CUSTOMER PERCEPTION ON SERVICE QUALITY IN INDIAN COMMERCIAL BANKS: AN EMPIRICAL STUDY

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ABSTRACT

A well-developed commercial banking system is a sine qua non for the economic development of a nation. The volume of their transactions highlights the economic strides made by the country. The Indian baking sector has undergone a metamorphosis particularly after the 1991 banking sector reforms. The economic reforms of 1991 had unleashed fierce competition among banks. The increasing competition is not only among the nationalized and traditional private sector banks but from the foreign banks and new generation banks which resulted in considering customer satisfaction as one of the important strategies of the banks. Due to this intensive competitive situation, it is necessary for all the banks to maintain improved service quality to the customers by providing technologically developed innovative instant service to satisfy them as they are often evaluating and comparing the entire services put forward in the competitive market.

Banking system has now transformed itself into a vibrant financial service sector with many innovative and technology driven services at their end. Customer delight is the need of the hour. The banks now compete with one another to offer value-added services to customers to expand their customer bases. Any lack in the services or in the quality may cause dissatisfaction among them and may lead to switch over to the competitors thereby causing unpleasant condition to the organization. It is therefore, necessary for banks to continuously assess and reassess how customers perceive the services, what are the new and emerging customer expectations and how they can be satisfied on an ongoing basis. The present study attempts to analyze the customers" preference for the quality of services of the private and public sector banks.

Key words:

Banking industry, Commercial banks, Service Quality, SERVQUAL, SERVPERF, Tangibility, Reliability, Responsiveness, Empathy, Assurance

INTRODUCTION

Commercial banks are financial intermediaries, which perform the dual functions of mobilization of deposits and deployment of surplus funds to the various sectors of the economy. A well-developed commercial banking system is a sine qua non for the economic development of a nation. The volume of their transactions highlights the economic strides made by the country. Banks are a fundamental component of the financial system, and are also active players in financial markets.

The growth of Indian banking sector prior to nationalization was not satisfactory keeping in view of the socio-economic requirements of the country. After nationalization, however the banking sector in India has made a commendable progress in extending its geographical spread and functional reach. Despite commendable progress in the post-nationalization period, certain problems of the banking sector have emerged reflecting a decline in productivity and efficiency and erosion of the profitability as a consequence.

Financial Sector reforms initiated in the country as a part of the economic reforms since the year 1991 has brought about revolution in the structure of banking environment. Liberalization, globalization and privatization of Indian economy has brought paradigm shift in the banking industry. These reforms have bought ample opportunities of growth as well as fiery competition from almost every corner of the world. The entry of foreign banks, new private sector banks and liberal branching policy of banks has threatened the market privileges enjoyed by Indian public sector banks. This has further lead to the dire necessity for incorporating changes in the operational framework including the range of products and services offered by it.

STATEMENT OF THE PROBLEM

The introduction of liberalization measures and the emergence of tech-savvy new private sector and foreign banks, the banking sector have become too competitive. With e-banking, the brick and mortar structure of the traditional banking gets converted into a click and portal model thereby giving real shape and form to the concept of virtual banking. The growing universalisation and internationalization of banking operations, driven by a combination of factors, such as, the continuing deregulation, heightened competition and technological advancements, have led to product innovation and diverse business strategies. Above all, it has also been realized that the

major strategy of withstanding the stiff competition not only to retain the old customers but also to attract the new customers through provision of better services and hence, in recent times provision of better and quality services to customers has become one of the focal points of the service agenda of banks and it is only the quality of the services provided that could help the banks to attract more and more of customers in a competitive banking. To deal with the emerging situations, bankers have to shed a lot of old ideas, change in practices, develop customer loyalty programmes and adopt a distinct approach to meet the challenges ahead.

The obvious question that arises is whether the Indian commercial banks are customer friendly or not. What is the experience of the customers in respect of services rendered by their commercial bank? Whether the customers are satisfied or not on the services rendered by the bank? Whether the Indian commercial banking industry is providing quality services to their customers or not? Which bank group customers are more satisfied on the services rendered? These problems call for empirical studies. The present study is undertaken with this end in view.

SCOPE OF THE STUDY

Service quality in commercial banks in the light of liberalization and globalization reforms in the country had attracted great deal of attention of government, policy makers, administrators, academicians and researchers at the national and state levels. The present study is an attempt to measure the service quality of Indian commercial banking industry. The study will cover service quality of State Bank Group (SBG), Nationalized Banks (NBs), Old Private Sector Banks (OPSBs) and New Private Sector Banks (NPSBs). Service quality is measured on the basis of five dimensions of the tool SERVPERF developed by J.J.Cronin and S.A.Taylor.

