A STUDY ON CUSTOMER SATISFACTION & SERVICE GAPS
IN SELECTED PRIVATE, PUBLIC & FOREIGN BANKS

Authors:
Prasanta K. Padhy, Ph.D (Buss. Admn), FDPM (IIM-A),
Professor and Head,
Department of Business Administration, Berhampur University-760007,
Mobile: +9194370-11997, e-mail: profpadhy@hotmail.com

Biranchi Narayan Swar, Senior Lecturer, Marketing Area,
Asian School Of Business Management, Bhubaneswar-754005,
Mobile: +9197780-55685, e-Mail: swar_biranchi@rediffmail.com
Abstract

The service sector has assumed greater economic importance over the past decade. India is fifteenth in services output. It provides employment to 23% of work force, and it is growing fast, growth rate 7.5% in 1991–2000 up from 4.5% in 1951–80. It has the largest share in the GDP, accounting for 60.7% in 2006 up from 15% in 1950.

Currently, 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. The elimination of this waste and meeting customer expectations are the major challenges facing managers these days in the service sector. This is why quality improvement is a vital concern for many service organizations.

This paper examines the salient features of service quality, GAPS Model, SERVQUAL. Each model represents a different approach to quality improvement. The primary aims are to enhance understanding of “service quality” and to identify models that managers in the service industry can employ to improve quality. Also will examine the applicability of alternative measures of service quality in the developing economy of India and assesses related issues in that context.

Quality is increasingly being seen as a key strategic differentiator within the financial services sector, with most major players undertaking some form of quality initiative. The present paper describes work undertaken to determine both retail customer and staff perceptions of those factors which determine service quality. We initially identify the models developed by Parasuraman et al. as being the most appropriate for modeling the data, but find that although the service gap model provides an excellent basis for analysis, the SERVQUAL model is of more limited value. Hence, an alternative basis for modeling service quality based on the three dimensions of process/outcome, subjective/objective and soft/hard have been described and modeled against the experimental data. The paper describes some conclusions of significance for retail banking in particular, and service providers in general.
This study investigates the role that technology plays in banking and its impact on the delivery of perceived service quality. A sample of 440 banking customers was taken and 300 useable questionnaires were analyzed.

The paper presents an empirical study of major quality improvement initiatives recently undertaken by two banks. It provides a useful comparison of the two different approaches, and contributes new evidence on the current debate concerning the validity of the SERVQUAL model. First, it outlines the implementation of the SERVQUAL model in the bank’s subsequent quality improvement programme, as evidenced through the bank’s customer satisfaction endeavors. Second, included for comparative purposes, the paper describes the adoption and implementation of the Crosby’s total quality training programme. In both cases relevant evidence was gathered on staff attitudes. Given the long-term nature of these comprehensive quality programmes, any evaluation must necessarily be tentative, but both banks are able to report an improvement in service quality, and fresh evidence is provided in support of the SERVQUAL model.

The paper argues that one theme that has emerged consistently in the recent services marketing literature is the importance of frontline employees in service delivery. The internal marketing concept is based on the belief that a firm’s internal market/employees can be motivated to strive for customer-consciousness, market orientation and sales-mindedness through the application of accepted external marketing approaches and principles. This paper considers that the objectives of the firm could be achieved by aligning them with the values to frontline employees.

**Keywords**: Service Quality, Banking Services, SERVQUAL Methodology, GAPS Model.
Introduction

Since Independence, the Indian banking sector has been experiencing phenomenal growth. Though the commercial banks were largely confining their activities to urban affluent customers and to industry, trade and commerce, the nationalization of several commercial banks since 1969 have forced these banks to undertake aggressively various programs including: branch expansion in the rural and semi-urban areas, reallocation of bank credit in favor of priority sectors like agriculture, small-scale industry, transportation, exports and distribution of food and other agricultural products, and fixed interest rates for various types of deposits, thus expanding their horizon of customer interface. The banking industry in India has been a witness to several regulatory changes in the last few decades, which have not only facilitated the entry of private and foreign banks, but also have enhanced the expectations of the customers with regards to service delivery in banks. Global competition has further forced the banks to explore the trade-off between winning new customers and retaining old ones, thus focusing on customer relationship management.

