

**CUSTOMER PERCEPTION ON SERVICE QUALITY IN BANKING
SECTOR: WITH SPECIAL REFERENCE TO INDIAN PRIVATE
BANKS IN MORADABAD REGION.**

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ABSTRACT

To enhance reputation and gain customer loyalty, a study of the performance of the banks is done to see if the perception of service quality has an effect on the banks. It has been observed that in the banking sector it is the HDFC bank which is perceived to be offering better quality of services followed by the other private banks. With the increasing competition amongst banks, the findings can act as a strategic tool to achieve competitive advantage and customer satisfaction. It is also an eye-opener for the banks to see the gap between customer expectation and perception regarding the quality of services rendered which should further act as a motivation which results, increases reputation and to achieve customer loyalty. The present study is an attempt in the direction, where quality perceptions of the four leading banks have been compared to reach at logical conclusions.

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1. INTRODUCTION

Private Banks dealing in retail banking Industry is consequently put into lot of pressures due towards increase in global competition. Various strategies are formulated to retain the customer and the key of it is to increase the service quality level. Typically, customers perceive very little difference in the banking products offered by private banks dealing in services as any new offering is quickly matched by competitors. Parasuraman et. Al (1985) and Zeithaml et., al (1990) noted that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers. The quality of services offered will determine customer satisfaction and attitudinal loyalty.

1.1 About private retail banking in India

Initially all the banks in India were private banks, which were founded in the pre-independence era to cater to the banking needs of the people. In 1921, three major banks i.e. Banks of Bengal, Bank of Bombay, and Bank of Madras, merged to form Imperial Bank of India. In 1935, the Reserve Bank of India (RBI) was established and it took over the central banking responsibilities from the Imperial Bank of India, transferring commercial banking functions completely to IBI. In 1955, after the declaration of first-five year plan, Imperial Bank of India was subsequently transformed into State Bank of India (SBI). In 1994, the Reserve Bank of India issued a policy of liberalization to license limited number of private banks, which came to be known as New Generation. Tech-savvy banks. Global Trust Bank was, thus, the first private bank after liberalization; it was later amalgamated with Oriental Bank of Commerce (OBC) At present, Private Banks in India includes leading banks like ICICI Banks, ING Vysya Bank, Yes Bank, Karnataka Bank, Kotak Mahindra Bank, HDFC BANK etc. Undoubtedly, being tech-savvy and full of expertise, private banks have played a major role in the development of Indian banking industry.

The onset of competition from the private players and initiation of banking reforms since early 1990s have led to an increased emphasis on efficient customer service (Narsimham Committee, 1991). Moreover, the tough competitive arena in which these banks operate today, maintaining the quality of service is a pre – requisite for survival. Therefore, measurement of service quality has increasingly created an interest among the service providers (banks) and scholars alike. It is so because service quality is being used to position the banks in the market place (Brown & Swartz 1989). However, the service quality is hard to measure (Rust, Zahorik & Keiningham, 1995). In case of banking services, the varied service products being offered and their interface with the information technology like banking on

internet, electronic delivery channels, etc. help the banks in seizing the market and be the ultimate winners (Cooper & Edgett, 1996). This also forms an important aspect of service quality. Despite this understanding, conceptualization and measurement of service quality have been the most controversial and debated topics in service marketing literature. There has been considerable research as to how service quality should be measured (Babakus & Boller 1992; Brown, Churchill & Peter 1993; Parsuraman, Zeithaml and Berry 1985,1988, 1991 & 1994). Various researchers have developed alternate concepts for service quality, like the Nordic perspective (Gronroos 1982,1984) and the American perspective (Parsuraman, Zeithaml and Berry, 1988). The Nordic perspective explains the service quality on two dimensions i.e. functional and technical quality. The American perspective on the other hand defines service quality on five dimensions, which are reliability, responsiveness, empathy, assurance and tangibility. It is so because the customers do not perceive quality as a uni - dimensional concept (Zeithaml, Parsuraman & Berry 1993). Later the increased interest in the multi – dimensions of service quality led to the development of another model (Rust & Oliver, 1994), which identified service quality as a three dimensional concept. The present study however, is based upon the American perspective and the SERVQUAL/ SERVPERF model by Parsuraman, Zeithaml and Berry (1988) (reflected in Figure 1).

