# Evaluation of Service Quality and its Impact on Customer Satisfaction in Indian Banking Sector – A Comparative study using SERVPERF

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**Abstract:** This study examines the impact of service quality on customer satisfaction in Indian Banking sector encompassing Public sector banks, Private sector banks, and India's Post savings bank through SERVPERF scale. The sample included 158 respondents who are customers of various banks have been selected through convenient sampling method. Tools like Reliability analysis, Factor Analysis, One way ANOVA and Regression Analysis were applied and the findings made known that except Tangibility in Public sector and Responsiveness, Tangibility, Competence in India's Post Saving banking sector, rest of the factors are significantly associated with overall service quality. Besides, factors like Empathy and Responsiveness are highlighted as significant predictors and key factors in determining the customer satisfaction in public sector banks rather than other sectors.

## INTRODUCTION

Now-a- days, the size of the service sector is increasing almost in every bit of economies around the world and moving to innovative change. In today' context, quality in fiscal services sector has gained principal value by the increasing marketing contour of bank branch operations over time. Indian banking industry is functioning with large number of segments and they are contributing an extensive range of products and services. It is considered as an important attribute to facilitate the development of the Indian economy. Banking service render a hybrid style of contribution that consists of both tangible and non-tangible service to the consumers.

Initially, the banking sector had snail phased growth with few banks been functional to cater people in India. After independence, the function and activity of banks were rationalized and due to implementation of various governmental regulations, nationalisation of banks was initiated and many new commercial banks started emerging in the market. Reserve Bank of India has been vested with extensive powers as a Nation's central bank for controlling the entire banking sectors across the country. Since inception, banks have passed through four distinct phases like Foundation Phase, Expansion Phase, Consolidation Phase, and Reform Phase. In reform phase, various private and foreign banks were introduced to enable the sector having greater opportunities for practicing genuine corporate element with supreme innovative technology and formulas, thus putting pressure and competitions ahead.

Monopoly status enjoyed by the public sector banks earlier was made smash owing to liberalisation and Globalisation and thereby many new generation banks were started and rendering services at the doorstep of customer, meeting their expectations who are constantly evaluating the products and services against those of its competitors. Deprived service qualities practiced if any, can pave a way to competitive disadvantage to the organisation. In view of this competition prevailing amongst various banks, continual service improvement for product quality and delivery should be evaluated with key performance Indicators. This will substantiate their performance metrics identical to all sectors thus evaluating the impact on customer satisfaction. As this study dealt with the evaluation of service quality and its impact on customer satisfaction in Indian banking sectors, consequently, customers of Public sector banks, Private sector banks, and India's Post savings bank of Indian Banking sector were taken into consideration for this study.

## REVIEW OF LITERATURE

Banks still managed to survive owing to the regulated business environment, which killed the scope for competition among them, and even now, public sector banks are facing a stiff competition from private and foreign banks. Besides, it is also identified that customer expectations are higher than perceptions and this gap varies across the banking sectors with tangibility having the highest impact on overall customer satisfaction (Dutta & Dutta, 2009). Due to intangibility, heterogeneity, perishability and inseparability of production and consumption, service

quality becomes difficult to conceptualize and measure and it is the most important anxiety of business managers in controlling the symbols and tangible clues used by the customer in evaluating the service. He also advised that delivering high service quality is one of the best ways, a company can respond to competition (Bhat, 2005). Service quality is having a positive and significant correlation with customer satisfaction, positive word of mouth, and loyalty intention and bank should use technology to simplify and improve the service offered to customers (Vanpariya & Ganguly, 2010).

Gopalakrishnan et al. (2011) pointed out that service quality and customer satisfaction had a direct positive effect on customer's retention intentions out of which customer satisfaction is a stronger predictor for retention. Service quality dimension, Reliability and Assurance is having highest rating score in Public sector banks and private sector banks respectively and focus should be needed in other dimensions like tangibility, empathy and responsiveness to enhance quality in private sector banks ( Rao & lakew, 2011).

Montes et al. (2003) analysed that customers' perceptions, attitudes, and intentions are affected by employees' experiences and attitudes who are the internal customers of the organisation.

Earlier, many studies had been discussed about the impact of service quality on customer satisfaction and behavioural intention of the customers in Indian banking sector. However, this study is exclusive in the sense that it is among the very few studies conducted in this context together with the intention to compare and cross-examine the service quality in public sector and private sector banks exclusively with India's Post savings bank, a prevalent banking sector performing its task in urban and rural areas with large number of branches all over the country which is not considered so far.