Today, banking is also seen as a business related to information on financial transactions, since Information Technology (IT) has been pivotal to effective customer service at lower costs. For example, IT-based services such as automated teller machines (ATM), electronic fund transfer, anywhere-anytime banking, smart cards, net banking, etc. are now very common to Indian customers. However, the diffusion of technology is somewhat slow in public sector banks when compared to private sector banks and foreign banks (Banker, 1998). In the case of private sector banks, bank automation has been far easier as their size is small and they also started their operations afresh. The foreign banks do already have the advantage of good automation experience in several banking applications, yet their transactions are confined to a few major cities in India.

Rationale and Objectives of the Present Study:

The shortcomings of the research coupled with the growing evidence of the influence of service quality on the financial viability of firms demonstrate the need for designing the present
research. The competition unleashed by the combination of three major segments of bankers in India i.e. private, public & foreign banks, also necessitated the investigation into the level of awareness and satisfaction of banking customers.

Accordingly, the objectives of the present study are enumerated as below:

i. To understand and analyze the dimensions of the awareness and satisfaction level of customers with regard to the services provided by the selected branches of the three of the three major banking segments i.e., Private, Public & Foreign banks,

ii. To identify and differentiate the best banking sector among the above cited three banks in terms of customer satisfaction,

iii. To ascertain the relevant dimensions of service quality in banks, and,

iv. To offer suggestions, if needed, based on the analytical results of the current study.

Keeping in view the above objectives, the present study seeks to test the null hypothesis that there is no significant difference in service quality and customer satisfaction among Private, Public & Foreign banks.

**Background of the Present Study:**

Before 1983, the definition of quality was defined primarily based on the concept of quality control with corresponding standards focused completely on achieving quality. While Juran defined quality as "suitable use", Crosby defined it as "consistent with needs", and assumed the existence of correspondence between quality and operational standards. Later, it was realized that the service industry requires a broader definition of quality than that used by the manufacturing industry. In the concept of Parasuraman, Zeithml, and Berry (1985), which was further expanded by Zeithaml (1988), consumers’ assessment of service quality by employing both interior and exterior attributes of low-level production quality or service quality were emphasized. Such process passes through an internal united comparison, and proceeding to establish a higher level of perceived service quality among the consumers. In the recent years, service researches have revealed a variety of customer-based improvement strategies based on the specific service elements, suggesting action plans for different service requirements that demand managerial action. Results of these studies have facilitated in competitive positioning of those service components which are directly tied to the organization's success. The present study
is an endeavor to evolve a truly customer-centric service system based on customers’ assessment of service quality.

From the customers’ perspective, service quality significantly influences customer satisfaction and customer satisfaction has direct influences on purchase intentions. Research findings indicate that service quality influences purchase intentions more than does customer satisfaction. It is therefore imperative on the part of bankers to stress upon both service quality and customer satisfaction, in order to raise the purchase intentions of customers. The empirical results of the present study may therefore provide improved insights on banking service as it seeks to simultaneously analyze service quality and customer satisfaction.

Service Quality and Customer Satisfaction:

The customer satisfaction paradigm posits that confirmed standards lead to moderate satisfaction; positively disconfirmed (exceeded) standards lead to high satisfaction, and negatively disconfirmed (underachieved) standards lead to dissatisfaction. The subject of continued (and considerable) debate in the marketing literature, the distinction and association between service quality and customer satisfaction remains at the forefront of many academic- and practitioner-oriented research endeavors (Spreng and Mackoy, 1995). Many studies of consumer satisfaction have been conducted in service settings, and, generally, researchers agree that the two constructs are conceptually distinct (Bitner, 1990). However, based on the findings of the past research (e.g. Oliver, 1989), an attempt has been made in this paper to explore the contention that service quality influences, among other things, levels of customer satisfaction. The study seeks to maintain the position that service quality - as determined by its various components - is a partial determinant of satisfaction (Parsuraman et al., 1985, 1988).

There exist numerous empirical works to support the quality/satisfaction causal order. In a study, Cronin and Taylor (1992) tested, among other things, the casual relationship between service quality and customer satisfaction. This study emphasized that marketing researchers are not in agreement in terms of the causal order of these constructs, and suggested that empirical justification is necessary to determine the true nature of this relationship. The findings of this study revealed that perceived service quality leads to satisfaction (as opposed to the reverse).

In a study addressing the relationship between service quality and satisfaction, Spreng and Mackoy (1996) suggested that perceived service quality was an antecedent to satisfaction. Although the direction of the quality/satisfaction relationship (i.e. quality leads to satisfaction) is
fairly well understood for services, the question of whether or not (and how) this relationship varies depending on particular settings and/or situations is not.

