



CUSTOMER EXPECTATIONS AND PERCEPTIONS OF SERVICE QUALITY AND THE RESULTANT FINANCIAL IMPLICATIONS IN SELECT BANKS IN INDIA

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Abstract

Banking in India is, generally, 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 relative to other banks in comparable economies in its region. Fresh induction of public stake and corporate governance in government owned banks has brought the element of stiff competition in the environment with greater adoption of the new technologies and ideas, renewed perception of service quality along with the high degree of professional management and marketing concepts in the Indian Banking system. The present paper thus focused on evaluating and comparing customer's perceptions and expectations of service quality of select banks and subsequently measuring the gaps in the quality of services in select banks. Further the paper attempted to study the financial implications of the gaps obtained. For the purpose of data collection, questionnaires were administered to the customers of four banks. . The total sample was of 100 customers. Cronbach alpha, ranking, means, line charts, gap analysis given by Parasuraman (1992) were used for the purpose of the analysis. The analysis revealed that the public sector banks were outperforming the private sector banks. Further, lower service quality gaps were seen too be directly related to higher performance.



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INTRODUCTION

The Indian banking system has changed a lot over the last five decades especially in the last 15 years with India taking to the path of free market economy and globalization with clear commitments under WTO (World Trade Organization) regime. A journey from private and control of commercial banks to government ownership and control by way of nationalization, has come in full circle in the wake of liberalization and introduction of new players in the shape of Private Sector Banks and Foreign Banks. Fresh induction of public stake and corporate governance in government owned banks has brought the element of stiff competition in the environment with greater adoption of the new technologies and ideas,

renewed perception of service quality along with the high degree of professional management and marketing concepts in the Indian Banking system.

The growing competition and highly stressed profits have not only introduced the new marketing concepts in the Indian banking sector but has also brought the customer satisfaction to the center of the focus. It has become very important for the banks to retain their existing customer base as well as to enlarge the same. It is reported that 90% of bank switching in the Asian Banking market occurs due to pricing, service quality and inconvenience (*Gerrard and Cunningham, 2004*). Since pricing in Indian banks is regulated it is the service quality delivered which then becomes important if the banks want to retain and attract customers.

THE CONCEPT OF SERVICE QUALITY

Measuring the quality of a service can be a very difficult exercise. Unlike product where there are specific specifications such as length, depth, width, weight, color etc. A service can have numerous intangible or qualitative specifications. In addition there is their expectation of the customer with regards the service, which can vary considerably based on a range of factors such as prior experience, personal needs and what other people may have told them. The traditional orientation of measuring the quality in quantifiable terms of its collection and use no longer offers attainable goals; Nor does it adequately address the campus community's demands for information. New ways to conceive and measure quality in service industry is needed--and alternate approaches emerge in the business sector where organizations are increasingly evaluated in terms of their service quality.

Among the most popular assessments tools of service quality is SERVQUAL, an instrument designed by the marketing research team of Berry, Parasuraman, and Zeithaml (PB&Z). Through numerous qualitative studies, they evolved a set of five dimensions which have been consistently ranked by customers to be most important for service quality, regardless of service industry. These dimensions are defined as follows:

Tangibles appearance of physical facilities, equipment, personnel, and communication materials; **Reliability** ability to perform the promised service dependably and accurately; **Responsiveness** willingness to help customers and provide prompt service; **Assurance** knowledge and courtesy of employees and their ability to convey trust and confidence. **Empathy** the caring, individualized attention the firm provides its customers.

Service quality has become an increasingly important factor for success and survival in the banking sector. This means that the provision of high quality service facilitates the

achievement of the main targets relating to customer satisfaction and loyalty, market share, gaining new customers, productivity, financial performance and profitability (Cuiet al., 2003:191).

In this regard, servqual, developed by Parasuraman, Zeithaml and Berry (1988; 1991), is the most widely reported model for measuring customers' perceptions of service quality and consists of the five dimensions of service quality – tangibles, reliability, responsiveness, assurance and empathy (Blanchard and Galloway, 1994:7). The widely known 22-item, five dimension servqual model also operationalized the term service quality. Despite all its disadvantages servqual is the most widely used instrument and probably the best that is available (Yavas, Bilgin and Shemwell, 1997:218).

This research paper aims to compare customers expectations and perceptions of service quality and bank performance between public, private and the overall service quality of banks in India. Thus this paper concentrates on the use of ServQual model to evaluate the banking sector similar to the survey among customers of private and public banks.

Review of Literature

Customers are the core focus of any organization and thus of prime importance to the marketers. It is important for the service providers to know the level of customer expectations so that they can meet and even exceed them to gain maximum customer satisfaction. Hence understanding customer expectations is a prerequisite for delivering superior service (Parasuraman et al., 1991). Customers' perception of service quality influences the consumer behaviour (Bitner, 1990) and intention (Henning-Thurau and Klee, 1997). Organisations can provide the best services to their utmost capabilities but if the customer does not perceive them to be of quality, all is in vain. Thus it is very essential for the service provider to understand how customers can perceive the service as quality service and carry a euphoric feeling. **Md. Muslem Uddin Chowdhury**, Oct. 08-March 09, studied the Customer Expectations And Management Perceptions In Healthcare Services . The outcome was that factors like income, education and profession of resident of the country affect choosing of health care services in Bangladesh. Government sector health care management has been suffering from different problems like lack of service ethics among personnel, not prompt in service, dirty environment, corruption, bad behavior of service personnel particularly to the patients (indoor) admission. **Nicosia**, July 2007, has studied the applicability of the servqual dimensions on The Commercial Bank Sector Of Northern Cyprus to measure service quality and determine the dimensional structure pertinent to the banking sector of Northern Cyprus. It

was concluded that all types of commercial banks, regarding which client quality perceptions did not differ significantly, should improve their service quality in order to overlap with clients' expectations and it was noted that apart from the age group and marital status other demographic characteristics yielded no significant differences in disparity of service quality. **Vera Patrício, Rogério Puga Leal, Zulema Lopes Pereira**, 2006, has studied to analyze how well the SERVQUAL structure can be applied to restaurant services context by using variants of the SERVQUAL dimension labels. size. By applying Mean, Factor analysis, multiple regressions it was analyzed that an enlargement of the operating hours might have a very positive impact on customer satisfaction. The variable representing the Tangibles factor was not significant at the regression **Jos van Iwaarden and Ton van der Wiele** carried on a research to determine how do customers distinguish a good web site from a bad one and what factors determine the quality of a web site. It was analyzed that the type of web sites that are used most often are search engines, university sites, and daily news and entertainment sites; web sites that are used less frequently are E-shops and chat rooms. Respondents find reliability aspects most important and they do not include brand image in their list of reliability aspects but it is only aspect in table showing importance of, and satisfaction with aspects of web quality having a positive delta. **Alka Sharma, Versha Mehta**, March 2005, they proposed to study the Service quality perceptions in financial services. The main objectives was to ascertain the perceptions of customers regarding the service quality in banks and to analyze and compare the perceptions of the customers in public and private banks. It was analysed all the banks except J&K Bank have an overall positive perception. Among the private and public sector banks all the dimensions of service quality are equally important. Public sector banks enjoy a better quality perception among their customers. **Neil J. Kerr and Russell Rimmer** , 2006 , the objectives of the research study were to investigate the applicability of the SERVQUAL approach to the assessment of police service quality. Servqual Scale was of 22 items and 5 dimensions. With the use of Mean, Reliability and factor analysis it was analyzed that. Many respondents noted the perceived need for more police officers and that they should be better utilized in policing communities. Across all of the service quality dimensions the police officers appear to have a good understanding of what customers expect of the service. **Mik Wisniewski**, carried on the research to access service quality in different public sector services. It was analyzed that Agent's expectations were significantly higher for the service relating to tangibles and assurance. Applicants and objectors expressed the same expectations of the service. **Kang G.** at el studied measurement

of service quality to test empirically whether the SERVQual methodology could be modified to measure internal service quality (n=120). By using mean, correlation, and factor analysis they analyses that not all the components of internal service quality battery were significant determinants of (the perception of) overall service quality. Confirmatory factor analysis verified that the ISQB may be utilized to measure internal service quality. The reliability and responsiveness dimensions significantly influenced overall service quality perception. **Snipes R. L.** at el. (2006) studied Gender bias in customer evaluations of service quality to examine performance ratings by customers of service providers on gender biases and investigate gender differences in perceptions of service fairness. By using correlation and regression analysis they analyses employee gender will have an impact on service quality perceptions, such that the performance of male service employees will be rated more highly than that of their female counterparts; male and female customers are not differ significantly in their ratings of service fairness; and there is no interaction effect such that both the sex of the customer and the sex of the service employee will not have an impact on service quality perceptions. **Van der Wal R.W.E.** at el. Studied service quality in telecommunication company to determine service quality in telecommunication retail outlets in the south african environment in order to better their delivery of customer service. By using factor analysis, they analyses that tangibles and reliability are loading into separate factor and remaining three loads into one factor. Consumers have best perception of assurance followed by tangible and empathy and lowest were reliability and responsiveness.

OBJECTIVES OF THE STUDY

1. To examine the reliability of the scale used to measure service quality.
2. To measure and rank the select banks on the basis of customers perceptions of service quality.
3. To compare the perceptions of the customers regarding service quality in select private and public sector banks .
4. To compare customers perceptions and expectations of service quality of select banks.
5. To measure the gaps in the quality of services in select banks.
6. To compare the quality of service with the financial performance of the select banks.

HYPOTHESIS

- H1:there is no difference between the perceptions of service quality of customers in the select banks.

- H2: there is no difference between the perceptions of service quality of customers in public and private sector banks.
- H3: There is no difference between customer expectations and customer perceptions of select banks regarding service quality.
- H4: There is no significant difference in the service quality of the two groups of banks .
- H5: There is no significant difference between the overall service quality and the select bank's financial performance.

RESEARCH METHODOLOGY

The study was limited to select banks situated in Chandigarh. For the purpose of data collection, questionnaires were administered to the customers of four banks. Among the four banks, two were public sector banks namely; State Bank of India (SBI) and Punjab national bank (PNB) and two were private sector banks; ICICI bank and HDFC bank respectively, selected on the basis of their respective number of employees.. Around 25 customers from each category were taken as the sample. The total sample was of 100 customers. 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. 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 22 statements have been grouped under five dimensions mentioned earlier. In order to ascertain the perceptions of service quality, **SEMANTIC DIFFERENTIAL SCALE** has been used for its suitability to estimate the range and variations in the perceptions. The scale 1 –7 represents '7' as strongly agree and '1' as strongly disagree. To examine the internal reliability of the scale used to measure service quality **Cronbach alpha** was used .To measure and rank the select banks on the basis of customers perceptions of service quality and to compare the perceptions of the customers regarding service quality in select private and public sector banks **arithmetic means** of customer perceptions of service quality were used.**line charts** were used to compare customers' perceptions and expectations of service quality of select banks and to measure the gaps in the quality of services in select banks **gap analysis** given by Parasuraman (1992) were used.

ANALYSIS AND FINDINGS.

RELIABILITY

A measure of construct reliability (Cronbach’s Alpha) was computed for each dimension to assess the reliability of the set of items forming that dimension. These coefficients range from 0.939 to 0.990 . As a rule alpha α of 0.60 or more represent satisfactory reliability of the items measured. Thus the items measuring the dimensions appear to be sufficiently reliable. Tangibility scores the highest reliability with 0.990 Cronbach’s alpa followed by realibility with 0.986 and then empathy and responsiveness respectively with 0.980 and 0.979. Assurance scoring the lowest with 0.939.

CUSTOMERS PERCEPTIONS OF SERVICE QUALITY

The customer’s perceptions regarding service quality were measured on all the five dimensions; the results are as following

TABLE 1. SERVICE QUALITY DIMENSIONS IN BANKS

Bank Name	Tangibility Score	Tangibility Rank	Reliability Score	Reliability Rank	Responsiveness Score	Responsiveness Rank	Assurance Score	Assurance Rank	Empathy Score	Empayht Rank	Overall Score	Over All Rank
ICICI Bank	5.53	3	5.808	1	5.52	1	5.57	3	5.12	4	5.5096	2
HDF C	5.83	2	5.552	2	5.32	3	5.44	4	5.17	3	5.4624	3
State Bank Of India	5.85	1	5.36	3	5.49	2	5.86	1	5.344	1	5.5808	1
Punjab National Bank	5.15	4	5.288	4	5.19	4	5.7	2	5.28	2	5.3216	4

The table 2 depicts the perception scores of customers towards the various dimension of service quality in all the banks under study.

After analyzing the various dimensions of service quality, the overall perceptions of consumers regarding service quality are also calculated. It is depicted that the STATE BANK OF INDIA among the four banks under study has the highest quality perception. The respondents have rated the bank as highly satisfactory on most of the dimensions, which is

also evident from the high score of 5.5808. Following the STATE BANK OF INDIA, is the ICICI BANK, which is a leading private sector bank and a newcomer in the market. It has been able to instill a positive perception in the minds of its customers. The HDFC BANK follows ICICI BANK with the score of 5.4624. Following the HDFC BANK, at rank 4 is the PUNJAB NATIONAL BANK. It has not fared well, as it has an overall quality perception score of 5.3216, which is less than the other banks. **The comparison between the average score of quality perception and individual scores**, it can be concluded that all the banks except *Punjab national bank* have an overall positive perception. However, it can be interpreted that *HDFC* bank has a potential to improve its quality perception.

TABLE. 2 PUBLIC SECTOR BANKS VS. PRIVATE SECTOR BANKS

DIMENSION	PRIVATE BANKS	PUBLIC BANKS
TANGIBILITY	5.68	5.5
RELIABILITY	5.68	5.324
RESPONSIVNESS	5.24	5.34
ASSURANCE	5.505	5.78
EMPATHY	5.145	5.312
OVERALL	5.486	5.4512
PERFORMANCE		

The comparative statistical analysis depicts that there exists a gap between the customer expectations and perceptions in the Banking sector. The expectations of bank customers is higher than their perceptions as suggested by Parasuraman et al (1998). This gap varies in the select banks showing the wider gap in the private banks and the public banks showing a narrow gap.

In the service quality dimension of Tangibility, Punjab National Bank stands almost equal with ICICI as far as gap between the perception and expectation is concerned but on the closer look we find that the gap is highest in ICICI because its perception is lowest. SBI stands somewhere in the middle. On the basis of ranking in Tangibility HDFC is at the top followed by State bank of India and Punjab National Bank. ICICI is last in the lead with the maximum gap between the perception and the expectation.

The second dimension of service quality is Reliability. Again the expectation is highest from Punjab National Bank and thus the gap between the expectation and the perception is also highest. Though here again ICICI and Punjab National Bank are on the same level. On the basis of ranking State bank of India comes out to be most reliable performing the promised service most dependably and accurately. Next in the lead is HDFC and ICICI with PNB again in the last.

As far as the third dimension of Responsiveness is concerned, the highest gap of 1.13 exists in ICICI bank as it is having the lowest perception. HDFC and Punjab National Bank performing almost the same and State bank of India doing the best and ranked as the most responsible bank providing the customers with the most prompt service.

Assurance is the next dimension of service quality in which HDFC for the first time is found to have the highest gap of 1.05 because perception is lowest. Next comes ICICI and State bank of India serving the customers on the same level. And the best performance in terms of knowledge and courtesy of employees is of Punjab National Bank as the customers are showing their trust and confidence in this bank the most.

At the last Empathy is the only dimension of service quality where all the banks are able to fulfill the expectations of the customers as the gap between the perception and the expectation is the minimum or we can say its almost negligible. Gap in ICICI and HDFC is zero as Private banks use empathy as a tool to win customers through their individualized attention given to the customers.

On the whole, the overall comparative analysis indicates that the customer perception plays bigger role than the expectations as the perceptions of State bank of India and Punjab

National Bank is the highest but the overall gap is highest in HDFC that implies that people expect less from the Private banks and because SBI and Punjab National Bank are widespread and most operational in the areas of Chandigarh and Mohali , similarly the expectations are high from these banks. Private banks need to focus on the areas of Tangibility, Responsiveness and Assurance. Thus it is evident from the results that Public banks overdoing the Private banks.

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