OBJECTIVES OF THE STUDY

The present study was conducted with the following specific objectives:

1. To identify the factors that influence customer perception towards service quality of commercial banks.
2. To examine the service quality gap among the commercial banks.
3. To identify the best service quality among the commercial banks.

HYPOTHESES OF THE STUDY

Based on the literature review following hypotheses were formulated for the study:

1. There is significant difference in tangibility of different commercial bank groups.
2. There is significant difference in reliability of different commercial bank groups.
3. There is significant difference in responsiveness of different commercial bank groups.
4. There is significant difference in assurance of different commercial bank groups.

5. There is significant difference in empathy of different commercial bank groups.

6. There is significant difference in service quality of different commercial bank groups.

PERIOD OF THE STUDY

For measuring service quality of commercial banks, primary data from bank customers were collected in the year 2013-'14.

RESEARCH METHODOLOGY

The universe of the present study is Indian commercial banks. The present study is concerned with the service quality of Indian commercial banks. The study is designed as an empirical one based on survey method. Data have been collected from both secondary and primary sources.

SECONDARY DATA

Secondary data necessary for the study were collected from the publication of Reserve Bank of India, books and journals, websites of RBI and various commercial banks, Economic Times, Business Line etc.

PRIMARY DATA

Primary data were collected from sample respondents through personal interview with the help of an interview schedule specifically designed for the purpose. A direct one to one discussion with the managers and officers of selected bank branches has been a highlight in the collection of data.

SAMPLE DESIGN

The research was carried out only in the cities of Kerala state. The sample consists of customers living in city centers, with a large and diverse population. The researchers purposefully choose only urban customers as they had other banking options from different private, public and foreign banks and were more exposed to different levels of service quality.

For measuring service quality of commercial banks, primary data were used. For the purpose of measuring the service quality of commercial banks at the micro-level, a multi- stage random sampling technique was designed to draw a sample of customers of the bank.

In the first stage city centers in Kerala were selected, in the second, third and the fourth stage commercial banks, bank branches and customers were selected respectively.

Selection of City Centers

This research was carried out in the cities of State of Kerala. For revenue administration the entire state of Kerala is divided into 14 districts. In the first stage of the study, the state has been divided into three regions on the basis of geographical location viz. Southern Region, Central Region

and Northern Region. For detailed analysis the list of city centers (Municipal Corporations) in each region was obtained. From the list of city centres in each region one city centre was selected by using simple random sampling technique. The selected city centers are Thiruvananthapuram from Southern Region, Cochin from Central Region and Kozhikode from Northern Region.

Selection of Banks

In the second stage, a list of commercial banks and their branches in the state of Kerala was obtained. For the collection of information from the bank customers, the banks functioning in the State of Kerala has been divided into following four groups.

1. State Bank Group:- consists 6 banks
2. Nationalised Bank group:- consists 20 banks,
3. Old Private Sector Bank group:- consists 13 banks
4. New Private Sector Bank group: - consists 7 banks.

The banks which have more than 100 bank branches in the State of Kerala have only been selected for the study.

1) In State Bank Group, two banks viz. State Bank of India and State Bank of Travancore have more than 100 branches in Kerala.

2) In Nationalised Banks groups, six banks viz. Canara Bank, Indian Bank, Indian Overseas Bank, Punjab National Bank, Syndicate Bank, Viyaya Bank and Union Bank of India have more than 100 branches in the state of Kerala.

3) In Old Private Sector Banks groups, four banks viz. Catholic Syrian Bank Ltd., Dhanlaxmi Bank Ltd., Federal Bank Ltd. and South Indian Bank Ltd. have more than 100 branches in Kerala.

4) Among New Private Sector Bank groups, two banks viz. HDFC Bank Ltd. and ICICI Bank Ltd. and have more than 100 branches in Kerala.

To collect the primary data, in all, four banks were selected - one bank from each group by using lottery method viz. one bank from State Bank Group, one from Nationalised Banks, one from Old Private Sector Banks and the other one from New Private Sector Banks. The selected banks were as follows.

- **State Bank of India representing State Bank Group**
- **Canara Bank representing Nationalized Banks**
- **Federal Bank Ltd. representing Old Private Sector Banks and**
- **HDFC Bank Ltd. representing New Private Sector Banks.**

The banks selected in all the three cities were the same.

One of the major problems facing in the accuracy of data collection was sample size justification. In the present study, sample size was calculated using power analysis on the basis of information obtained from the pilot study. The power analysis gives that a sample of 150 or more is adequate for this study. So information was collected from 150 samples from each of the four categories of bank. Thus, total sample size fixed as 600.