Service quality and customer satisfaction do exhibit independence and are indeed different constructs from the customer’s point of view. A small step in unearthing and understanding the constructs of service quality and customer satisfaction and their implications on competitive fruition has been put forward in a study on banking services (Sureshchandar et al., 2002).

In another study (Regasamy and Kumar, 2005), the comparative analysis on the services among three major banking segments revealed that the foreign banks have topped the list in terms of delivering qualitative customer service. The study also revealed that the private sector banks compete successfully with foreign banks and make efforts to provide better banking services in tune with the changing global competitive scenario.

In an attempt to study the service gap, Dash and Kumar (2007) revealed that customer’s expectations exceeded their perceptions, with regards to various dimensions of service quality. They further claimed that perception of either positive or negative service quality was related to the customer’s future behavioral intentions. Therefore, if a positive quality gap exists, the customers would tend to comment positively about the service. On the contrary, a negative quality gap would result in customers complaining, switching to other service providers, commenting negatively about the provider or just decreasing the usage of the service. Hence it is recommended that the banks should continuously monitor the service quality levels so as to avoid erosion of service quality and migration or switching by customers to another bank.

Identification of customer segment is also vital for service development and delivery in banks. For example, Jham and Khan (2008) implied that Indian banks should take care of the needs of customers when introducing various services to them. Their study revealed that customers of banks such as ICICI, IDBI, HDFC, PNB and SBI were either in service or self employed. Many customers of SBI and PNB were found to be retired from their respective profession. Thus they recommended that banks should envisage a strategy to serve customers with different occupations & educational backgrounds. Banks must also advance their customer-centric strategies by providing satisfaction through services leading to better relationship building and earning profits for the banks.
Sudesh (2007) revealed that poor service quality in public sector banks is mainly because of deficiency in tangibility, lack of responsiveness and empathy. Private sector banks, on the other hand, were found to be more reformed in this regards. Above all, the foreign banks were relatively close to the expectations of their customers with regard to various dimensions of service quality. Further, the study revealed that there existed service quality variation across demographic variables, and suggested that management of banks should pay attention to potential failure points and should be responsive to customer problems.

While studying on development of service quality, Amudha and Banu (2007) revealed the necessity of employee contacts and evaluation of service experiences. Parikh (2006) found the problem of reliability in various measures of service quality, and concluded that perception responses have high reliability as compared to expectation responses.

The five factor structure of service quality developed by Dabholkar, Thorpe and Rentz (1996) indeed had a major impact on the business and academic communities. Although this study shows that the data collected do not support their five-factor structure, the five dimensions are still useful as a foundation for discussion and determination of areas for improvement in the service quality of retail stores.

Service quality in banking implies consistently anticipating and satisfying the needs and expectations of customers. However, evaluating service quality sometimes is not an easy task due to the intangible nature of services. Hence, the present study seeks to develop a common understanding of service quality in the banking industry across different customer segments of public, private and MNC banks in India.

Measurement of Expectation and Perception of Service Quality:

There are many reasons for poor service quality across industries. One reason may be an inability to collect or use collected data. For example, in direct opposition to consumer opinion, bank executives perceive themselves and their companies to be doing an excellent job. This apparent discrepancy of opinion creates questions about banking service information-gathering effectiveness.

Because perceived quality is conceptualized as the customer's overall attitude towards the excellence of service, many researchers have relied on a single overall quality question, measured on a scale ranging from poor to excellent (Rust and Oliver, 1994). More generally, however, service quality perception is thought to be based on several quality attributes
(Gronroos, 1990). Parasuraman et al. (1985, 1988) and Zeithaml et al. (1990) developed a multi-item scale (SERVQUAL) where they have integrated the most important of the criteria contributing to the formation of customer perceptions of service and which signal quality to the customer. These are: reliability - reflecting the technical quality of the outcome of the service encounter, i.e. what is received by the customer; and tangibles, responsiveness, assurance and empathy - reflecting the functional quality of the process itself, i.e. how the service is provided. Quantification is obtained by measuring expectations and perceptions of performance for each one of these dimensions (Cronin and Taylor, 1992; Parasuraman et al., 1988; 1991; Zeithaml et al., 1990). SERVQUAL was deemed "to be applicable to retail and business services and relevant for banking services".

**Research Methodology:**

The SERVQUAL measuring instrument developed by Parsuraman et al. (1988) was adapted and used for the present study. Three groups of banks (Private, Public & Foreign Banks) were selected for the study.

