The Effect of Banking Service Quality on Customer Satisfaction

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Abstract - Banking industry has come of age post-independence in India. It is one of the highly competitive industries that has become the backbone of our economy. Apart from providing an array of products to its customers, it has also gained prominence over a period of time as far as offering services in terms of quality that may be the only differentiating factor in order to leverage its business. Thus is imperative that banks emphasize on the value of quality of service and satisfaction of customers to retain them. The present study uses SERVQUAL (service quality) model on 200 sample from private sector banks in Bhubaneswar, Odisha. The analysis revealed that the quality of service had a positive and significant effect on the customer satisfaction. Based on the outcome, managerial implications focusing on important criteria were provided to improve the service quality in the organizations.

Keywords: SERVQUAL, Customer Satisfaction, Factor Analysis, Correlation Analysis, Regression Analysis.

I.   INTRODUCTION

One of the pillars of economy, the banking industry, has gone a sea-change especially over the last three decades or so with the advent of liberalization, privatization and globalization and the opening of the economy. Hence, the role of private banks in growth and development of developing economy such as India cannot be undermined. The journey from public sector banks to private sector banks and foreign banks with more and more new entrants has changed the dynamics of banking in India and across the globe. Both public and private sector banks are not free from tough competition as far as adapting to new technologies and innovations and the customers' perception of service quality. The customer is like a cog in the wheel in the banking function where on one hand competition and on the other margin of profits have redefined the Indian banking sector. Therefore, it is pertinent that banks have to retain the existing customers and expand the data base as well. It is found out that customers usually switch over to the competitors due to service quality, price and lack of professionalism. Pricing of products in banks is regulated in India. So, the only differentiating factor is the service quality that is being offered to the customers to not only make them feel important but to retain. The dynamics of market has now changed from 'product centric' to 'customer centric' where customer has is the king calling all the shots. Today, in the new-age technology the customer could access to different products and services with the click of a button. This has added an additional pressure on the banks to come out with new strategies to keep the customers satisfied and retain them. One such example is the banks have started wooing new customers by reaching to their doorsteps with customized services. This has brought about a change in the way the expectations and perceptions of service quality of customers is looked at. To compete with each other and to be pitted with the best in the business, the focus of the banks have now shifted to provide the best quality services and the best innovative products to their customers. In this dynamic environment, two important factors that are key in deciding the future of banking business are 'service quality' and 'customer satisfaction'. "Banking institutions are acknowledging that unless customer needs are taken into account in designing and delivering services, technical superiority will not bring success. New marketing concepts and

strategies are paying greater attention to identifying customer needs and expectation and offering high service quality to customer" (Zeithaml and Bitner 1996). Further, it has been found from the literature reviews that it is the effective assessment, improvement and management of service quality that creates a competitive advantage for the banks and other financial institutions. On this backdrop, an attempt has been made to find out to what extent the service quality influences the customer satisfaction in private sector banks in Bhubaneswar, Odisha.

II.   RELEVANCE OF THE STUDY

Customers play very important role in development of services industry particularly financial services. Therefore, customer service is an essential in the banking service to compete in the market driven environment. "Service quality has become a critical prerequisite for satisfying and retaining valued customers in banks. The interest is largely driven by the realization that high service quality results in customer satisfaction and loyalty with the product or service, greater willingness to recommend someone else, reduction in complaints and improved customer retention" (Zeithaml et al., 1996). Further, a "satisfied customer is likely to be a loyal customer who will give repeating business to the bank" (Heskett et al., 1994). This study will expand the research in Indian banking sector. Specifically, the study will conduct a survey of Indian bank customers to develop theoretically and empirically the understanding of the relationship between Service Quality and Customer Satisfaction. This study seeks to evaluate empirically the degree of effect on service quality on customer satisfaction in the banking industry and will contribute to the body of literature as well as to the bank management.

III.   SCOPE OF THE STUDY

The study is about quality of service and its effect on customer satisfaction in four private sector banks viz., ICICI Bank Ltd, HDFC Bank Ltd, Axis Bank Ltd and IndusInd Bank Ltd in Bhubaneswar, Odisha.