The sample customers consisted of 200 customers of Thiruvananthapuram Municipal Corporation, 200 in Cochin Municipal Corporation and 200 in Kozhikode Municipal Corporation. A sample of 50 customers was collected from each of the bank branch. Thus 150 customers were selected from the three branches of State Bank of India, 150 from the three branches of Canara Bank, 150 from three branches of Federal Bank Ltd. and 150 from three branches of HDFC Bank Ltd.

STATISTICAL TOOLS USED

The collected data were tabulated and analyzed using SPSS 20th version. The various mathematical and Statistical techniques used in the study were average, standard deviation, coefficient of variation, mean percentage score, correlation coefficient matrix, one way ANOVA and Post hoc tests. All the statistical tests were conducted at 5 per cent and 1 per cent level of significance with the help of appropriate test statistic. All these statistical measures and tests were conducted using SPSS, Microsoft Excel and AMOS.

TOOLS FOR MEASURING SERVICE QUALITY

Service quality is measured by various measurement tools and instruments developed by various researchers and marketing consultancy organisations e.g. SERVQUAL, SERVPERF, SITQUAL, WEBQUAL, SITEQUAL, GIQUAL, BANKSERV, SOFTWARE quality, etc. The most frequently used scales in the measurement of perceived service quality are SERVQUAL (Parasuraman, Zeithaml and Berry 1988) and SERVPERF (Cronin and Taylor 1992). Both are the result of research work from the US School of quality.

SERVPERF

Cronin and Taylor (1994) were amongst the researchers who leveled maximum attack on the SERVQUAL scale (Parasuram, Zeithaml and Berry 1988). They questioned the conceptual basis of the SERVQUAL scale and found it confusing with service satisfaction. They, therefore, opined that expectation (E) component of SERVQUAL be discarded and instead performance (P) component alone be used. They proposed what is referred to as the 'SERVPERF' scale. This is based on five dimensions of service which are relevant for banking industry and are tangibility, reliability, responsiveness, assurance and empathy. SERVPERF is a performance-only model. SERVPERF

directly measures the customers' perceptions of service performance and assumes that respondents automatically compare their perceptions of the service quality levels with their expectations of those services. The SERVPERF scale is identical to the SERVQUAL scale in its dimensions and structure.
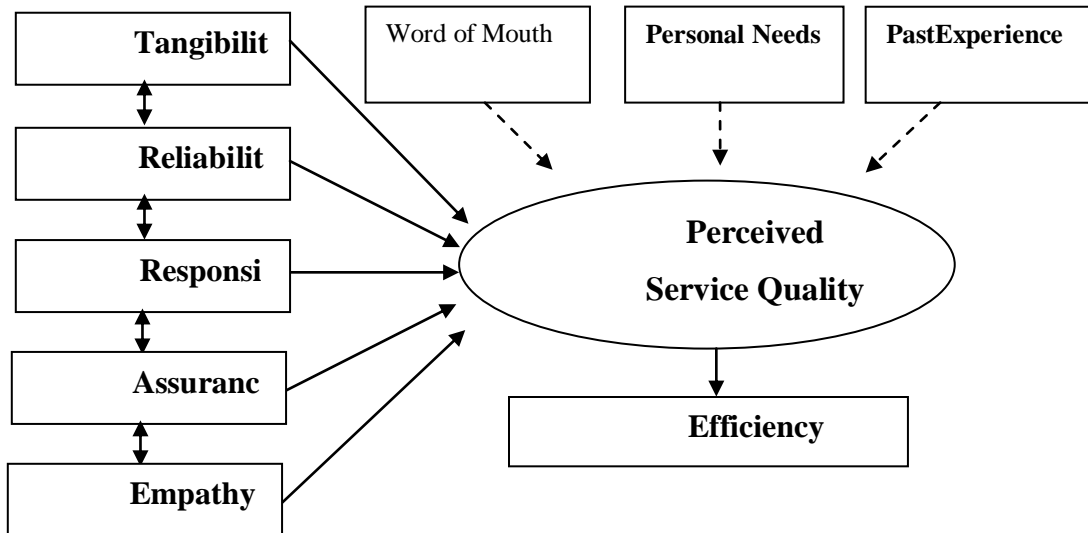
Cronin and Taylor argued that customer satisfaction can be obtainable with low quality, whenever one's expectations in a given situation are low and performance is adequate to the task. Emergency situation fit this scenario well. Likewise, dissatisfaction with high quality can result when some element of the service delivery is not up to personal expectations. Therefore performance only scale is suitable to assess service quality and customer satisfaction. Various researchers have used performance only scale and proved that it is excellent for measuring service quality and customer satisfaction.

