

Analysis of Service Quality of Commercial Banks—A Case Study

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Introduction

Regulatory structural and technological factors are significantly changing the banking environment throughout the world. The financial sector reforms introduced in India from time to time have infused greater competitive vitality in the system. Banking now has become more competitive in respect of the location of point of sale, i.e. the branch network. The end result is that the market power is getting shifted from banks to their customers. The freedom of choice which bank customers did not have earlier because of standardized products and regimented interest rates has been given to the customers as a result of these changes taking place.

In other words, financial liberalization has led to intense competitive pressures and banks are consequently directing their strategies towards increasing customer satisfaction and loyalty through improved service quality. Typically, customers perceive very little difference in the banking products offered by banks as any new offering is quickly matched by the competitors. This resulted in recognition of service quality as a competitive weapon in the Indian Banking Sector.

In light of the paucity of research on service quality issues, it has become very important that banks in India determine the service quality factors, which are pertinent to the customer's selection process, as with increased competition, advent of international banking, and innovations in the marketplace, customers are now facing greater difficulty in selecting one institution from amongst many. In order to provide excellent service quality and identifying the underlying dimensions of the service quality and identifying the underlying dimensions of the service quality, provision of quality service should be the central concern for bank managers.

In this article an attempt has been made to examine the service quality aspect of the four largest banks of India using the SERVQUAL model designed by Parasuraman, Zeithaml and Berry in 1991. This is a simple and useful model for qualitatively exploring and assessing customers' service experiences and has been widely used all over the world by service delivery organizations. Finally, some suggestions have

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been drawn that can assist bank managers to enhance employees' skills and attitudes and instill a customer-service culture.

Service Quality and SERVQUAL Model

Since service quality has become an increasingly important factor for success and survival in the banking sector, provision of high quality service facilitates the achievement of the main targets relating to customer satisfaction and loyalty, market share, gaining new customers, productivity, financial performance and profitability. In this regard, Servqual Model, developed by Parasuraman, Zeithaml and Barry (1988; 1991), is the most widely reported model for measuring customers' perceptions of service quality, which is based on five dimensions of service quality viz. tangibles, reliability, responsiveness, assurance and empathy.

Conceptual Roots of SERVQUAL

Those economic activities which produce intangible products such as education, entertainment, food and lodging, transportation, insurance, trade, financial, real estate, medical, repair and maintenance and like occupations are defined as services. Services constitute an immaterial produced to satisfy consumer needs.

Parasuraman, Zeithaml and Berry (1985) have propounded that services quality can be defined as the difference between predicted or expected service (customer expectations) and perceived service (customer perceptions). If expectations are greater than performance, then perceived quality is less than satisfactory and a service-quality gap materializes. This does not necessarily mean that the service is of low quality but rather that customer expectations have not been met and hence customer dissatisfaction occurs and opportunities arise for the better fulfillment of customer expectations. On the contrary, if perceptions are greater than expectations, it signifies that the customer are satisfied with the services received.

Servqual scale is the principal instrument for assessing the service quality. This instrument has been widely utilized by both managers and academicians to assess customer perceptions of service quality for a variety of services e.g. banks, credit card companies, and repair and maintenance companies. The instrument attempts to measure service quality based on five dimensions namely- tangibles, reliability, responsiveness, assurance and empathy. Details of these dimensions are listed below:

The Dimensions of Service Quality

Reliability

Reliability is the ability to perform the service dependably, accurately and consistently. Reliability is performing the service right the first time.

Assurance

Assurance is the knowledge and courtesy of employees and their ability to convey trust. Skilled employees who treat customers with respect and make consumers feel that they can trust the firms exemplify assurance.

Tangible

Tangibles include physical evidence of the service provided by the banks. It reflects physical facilities, tools and equipments used to provide the service (e.g. appearance of physical facilities, equipment, etc.)

Empathy

Empathy is carrying individualized attention to customers. Firms, whose employees recognize customers, call them by name and teach their customers specific requirements are providing empathy.

Responsiveness

Responsiveness is the ability to provide prompt services. Examples of responsiveness include calling the customer back quickly, serving last someone who is in a hurry or mailing a transaction slip immediately.

The most important advantage of this model is that it has proved to be a valid and reliable instrument for measuring service quality across a large range of service contexts and in short is called SERVQUAL. The central idea in this model is that service quality is a function of the difference scores or gaps between expectations and perceptions.