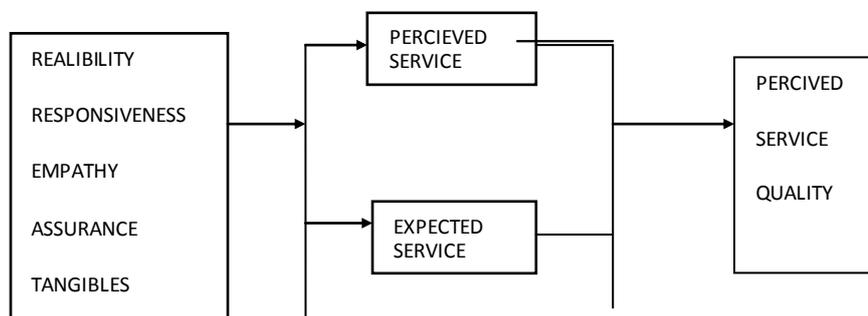


Figure 1: Model of Service Quality Perception

The model explains the service quality on the basis of gap between the expected level of service and perceptions of the customers regarding the level of service received. The SERVQUAL/ ERVPERF model is distinct from others because it determines more than one aspect of service encounters. This view supports the adoption of Rust and Oliver's (1994) view also, which states that the overall perceptions of service quality are based on various dimensions of service encounters. Various researches on service quality dimensions have increasingly led to a debate upon the dimensions. However, there is a wider agreement that the five dimensions i.e. reliability, responsiveness, empathy, assurance and tangibles are important aspects of service quality (Fisk, Baron & Bitner 1993). In fact, the researchers have

proved that the Nordic as well as American perspective define the customer's perception of the organization's technical and functional quality, service product, service delivery and service environment, which reliability, responsiveness, empathy assurance and tangibles are associated with the service experience (Brady & Cronin Jr., 2001). In India, a number of studies have been conducted and committees formulated to study service quality in banks. To name a few, Saraiya Committee (1972), Talwar Committee (1975), Goipuria Committee (1980) has studied below average customer service. An all India survey by the National Institute of Bank Management has also identified the lacunae in Indian banking as dissatisfaction among the customers over the delays. In another study conducted in Delhi (Debashish, 2003), the Rust and Oliver model had been used to study the service quality in banks. The study revealed that ICICI bank and HDFC BANK provide better quality service in Moradabad region.

RESEARCH METHODOLOGY

The service quality model developed by Zeithamal, Parsuraman and Berry (1988) has been used in the present study. The main assumption of the model is that service quality is multidimensional concept. These dimensions contribute to the assessment of the service quality in any setting. A construct 'SERVPERF' based upon the model has been used to ascertain the service quality in different banks under study.

The statements in the construct are one-dimensional and performance based, which incorporate the statements of 'SERVQUAL' model that can be used as measurement (Cronin Jr. & Taylor, 1992). The statements have been grouped under five dimensions mentioned earlier. In order to ascertain the perceptions of service quality, Likert's 5-point scale has been used for its suitability to estimate the range and variations in the perceptions. The scale 1 – 5 represents '5' as mostly agree and '1' as mostly disagree.

A pilot study was conducted to ascertain the suitability of the construct in the Indian bank setting. After the ascertaining of the suitability, the questionnaire was administered to the customer's sample size of 100 respondents. After the ascertaining of the validity, the data was analyzed to reach at conclusions regarding the customer's perceptions of service quality. The questionnaire is attached as annexure 1.

OBJECTIVES AND SCOPE OF STUDY:

- 1-To learn and understand the customer perception regarding service quality
- 2-To learn and understand the different dimension of service quality in banks

For the purpose of data collection, questionnaires were administered to the customers of four banks. Among them we select four banks namely ICICI BANK, HDFC BANK, KOTAK BANK AND INDUSIND BANK.

HYPOTHESIS

The hypothesis of the study is: -

The responses were collected on five dimensions of service quality namely; assurance tangibility, reliability, responsiveness, and empathy for all the banks under study. The responses of the respondents were tabulated and subjected to the validity tests. Subsequently, the validated data was compressed in the form of different tables (annexure), which succeed the discussion on the same. The discussion on the data focuses upon the prime purpose of meeting the objectives outlined and drawing the conclusions and inferences for suggesting suitable remedies for the banks.