Cronin and Taylor (1992) define service as "a service is an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is essentially intangible and does not normally result in ownership of any of the factors of production". Services are economic activities that create value and provide benefits for customers at specific times and places, as a result of bringing about a desired change in or on behalf of the recipient of the service.

A conceptual framework for service quality of commercial banks are presented in the following Figure 1.1 which shows that the five dimensions contribute to perceived service quality which is influenced by certain external factors like word of mouth, personal needs of customers and their past experiences. The five dimensions of service quality are discussed below.

Figure 1.1

Conceptual Framework Diagram for Service Quality of Commercial Banks

PERCEPTION OF CUSTOMERS ON SERVICE QUALITY

For measuring service quality, SERVPERF developed by Cronin and Taylor (1992) was used to study the perceptions of customers about their banker. SERVPERF directly measures the customers' perceptions of service performance and assumes that respondents automatically compare their perceptions of the service quality levels with their expectations of those services. The service quality is assessed based five dimensions namely:

➢ **Tangibility,**

➢ **Reliability,**

➢ **Responsiveness,**

➢ **Assurance and**

➢ **Empathy**.

MAJOR FINDINGS OF THE STUDY

Table 1.1 gives the level of satisfaction of sample customers about the Service Quality of their bank.

Table 1.1 reveals that based on the mean percentage score it seems that the customers are more satisfied with Tangibility and Reliability of the bank and mostly dissatisfied with Responsiveness, Assurance and Empathy. The coefficient of variation indicates more stability for the Tangibility and Reliability as the value in both case are less than 20 per cent. But there exist

within variation between the respondents as far as the remaining three variables Assurance, Responsiveness and Empathy are concerned.

Table 1.1

Mean, Coefficient of Variation and Mean Percentage Scores of Variables

	Maximum score	Mean Score	Standard Deviation	Coefficient of Variation	Mean Percentage Score
Tangibility	20	15.91	2.69	16.93	79.53
Reliability	25	19.41	3.47	17.86	77.65
Responsiveness	20	8.70	2.89	33.21	43.48
Assurance	20	8.22	2.78	33.90	41.08
Empathy	25	12.14	3.81	31.39	48.57
Service Quality	**110**	**64.37**	**6.01**	**9.34**	**58.52**

Source: Primary data

COMPARISON OF SERVICE QUALITY AMONG BANKS

➤ **Tangibility:** The mean percentage score of tangibility is more for Canara Bank followed by State Bank of India, HDFC Bank Ltd. and Federal Bank Ltd. Statistical test clearly states that there is significant difference in the tangibility of Indian commercial banks. Post hoc test reveals that in case of tangibility Federal Bank Ltd. has significant difference with Canara Bank. All other combinations have no significant difference.

➤ **Reliability:** The mean percentage score of reliability is more for Canara Bank followed by State Bank of India, HDFC Bank Ltd. and Federal Bank Ltd. Thus Nationalized Banks scored highest and Old Private Sector Banks scored the least in reliability. Statistical test clearly states that there is significant difference in the reliability of Indian commercial banks. Post hoc test reveals that in case of reliability Federal Bank Ltd. has significant difference with State Bank of India and Canara Bank. All other combinations have no significant difference.

➤ **Responsiveness:** The mean percentage score of responsiveness is more for Federal Bank Ltd. followed by HDFC Bank Ltd., State Bank of India and Canara Bank. Thus Old Private Sector Banks scored the highest and Nationalised Banks scored least in responsiveness. Statistical clearly states that there is significant difference in the responsiveness of Indian commercial banks. Post hoc test reveals that in case of responsiveness Federal Bank Ltd. has significant difference with all other sample banks under study.

- **Assurance:** The mean percentage score of assurance is more for Federal Bank Ltd. followed by HDFC Bank Ltd., State Bank of India and Canara Bank. Thus Old Private Sector Banks scored the highest and Nationalised Banks scored least in assurance. Statistical test clearly states that there is significant difference in the assurance of Indian commercial banks. Post hoc test reveals that in case of assurance Federal Bank Ltd. has significant difference with State Bank of India and Canara Bank. Also Canara Bank has significant difference with Federal Bank Ltd. and HDFC Bank Ltd.

- **Empathy:** The mean percentage score of empathy is more for Federal Bank Ltd. followed by State Bank of India, HDFC Bank Ltd. and Canara Bank. Thus Old Private Sector Banks scored the highest and Nationalised Banks scored least in empathy. Statistical test clearly states that there is no significant difference in the empathy of Indian commercial banks.

