

Service Quality Measures in Indian Banking Sector – A Comparative Study

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ABSTRACT

The commercial banking industry like other financial service industries is facing a rapidly changing market, new technologies, fierce competition, more demanding customers and changing climate. The banking industry in India has undergone sea change post independence. With the current change in the functional orientation of banks, the purpose of banking is being redefined. The main driver of this change is changing customer needs and expectations. If banking relationship is about bonding, bonds are created only when the employees develop a relationship with the customers. Customers look for a relationship with the bank when they receive benefits from its services. Increased competition, highly educated customers and increase in standard of living are forcing many banks to review their customer service strategy. This paper attempts to make a comparative analysis of level of customer satisfaction towards the services provided by Andhra bank and HDFC bank. The study has been conducted based on questionnaire method and a sample of 360 customers of each bank. The primary data were collected with the help of a standardized questionnaire of service quality of Parasuraman which was administered to a convenience sample of 360 respondents from each sample bank in Guntur District of Andhra Pradesh.

Keywords: service quality measure, banking sector, industry, climate.

INTRODUCTION:

The Banking industry in India has undergone sea change post independence. More recently, liberalization, the opening up of the economy in the 90s and the government's decision to privatize banks by reduction in state ownership culminated in the banking reforms based on the recommendations of the Narasimham Committee. From the socialist thrust of the 70s and 80s when the nationalized banks operated with a view to giving access to organized banking to as many people as possible, in the last few years, banking as a function has come full circle. The prime mover for banks today is profit, with clear indications from the government to 'perform or perish'. Banks have also started realizing that business depends on client service and the satisfaction of the beneficiary and this is compelling them to improve beneficiary service and build relationships with beneficiaries.

Banking institutions today face several challenges like global competition for deposits, loans and underwriting fees, increasing beneficiary demands, shrinking profit margins, the need to cope with new technologies, etc. Since the banks come across these obstacles - whether retail or investment banks, or diversified financial services company, their future mainly rests on one critical factor-strong beneficiary relationships which, in turn, depend on their capability in providing personalized services to each beneficiary, every time, everywhere. Beneficiary Satisfaction is a key indicator of the operational and financial performance of a bank. Due to an increase in the number of beneficiaries, traditional one-to-one beneficiary interaction has become unsustainable.

This sets the goal for the financial services sector to use sector insights to understand how to create an effective multi-channel beneficiary experience that is personalized and relevant, differentiated by value and respectful of privacy concerns. As global competition increases and products become harder to differentiate, banks have begun moving from their product-centric attitude to beneficiary -centric one. The bridge of disconnect, over the years, has been shortened after many banks started methodically identifying and filling in the gaps through CRM which now is seen as the way forward to thrive in the e-future. Until recently, banks with their antiquated approach to beneficiary relations, through that all beneficiaries were created equal, and made a lot of decisions based on this assumption, not data.

REVIEW OF LITERATURE:

B R Parthasarathi¹ says that customer service is a vital function in any Walk of life and especially so in business and service organizations like banks. Total quality management with quality circles will make the staff get equipped to deal with newer situations and tackle them with ease. The aim of six sigma is to reduce errors and failures as they could prove to be expensive. Bahia and Nantel² developed their own BSQ (banking service quality) scale and compared it with SERVQUAL (service quality) scale, and concluded that the model they developed was more reliable and fits the validity criteria. The elements of their scale are effectiveness and assurance, access, price, tangibles, service portfolio and reliability. Aldlaigan and Buttle³ conducted an empirical study to develop a new scale to measure service quality perceptions of retail bank customers. They developed a new 21-item scale comprising four dimensions: service system quality, behavioral service quality, service transactional accuracy and machine service quality. They found that customers evaluate service quality at two levels: organizational and transactional. The parsimony, reliability and validity of this scale suggest that this is a measure of high utility to the banking industry.

Vimi Jham and Kaleem Mohd Khan⁴ found in their research that customer satisfaction is the feeling or attitude of a customer towards a product or service after it has been used and is generally described as the full meeting of one's expectations. Customer satisfaction is a major outcome of marketing activity whereby it serves as a link between the various stages of consumer buying behaviour. Narasimham⁵, Kamath⁶ and Bhattacharya⁷ explained various aspects relating to customer service in the bank and its causes of deterioration. They suggested various measures to improve it. They emphasized that instead of having a reactive response to customers' needs and grievances banks should deal with them in a proactive manner. They felt that there was a need for attitudinal changes. Barbara R Lewis⁸ studied the service quality initiatives in financial services to find the determinants and measurement of quality. Attention was also given to research applications, which focus on management, employee and customer perspectives. The findings emphasize the need for an integrated approach to service quality and the development of service quality tools.

DETERMINANTS OF BENEFICIARY SATISFACTION:

It can be said that there are six determinants of beneficiary satisfaction. They are;

Tangibles: The appearance of physical facilities, equipment, personal and communication materials.

Reliability: The ability to perform promised service dependably and accurately.

Responsiveness: The willingness to help the Beneficiaries and provide prompt service.

Assurance: The knowledge and courtesy of employees and their ability to convey trust and confidence.

Empathy: The provision of caring and individualized personal and communication materials.

Accessibility: The ability to access the service effectively.

Research Design and Methods:

Survey instrument:

The standardized questionnaire SERVQUAL consisting of 29 items was used for measuring the service quality

¹ Parthasarathi, B.R. (2005). Customer Service in Banks and its importance. *Professional Banker*, 17-22.

² Bahia, K & Nantel, J. (2000). A Reliable and Valid Measurement Scale for the Perceived Service Quality of Banks. *International Journal of Bank Marketing*, 84-91.

³ Aldlaigan, A. H., & Buttle, F. A. (2002). SYSTRA-SQ: A new measure of bank service quality. *International Journal of Service Industry Management*, Vol. 13(4), 362-381.

⁴ Vimi Jham and Kaleem Mohd Khan. (2008). Customer Satisfaction in the Indian banking sector A study, *IIMB Management Review*, 84-92.

⁵ Narasimham, R.(1989). Efficiency, Productivity and Customer Service in banks. *SBI Monthly Review*. February.

⁶ Kamath, K.D. (1990). Customer Service Committee Meetings. *The Banker*, New Delhi. November.

⁷ Bhatthcharya, C. (1994). Customer oriented need of the hour strategic manoeuvres. *SBI Monthly Review*, November.

⁸ Barbara Lewis, S. (1993). Service Quality: Recent developments in financial services. *International Journal of Bank Marketing*. Vol.11. 25-38

dimensions in banks. The responses of beneficiaries are measured on a 5-point (strongly disagree to strongly agree) scale.

Pre-testing:

Both qualitative and quantitative assessments were conducted for purification of scale items. For quantitative assessment, item-to-total correlation test was applied to check the consistency of the scale. Under item-to-total correlation, correlation of every item with total is measured and the computed value is compared with standard value that is 0.1374. If the computed value is found less than the standard value then the whole item or statement is dropped and is termed as inconsistent (Nunnally, 1978). No item was dropped in the scale. Results of item-to-total correlation are shown in Table 1.

Table 1: Consistency measure of questionnaire

Item	Computed Correlation Value	Consistency	Accepted or Dropped
P1. Modern looking equipment	0.344	Consistent	Accepted
P2. Employee appears neat	0.295	Consistent	Accepted
P3. Appearance of the physical facilities are excellent	0.276	Consistent	Accepted
P4. Materials associated with the service are visually appealing	0.263	Consistent	Accepted
P5. Bank promises to do something by a certain time, it did so	0.206	Consistent	Accepted
P6. Bank show a sincere interest in solving beneficiary problems	0.252	Consistent	Accepted
P7. The bank is dependable	0.206	Consistent	Accepted
P8. Provided its services at the time it promised to do so	0.201	Consistent	Accepted
P9. Maintains all the records accurately	0.244	Consistent	Accepted
P10. Beneficiaries are informed about, when services are performed	0.226	Consistent	Accepted
P11. Employees are giving prompt service	0.146	Consistent	Accepted
P12. Employees are always willing to help	0.157	Consistent	Accepted
P13. Employees are having requisite knowledge	0.189	Consistent	Accepted
P14. Employees are not too busy to respond to request	0.142	Consistent	Accepted
P15. Behaviour of employees instills confidence	0.150	Consistent	Accepted
P16. Feel safe in transactions with it	0.323	Consistent	Accepted
P17. Employees are consistently courteous	0.234	Consistent	Accepted
P18. Employees get adequate support from the bank	0.198	Consistent	Accepted
P19. Paying individual attention	0.194	Consistent	Accepted
P20. Staff gives you personal attention	0.176	Consistent	Accepted
P21. Employees understand specific needs of the beneficiaries	0.196	Consistent	Accepted
P22. Bank has best interests at heart	0.138	Consistent	Accepted
P23. Convenient business hours	0.211	Consistent	Accepted
P24. Not to wait a long time to receive services	0.192	Consistent	Accepted
P25. Ease of scheduling appointment	0.202	Consistent	Accepted
P26. Account accessibility to by phone	0.209	Consistent	Accepted
P27. Ability to get an appointment	0.211	Consistent	Accepted
P28. Clear directions provided for transactions	0.257	Consistent	Accepted
P29. Easy to find my way	0.228	Consistent	Accepted

DATA COLLECTION:

The questionnaire was distributed among the customers of Andhra Bank (public sector) and HDFC Bank (private sector).The sample size was fixed at 450 customers. Convenience sampling technique (non probability technique) was used to get the questionnaire filled by the customers. Every alternate customer entering the bank was asked to complete the questionnaire. Out of 450 respondents, 400 respondents agreed to fill up the questionnaire. On further filtering, 360 responses were found to be properly and completely filled.

HYPOTHESES OF THE STUDY:

Keeping the objectives in mind, this study intends to test the following hypotheses:

Ho1: There is no significant difference in the perceptions of customers of Andhra Bank

Ho2: There is no significant difference in the perceptions of customers of HDFC Bank

Ho3: There is no significant difference between the perceptions of customers of Andhra Bank and HDFC Bank.

Tools Used for Data Analysis:

To check the reliability of data items of the questionnaire, Cronbach's alpha and Guttman reliability tests were performed by using SPSS software. FA was applied to find out the underlying factors affecting customers' perceptions in regard to the service quality of banks. In order to map the differences in the perceptions of the customers of Andhra Bank and HDFC Bank, Z-test was applied. It was again applied to draw a comparison between the perceptions of customers of two banks.

Reliability measure of the questionnaire:

The Reliability of items was assessed by calculating the coefficient alpha (Cronbach, 1951), Guttman split-half, which measures the internal consistency of the items. Reliability measure was carried out using SPSS software and the SPSS output is shown in Table 2. For a measure not to be rejected, coefficient value in all the cases should be above 0.7 (Nunnally. 1978).It can be seen that in almost all the reliability methods applied here, reliability value is more than 0.7, so it can be said that all the items in the questionnaire are highly reliable.

Table 2: Reliability measure of questionnaire

Alpha	0.797
Guttman	0.794

Factor Analysis provided enhanced control for assessing the extent to which items on a factor measure one single construct. For each customer, SERVQUAL scores were generated. A SERVQUAL score is obtained by subtracting the expectation score from the perception score for each SERVQUAL item. FA was conducted with the SERVQUAL scores for the entire set of 360 customers. FA model was run through SPSS software and the output is shown in Table 3. The FA was undertaken using the principal component extraction method with Varimax rotation. The sorted rotated values of the factor loading with minimum value of 0.5 or more have been considered.

Table 3: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.853
Bartlett's Test of Sphericity	Approx. Chi-Square	2050.110
	df	406
	Sig.	.000

KMO Test: Test the suitability of factor analysis. This measure varies between 0 and 1, and values closer to 1 are better.

Bartlett's Test of Sphericity: Sig. gives the p-value which is .000, less than 0.05 here. Thus there is significant correlation among variables.

Table 4: FA for questionnaire

Factor Name	Eigen Value Variance	% of Total	Variable convergence	Loading
Tangibility	4.408	15.201	P29. Easy to find my way	0.625
			P5. Bank promises to do something by a certain time, it did so	0.621
			P2. Employee appears neat	0.511
			P28. Clear directions provided for transactions	0.506
			P4. Materials associated with the service are visually appealing	0.501
			P1.Modern looking equipment	0.500
Reliability	1.271	4.382	P22. Bank has best interests at heart	0.714
			P11. Employees are giving prompt service	0.573
			P6.Bank show a sincere interest in solving beneficiary problems	0.510
			P23. Convenient business hours	0.508
			P26. Account accessibility to by phone	0.507
			P18. Employees get adequate support from the bank	0.504
			P9.Maintains all the records accurately	0.503
Accessibility	1.188	4.098	P25. Ease of scheduling appointment	0.686
			P24. Not to wait a long time to receive services	0.596
			P3. Appearance of the physical facilities are excellent	0.529
Responsiveness	1.149	3.960	P7. The bank is dependable	0.604
			P27. Ability to get an appointment	0.515
			P14.Employees are not too busy to respond to request	0.502
Empathy	1.129	3.895	P19. Paying individual attention	0.657
			P20. Staff gives you personal attention	0.537
Assurance	1.124	3.875	P16. Feel safe in transactions with it	0.615
			P17. Employees are consistently courteous	0.588
			P8. Provided its services at the time it promised to do so	0.501

This study provides significant contribution to theory by devising a reliable and valid measurement instrument, which has used SERVQUAL as a base model. After conducting the factor analysis, a six-dimensional instrument comprising Tangibility, Reliability, Accessibility, Responsiveness, Empathy and Assurance was formed. The study indicated that amongst the various service quality dimensions, tangibility is the best predictor, followed by reliability, accessibility, responsive assurance and empathy.

Tangibility:

The study reveals tangibles as one of the important determinants of service quality perception in banks, with a total variance of 15.201. It is an important dimension in affecting the customer's perception of overall service quality. The factor includes sub-factors such as Easy to find my way (0.625), Bank promises to do something by a certain time, it did so(0.621), Employee appears neat (0.511), Clear directions provided for transactions (0.506), Materials associated with the service are visually appealing (0.501), Modern looking equipment (0.500). All these factors are noticed by the customers before or upon entering the bank. Such visual factors help consumers form their initial impressions. A crucial challenge in service marketing is that customers cannot see a service but can see the various tangibles associated with it - all these tangibles are clues about the intangible service.

Reliability:

The study shows that the second important factor that influences the overall service quality as perceived by customers is 'Reliability'. Banks need to focus on knowing the needs of the customers, giving them personal attention, providing security in customer transactions and ensuring the accuracy of billing system. The total variance of this factor was 4.382. It includes sub-factors such as Bank has best interests at heart (0.714), Employees are giving prompt service (0.573), Bank show a sincere interest in solving beneficiary problems (0.510), Convenient business hours (0.508), Account accessibility to by phone (0.507), Employees get adequate support from the bank (0.504), Maintains all the records accurately (0.503).

Accessibility:

The study reveals accessibility as one of the important determinants of service quality perception in banks, with a total variance of 4.098. It includes sub-factors such as ease of scheduling appointment (0.686), not to wait a long time to receive services (0.596), appearance of the physical facilities is excellent (0.529).