The assurance dimension of service quality deals with trust, safety and support. It is also an important dimension of service quality, which has been represented in Table 1. As depicted in the table, it is clearly indicated that assurance has the highest score of 4.28.

Table-1: Dimension in Assurance banks

BANKS	ASSURANCE FACTOR	RANKS
ICICI BANK	4.20	2
HDFC BANK	4.28	1
KOTAK BANK	3.75	3
INDUSIND BANK	3.20	4
Mean	3.86	

The comparison between the individual bank scores and average scores indicates that the calculated mean value is 3.86, which is less than the HDFC BANK, ICICI BANK. Again, it is the KOTAK BANK, INDUSIND BANK which has the assurance value less than the average value. Assurance dimension of service quality deals with the approach towards the customers and understanding their needs effectively. The analysis of the responses of the customers towards Assurance (see Table 1) indicates that the HDFC Bank has scored the highest value of 4.28. It is followed by ICICI Bank with a score of 4.20. KOTAK follows them with an empathy value of 3.75 and last among all is INDUSIND Bank with a score of 3.20. The analysis of the scores clearly depicts that the two banks in the sample viz. HDFC

AND ICICI have the scores higher than '4', which represents more than satisfactory perception of consumers. On comparing the individual scores with the average mean score, it can be said that HDFC and ICICI have higher than average scores; whereas KOTAK and INDUSIND bank have values lesser than average.

TABLE -2 Tangibility of Banks

BANKS	Tangibility Factor	RANK
ICICI BANK	4.21	2
HDFC BANK	4.27	1
KOTAK BANK	3.50	3
INDUSIND BANK	3.20	4
Mean	3.79	

The comparison between the average score of Tangibility factor and individual scores, it can be concluded that all the banks Bank have an overall positive perception. However, the HDFC has the score more than the average score. This can be interpreted as the bank has a potential to lead in terms of tangibility.

Table 3: Empathy Dimension in Banks

BANKS	Empathy Factor	Ranks
ICICI BANK	4.18	2
HDFC BANK	4.25	1
KOTAK BANK	3.40	3
INDUSIND BANK	3.10	4
MEAN	3.73	

The comparison between the individual bank scores and average scores also indicates that the calculated mean value is 3.73, which is less than the Hdfc Bank and ICICI Bank. Empathy dimension of service quality deals with the approach towards the customers and understanding their needs effectively. The analysis of the responses of the customers towards empathy (see Table 3) indicates that the HDFC Bank has scored the highest value of 4.25. It is followed by ICICI Bank with a score of 4.18, KOTAK follows them with an empathy value of 3.40 and last among all is INDUSIND Bank with a score of 3.10. The analysis of the scores clearly depicts that the two banks in the sample viz. HDFC bank and ICICI bank have

the scores higher than '4', which represents more than satisfactory perception of consumers. On comparing the individual scores with the average mean score, it can be said that HDFC Bank and ICICI Bank have higher than average scores; whereas Kotak and Indusind bank have values lesser than average

The analysis of the fourth dimension of service quality i.e. responsiveness indicates that the dimension has a lot of significance in the service quality, HDFC has scored a very high value among three of the four banks under study. It is only the Indusind bank, for which the score has been the lowest. Among the other banks, it is again the HDFC Bank, which has the highest value of 4.66, followed by ICICI bank at 4.53. Kotak is at the third place with a score of 4.29. The average mean score for responsiveness has been worked at 4.26. On comparing the individual values with the average mean, it can be concluded that again all the three banks except Indusind bank have higher than average scores.

Table 4: Responsiveness Dimension in Banks

Bank	Responsiveness	Rank
KOTAK BANK	4.29	3
HDFC bank	4.66	1
ICICI Bank	4.53	2
INDUSIND Bank	3.57	4
Mean	4.26	

The assurance dimension of service quality deals with trust, safety and support. It is also an important dimension of service quality, which has been represented in Table 4.

Table 5: Reliability Dimension in banks

Bank	Reliability Factor	Rank
ICICI Bank	4.28	3
HDFC Bank	4.64	1
KOTAK Bank	4.42	2
INDUSIND Bank	3.67	4
Mean	4.25	

The comparison between the individual bank scores and average scores also indicates that the calculated mean value is 4.25, which is less than the HDFC Bank, ICICI Bank and Kotak.