**CONCEPTUAL FRAMEWORK**

The primary tool for measuring service quality in any organisation SERVQUAL (Parasuraman, Zeithaml & Berry, 1985, 1991, 1994) has faced many issues and many of the researchers disagreed with the measurement of service quality through difference between expectation and perception. As a result, a new model SERVPERF was premeditated (Cronin & Taylor, 1992) by considering perception level and proved more effective than SERVQUAL.( Teas, 1993), (Brown et al. 1993), (Brady et al. 2002).

Taken into consideration, this empirical paper was designed with SERVPERF scale, so as to measure the perception level of customer along with an additional dimension called "COMPETENCE" which was already included and measured in SERVQUAL (Parasuraman et al. 1985) mainly to analyse the proficiency level of the organisation in view of today's intensive competition scenario and also challenges due to external and internal factors in its business environment.
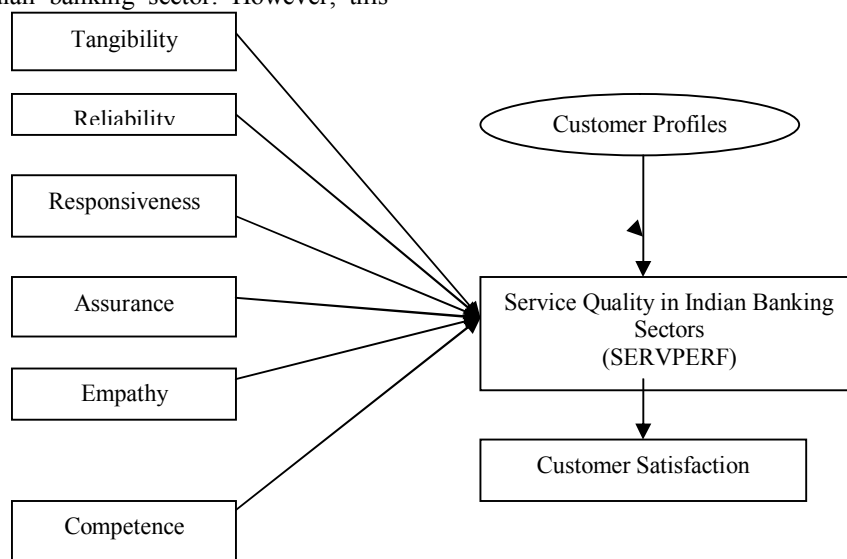


Figure 1: Proposed Concetual Model

**RESEARCH OBJECTIVES**

Based on the proposed model, the objectives of the present study restrained to:
1) Exhibit the profile of the Customers

2) Study Customer Perception on various service quality dimensions of SERVPERF scale.

3) Analyse the association between Profile of the customers and their level of perception on various service quality factors

4) Analyse the association between Profile of the customers and overall service quality.

5) Evaluate the antecedent factors of Customer satisfaction.

**FORMULATION OF HYPOTHESIS**

The researchers have developed the following hypotheses to examine the perception of service quality among customers of public sector banks, Private sector and India's Post savings bank.:

$H_1$ There is a significant association found between the demographic variables considered and the dimensions of SERVPERF in public, private and India's Post savings bank.

$H_2$: There is a significant association found between the demographic variables considered and the overall service quality in public, private and India's Post savings bank.

$H_3$ : There is a significant association found between the Service quality dimensions and customersatisfaction in Public, Private and India's Post savings bank.

**RESEARCH METHODOLOGY**

In order to congregate the proposed research objectives, this empirical research was carried out with the primary data collected through a well-designed questionnaire consisting of four parts. The first part contains the demographic details like Status of the Area, Gender, Age, Educational qualification, Occupation and Income.

Second part contains twenty seven items compiled with service quality variables (Tangibility-(4),Reliability(5),Responsiveness- (4), Assurance-(4),

Empathy-(5)and Competence- (5), The Third part contains one variable for overall service quality and fourth part contains five variables for customer satisfaction. All these variables were measured with 5-point Likert-type scale ranging from 1- Strongly Disagree to 5- Strongly Agree.

Based on convenient sampling, the questionnaire were personally administered with 158 customers in Public, Private and India's Post savings bank sector of Tamilnadu State by explaining the purpose of this survey. In order to understand better, the questionnaire was framed in English and in the respective local language so that customers can get relevant information about its content. A total of 54 customers were interviewed in public sector banks and private sector banks respectively and 50 were interviewed from India's post savings bank.