Data Analysis- SERVQUAL Methodology

Research has been conducted using the servqual questionnaire method gathering responses from the customers of four major banks in India viz. Canara Bank, Punjab National Bank, Axis Bank and ICICI Bank. All the four banks rank amongst the largest and strongly profitable banks in India having strong and significant retail presence. The branches were considered by the management to be largely homogenous with respect to size and service operations. Every other customer entering the branches was asked to complete the questionnaire.

A total of 600 customers were contacted (150 customers were contracted in each of the four banks), and the overall response rate was 33.35% (200 completed, usable questionnaires). Demographic profiles of the samples from each bank were reviewed by the respective managers and considered to be representative of their customer bases. For each dimension of service quality i.e. Reliability, Responsiveness, Assurance, Empathy and Tangibility, SERVQUAL measures both the expectation and perception of the service. A seven point Likert scale is used to measure the customer expectation and perception across the five dimension of the study, covering 22 questions in total.

Analysis of Service Quality Gap

This analysis was done in order to measure the gap between the customers' expectations and their perceptions of the commercial banking industry, based on the 22 items or attributes pertaining to service quality. The questionnaire for the measurement of customer-perceived service quality consisted of two sections: an expectation section and a perception section. The expectation section required the respondent to indicate on a seven-point Likert's ("strongly disagree = 1" to "strongly agree = 7") scale the extent to which the ideal bank possesses the characteristic desired in each statement. In the perception section the statements required the respondent to indicate the extent to which the particular bank possesses the characteristic described, again on a seven-point Likert's ("strongly disagree = 1" to "strongly agree = 7") scale.

Factor Analysis of the SERVQUAL Scores

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. Factor analysis was conducted with the SERVQUAL scores for the entire set of 200 customers. In the tables below, a negative gap indicates that customers perceived that level of service by banks which did not meet their expectations. On the other hand, a positive gap indicates that customers perceived that level of service quality which exceeded their expectations.

Data Analysis

The difference between the customer perceptions and customer expectations is taken as the gap in delivering service for the various dimensions of service quality viz.

tangibles, reliability, responsiveness, assurance and empathy. The average service quality gap scores i.e. the difference between the average perception score and expectation score are calculated for the six dimensions for each bank. Data analysis for each dimension has been shown in the following tables :

Table-1
Service Gap Score of Canara Bank and PNB
(Public Sector Banks) on a 1-7 Point Scale

Service Dimension	MSE*		MSP**		Total Gap (MSP-MSE)	
	CAN	PNB	CAN	PNB	CAN	PNB
Tangibility	4.75	5.15	3.15	3.83	-0.92	-1.34
Reliability	5.64	5.41	4.18	4.27	-1.46	-1.14
Responsiveness	4.06	4.85	3.10	3.78	-0.96	-1.07
Assurance	4.11	4.83	4.16	4.74	0.05	-0.09
Empathy	4.62	3.87	4.15	3.45	-0.47	-0.42
Averag	4.63	4.82	3.74	4.01	-0.89	-0.81

* MSE- Mean Service Expectations

** MSP-Mean Service Perceptions

Table-1 shows the consolidated service score gap in Public Sector Banks under study regarding the five service dimensions.

Table-2
Service Gap Score of Axis Bank and ICICI Bank
(Private Sector Banks) on a 1-7point scale

Service Dimension	MSE		MSP		Total Gap (MSP-MSE)	
	AXIS	ICICI	AXIS	ICICI	AXIS	ICICI
Tangibility	5.75	5.97	5.82	6.13	0.07	0.16
Reliability	4.92	5.86	4.77	5.94	-0.15	0.08
Responsiveness	4.12	4.34	3.93	4.55	-0.19	0.21
Assurance	4.86	5.13	4.33	4.35	-0.53	-0.78
Empathy	4.27	4.59	4.69	4.48	0.42	-0.11
Averag	4.78	5.17	4.71	5.09	-0.07	-0.08

Table-2 shows the consolidated service score gap in Private Sector Banks under study regarding the five service dimensions.

When talking in terms of average service score gap, it can be said that customers are satisfied with the services of private sector banks under study because the negative gap is very diminutive which can be easily worked upon.