The present study has been conducted in Orissa. The study limited to five banks in Orissa, namely, State Bank of India (SBI) and Punjab National Bank (PNB), in the public sector banks being the largest and oldest banks in India, ICICI bank & Axis bank in the private sector banks and Citi bank having maximum operations in India among the foreign banks. A sample of 440 banking customers (200 customers from public, 200 customers from private & 40 customers from foreign banks) were taken on judgmental basis and 300 useable questionnaires were analyzed. And those 300 responses we collected 150 from public sector, 125 from private sectors and 25 from foreign banks. The parameters of service quality were identified after analyzing the extensive literature review of the related work done in the past.

The parameters identified are:-

1. Tangibility
2. Assurance
3. Reliability
4. Responsiveness
5. Empathy

Questionnaires were personally delivered by hand at workplaces and homes, which was used as a method for data collection. The respondents were required to record their perceptions
and expectations of the service of the respective bank groups. Seven point likert-type scale was used for this measurement.

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. 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).

Demographic Profile of Bank Customers

<table>
<thead>
<tr>
<th>Demographic</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Gender</strong></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>60</td>
</tr>
<tr>
<td>Female</td>
<td>40</td>
</tr>
<tr>
<td><strong>2. Marital status</strong></td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>51</td>
</tr>
<tr>
<td>Unmarried</td>
<td>49</td>
</tr>
<tr>
<td><strong>3. Monthly family income</strong></td>
<td></td>
</tr>
<tr>
<td>Less than Rs.10, 000</td>
<td>20</td>
</tr>
<tr>
<td>10,000-20,000</td>
<td>28</td>
</tr>
<tr>
<td>20,000-30,000</td>
<td>27</td>
</tr>
<tr>
<td>30,000-40,000</td>
<td>16.2</td>
</tr>
<tr>
<td>More than 40,000</td>
<td>8.8</td>
</tr>
<tr>
<td><strong>4. Age</strong></td>
<td></td>
</tr>
<tr>
<td>Less than 25</td>
<td>32</td>
</tr>
<tr>
<td>25-35</td>
<td>27</td>
</tr>
<tr>
<td>35-45</td>
<td>23</td>
</tr>
<tr>
<td>45-55</td>
<td>11</td>
</tr>
<tr>
<td>More than 55</td>
<td>7</td>
</tr>
</tbody>
</table>
5. Education
Secondary 1.3
Higher secondary 2.7
Under graduate 3.4
Graduate 40.9
Post graduate 51.7

6. Occupation
Home maker 4.9
Service 45.6
Self employed 25.2
Retired 1.6
Students 22.7

Service Gaps
The difference between customer perceptions and expectations is taken as the gap in delivering service for the various service quality viz: tangibles, reliability, responsiveness, assurance, & empathy. Average service quality gap scores, i.e. the difference between the average perception score and expectation score are calculated for the five dimensions for each bank. This is shown in Table-1 below.

GAP Score
Table-1: Service Quality Gaps in Banks (on 7-point Likert-type scale)

<table>
<thead>
<tr>
<th>Banks</th>
<th>Tangibility</th>
<th>Reliability</th>
<th>Responsiveness</th>
<th>Assurance</th>
<th>Empathy</th>
<th>Overall service quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI</td>
<td>-3.40</td>
<td>-2.30</td>
<td>-1.95</td>
<td>-1.45</td>
<td>-1.92</td>
<td>-10.75</td>
</tr>
<tr>
<td>PNB</td>
<td>-2.25</td>
<td>-1.06</td>
<td>-1.82</td>
<td>-1.46</td>
<td>-1.98</td>
<td>-8.57</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>-0.95</td>
<td>-1.55</td>
<td>-0.85</td>
<td>-1.12</td>
<td>-1.20</td>
<td>-5.67</td>
</tr>
<tr>
<td>Axis Bank</td>
<td>-0.85</td>
<td>-0.95</td>
<td>-1.16</td>
<td>-1.14</td>
<td>-1.70</td>
<td>-5.80</td>
</tr>
<tr>
<td>Citi Bank</td>
<td>-0.45</td>
<td>-0.65</td>
<td>-0.35</td>
<td>-0.43</td>
<td>-0.73</td>
<td>-2.61</td>
</tr>
</tbody>
</table>
In the present study, the main focus of analysis is on customer expectations and perceptions in relation to the pure components of service quality viz; tangibles, reliability, responsiveness, assurance, & empathy. Expectations and perceptions were measured on a seven point scale. The mean of difference between customer expectations and customer perceptions were calculated separately for all the banks under study. To measure the service quality of the banks, the mean of SERVQUAL scores on all dimensions was computed separately for each bank and is presented in Table-1. It is evident from the data that the service quality of the foreign bank i.e. Citi bank is high whereas the service quality of public sector banks (SBI followed by PNB) is comparatively low. Private sector banks (ICICI, Axis) service quality is between the two extremes. The results also make it explicit that all banks fall below the expectations of their respective customers because their scores are in negative.