**PRESENTATION OF EMPIRICAL RESULTS**

Statistical tools like Percentage analysis, Factor Analysis, Analysis of Variance (ANOVA), Inter- correlation, and Multiple Regression analysis were carried out for analysing the data collected. The collected data have been analysed with SPSS 16.0 package.

**DEMOGRAPHIC PROFILE OF SAMPLE RESPONDENTS**

Demographic information plays an essential role in assessment of service quality and information in connection with the above are collected and computed by applying percentage analysis.This analysis is given in Table 1 below.

**Table 1. Demographic Factors**

| Sl. No | Demographic Factors | Public Sector Banks (n=54) | | Private Sector Bank (n=54 | | India's Post Savings Bank (n=50) | |
|---|---|---|---|---|---|---|---|
| | | No. | (%) | No. | (%) | No. | (%) |
| 01. | Status of the Area:<br>1) Rural<br>2) Urban<br>3) Semi-Urban | 22<br>29<br>3 | 40.7%<br>53.7%<br>5.6% | 16<br>34<br>4 | 29.6%<br>63.0%<br>7.4% | 19<br>26<br>5 | 38.00%<br>52.00%<br>10.00% |
| 02. | Gender<br>1) Male<br>2) Female | 28<br>26 | 51.9%<br>48.1% | 42<br>12 | 77.8%<br>22.2% | 30<br>20 | 60.00%<br>40.00% |
| 03. | Age<br>1) 18-25<br>2) 26-40<br>3) 41-60<br>4) Above 60 | 10<br>24<br>19<br>1 | 18.52%<br>44.44%<br>35.19%<br>1.85% | 8<br>38<br>6<br>2 | 14.81%<br>70.38%<br>11.11%<br>3.70% | 4<br>17<br>24<br>5 | 8.00%<br>34.00%<br>48.00%<br>10.00% |
| 04. | Educational Qualification<br>1) Uneducated<br>2) $1^{st}$ – $10^{th}$ standard<br>3) $11^{th}$- $12^{th}$ Standard<br>4) Degree<br>5) Postgraduate | 3<br>9<br>7<br>23<br>12 | 5.6%<br>16.7%<br>13.0%<br>42.6%<br>22.1% | 2<br>10<br>0<br>35<br>7 | 3.7%<br>18.5%<br>0%<br>64.8%<br>13.0% | 0<br>1<br>7<br>25<br>17 | 0.00%<br>2.00%<br>14.00%<br>50.00%<br>34.00% |
| 05. | Occupation<br>1)Agriculture<br>2) Government | 1<br>29 | 1.80%<br>53.70% | 5<br>1 | 9.3%<br>1.9% | 8<br>12 | 16.00%<br>24.00% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 3) Private | 6 | 11.10% | 30 | 55.6% | 13 | 26.00% |
| | 4) business | 5 | 9.30% | 14 | 25.9% | 14 | 28.00% |
| | 5) Others | 13 | 24.10% | 4 | 7.4% | 3 | 6.00% |
| 06. | Income | | | | | | |
| | 1) Below Rs. 5000/= | 16 | 29.6% | 20 | 37.0% | 12 | 24.00% |
| | 2) Rs.5001-10000/= | 19 | 35.2% | 20 | 37.0% | 18 | 36.00% |
| | 3) Rs.10001-30000/= | 12 | 22.2% | 9 | 16.7% | 14 | 28.00% |
| | 4) Above 30000/= | 7 | 13.0% | 5 | 9.3% | 6 | 12.00% |

(Source: Primary Data)

In the above table, it is eminant that the majority of the customers identified were under Male Category with 51.9% in Public Sector Banks, 77.8% in Private Sector Banks and 60% in India's post savings bank sector. Regarding Age criteria, it is observed that in Public and Private sector banks, maximum respondents were found between the age limit of 26-40 years and 41-60 years in case of India's Post savings bank.

While considering the Educational qualification of the respondents, it is noted that maximum numbers of respondents are having 'Degree' qualification irrespective of the banks.

In view of occupation, it is seen that 53.70% customers of Public sector banks are working in Government services, 55.60% customers of Private sector banks are working in Private services. In case of India's post bank, the customers are widely distributed and 28% of them are doing their own business activities.

The Income level of the customer showed that most of the customers are having salary in the range of Rs.5001-10000/= with 35.2%, 37.0% and 36.00% in Public sector banks, Private sector banks and India's Post savings bank respectively.