Analysis of Service Perception-Expectation gap in Public and Private Sector Banks: Private sector banks exceeded the expectations of service quality in dimensions of tangibility, responsiveness and empathy. Thus a good amount of improvement is required on the part of the Public Sector Banks; else they may lose their customers to Private Sector Banks.

A remarkable feature to be noted here is the service gap score in respect of Assurance. This is the only one dimension in the entire SERVQUAL Analysis, where the negative gap score for Private sector banks is higher than that of public sector banks. Thus constant efforts are required on the part of Private sector Banks to improve upon the Assurance aspect of their working.

In case of Public Sector Banks, in all the dimensions of service quality, the perceptions are below the expectations contributing to negative scores. Considerable improvements are to be made to reduce this gap and there is a strong urge on the part of the Public Sector Banks to gear up in respect of all the dimensions of service quality as can be clearly seen through the negative scores in graph 1.3. These Public sector banks cannot afford to delay their improvement strategies as otherwise the Private Sector Banks may eat up their share in the market.

Thus it can be said that the performance in case of service quality is much better for Private sector banks across all the dimensions when compared to those of the Public sector banks except Assurance where Canara Bank has a positive gap score and PNB has a marginal negative score of 0.09 which can be easily covered up by the bank. This indicates the fact that customers are more confident, feel safe and secured when dealing with Public Sector banks.

Implications

- In case of Tangibility, Canara Bank and Punjab National Bank have to make significant improvements. In order to improve the tangibility aspects, these banks could, after finding out the customers' expectations, through a survey; improve the ambiance within the bank, provide pamphlets and forms which are visually appealing and make the employees better dressed and well groomed.
- As far as reliability aspect is concerned, maximum improvements have to be made by Canara Bank followed by PNB and Axis Bank. Keeping up to the promises made to the customers especially in timeliness of the transactions, sincerely solving customers' problems, trying to perform the service right the first time, maintaining error free records and having prompt service recovery strategies when something goes wrong should be some of the strategies when something goes wrong should be some of the strategies adopted by these banks.
- Considering the attribute of responsiveness, PNB followed by Canara Bank and Axis Bank have to make significant improvements by concentrating on aspects like encouraging the employees to give prompt services, making employees respond to customers' needs and requests. For enabling these, the employees have to be trained and empowered, facilitating decision making at the frontline employee level.
- With regard to assurance ICICI followed by Axis Bank and PNB have to concentrate on aspects like giving proper training to employees so that they can instill necessary confidence in the customers while dealing with the bank, training the employees to be consistently courteous with the customers, imparting adequate knowledge to the employees so that they can easily answer the customer queries etc.
- When empathy dimension is considered, Canara Bank followed by PNB and ICICI Bank have to make improvements by concentrating more on aspects like giving individual attention to customers and by understanding their specific needs. Again the frontline employees have to be trained

accordingly. Additionally the operating hour must, be made convenient to the customers after getting a feedback from them. However most of the Private Sector Banks have already been working on the criterion of 24x7 which also needs to be implemented properly in case Public Sector Banks.

- In order to become customer friendly and competitive, the banks have to reduce the gap between customer expectations and customer perceptions. The starting point for this is a deep understanding of customer expectations. For this customer surveys could be conducted and once the expectations are understood, customer defined service standards should be fixed and implemented in order to reduce the gap between customer perception can expectation of service. This is a general guideline for all the banks to improve quality of service provided by them.

Conclusions

However, while the SERVQUAL instrument has been widely used, it has been subjected to certain criticisms as well. A major criticism relates to the sustain ability of its dimensional structure. The contention that service quality consists of five basic dimensions is questionable according to some researchers and they have suggested that SERVQUAL's dimensions are contextual and not universally applicable. It has been suggested that for some services the SERVQUAL instrument needs considerable adaptation (Dabholkar et al., 1996) and that items used to measure service quality should reflect the specific service setting under investigation.

Moreover, research suggests that culture may play a fundamental role in determining how consumers perceive what constitutes service quality. It is argued that the variability in the nature of servqual dimensions is the result of cultural differences across countries or ethnicities (Furer, Ching-Liu and Sudharshan, 2002). Customer values and beliefs, which change from one culture to another, largely determine the importance and perception of service quality.

Hence there is still a need for fundamental research into the dimensionality of service quality bearing in mind the contextual circumstances, the specific industry and the specific service setting.

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