IV.   OBJECTIVES OF THE STUDY

- To study the concept of quality of service and customer satisfaction
- To find out the correlation between the dimensions of service quality and customer satisfaction in banks
- To study the impact of service quality on customer satisfaction in banks

V.   HYPOTHESES OF THE STUDY

H1: *Assurance* dimension of SERVQUAL has a positive and significant impact on customer satisfaction
H2: *Empathy* dimension of SERVQUAL has a positive and significant impact on customer satisfaction
H3: *Reliability* dimension of SERVQUAL has a positive and significant impact on customer satisfaction
H4: *Responsiveness* dimension of SERVQUAL has a positive and significant impact on customer satisfaction
H5: *Tangibility* dimension of SERVQUAL has a positive and significant impact on customer satisfaction

VI.   LITERATURE REVIEW

Definition of Service Quality

Lehtinen and Lehtinen (1982) have defined "service quality in the context of physical quality, interactive quality and corporate (image) quality".
Gro¨nroos (1984) defined service quality as "the outcome of an evaluation process, where the consumer compares his expectations with the service he perceives he has received".
According to (Berry et al. 1988; Parasuraman et al. 1985), the most common definition among the researchers for service quality is that "service quality is the customer's perception of service excellence which means quality is defined by the customer's impression of the service provided"
Parasuraman et al. (1988) defined service quality as "the overall evaluation of a specific service firm that results from comparing that firm's performance with the customers' general expectations of how firms in that industry should perform".
Santos (2003) defined service quality as "a measure of how well the level of the delivered services matches customer's expectations".

__Service Quality in Banks:__

Shirshendu Ganguli and Sanjit Kumar Roy (2011) identified that services to customer, security, quality of information, convenience and usage of technology and reliability influenced customer satisfaction and loyalty.

Koushiki (2013) found out that the important determinant of service quality is reliability. Behaviour of employees, convenience and tangibility are the next preferred dimensions in banking sector.

Anand Sharma et al (2014) found out that customer loyalty is an important determinant in retaining customers and creating a competitive edge in banking industry in India.

V. Surekha et al (2015) make a comparative study between public and private sector banks. The result indicted that employees' behaviour and conduct is an important factor in improving customer satisfaction.

Abdel Fattah Mahmoud Al-Azzam (2015) elucidated that there is a strong relationship between service quality and customer satisfaction in the retail banking sector where the dimension 'tangibility' had the maximum positive impact.

__Definition of Customer Satisfaction__

According to Oliver (1981) customer satisfaction is "the evaluation a customer makes to a certain exchange, which reflects the relation of the customer expectation and their real perception to products or the services they receive".

Kotler (1991) defined the customer satisfaction as "a customer perception that compares their pre-purchase expectation with post-purchase perception".

According to Oliver (1997) & Zeithaml and Bitner (2000), "Customer satisfaction is the customer's evaluation of services after purchase as oppose to their expectation".

__Customer Satisfaction in Banks:__

Vinita Kaura (2013) conducted a comparative study of the impact of service quality on customer satisfaction in public and private sector banks and found out that barring the dimension of tangibility all the dimensions had a positive impact on customer satisfaction in public sector bank and in private sector bank the exceptions were the dimensions of tangibility and benefit convenience.

Kingshuk and Mounita (2014) found out that 'customer satisfaction' increases the loyalty of customer, purchasing power and decreases cost of maintain new customers and flexibility of price which ultimately stops customers to switch to the competitors.

VII.   SERVICE QUALITY MODEL USED IN THE STUDY

The study employs the Parasuraman, et.al. (1988) Model of Service Quality with the following five dimensions.

1. Tangibility – physical layout, structures and equipment, overall outlook of employee
2. Reliability – providing dependable and accurate service as promised to the customer
3. Responsiveness – initiation and the will to help and offer prompt service to the customer
4. Assurance – ability to instill trust and confidence in customers through knowledge and courtesy
5. Empathy – rendering individual personalized service to customers as per the organization norms

Figure - 1

Conceptual Model
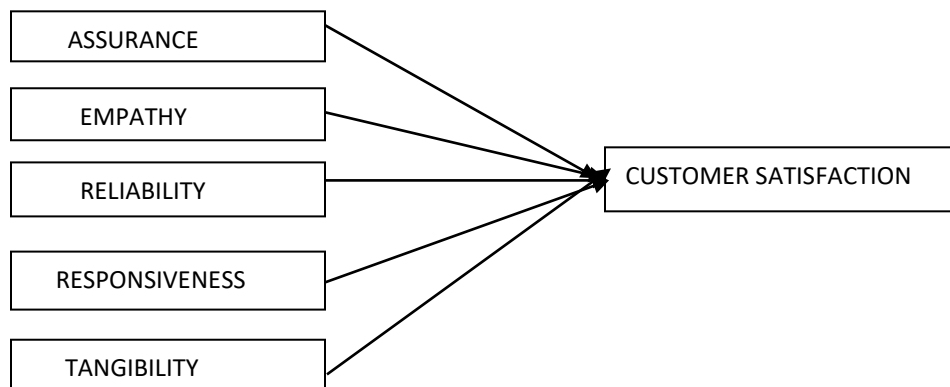
Source: Author's Representation