**RELIABILITY ANALYSIS**

Reliability is an assessment of the degree of consistency between multiple measurements of a variable. One such diagnostic measure to assess the consistency of an entire scale is Cronbach's alpha (Hair et al. 2008). After identifying the dimensions for the study, reliability test were conducted and the results obtained are given Table 2.

The Table 2 illustrates that the Cronbach's alpha value for the variables included in the factors and the scale selected for this study was **0.961** which specifies the variables are highly reliable and reflects positive relationship among them.

**Table 2.** Reliability Statistics

| Reliability Statistics | |
|---|---|
| Cronbach's Alpha | Number of Variables |
| **.961** | **27** |

(Source: Primary Data)

**FACTOR ANALYSIS**

Factor analysis is an interdependence technique used to achieve data reduction by identifying representative variables from a much larger set of variables to smaller in number, by partially or completely replacing the original set of variables. In this study, the scores collected for the twenty-seven variables of Service quality dimensions, were considered for factor analysis to reduce data into a meaningful attributes by principal component analysis extraction method. This is done through Varimax with Kaiser Normalization rotation converged in seven (7) iterations.

Four factors, Empathy,Responsiveness, Tangibility and Competence resulted through Exploratory Factor Analysis having Eigen value more than one (1.0) along with the related variables were considered for further analysis**.**

The extracted Service Quality factors, Number of variables in each factor extracted, Eigen value, Percentage of variance and the Cronbach's alpha for reliability with respect to each factor are detailed below.

**Table 3.** Service Quality factors

| Sl. No. | Service Quality factors | Number of variables in each factors extracted | Eigen Value | Percentage of variance explained | Cronbach's alpha |
|---|---|---|---|---|---|
| 01. | Empathy | 10 | 14.058 | 52.065 | 0.935 |
| 02. | Responsiveness | 09 | 1.642 | 6.083 | 0.921 |
| 03. | Tangibility | 03 | 1.469 | 5.440 | 0.861 |
| 04. | Competence | 02 | 1.165 | 4.315 | 0.501 |
| KMO measure of sampling Adequacy: 0.928 | | | Barlett's test of sphericity Chi-square value: 3.450E3* | | |

*-Significance at Zero percent level. (Source: Primary Data)

Based on the findings, it is observed that Kaiser-Meyer-Olkin measure of sampling adequacy of **0.928** shows the service quality factors considered for this study, which explains the variables in Service quality to the extent of **92.80** percent.

The Approx. Chi-Square value is **3.450E3** and significance value is **(0.000)** which is less than the level of significance (p=0.05), clearly indicates that the factor analysis considering for data reduction is effective and appropriate. It also explains that there are significant correlations among some of the variables. Through intercorrelation between the factors, it is seen that there is a significant positive correlation identified between the service quality factors, since the intercorrelated values('r') values are statistically significant.

The most important factors for this study are **Empathy** and **Responsiveness** with the Eigen Value 14.058 and 1.642 with the reliability of 0.935 and 0.921 respectively. The Percentage of variance explained with regard to Empathy and Responsiveness are 52.065 and 6.083 respectively. Next, important factor considered is **Tangibility** with the Eigen value 1.469 has reliability and percentage of variance of 0.861 and 5.440 respectively. The last factor extracted through factor analysis is **Competence** with Eigen Value of 1.165 together with 4.315 percentages of variance and having the reliability co-efficient of 0.501.

**Summary of Mean performance score of SERVPERF Dimensions in Indian Banking sector**

To assess the individual rank of SERVPERF dimensions based on the evaluation made by the respondents, Mean value was calculated and summaraised in the table below:

**Table 4. Service Quality Dimensions**

| Sl. No | Service Quality Dimensions | Public Sector Banks SERVPERF (P) | Private Sector Banks SERVPERF (P) | India's Post bank SERVPERF (P) |
|---|---|---|---|---|
| 1 | Empathy | 3.157 | **3.728** | 3.642 |
| 2 | Responsiveness | 2.967 | 3.718 | **4.076** |
| 3 | Tangibility | 3.272 | 3.633 | **4.133** |
| 4 | Competence | 3.278 | **3.778** | 3.760 |

(Source: Primary Data)

From the result obtained, it is revealed that the India's Post savings bank sector is having high Mean value in Responsiveness and Tangibility with the SERVPERF score of 4.076 and 4.133 respectively. The Private banking sectors are having high Mean value in Empathy and Competence.

