Factors Determining Service Quality Aspects of Banking Sector in India (With Special Reference to Delhi NCR- A Pilot Study)

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Abstract

In present-day globalized era, companies are vigorously focusing on retaining existing customer in cut-throat competition. Customer loyalty is very significant in creating and retaining competitive advantage in the service industry specifically in sectors like banking industry in India. This realization has made industry researchers and academics to pay more and more attention to study service quality dimensions and their impact on customer satisfaction and loyalty. This study aims to find important dimensions of service quality and study whether service quality dimensions affects customers satisfaction. The paper is based on empirical study to analyze service quality dimensions of banking services in banks located in Delhi-NCR region. For this purpose primary data was collected through a scientifically developed questionnaire. The questionnaire has been personally administered on a sample size of 100, chosen on a convenient basis in Delhi-NCR region. The study found Tangibility, Reliability, Responsiveness, Assurance, Empathy and Assurance as reliable factors to measure service quality of banking services. Service quality dimensions leads to customer satisfaction which ultimately helps in maintaining customer loyalty.

Key Words: *Banking sector, Service quality, Customer satisfaction, Customer loyalty*

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Today we are living in the era of hyper competition in globalised economy. All sectors whether industrial goods, consumer goods or services are facing tough time to woo new customers and retaining existing customers. Service sector has emerged as the largest contributor in India's gross domestic product. In this background, researchers and academicians are focusing on factors which influence customer's perception of service quality. There have been many efforts to determine factors which affect customer's perception on service quality of services offered and to study whether service quality leads to customer satisfaction and ultimately customer loyalty. Public sector banks enjoyed monopoly status prior to the policy of liberalization. On implementation of Liberalisation, Privatisation and Globalisation (LPG) during 1990's, many new generation private banks and foreign banks came into this arena and continuously showing their rapid growth and contributing significantly to the economy of India. Thus, in order to compete, survive and thrive even public sector banks are focusing on customer satisfaction and customer loyalty.

1. INDIAN BANKING SECTOR

Banking is backbone of any economy. After independence Government of India initiated measures to play an active role in the economic life of the nation including banking and finance. Government undertook nationalization of 14 major banks in India on 19 July 1969. A second dose of nationalization of 6 more commercial banks followed in 1980. With the second dose of nationalization, the Government of India controlled around 91 percent of the banking business in India. Until the 1990s, the nationalized banks grew at a pace of around 4%, closer to the average growth rate of the Indian economy. In the early 1990s, Narsimha Rao government embarked on a policy of liberalization, licensing a small number of private banks such as Axis Bank (UTI Bank), ICICI Bank and HDFC Bank. This move, along with the rapid growth in the economy of India, revitalized the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks. The next stage for the Indian banking was set up with the relaxation in the norms for Foreign Direct Investment. The new policy shook the Banking sector in India completely. The new wave ushered in a modern outlook and tech-savvy methods of working for traditional banks. All this led to the retail banking boom in India.

Currently banking in India is fairly mature in terms of supply, product range and reach-even though reach in rural India still remains a challenge for the private sector and foreign banks. In terms of quality of assets and capital adequacy, Indian banks are considered to have clean, strong and transparent balance sheets as compared to other parts of the world. It is said that our prudent banking practices saved our economy from global recession. Even developed western countries are now following prudent Indian banking practices.

Information and communication technology (ICT) is changing all industries in a significant way. Application of ICT in banking industry has changed the life of business and common man. Internet banking involves use of Internet for delivery of banking products & services. Thus, today customers can do banking transactions such as checking balance, transfer of money etc., sitting at home through e banking. Even with the introduction of Internet Banking, vast majority continue to believe in traditional onsite banking. There is a sense of belongingness and the connection that they have built with a particular bank/branch and the people who provide the services. The

people across the counters are the real face of the bank, and absence of this personal touch is what makes the vast majority feel insecure in terms of dealing with their finances. By now Branch banking and ATMs are common even in common customer of small towns but internet and mobile banking is still in its nascent stage. Availability of internet, awareness of internet operations and cost of internet and sophisticated platform and security are key concerns customers in e-banking.

Thus, today's customer expects a lot from his banker. Competitions from new age private and foreign banks have forced public sector banks to adopt smart banking practices. Convenience in banking, ease of operations, timeliness, aesthetic sense in banking products, reliability, responsiveness, customer experience are key to customer satisfaction and loyalty.