Again, it is the Indusind Bank, which has the reliability value less than the average value. Empathy dimension of service quality deals with the approach towards the customers and understanding their needs effectively. The analysis of the responses of the customers towards reliability (see Table 5) indicates that the HDFC Bank has scored the highest value of 4.52. It is followed by ICICI Bank with a score of 4.42. Kotak follows them with a value of 4.42 and last among all is Indusind Bank with a score of 3.67. The analysis of the scores clearly depicts that the three banks in the sample viz. ICICI Bank, HDFC Bank and Kotak have the scores higher than '4', which represents more than satisfactory perception of consumers.

Private Sector Banks

The analysis reveals that among the private sector banks all the dimensions of service quality are equally important. However, the scores have been different for these banks. While comparing the dimensions, (see Table 6) the scores for HDFC has been higher in comparison to other banks.

Table 6.: Private Sector Banks

Factor	Private Sector
Reliability	4.25
Responsiveness	4.26
Assurance	3.86
Empathy	3.73
Tangibility	3.79
Mean	3.97

The analysis of the private sector banks clearly identifies Reliability and Responsiveness as the most relevant factor of quality perception, as it has the highest value among the dimensions. Empathy has scored the minimum value in the private sector, which certainly is a big factor contributing towards the lower quality perception of the private sector banks.

Comparison of individual scores with the average mean value also confirms the above average perceptions in public sector banks, as three out of five dimensions have scored higher than average values. In case of private sector banks, only two dimensions have higher than average values. This shows that public sector banks enjoy a better quality perception among their customers.

Strategic Implications

The growth trail of Indian economy is also reflected in the banking sector, as it is the mirror of a country's economy. The banks have been keeping pace with the growing and maturing market economy since the initiation of reforms in 1992. The increased competition among the banks, due to reforms has on one hand led to the strengthening of prudential norms and technological input to ensure better growth opportunities and on the other, an improved service offer to the customers.

The quality concept therefore holds relevance in the banking sector. Major findings of the present study can be concluded as:

The study included five dimensions of service quality perceptions, which are tangibility, reliability, responsiveness, assurance and empathy. The analysis of these dimensions identified that, among the four banks under study, it is the HDFC bank, which has the highest reliability in terms of the employees, physical evidence and ambience. Although, the bank has only one branch in the Moradabad, but it has been able to instill a higher reliability value among its customers. As compared to it, the other private sector bank, Indusind bank has the lowest reliability value. However, in the recent years, it has spent huge amounts on the infrastructure, especially technology (Annual Reports of the Indusind bank). Still, people do not perceive it as a quality tangible offer.

The analysis of the other dimension, responsiveness represents the HDFC again as the front-runner among the four banks followed by ICICI Bank, Kotak Bank and Indusind Bank respectively. This can be interpreted as the employees' capability to respond to the customers. This fact is well represented in the voluminous increase in the retail trade of these banks. The analysis reveals that Indusind Bank has the lowest service quality perception value, whereas the HDFC bank has the highest perception. This is also correlated to the factors of reliability, as reliability leads to trust, support, etc.

Measurement of the empathy dimension identifies better understanding of customers' needs, as being very high in the HDFC bank, followed by ICICI Bank, Kotak Bank and lastly by Indusind Bank. The results of all these dimensions can be summed up as: HDFC Bank has the highest quality perception, which is also validated by the Best Bank Survey 2011. It is followed by ICICI Bank, Kotak and Indusind Bank respectively.

SERVICE QUALITY IMPROVEMENT SUGGESTIONS

There is an urgent need for the banking services to reaffirm themselves in view of the cutthroat competition, which is close on the anvil. The banks shall have to reorient

themselves in terms of the customer service parameters to instill the concept of quality service in the mind of the customer and therefore the growth.

Strategically speaking, the banks in the private sector should focus more on improving the infrastructure. The infrastructure not only involves the information technology input in the branches but also the physical evidence, internal environment and layout. This is due to the fact that recently like in other services, in banking also the internal ambience of the organization has a positive impact on the customers.

