

2.1 Is the SERVQUAL model a reliable scale to measure service quality of private sector retail banks in India?

2.2 Can we validate the construct of the SERQUAL model from the perspective of private sector retail banking customers in India?

2.3 What are the measuresof service quality that Indian consumers of private sector retail banks perceive to be critical for them to rate the bank on its delivery of service quality?

3 Literature Review

3.1 Service Quality

Services are different from products on three factors: tangibility, heterogeneity and inseparability (Parasurama *et al*., 1985). Since these factors are related to the production, delivery and consumption of services, therefore where the quality of a product may be measured by evaluating its durability and/or number of defects, it is difficult to measure service quality (Crosby, 1979; Garvin, 1983). The review of literature reveals that though there have been various developments through-out the 1980s and 1990s on the topic, researchers have not been able to identify a model which has a generalized acceptance in terms of reliability and validity for appraising service quality (Kaul, 2005; Gaur and Agrawal, 2006). Therefore, the subject still remains as a focus area for researchers due to its significance from the perspective of service organizations.

Service quality can lead to enhancement of consumer satisfaction (Sivadas and Baker-Prewitt, 2000; Bolton and Drew, 1991; Boulding *et al*.,1993), consumer patronage and retention (Yavas *et al*.,1997; Reichheld and Sasser, 1990) and customer loyalty (Wong and Sohal, 2003) further improving the competitive positioning of the service organization (Mehta *et al*., 2000). There is also evidence to prove the association of service quality and profitability (Buzzell and Gale, 1987; Rust and Zahorik, 1993). With stakes so high it is quite clear that service quality measurement is strategic for service organizations.

3.2 The Service Quality measure – SERVQUAL

Parasuraman, Zeithaml and Berry had arrived at ten dimensions of service quality assessment by 1985. These were 1. Reliability, 2.Responsiveness, 3.Competence, 4.Access, 5.Courtesy, 6.Communication, 7.Credibility, 8.Security, 9.Understanding/ Knowing the Customer, and 10.Tangibles. By 1988, the authors were able to amalgamate the ten components into five components – 1. Reliability, 2.Assurance, 3.Tangibles, 4.Empathy and 5.Responsiveness. The model that emerged was a 22-item scale now popularly known as the SERVQUAL. The SERVQUAL is designed to measure the five dimensions of service quality by evaluating customer's expectations and perceptions. When perceived quality is lower than what the customer had expected, the customer is dissatisfied. On the other hand if the perception of service quality is equal to or more than the expectations of the customer, the customer experiences satisfaction or beyond (delight) (Parasuraman *et al*., 1985). The model can be described as (Parasuraman *et al*., 1988):

Tangibility: appearance of personnel, physical facilities, equipment.
Reliability: to perform the assured service consistently and correctly.
Responsiveness: readiness to respond promptly and provide help to customers.

Assurance: understanding of the service and courteousness of employees and their ability to enthuse conviction in customers.

Empathy: ability to provide individual attention and to be able to understand the feelings of their customers.

4 Research Methodology

4.1 Sample

Through review of literature it was found that various studies with similar objectives have been conducted with a sample size of 200 or less (Kaul, 2005; Boshoff and Terblanche, 1997; Dabholkar *et al*., 1996). Therefore, the adequate sample size for this study was decided to be 200 respondents. The final sample count however remained at 201. Though demographic information was collected from samples, no quotas were utilized to recruit the samples. The sampling was done purely on the basis of convenience. The only requirement for a sample to be recruited as a respondent was that they had to have an account with a Private Sector Bank. The samples were selected from the city of Ahmedabad. The break-up (Table 4.1- Sample Distribution) of the samples based on demographics is as follows:

Table 4.1: Sample Distribution

Gender:	
Male	95
Female	106
Total	*201*
Age (Years):	
Below 25	76
26 - 35	56
36 - 45	43
Above 45	26
Total	*201*
Profession:	
Student	69
Home-maker	15
Business/Self-Employed	17
Service	100
Total	*201*

4.2 Data Collection tool

The 22 items of the SERVQUAL have been modified to suit the context of private sector retail banks. The modifications were made as per the provisions of the model described by the authors. To test convergent validity, predictive validity and discriminant validity, three more items were included in the questionnaire. The final count of items in the instrument remained at 25.