2. LITERATURE REVIEW

Banking sector is an important component of Indian financial system which facilitates growth in the economy. Banking sector in India has witnessed unprecedented developments in last two decades. Liberalization in 1991 has made Indian banking system a robust banking system. As on August 9, 2013 total deposits of all reporting scheduled banks stood at Rs 73,039.65 billion rupees (RBI 2013). Our banks have comparatively stood healthy during the global crisis of 2008 due to prudential banking norms, stable financial markets and resilient banking sector. This fact is evidenced by growth rate of 8 percent in 2010-11 (**Naina Lal Kidwai, 2012**). After the advent of new private sector banks in India competition has heightened among public private and foreign banks. The **Rangarajan Committee Report (1989)** highlighted the use of computerization to improve customer service and efficiency. Subsequently, **Narasimham Committee (1992)**, while high-lighting the problems faced by Indian public sector banks, stressed the need for greater measure of computerization in banks. The committee observed that modern banking involves a great deal of processing of mass information. Commitment to technology is the only solution that ensures timeliness, accuracy and resultant improved performance and enhanced customer service (**Bide, 1997**). To meet the challenges posed by the entry of foreign banks, Indian banks have to invest heavily in technology to meet competition, reduce cost, improve customer service, improve productivity and offer new products/services. **Roberts and Campbell (2007)** studied the attributes that influence perceptions of customer service in the retail banking setting from a non-customer perspective. There is great deal of relationship between service quality and outcomes such as retention, loyalty, and profitability. The examination shows of the relationships researcher first needed to measure service quality. **Heijes (2008)** studied customer behavior to define and test a supplier selection model for Chinese and foreign banks in China. Finally, he added questions concerning the several types of services in the Chinese banking industry. Investigating the customer's preference for different services with Chinese or foreign banks will help us to further locate the reasons of choice thereby increases the relevance of the outcome. In this research researcher discovered different types of banking services such as saving business, home banking service, Credit card business, investment business, electronic bank business. **Mittal and Mittal (2008)** found that consumer behaviour is the key factor of all marketing aspect and promotional strategies. Marketing strategies are also designed by considering all the aspects of consumer's behaviour. The entire customer wants door stop selling without time consuming so now day's private banking personal selling is more effective than the public sector banks on

branch banking. **Petrus Guriting, (2008)** indicates that perceived usefulness and perceived ease of use are strong determinants of behavioral intention to adopt online banking. There is also an indirect effect of computer self-efficacy and prior general computing experience on behavioral intention through perceived usefulness and perceived ease of use. **Bellou and Andronikidis, (2008)** examine the effect that internal service quality has on employees' prosaically customer behaviour displayed, which is crucial for customers' perception of service quality. This effect was examined both for public and for private sector banks. They discussed and empirically tested the nature of the relationship among service quality, role-prescribed customer service and cooperation among co-workers in the banking sector, both in private and public banks. **Srivastava and Chatterjee, (2009)** described that the customer satisfaction or dissatisfaction to expect and actual service quality have been analyzed by expert and expressed dissatisfaction with the services offered by the bank. In response of satisfied customer's huge gap existed between the expected and actual service quality experienced with the transacting bank. In this study customers suggested that the bank is yet to instill confidence among the customers. So it has to be providing that excellent services dependably and accurately among the customers satisfaction or dissatisfaction. **Tsarenko and Tojib, (2009)** aim to develop a typology of customer segmentation based on their attitude toward privacy. Financial sector was chosen as the context of the study as this sector is known to be highly sensitive with customer privacy concerns. Consumer concern with privacy statements, the privacy legislation at the federal level, trust and the willingness to disclose personal information for some form of compensation are used as drivers of consumer privacy in regression analysis. **Ravichandran, et al. (2010)** compares improved customer perception of service quality by public banks and private banks. Demographic setup as observed in the study indicated that customer's service quality preference varies. Service managers should be able to improve the delivery of customer perception of quality during the service process and have greater control over the overall outcome. Retail banks are directing their strategies towards increasing customer satisfaction and loyalty. **Mishra, et al. (2010)** studies service quality and level of customer satisfaction in perceptions of bankers. Bankers are an integral part of the banking system. As a service provider their roles are quite important in changing the perception of customers. Banks should motivate their staff to provide better deal to their customers. Interactive marketing calls for involvement of all employees which must be quite important to satisfy the customers. For providing better service to customers proper training should be given to the staff by the banks.

Kamath K R (2012) discussed that globalization and economic liberalization world over has served a wide range of portfolio to the customers to choose from. Now Indian public sector banks are forced to perform like robust international banks. These banks should design inherently flexible products for quick customization. This situation necessitates dynamic though leadership for new age banking.

3. METHODOLOGY

In every organization, the performance of service quality is being evaluated mainly by the principal tool called "SERVQUAL" proposed and designed by Parasuraman and Zeithamal. Initially, it had ten dimensions and later it got condensed to five dimensions like Tangibility, Reliability, Assurance, Responsiveness and Empathy which leads to customer satisfaction and

customer loyalty. These factors were taken up in this study because these are well established factors in globally acceptable research. With a sample of 100 respondents these factors were verified and tested. Present study was conducted in Delhi NCR during two weeks' time to test validity and suitability of this questionnaire (Research Instrument). In this study SERVQUAL model has been applied to study that how these variables lead to customer satisfaction and loyalty. But some Researchers have raised question about the application and appropriateness of using SERVQUAL and disagree about whether the service quality should be the difference between expected and perceived service. They empirically proved that the measures of service performance SERVPERF is more effective than SERVQUAL (Cronin and Taylor, 1992; Teas, 1993; Brown et al., 1993; Brady et al., 2002). Weighted SERVPERF scale has been theoretically positioned to be superior to weighted SERVQUAL Scale (Bolten and Drew, 1991; Jain and Gupta, 2004).