**Association between the profile of the customers and their level of perception on Service quality in Indian Banking sector**

In order to determine whether samples from two or more groups come from populations having equal means, Analysis of variance (ANOVA) is considered. This is used to find out the association between the variables,. ANOVA test was carried out and the result obtained together with F- statistics for all the three banking sectors extracted are detailed in the following table. In addition to this, the association between the Overall Service Quality and the Service Quality dimensions is also analysed and are listed below (Table 5):

**Table 5.** Demographic Variables

| Demographic Variables | Public sector banks | | | | Private sector banks | | | | India's Post savings bank | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | EMP | RES | TAN | COM | EMP | RES | TAN | COM | EMP | RES | TAN | COM |
| Status of the Residential Area | 0.688 | 1.126 | 1.333 | 2.453 | 0.136 | 0.101 | 1.219 | 0.278 | 0.046 | 1.185 | 2.341 | 1.434 |
| Age | 1.177 | 0.594 | 0.666 | 1.691 | 2.691* | 1.682 | 50.378* | 2.931* | 0.772 | 1.920 | 1.248 | 1.625 |
| Educational Qualification | 1.844 | 0.730 | 2.061 | 2.243 | 1.370 | 2.170 | 2.257 | 0.701 | 0.730 | 1.502 | 1.774 | 0.647 |
| Occupation | 1.328 | 1.350 | 0.569 | 0.591 | 0.848 | 3.197* | 2.006 | 1.013 | 1.728 | 0.772 | 1.348 | 1.373 |
| Income | 1.255 | 0.910 | 0.059 | 0.096 | 1.598 | 0.798 | 0.503 | 1.073 | 0.159 | 0.109 | 0.266 | 0.641 |
| Overall service Quality | 3.964* | 1.951* | 1.101 | 3.070* | 7.581* | 5.673* | 5.682* | 3.644* | 2.159* | 1.759 | 0.910 | 1.115 |
| ACRONYMS : EMP-Empathy: RES- Responsiveness: TAN- Tangibility : COM- Competence | | | | | | | | | | | | |

(Source: Primary Data)  (* Signifiance at the 5% level)

From the above table, it is seen that there is no significant association found between the demographic variable and the level of perception of service quality except 1) 'Age' with Empathy, Competence and Tangibility and 2) 'Occupation' with Responsiveness in case of private sector banks as the value of F-Statistics is significant at five percent level.

Taking into consideration the association between the overall service quality and the four dimensions of SERVPERF extracted through factor analysis, except Tangibility in Public sector banks; Responsiveness, Tangibility and Competence in India's Post Savings bank, all other factors are significantly associated with the service quality dimensions as the values of F-Statistics are significant at five percent level.

## Antecedents of Customer Satisfaction in Indian Banking sector, Step wise Regression Analysis Results

To evaluate the antecedents of customer satisfaction in Indian Banking Sector, stepwise regression analysis were conducted and the findings are tabulated below:

**Table-6. Antecedents of Customer Satisfaction in Indian Banking Sector Step wise Regression Analysis Results**

| Dependent Variable | | Public Sector Banks | | | Private Sector Banks | | | India's Post savings bank | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Independent Variables | Beta Value | t-value | P-value | Beta value | t-value | P-value | Beta value | t-value | P-value |
| | Constant | | 2.554 | 0.014 | | 5.736 | 0.000 | | 1.894 | 0.065 |
| | **Empathy** | **0.262** | **1.966*** | **0.055** | 0.377 | 1.284 | 0.205 | 0.105 | 0.639 | 0.526 |
| | **Responsiveness** | **0.703** | **4.836*** | **0.000** | 0.408 | 1.699 | 0.096 | 0.281 | 1.136 | 0.262 |
| | Tangibility | -0.187 | -1.466 | 0.149 | -0.264 | -1.113 | 0.271 | 0.257 | 1.310 | 0.197 |
| | Competence | 0.105 | 1.121 | 0.268 | -0.091 | -0.484 | 0.630 | 0.077 | 0.464 | 0.645 |
| Custome satisfaction | $R^2$ | 0.713 | | | 0.237 | | | 0.418 | | |
| | Adjusted $R^2$ | 0.690 | | | 0.174 | | | 0.366 | | |
| | F Value | 30.500 | 0.000 | | 3.798 | 0.009 | | 8.070 | 0.000 | |
| | Sample Size | 54 | | | 54 | | | 50 | | |

(Source: Primary Data) (* Significance at the 5% level)

Regarding the antecedent of Customer satisfaction, the F-ratio value were 30.500, 3.798, and 8.070 in case of Public, Private and India's Post savings banking sector respectively. This indicates that the results of this regression model are statistically significant since the 'P'value is less than significant value (P<0.05) In addition, Beta coefficients were calculated to know the importance of the variables considered in this study which are also listed in the Table 6.