SERVICE QUALITY OF COMMERCIAL BANKING INDUSTRY AND DIFFERENT BANK GROUPS

Service quality on the basis of mean percentage score for the banking industry is given in Table 1.2 The mean percentage score of the service quality shows that the satisfaction level of the customers are only moderate as far as the service quality of the banking industry is concerned. The mean percentage score of the service quality is 58.52 per cent which shows that the satisfaction level of the customers are only moderate as far as the service quality of the banking industry is concerned. It is clear that the mean percentage score of service quality for the Federal bank Ltd. is 59.44 per cent which is the highest. For State bank of India the mean percentage score is 58.90 per cent, for and for HDFC Bank Ltd. is 58.21 per cent and for the Canara Bank is 57.54 per cent. From this it seems the Federal bank Ltd. has the highest service quality and the Canara Bank has the least. That means Old Private Sector Banks has better service quality in Indian commercial banks.

Table 1.2

Satisfaction about the Service Quality of the Banking Industry

	Mean	Standard Deviation	Maximum	Mean Percentage Score (%)	Coefficient of Variation	Z	P value
Service Quality	64.37	6.01	110	58.52	9.34	-6.637	<0.001

Source: Primary data calculated using SPSS 20

A comparative view about the service quality on the basis of mean percentage score for the selected banks is given in Table 1.3

Table 1.3

Bank Wise Service Quality

Bank	Mean	Mean Percentage Score (%)	Standard Deviation
State Bank of India	64.79	58.90	5.17
Canara Bank	63.29	57.54	4.75
Federal Bank Ltd.	65.38	59.44	6.29
HDFC Bank Ltd.	64.03	58.21	7.34
Total	**64.37**	**58.52**	**6.01**

Source: Table 1.1

When service quality of the selected banks is concerned, Federal Bank Ltd. has the highest score followed by State Bank of India, HDFC Bank Ltd. and Canara Bank. Thus the study reveals that Old Private Sector Banks has better service quality in Indian commercial banks. Statistical test conducted reveals that there is significant difference in the service quality of commercial banks. Post hoc test also reveals that Old Private Sector Banks have significant difference only with Nationalised Banks. All other combinations have no significant difference.

To verify the difference in service quality observed holds in the population or not one way ANOVA is conducted and the result is exhibited in Table 1.4. As the calculated value is less than 0.05, there is significant difference in service quality. So the null hypothesis "There is significant difference in service quality of commercial bank groups" is accepted.

Table 1.4

ANOVA (Service Quality)

		Sum of Squares	df	Mean Square	F	Sig.
Service Quality	Between Groups	370.618	3	123.539	3.461	.016
	Within Groups	21273.50	596	35.694		
	Total	21644.118	599			

Source: Calculated using SPSS 20

To find out which among the banks have significant difference in service quality, post hoc test is conducted and depicted in Table 1.5.

Table 1.5

Post Hoc Test (Service Quality)

Dependent Variable	(I) Bank	(J) Bank	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
SERVICE QUALITY	State Bank of India (SBI)	CB	1.493	0.690	0.134	-0.284	3.271
		FB	-0.593	0.690	0.825	-2.371	1.184
		HB	0.76	0.690	0.689	-1.017	2.537
	Canara Bank (CB)	SBI	-1.493	0.690	0.134	-3.271	0.284
		FB	-2.087*	0.690	0.014	-3.864	-0.309
		HB	-0.733	0.690	0.712	-2.511	1.044
	Federal Bank Ltd. (FB)	SBI	0.593	0.690	0.825	-1.184	2.371
		CB	2.087*	0.690	0.014	0.309	3.864
		HB	1.353	0.690	0.204	-0.424	3.131
	HD FC Bank Ltd. (HB)	SBI	-0.76	0.690	0.689	-2.537	1.017
		CB	0.733	0.690	0.712	-1.044	2.511
		FB	-1.353	0.690	0.204	-3.131	0.424

*The mean difference is significant at the 0.05 level.

It is clear from the table 1.5 that Federal Bank Ltd. and Canara Bank have significant difference and other combination banks have no significant difference in the service quality. That means only the Old Private Sector Banks have significant difference with Nationalized Banks in service quality.

CONCLUSION

The study concluded that Customers are satisfied with tangibility and reliability of the Indian commercial banks but are mostly dissatisfied with responsiveness, assurance and empathy. Old Private Sector Banks has the highest score in service quality followed by State Bank Group, New Private Sector Banks and Nationalized Banks. As far as service quality of the Indian banking industry is concerned, the satisfaction level of customers is only moderate. Indian commercial banking industry need to improve their quality of services provided to their customers.

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