In order to fulfill the proposed research objectives, this empirical research was carried out with the primary data collected through a well designed questionnaire which has four parts. The first part contains the demographic details like age, gender, educational qualification, Type of family occupation, income and frequency of visit to bank and the second part contains twenty four items compiled with service quality variables Tangibility- (4), Reliability-(5), Responsiveness- (5), Assurance- (3), Empathy-(5), The Third part contains five variables for Customer satisfaction and fourth part contains five variables for customer Loyalty. All these variables were measured with 5-point Likert-type scale ranging from 1- Strongly Disagree to 5- Strongly Agree.

The collected data have been analyzed with SPSS 19.0 package. The study was conducted in Delhi NCR region. For the purpose of data collection, customers visiting public and private banks were surveyed. Convenience sampling method was used to obtain the data through self-administered questionnaires from the customers. Table 1 shows the summary of the demographic composition of the respondents in terms of age, gender, education, and income. This study uses software SPSS version 19.0 for statistical analysis. To test the constructs and items presented in this study, reliability analysis, and factor analysis were used at pilot survey stage to further validate the conceptual model using multi-variate analysis.

Table 1: Demographic Profile of the Respondents

S. No.	Demographic Variable	Description	Response	Percentage
1	Gender	Male	73	73
		Female	27	27
2	Age	18-27 years	9	9
		28-37 years	50	50
		38-47 years	22	22
		48-57 years	15	15
		More Than 58 years	04	04
3	Status of Residential Area	Urban	70	70
		Rural	30	30
4	Occupation	Govt. Sector Employee	35	35

		Pvt. Sector Employee	50	50
		Business	03	03
		Self Employed Professional	11	11
		Student	01	01
5	**Educational Qualification**	Graduation	10	10
		PG and Above	18	18
		Professional/ Technical Qualification	72	72
6	**Monthly Income**	Up to Rs. 20,000	12	12
		Rs. 20,001-40,000	40	40
		Rs. 40,001-60,000	32	32
		Rs. 60,001-80,000	08	08
		Rs. 80,001-1,00,000	07	07
		More than Rs. 1,00,000	01	01

4. ANALYSIS AND INTERPRETATION

With respect to the Kaiser-Meyer-Olkin (KMO) measure of adequacy and Bartlett's test of sphericity, the result revealed a high KMO (.685) which is more than 0.50, indicating that the sample used is appropriate for this study and the data are adequate as posted in **Kaiser (1974)**. On the other hand, Bartlett's measure of sphericity test shows significance less than 0.05 meaning that data are not identical and there is a relationship among the variables. The internal reliability of a given scale, i.e., the extent to which the items included in the scale are correlated, was evaluated using Cronbach's Alpha. High values of Cronbach's Alpha indicate that all the items included in the scale are measuring the same thing and correlation between each other and with the latent variable measured though the items are very strong (**DeVellis, 2003**). A cut-off value of 0.5 was used to indicate an acceptable level of internal consistency (**Hair et al., 1998**) See Table 3. The Principal Component Analysis method initially extracted nine factors explaining 67.589 % of the total variance in the data.

Table 2: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.685
Bartlett's Test of Sphericity	Approx. Chi-Square	1255.574
	Df	435
	Sig.	.000

Table 3: Reliability Analysis

S. No.	Factor	Cronbach's Alpha	No of Items
1	Tangibility	0.544	4
2	Reliability	0.561	5
3	Responsiveness	0.524	4
4	Assurance	0.511	4

5	Empathy	0.712	5
6	Satisfaction	0.607	4
7	Customer loyalty	0.802	4

5. CONCLUSION AND FUTURE SCOPE OF RESEARCH

Measurement of service quality for physical products is easy as compared to services such as service quality of banking sector. There have been lots of efforts to measure quality of services through some scale. In this direction work of Parasuraman and Zeithaml is considered a milestone. Present study concludes that Tangibility, Reliability, Responsiveness, Assurance, Empathy, Assurance, Customer satisfaction and Customer loyalty are reliable factors to study quality of services in banking sector. By analyzing the impact of service quality on Customer satisfaction and Loyalty in public and private sector bank in NCR Region, it was observed that out of five service quality factors considered, reliability of all factors was high and considered for final data collection of the study. Although this study dealt with the customer perception towards service quality and its impact on satisfaction and Loyalty in Public and private banks, the sample size considered is very small and surveyed in NCR region of India. The results obtained may not be suitable as a whole having customers with different demographic profiles. Empirical research may be conducted by taking large sample comparatively with other branches or with other sectors so that service quality and its impact on customer satisfaction across the different contexts can be measured and can be utilized for future research and improvement.

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