The scale used in the instrument was a seven point ratio measure with one meaning 'strongly disagree' and seven meaning 'strongly agree' (Parasuraman *et al*., 1988). One and seven have been labelled as such and four had been labelled as 'neutral'. Nine questions related to the constructs of 'Responsiveness' and 'Empathy' were reverse in their approach. The ratings of such questions were reverse coded at the time of data compilation (Parasuraman *et al*., 1988).

4.3 Data Analysis

This section focuses on the evaluation of the reliability and validity of the SERVQUAL questionnaire in the context of private sector retail banking in India (specific to the city of Ahmedabad):

Reliability Test:
We used Cronbach's Alpha Coefficient to assess the internal reliability of the scale. The analysis (Table 4.2 – Alpha Reliability Coefficient) shows that the reliability measure of all the dimensions of the scale are above 0.7 as an indicator of reliability (Nunnally, 1978), except for the dimension 'Reliability' which turned out a Coefficient of 0.632. At 0.878 the over-all reliability of the scale is also favourable.

Table 4.2 – Alpha Reliability Coefficient

Dimensions	Alpha Reliability
Tangibles (4 items)	0.786
Reliability (5 items)	0.632
Responsiveness (4 items)	0.705
Assurance (4 items)	0.758
Empathy (5 items)	0.835
Overall Scale (22 items)	0.878

Validity Test:
Validity of the scale was assessed with the help of three items in the scale (Table 4.3 – Validity Test items):

Table 4.3 – Validity Test items

Convergent Validity	Rate the overall service quality experience that you have at your Bank.
Predictive Validity	You would go to your Bank to avail any financial need that arises in the future. (Loan, Investments, etc.)
Discriminant Validity	In the past, when you faced an issue at your bank, you complained to the bank authorities about it.

We further examined the Validity of each of these items through correlation analysis. The analysis revealed that the items have poor correlation with the scale and the correlation matrix was also insignificant.

5 Findings and Discussions

5.1 Reliability

The reliability testing has revealed favourable results, barring one dimension of the SERVQUAL which has been able to elicit a lower than required Coefficient of Alpha. 'Reliability' with a coefficient of Alpha of 0.632 is the only dimension that was not able to prove the reliability of the scale.

5.2 Validity

Though the scale has proved reliable, the 'correlation matrix' of the scale and the items for validating the scale has turned out to be insignificant. Thus we have to stop further analysis as the scale has failed the test of 'construct validity'.

5.3 Outcomes of Statistical Analysis

Further statistical analysis was not reasonable because the scale did not pass the test of construct validity in this research. However, the data was run through EFA using IBM SPSS v19. The outcomes of this analysis also showed non-acceptance of items of threedimensions 'responsiveness', 'assurance' and 'reliability'. Theonly two dimensions of SERVQUAL, which showed resilience, were 'tangibles' and 'empathy'. An analysis of the 'rotated component matrix' reveals that items related to 'tangibles' and 'empathy' are able to clearly represent their dimensions respectively. The other three dimensions either have a non-acceptance of items or they are representing multiple dimensions.

6 Conclusion

Supporting extant literature on the topic (Kaul, 2005; Gaur and Agrawal, 2006; Ananth *et al*., 2010), the research concludes that there is modification required in the dimensions and construct of the current scale to suit the Indian context specifically in the private retail banking sector. With lower than required acceptance of dimensions of the scale, it is difficult to prove its applicability and thus future research has to concentrate on development of the scale with modifications to the current scale so that it has fitment with the Indian context.

7 Limitations

The study was carried out in the geographic boundaries of the city of Ahmedabad. If the research is expanded to represent other regions, the outcomes may be more acceptable. The research did not consider 'face validity' to begin with and that could have been a reason for the dimensions to have failed the 'construct validity' test.

8 Future Research

Future research should be based on opinions of experts regarding the inclusion of dimensions and items of the construct of the instrument. Face validity will enhance the chances of success both in terms of reliability and validity. It is reasonable to recommend that future research on the topic should entail the development of a modified scale, in consideration of the cultural differences in the countries where the scale was developed and India. A pilot test is required before a new scale is developed and the modified scale may be used to make recommendations to private sector retail banks on their service quality.

9 Managerial Implications

Though the scale was able to prove its reliability it failed the test of construct validity. This has led the researchers with no choice but not to recommend any course of action to the private sector retail banks. Since the scale has been invalidated for our data set, it is futile to make any recommendations or suggestions.

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