VIII. RESEARCH METHODOLOGY

Research Design

The research design selected for the study is Descriptive Research Design.

Sampling Technique

Convenient sampling method was used to collect data from the respondents of four private sector banks.

Sample Size

The data was collected from 200 respondents of private sector banks in Bhubaneswar.

Sources of Data

Primary data was collected by the researchers through survey method and the secondary data were obtained from various journals, books and official websites of the organizations.

Data Collection

Data was collected from the respondents (customers of the banks) by the help of the structured questionnaire. The SERVQUAL five dimensions (Parasuraman, 1988) are used in this study wherein all the 28 items were evaluated on 5 point Likert Scale ranging from 1 (= strongly disagree) to 5 (= strongly agree). The data collected was analyzed using SPSS 20.0 to ascertain the veracity of the study. The relationship of five dimensions and customer satisfaction is depicted in the figure-1 mentioned above.

Data Analysis

Reliability Analysis

Table-1

Cronbach Alpha Values Item-Wise

Dimensions of SERVQUAL	No. of Items under each dimensions	Cronbach Alpha Value	Status
Reliability	4	0.745	Acceptable
Tangibility	8	0.722	Acceptable
Responsiveness	5	0.776	Acceptable
Assurance	6	0.781	Acceptable
Empathy	5	0.797	Acceptable
Overall	28	0.755	Acceptable

Source: Primary Data & Author's Calculation

The above table-1 shows the results of Cronbach Alpha item-wise on the five dimensions of SERVQUAL. The Cronbach Alpha Values of all the dimensions are in the range from 0.722 to 0.797 which is more than the required level of 0.60 (Cronbach LJ, 1951). Similarly the overall value of Cronbach Alpha is 0.755 which suggests that the result is acceptable (Hair et al., 1998, Cronbach LJ, 1951).

Factor Analysis

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Table-2

KMO & Barlett's Test of Sphericity

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KMO Value	0.711
Bartlett's Test of Sphericity	0.000

Source: Primary Data & Author's Calculation

The above table-2 shows the result of KMO Test for sample adequacy where the value is 0.711 which suggests that the sample is 71.1 per cent accurate against the required level ie 50 per cent (Malhotra, 2004). Further, the value of Bartlett's Test of Sphericity is less than 0.05 level of significance which reveals the appropriateness of data for conducting Factor Analysis (Bartlett, M.S, 1954).

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Table-3

Factor Analysis

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Items	Reliability	Tangibility	Responsiveness	Assurance	Empathy
Reliability1	0.544				
Reliability2	0.654				
Reliability3	0.578				
Reliability4	0.523				
Tangibility1		0.565			
Tangibility2		0.544			
Tangibility3		0.583			
Tangibility4		0.612			
Tangibility5		0.777			
Tangibility6		0.566			
Tangibility7		0.543			
Tangibility8		0.599			
Responsiveness1			0.656		
Responsiveness2			0.641		
Responsiveness3			0.717		
Responsiveness4			0.720		
Responsiveness5			0.769		
Assurance1				0.656	
Assurance2				0.616	
Assurance3				0.598	
Assurance4				0.576	
Assurance5				0.667	
Assurance6				0.612	
Empathy1					0.668

Empathy2					0.598
Empathy3					0.629
Empathy4					0.654
Empathy5					0.667

Source: Primary Data & Author's Calculation

The above table-3 shows the result of Factor Analysis. The factor loading values ranges from 0.523 to 0.777. The factor laoding values of each item is above the required value ie 0.50 which reveals the validity of all the scales (Hair et al., 1988) and the model for testing the service quality of selected private sector banks. Further, the result shows the categorization of the Five Dimensions of SERVQUAL viz., Relibility, Tangibility, Responsiveness, Assurance and Empathy.

Table-4

Correlation Analysis

Dimensions	Correlation Value
Reliability	0.414
Tangibility	0.398
Responsiveness	0.590
Assurance	0.651
Empathy	0.511

Source: Primary Data & Author's Calculation

The above table-4 shows the Correlation Analysis of Customer Satisfaction with all the dimensions of SERQUAL. The correlation between customer satisfaction and all the five dimensions is above 0.30 which reveals that the data is fit for carrying out the Multiple Regression Analysis.

Table-5

Multiple Regression Analysis

Dimensions	Regression Coefficient	t value	p value	R	R Squared
Assurance	0.554	1.230	< 0.05		
Empathy	0.504	1.456	< 0.05		
Reliability	0.497	1.614	< 0.05	0.764	0.583
Responsiveness	0.523	1.874	< 0.05		
Tangibility	0.486	1.268	< 0.05		

ANOVA

Source	SS	Df	Mean Square	F	P
Regression	899.99	5	179.99	2.80	0.000
Residual	12456.77	194	64.21		
Total	13356.76	199			

The above findings in Table- 5 reveal that Assurance, Empathy, Reliability, Responsiveness and Tangibility are the predictors of customer satisfaction produced a R Squared of   0.583 which explains that there is 58.3 per cent of variance in customer satisfaction. The standardized regression coefficients are 0. 554, 0.504, 0.497, 0.523 and 0.486 for the dimensions of Assurance, Empathy, Reliability, Responsiveness and Tangibility respectively. The major contributors are Assurance, Responsiveness and Reliability. The result reveals that all the dimensions of SERQUAL – Assurance, Empathy, Reliability Responsiveness and Tangibility have a significant and positiive impact on customer satisfaction in banks supporting the hypotheses H1, H2, H3, H4 and H5.

IX.   DISCUSSION

The present study is about the dimensions of quality of service and its impact on Customer Satisfaction in private sector banks in Bhubaneswar, Odisha. The five dimensions of SERVQUAL have shown a positive and significant impact on customer satisfaction. Thus, the research suggests that the SERVQUAL model of service quality used in this study is relevant and acceptable instrument for measuring the service quality in banking industry. Hence, banking professionals of private sector banks can use this instrument to evaluate the service quality. As these five dimensions were found to be the most important predictors of customer satisfaction in in private banks in Bhubaneswar, Odisha. The results of this study corroborates the studies of Shirshendu Ganguli and Sanjit Kumar Roy (2011) and Abdel Fattah Mahmoud Al-Azzam (2015) as highlighted in the literature review. The study offers motivation and insights to banking professionals and managers in the banking industry to enhance customer satisfaction.

X.   MANAGERIAL IMPLICATIONS

Managerial implication is the need of the hour as banks need to consider the importance of effective human resources programmes. For example: 1. Banks should emphasize on the fact that the employees consciously endeavour to provide efficient and professional services to customers as the employees are the key to building bridges with customers. This important aspect has been highlighted by Cook (2008) who elucidated "that training and development help organizations to be more flexible, proactive and customer-focused". 2. A good infrastructure and proper ambience coupled with the KSA (knowledge, skills and attitude) will work wonders when it comes to empowering the employees so that they in turn take care of the needs and wants of their customers. 3. Finally, customer satisfaction can only be improved when the services offered by the employees surpasses the perception (perceived value) of the customers.

XI.   CONCLUSION

In this cut throat competition, service organisations such as bank largely depend upon customer satisfaction. Hence, it is of paramount importance that organisations that are not able to meet the expecations and needs of the customers may eventually be out of the competition from the financial market. So, the dictum of the private sector banks on 'service quality' should be functional rather than technical. The study employed SERVQUAL as the tool for measuring service quality in private sector banks in Bhubaneswar, Odisha. The study has made a conscious effort in contributing toward the body of knowledge in banking industry. The findings of the research provides useful inputs to the management of the bank on how to enhance the satisfaction level of customers by providing quality service. It is suggested that the banks should focus and concentrate on keeping the customers satisfied. Along with the customer-orientation, new-age technological advancements in banking industry need a special attention to measure the quality of services rendered to the customers.

XII.   SCOPE FOR FUTURE RESEARCH

- A similar research could be carried out with a larger size of sample in order to understand the generalizibility of the study.
- Further studies could be conducted taking variables such as customer loyalty and customer retention to understand the influence of service quality on these variables in a service-delivery set-up.

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