However, foreign banks are relatively close to the expectations of their customers in comparison with public sector banks since their overall service quality score is -2.61. Dimensions-wise analysis reveals that service quality of SBI is comparatively poor on tangibility and responsiveness (ranked 5th), followed by other dimensions of service quality (ranked 4th). The position of PNB is slightly better. Its scores is lowest on assurance and empathy followed by tangibility and responsiveness whereas it is ranked 3rd on reliability. ICICI bank is ranked second overall, followed by Axis in a close third position.

**Conclusions and Suggestions:**

The nature and frequency of studies in India concerning service quality or customer service in banks is limited. The studies which have been undertaken found that service quality in public sector banks in India is poor. The present study revealed that poor service quality in public sector banks is mainly because of deficiency in tangibility, lack of responsiveness and empathy. But on these five dimensions, private sector banks reformed better than the public sector banks. As expectations of customers have not been fully met, there is a lot of scope for improvement on service quality. However; foreign banks are relatively close to the expectations their customers with regard to the five dimensions of service quality.

Delivering high service quality is one of the best ways for banks to respond to competition. Reliable and valid measures of customer service quality are essential to achieve, and as a result service quality programmes should become high priority of the banks.
Expenditure on such programmes should be viewed as long-term investment for future growth and profitability. It is, therefore, suggested that banks should make investment in research in order to understand customer needs and expectations at all stages in the service delivery process so as to determine the key components of service quality. They should also conduct frequent training programmes in areas like prompt cash payments and receipts at the counter, efficient pass book and statement service, prompt collections and remittance services, early decisions on credit applications and quick attention to complaints. All these activities also have direct impact on customers’ perception towards service quality. Bank should also offer such products or services which would fully meet customers’ needs and develop systems and procedures which are user-friendly. They should make best use of technology in products, services, systems and environment so as to ensure speed, accuracy and efficiency. Although, these banks have invested in technology heavily, there are still many bottlenecks which need to be addressed.

Conclusion:

The present study has critically examined the service-quality issues (from the perspective of customers) with respect to a developing economy - India. The three groups of banks in India (public sector, private sector and foreign banks) have been compared with respect to each of the five factors of service quality. The three groups of banks in India seem to vary significantly in terms of the delivery of the five service quality factors. From the customer perceptions of service quality the technological factors (core service and systematization of the service delivery) appear to contribute more in differentiating the three sectors while the people-oriented factor (human element of service delivery) appears to contribute less to the discrimination.

The results of the present study also indicated that foreign banks seem to be performing well followed by private sector banks and public sector banks. Thus, the study has established that the technological factors seem to be the differentiating factor among the three groups of banks as far as customer perceptions of service quality are concerned. The finding of the present study highlights the unstable nature of these facets in developing economies, which may not be true in developed economies. Therefore there is a need to duplicate this study in developed economics as well.

The findings of the present study have some important managerial implications. It is suggested that the management of the banks should pay attention to potential failure points of the customer retention programs and that they should be responsive to customer problems. Last but
not the least; the banks should put sincere efforts to match the expected service quality to the offered service quality so that commitment and loyalty of the customers can be achieved.

Observation made by Ketkar and Ketkar (1993) that bank nationalization has been a mixed blessing was duly favored by the findings of the present study. Though aggressive bank branch expansion programs have increased financial savings and investment of Indian banks, the negative effects on deposit mobilization, capital accumulation and its efficient utilization could be overcome only through effective customer service. Similar suggestions could also be made by aligning past studies with regards to improvement of service quality in public sector banks by increasing their scale of operations. The approach taken in this study may prove diagnostically useful to the bankers in terms of investigating the importance of process and outcome quality attributes that influence choice. The challenge before the Indian bankers, therefore, is to determine which process and outcome quality attributes of service quality have the greatest impact on choice. Once identified, the bankers could develop a marketing program that emphasizes the most important attributes while reasonably containing the cost of those service quality attributes to which the consumer is indifferent. Specifically, the banker could use the findings of present study to predict choice of market segment as a function of perceived service quality.

References:


