Assessing Service Quality Dimensions of Public and Private Sector Banks in Indore – An Empirical Study

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Abstract

India is becoming one of the fastest growing banking markets in world due to various financial sector reforms, growth in the economy, rising foreign investments, favourable regulatory climate etc. This study evaluates the quality of service of public and private banks in the city of Indore from the perspective of the customer on the basis of framework of factors considered in early study of the public and private sector banks. Results of the pilot study explored eight factors namely security, empathy, services, and reliability, responsive, tangibles, accessible, considerate. Factors identified were further analyzed by applying Analysis of Variance (Anova). For measuring Service quality scale of SERVQUAL (as proposed by Chase, et al., 2001) was slightly modified and the target groups were administered with a structured questionnaire containing 22 quality items. The implication of this study is to highlight the importance of improving the service quality delivered by banking industry for the customer satisfaction.

Key words*: Challenges, Customer Service, Customer Satisfaction, Banking Services, Service Quality*

Introduction

Intense competition and highly stressful conditions to generate profits have led to the introduction of new marketing practices in the Indian Banking sector. While the centre of focus is the customer satisfaction, Banks are striving hard to retain their existing customer base as well as to enlarge the same. Customers' expectations of service quality are growing with the increase in the number of banks. Service quality is perceived as one of the main determinants of the customer satisfaction. It has become imperative for service providers to assess their level of service quality and identify the quality gaps for improvements. This can be done by measuring the service quality of the banks (Brahmbhatt and Panelia, 2008).

The customer satisfaction leads to customer loyalty, attracting new customers and increasing the market share and profitability. In a competitive environment, the customers has various purchase option for both service and production. The customer constently compares all available products and services for their

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quality prices and specifications. In his study, Naeem & Saif, (2009) found that high customer retention and quality of service were outcomes of high customer satisfaction. Hence, the perception of service level by customers of financial institutions like bank is significant to understand as it plays an important role in helping the financial institutions to incorporate further improvement in the various services offered by them. Kohli and Jaworski, (1990), in their study state that in the extremely competitive global business scenario, customer satisfaction has emerged as an essence of success.

Literature Review

In their study, Boshoff and Gray (2004) state that the customer satisfaction not only is the outcome of the inherent quality of the product or the service, but also this comes out of the consumer's perceptions on the attributes of the product or service. Zahorik and Rust (1992) and Rust et al. (1996) conclude on the basis of their study on banking sector that the survival and profitability of customer oriented service industries in the competitive business environment is largely dependent on the quality of service provided by them. One of the very significant criteria for a successful banking industry is stated as customer satisfaction. Customer is known as the King of the market and is always right. Organizations can achieve high customer retention and through satisfied customers. In other words, customer satisfaction is influenced by the outcome of service quality as stated by (Naeem & Saif, 2009).

Service quality is not objectively measured on the basis of some technical standards but is subjectively felt by customers and service quality is measured relative to customer-determined standards (Kwortnik, 2005). Management of Public and Private sector banks have different perceptions of offering service quality. More precisely, private sector banks emphasize on better dimensions in responsiveness, effectiveness, access and tangibles, whereas the public sector banks focus on better reliability and assurance (Haque, 2011).

Sharma (2011) points out that at this juncture, Banks would have to develop long term sustainable strategies for better customer service quality and profitability. He stated that the banking organizations were

continuously working in improving service quality to enhance customer satisfaction that could lead to higher profitability. In their study, Parasuraman, Zeithaml and Berry (1985), identified five significant dimensions of measuring the quality of service: reliability, responsiveness, assurance, empathy and tangibles. Expectations and perceived performance on all variables classified above were measured using SERVQUAL model. In his study, Anderson E.A. (1993) using the same SERVQUAL model found that convenience and competitiveness were major dominant factors for customer satisfaction and ongoing patronage. Profitibity of business can be improved only if improvements to their service quality were continuously understaken (Gerrard and Cunningham, 2005). Jamal & Naser, (2002) find an interconnection between customer satisfaction and reliability of the service delivered as well as the customer's personal experience on the process of service delivery. There has been a rise in the expectations of the customers owing to the higher penetration of technology and an augmentation in the global literacy levels. Hence, the customer demands differentiated service on the basis of scalable technology, improved service and banking convenience (Sharma, 2011).

Objectives

- To identify the factors affecting the perception of customers about the quality of services offered by banks.

- To analyze the perception of customers of public and private sector banks towards service quality of different factors explored in the study.

Methodology

The study was conducted in two phases. The first phase was a pilot survey conducted to identity the factors affecting the perceptions of customers about service quality of banks. The pilot study involved a sample of 103 respondents. In the second phase, the sample of 200 having 100 each of regular customers of the State Bank of India and of HDFC Bank were randomly chosen and non probability sampling technique was adopted. The sample comprised of students, employees, professionals, businessmen, home-makers etc irrespective of age or gender.

Information on the perception of satisfaction level in banking services, has been collected through a self administered questionnaire. Section A of the questionnaire comprises of information about the socio-demographic characteristics and Section B comprises of information on perception of banking services on quality attributes based on the work of Chase, Aquilano, and Jacobs, (2001). The questionnaire was designed using multi-item scales on a five-point Likert scale ranging from 'strongly agree (5)' to 'strongly disagree (1)'.

The analysis of collected data was done by Statistical Package for Social Science (SPSS 17.0) and MS Excel 2007. Item total correlation, Factor analysis and Analysis of Variance (ANOVA) were applied to process data. Item-total-correlation was calculated on data collected for 22 items to find out which items significantly contribute towards measuring the perception of service quality of banks. In the first iteration, no variables were found insignificant at 0.05 level of significance; thus all the items were retained to explore the factors.

Data were finally, subjected to Principal Component Method of Factor Analysis. Factor analysis is a methods used to examine how underlying factors or determinants influence the responses on a number of measured variables. Factor analyses are performed by examining the pattern of correlations (or co variances) between the observed measures. Measures that are highly correlated (either positively or negatively) are likely influenced by same factors, while those that are relatively uncorrelated are likely influenced by different factors (Sinha et al., 2010).

Reliability of the measures: Reliability test was conducted to measure the consistency of the measuring instrument. The result of KMO test (0.685) shows a significance level. It is an indicator that sample for the study is adequate as the value is > 0.6. Bartlett's test of sphericity is used to check whether the appropriate inter correlation exist for running factor analysis or not. It shows the validity and suitability of the responses collected to the problem being addressed through the study. The greater the value of test statistic, factor model becomes more appropriate. Results of Barletts' test of sphericity in the present study indicate a significance value less than 0.05. In summary, it would mean that all the variables correlate fairly well with all others and none of the correlation coefficients are particular large. Therefore, both the Kaiser-Meyer-Olkin measure of sampling adequacy and Bartlett's Test of Sphericity shows that Factor analysis will be useful with data.

Hypotheses

H_{01}: Perceptions of customers of Private and Public Banks towards Security variable are not significantly different

H_{02}: Perceptions of customers of Private and Public Banks towards Empathy variable are not Significantly different

H_{03}: Perceptions of customers of Private and Public Banks towards Services variable are not Significantly different

H_{04}: Perceptions of customers of Private and Public Banks towards Reliability variable are not significantly different

H_{05}: Perceptions of customers of Private and Public Banks towards Responsive variable are not significantly different

H_{06}: Perceptions of customers of Private and Public Banks towards Tangible variable are not significantly different

H_{07}: Perceptions of customers of Private and Public Banks towards Accessible variable are not significantly different

H_{08}: Perceptions of customers of Private and Public Banks towards Considerate variable are not significantly different

Results and Discussions

In the pilot study, we used principal component method of factor analysis to determine the minimum number of factors that will account for maximum variance in data. This initial solution is then rotated by using varimax method with Kaizer Normalization to select the variables with high loading on a particular factor. Generally, factor loading represents how much a factor explains a variable. High loading indicates that the factor strongly influences the variable. The pilot study resulted in factors that influence customers' perception towards quality of services offered by banks namely security, empathy, services, reliability, responsive, tangible, accessible and considerate. Eight factors emerged from the study and the total percent of variance for factors was found to be 64.898 % and the Eigen values for each factor was more than one. The details of these factors tabularized with their item loads, Eigen values and percent of variances are shown in Table 2.

Analysis of Variance (ANOVA) was applied on the explored factors to test the hypotheses set to study the perception of Public and Private bank customers towards the services offered. Hypotheses H02, H03, H04, H06 and H07 were rejected at 5 percent level of significance (Table 3). It means that significant difference was found in the customers' perception towards the variables of Empathy, Services, Reliability, Accessible and Tangible services quality of Public and Private sector banks. Technological advances in the last decade has led to automation in the services offered by the banks Private banks leading the public banks in this regard. Similarly in terms of empathy of staff, private bank has got an edge over the public sector bank. However the public sector banks are leading in terms of reliability factor. When it comes to faith of customers on a bank, public sector banks are always preferred in India. It has been observed in some public sector banks that many a times the staff is not cooperative and considerate to the customers. Except for a few of persons, nobody bothers to solve the problems of customers promptly (Motwani, 2012).

Hypotheses H01, H05 and H08 were accepted at 5 percent level of significance (Table 3). It means that no significant difference was observed in the perception of customers towards the variables of

Security, Responsive and Considerate services of Public and Private Sector Banks. Public banks should also pay more attention to tangibles whereas private banks to reliability in pursuit to increase customer satisfaction, commitment and trust. Next, the results regarding the differences in the customer satisfaction, customer commitment and customer trust across banks showed that there was no significant difference in the customer trust between the public sector and private sector banks, but significant differences were observed in case of customer satisfaction and customer commitment. Customers of private sector banks are more satisfied and committed than those of public sector banks (Hazra, 2014).

Conclusion and Implications

This paper examined the perception of customers towards banking service quality dimension in Indore city. Questionnaires were filled by the customers availing banking services from various parts of the Indore city. Factors like security, empathy, services, reliable, responsive, tangibles, accessible and considerate indicate the perception of customers towards the quality of various services offered by the banks. Responsiveness to customer requirements leads to positive word of mouth about service providers which help develop the loyal customer. The bank can win the trust of the customers by providing proper solution to the customer problems, by being courteous and ensuring safety in transactions with the bank.

The study on the basis of measurement of service quality finds that level of customer satisfaction is influenced by service quality. This finding support previous studies showing that quality level of service provided by Banks significant impact on customer satisfaction. Results of the study by Mengi, (2009) indicate that maximum customer satisfaction of both private as well as public sector banks are derived from the factors such as tangibility and reliability. The banks also need to focus on other dimensions of SERVPERF such as responsiveness, assurance and empathy which play important roles in service quality. Superior SERVQUAL performance will ensure maximum customer satisfaction and also help in attaining customer's loyalty (Mengi, 2009). Banerjee and Sah,(2012) found customers' level of expectation to be higher from private banks and the satisfaction

level was also higher when they do business with private banks. Private banks are ahead of public sector banks in competition. Public banks need to focus on improvement in services offered in terms of reliability, responsiveness, tangibility and empathy to attain customer patronage and satisfaction. Private banks need to focus more on building confidence and trust of the customer. A focus on customer oriented services will lead to a long term bonding with the customers which will finally help the business organizations to scale up business.

The study has wide implications for both banking sector as well as for its customers. For managers, the study recommends that they should focus not only on the quality of tangible services but also should improve the quality of services like time management, sincere interest in solving problems, maintaining error free records as well as keeping promises, quicker processing so as to reduce the waiting time, speed up the provision of service.

The study was conducted by taking the responses of 200 customers of the State Bank of India and HDFC bank in Indore. The findings cannot be generalized for all the cities for which size of the sample should be larger and comparison across various other parameters should be done.

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Annexure
Table-1

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.685
Bartlett's Test of Sphericity	Approx. Chi-Square	532.579
	Df	231
	Sig.	.000

Table-2

Factor Analysis

Factor	Item	Item Load	Factor Load	Eigen Value	% of Variance
Security	Understands customer specific needs	0.798	2.137	4.328	19.671
	Trustworthy employees	0.777			
	Security of transactions	0.562			
Empathy	Sincere interest to solve problems	0.803	2.393	2.003	9.104
	Right service at right time	0.626			
	Employees are always willing to help	0.541			
	Quick response to customers' request	0.423			

Factor	Item	Item Load	Factor Load	Eigen Value	% of Variance
	Bank offers wide range of banking services	0.720			
Services	Bank provides high technological Services	0.547	1.267	1.893	8.604
	Employee behavior instills confidence	0.702			
	Employees give priority to Customers	0.603			
Reliable	Individual attention to customers	0.561	2.565	1.379	6.270
	Convenient operationg hours	0.454			
	Employees are dedicated to customer services	0.336			
	When bank promises to do something by a certain time, it does so	0.839			
Responsive	Prompt services by the employees	0.603	1.903	1.276	5.802
	Proper information about the performance of service	0.461			
Tangibles	Well maintained waiting cues and interiors	0.786	0.786	1.230	5.592
Accessible	Branches located at accessible places	0.781			
	Sufficient number of branches in the city	0.644	1.425	1.143	5.195
	Employees understand the needs of the customers	0.767			
Considerate	Punctuality of services	0.500	1.269	1.025	4.660
			Total		64.898

Table 3

ANOVA showing differences in the perception of customers of public and private sector banks

		Sum of Squares	Mean Square	F	Level of Signature 5 percent
Security	Between Groups	5.829	1.942	2.743	.063
	Within Groups	137.037	0.705		
Empathy	Between Groups	16.115	5.373	4.662	.004
	Within Groups	224.596	1.151		
Services	Between Groups	17.889	5.962	8.115	.000
	Within Groups	143.241	0.743		
Reliability	Between Groups	17.943	5.979	5.815	.002
	Within Groups	199.602	1.027		
Responsive	Between Groups	6.092	2.029	2.423	.076
	Within Groups	162.263	0.835		
Tangibles	Between Groups	15.925	5.302	4.789	.001
	Within Groups	215.020	1.105		
Accessible	Between Groups	16.650	5.549	5.478	.000
	Within Groups	196.535	1.012		
Considerate	Between Groups	1.693	0.565	0.531	.663
	Within Groups	207.160	1.062		

*At 0.5 level of significance