The customers trust the public sector banks. These banks have existed in the market for a longer period than the private sector banks. The reliability factor is a positive factor for these banks. They should position themselves in the market on the basis of this dimension and promote themselves aggressively. This will not only help them survive the present onslaught from private sector banks, but also be competitive in the market. The Private sector Banks should be improved in such point of view

The growing needs of the customers are evident from the wide array of services being offered by the banks like insurance, mutual funds, depository services, etc. According to Reserve Bank of India, the voluminous increase of 14,85,643 crores in the retail financing schemes of the various banks indicates the varied needs of the customers, in which the private sector banks have emerged as the significant players. This in turn points towards the degree of readiness, which these banks are demonstrating towards the customers and their needs. Besides this, these banks should follow the strategy of differentiation of service offers from one another.

Last but not the least, the customer base of the public sector banks is very big as compared to the private sector banks, therefore it is important to retain them with the banks. It becomes imperative for the private sector banks to train their employees to treat the customers with empathy. This can give the required leading edge and finally the competitive advantage over the public sector banks.

The study indicates that the responsiveness is a most critical factor. The private sector banks like HDFC & ICICI Bank have emerged as the leading bankers. It is more so due to the fact that they have proven to be more responsive to the customers' needs. However, in order to be more successful in the market, the private sector banks shall have to be more innovative in terms of the product offers to the customers and compete aggressively in the market.

The other aspect however, which needs to be strategized is the reliability. As indicated by the study, the private sector HDFC bank leads in reliability when compared to the other private sector banks. Therefore, these banks should make relevant strategies for gaining reliability.

They should promote their recent achievements so that the customers are aware of these and rely more on the banks.

Those banks, which have long established parent organizations like HDFC bank (HDFC Corporation), should promote their linkage to the parent institutions. This would not only increase the reliability of these banks in the minds of the customers but also the assurance.

The private sector banks should also take steps to enhance the human resource element by training them to serve the customers effectively and thereby enhance the customers' quality perceptions.

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ANNEXURE -1

Questionnaire On Customer Perception regarding Service Quality of Bank

(A) General information

(i) Customer Name: _____

(ii) Bank Name: _____

(iii) Bank Type	Private	Public	
(iv) Type of Account	Savings	Current	Salary
(v) Gender	Male	Female	
(vi) Age (In Years)	Under 20	21 – 30	31 – 40
	41 – 50	Above 50	
(vii) Qualification	Upto 12 th	Graduate	Post (viii)
	Graduate		
(ix) Income (Monthly)	Below Rs. 25000	Rs. 25000 – Rs. 50000	
	Above 50000		
(x) Profession	Student	Employee	
	Businessman	Housewife	

(B) Please tick (✓) 5, 4, 3, 2, 1 against the appropriate box where;

5 = Highly satisfied 4 = Satisfied 3 = Neither satisfied nor dissatisfied

2 = Dissatisfied 1 = Highly dissatisfied

Questions cover different dimensions of service quality.

S. No.	Questions	5	4	3	2	1
Tangibility						
1.	Are you satisfied with the premises of the bank? Is it visually appealing?					
2.	Are you satisfied with the technological up-to-date equipments of the bank?					
3.	Are you satisfied with the way the employees dress?					
4.	Are you satisfied with the pamphlets distributed by the bank? Are they give clear and give complete information?					
5.	Are you satisfied with the bank statement? Is it visually clear?					
Reliability						
6.	Are you satisfied with the services provided by the bank as promised?					
7.	Are you satisfied by the service of handling customer's service problems?					
8.	Are you satisfied with the way bank informs about the time when					

	service will be performed?					
9.	Are you satisfied with the record maintaining procedure of your account?					
Responsiveness						
10.	Are you satisfied with the promptness in providing service to you?					
11.	Are you satisfied with the willingness of employees to help customers?					
12.	Are you satisfied with the bank service of sending timely bank statement?					
Assurance						
13.	Are you satisfied with the way employees behave with you?					
14.	Are you satisfied with the employee's eagerness of instilling confidence in customers?					
15.	Are you satisfied by the employee's behaviour of showing consistently courteousness towards you?					
Empathy						
16.	Are you satisfied by the bank's service of providing customers best interest at heart?					
17.	Are you satisfied by the bank service of providing the product that best suits you?					
18.	Are you satisfied by the overall service quality of your bank?					