Responsiveness:

The study shows that the factor Responsiveness is an important determinant of service quality perception in financial services with a total variance of 3.960. The factor responsiveness was defined by variables such as the bank is dependable (0.604), Ability to get an appointment (0.515), Employees are not too busy to respond to request (0.502).

Empathy:

The study shows that the factor empathy is an important determinant of service quality perception in financial services with a total variance of 3.895. The factor includes sub-factors such as paying individual attention (0.657), Staff gives you personal attention (0.537).

Assurance:

The study shows an important factor that influences the overall service quality as perceived by customers is assurance with a total variance of 3.875. The factor includes sub-factors such as Feel safe in transactions with it (0.615), Employees are consistently courteous (0.588), provided its services at the time it promised to do so (0.501).

Table 5: Perceptions of customers on various Service Quality Dimensions in Andhra Bank

Dimension	Andhra Bank		t-value	d.f.	Significance
	Mean	S.D.			
Tangibility	3.57	0.079	89.928	3	0.000
Reliability	3.53	0.033	236.07	4	0.000
Responsiveness	3.50	0.092	84.515	4	0.000
Assurance	3.56	0.070	100.44	3	0.000
Empathy	3.53	0.066	130.59	5	0.000
Accessibility	3.30	0.220	33.518	4	0.000

Table 6: Perceptions of customers on various Service Quality Dimensions in HDFC Bank

Dimension	HDFC Bank		t-value	d.f.	Significance
	Mean	S.D.			
Tangibility	3.33	0.038	175.22	3	0.000
Reliability	3.21	0.060	118.43	4	0.000
Responsiveness	3.12	0.046	151.66	4	0.000
Assurance	3.17	0.140	45.046	3	0.000
Empathy	3.17	0.078	98.642	5	0.000
Accessibility	3.17	0.130	54.303	4	0.000

Table 7: Perceptions of customers on various Service Quality Dimensions in Andhra Bank and HDFC Bank

Dimension	Andhra Bank & HDFC Bank		t-value (2 tailed)	d.f.	Significance
	Mean	S.D.			
Tangibility	0.237	0.107	4.436	3	0.021
Reliability	0.323	0.073	9.846	4	0.001
Responsiveness	0.377	0.105	7.996	4	0.001
Assurance	0.389	0.155	5.003	3	0.015
Empathy	0.357	0.116	7.483	5	0.001
Accessibility	0.131	0.206	1.418	4	0.229

The above table presents the item wise two tailed test t-values. The calculated values of the test statistic t of two tailed test 4.436, 9.846, 7.996, 5.003 and 7.483 are more than the critical values 3.182, 2.776, 2.776, 3.182 and

2.571 for 5% level of significance at 3, 4, 4, 3 and 5 degrees of freedom respectively for the dimensions tangibility, reliability, responsiveness, assurance and empathy. The two-tailed t-test revealed that Ho3 is rejected, i.e. there is a significant difference between the perceptions of customers of Andhra Bank and HDFC Bank on the dimensions of tangibility, reliability, responsiveness, assurance and empathy. The calculated value of the test statistic t of two tailed test 1.418 is less than the critical value of 2.776 for 5% level of significance at 4 degrees of freedom for the dimension of accessibility. The two-tailed t-test revealed that Ho3 is accepted, i.e. there is no significant difference between the perceptions of customers of Andhra Bank and HDFC Bank on the dimension of accessibility.

CONCLUSION:

The study concludes that in view of the rigid competition in the global business ground where businesses have to survive and grow on the basis of volumes, instead of margins, service quality will constitute an essential plank of service marketing. This implies that the commercial banks will have to focus on the different perceptions about their service quality if they are to compete in the global market place. From the study it was concluded that there is a significant difference between the perceptions of customers of Andhra Bank and HDFC Bank on the dimensions of tangibility, reliability, responsiveness, assurance and empathy. Further, there is no significant difference between the perceptions of customers of Andhra Bank and HDFC Bank on the dimension of accessibility.

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