In Public sector banks, Empathy and Responsiveness are highlighted as significant predictors of customer satisfaction since the 'p' value is statistically significant (p<0.05) whereas it is noticed that there are no significant predictors found in Private sector banks and India's post savings bank since the 'p' value is not statistically significant. It is also noted that the coefficient of the determinant ($R^2$) was 0.713 and the adjusted $R^2$ was 0.690 in Public sector banks; 0.237, 0.174 in Private sector banks; 0.418, and 0.366 in case of India's Post savings bank. This indicates that the changes in independent variables are noticed in this study explains the change in customer satisfaction to the extent of 71.3%, 23.7%, and 41.8% since the $R^2$ values are 0.713, 0.237, and 0.418 respectively in Public, Private and India's Post savings bank.

## RESULTS AND CONCLUSION

The core impetus of this paper is to assess the customer perception on service quality and it's the impact on their satisfaction in Indian banking sector. The empirical results inferred are, out of four-service quality factors considered, India's Post savings bank customers are having high level of Perception of service quality in Responsiveness and Tangibility. The customers of private banks are having high perception level in Empathy and Competence factors thereby creating a close competition between them. The performances of Public sector banks which are spread over three-fourth in the banking industry of India were in contrast with other two sectors and need pay more attention to improvise its performance level, since it resulted with lowest performance SERVPERF score.

It is also seen that there is no significant association found between the demographic variable and the level of perception of service quality except (1)Age with Empathy, Competence and Tangibility and (2)Occupation with Responsiveness in case of private sector banks as the value of F-Statistics is significant at five percent level.

At the same time, analysis of the association between the overall services quality and

the service quality dimensions of SERVPERF indicated that except Tangibility in Public sector banks and Responsiveness, Tangibility, and Competence in India's Post Savings bank, rest of the factors are significantly associated with Overall service quality as the value of F-Statistics is significant at five percent level.

Regarding the antecedent of Customer satisfaction, in Public sector banks, Empathy and Responsiveness dimensions are highlighted as significant predictors of customer satisfaction since the p value is statistically significant (p<0.05) whereas it is noted that there are no significant predictors found in Private sector and India's post savings bank since the 'p' value is not statistically significant.

Service quality and customer satisfaction had a direct positive effect on customer's retention intentions, out of which Customer satisfaction is a stronger predictor for retention ( Gopalakrishnan et al. 2011). Customer satisfaction in services is not only prejudiced by the objectives of the organisation but also mainly due to intangible aspects during the service performance.

From the result of this study, it is clearly seen that the performance of quality in the service of all the banks considered is having a positive impact on customer satisfaction. This study has also alarmed the banking sectors to keep on improving the service quality and refraining the causes of dissatisfaction, which may lead to loss of their valuable customers to their competitors.

**MANAGERIAL IMPLICATIONS AND LIMITATIONS**

The service qualities acknowledged by earlier research works in Indian Banking sectors are Tangibility, Reliability, Responsiveness, Assurance, Empathy, and Competence. Among these, the most important service quality factors as preferred by the customers in this study are Empathy and Responsiveness. Rest of the factors are least rated due to non-attainment of expected level of services delivered by the banking sector.

Due to intensive competition among the banks, conceptualization of delivering expected service quality to the customers who are constantly evaluating the products and services against those of its competitors is inevitable for the organization. Any deprived service qualities experienced may pave way to competitive disadvantage. Hence continual improvement of service quality with novel techniques along with performance metrics in all dimensions is essential for every organisation. This gives a consistence growth and revenue for its prolonged endurance in the market. Improvisation of service qualities will definitely create a good quality in

services, since the present trend is changing from market to customer-oriented service. Managers of banking industry should keep a watch on this point and create innovative ideas for delivering better service in order to retain their existing customers since it brings in more profit than acquiring a new one.

Although this study dealt with the customer perception towards service quality and its impact on satisfaction in Indian Banking sectors, the sample size considered is small and research has been done for small geographical region. The results obtained may not be appropriate to the country as a whole having customers with different demographic profiles. Since banking sector is functioning all over the nation, there are distinctly better scope for potential improvement in service quality and it is therefore recommended to conduct many empirical researches in various regions comparatively by providing more insights, considering additional demographic variables. By this service quality and its impact on customer satisfaction can be measured in depth across the sectors.

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