

Impact of Service Quality on Customer Satisfaction in Public Sector and Private Sector Banks

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Abstract

Service Quality in banking sector is the most important criteria and asset for evaluating and satisfying customers and thereby increases the customer loyalty and average retention rate of customers. Among the service quality determinants, reliability, assurance and empathy have always played a pivotal role. Prior research suggests that customer perceptions and expectations are more likely to be different across service sectors. Hence, this paper examines the effect of service quality determinants on the degree of customer satisfaction in public and private banks in India. By realizing the gap between the perceived and actual service quality, customer satisfaction can be extremely improved.

INTRODUCTION

The Indian service sector also regarded as the tertiary sector of Indian economy today constitutes a wide spectrum of sectors combined such as banking, education, hotels and restaurants, insurance, wholesale and retail trade, railways, public administration, telecom and other services.

One of the key contributors to our nation's GDP, the service sector has grabbed the global attention owing to the reformation in the form of privatization, removal of regulation restrictions and many more during the past decade. Parasuraman et al. (1985) discovered a new model for measuring service quality provided by various organizations especially in banking sector. In this proposed model of service quality measurement, gap analysis is used to find the difference between customers' expected service performance and actual service performance. Thus when the expected level of service to be provided to the customers are greater than the actual level of service provided by any organization, then the service quality offered is considered as low and vice versa. This model was developed initially to measure customer perception of service quality for the banking and financial services but later refined to sectors such as hospitality, telecommunications and healthcare. Despite some arguments on this service quality model, the determinants accounted for measuring service quality are found to be reliable and could be used in various situations and been practiced by many researchers. As this model incorporates all five determinants as service quality

signals, it is feasible to investigate these questions explicitly.

LITERATURE REVIEW AND RESEARCH HYPOTHESES

If poor customer service is realized at any time in a business, it will lead to customer dissatisfaction. If more customers are retained at an increased rate, a business can be able to realize profits increased by 25% on an average scale (Griffin, 1995). Tangibility, Reliability, Responsiveness, Assurance and Empathy are used to measure the gap between customers' expected service level and perceived service level by performing the gap analysis (Parasuraman et al., 1985). Buell et al. (2010), in the retail banking industry in the U.S, the industry is found to be too competitive and customized in offering a better service quality and price to the customers and hence there is a positive association between customer value and service sensitivity when the competitor lacks in providing high quality services to the customers. All the five dimensions of service quality influenced customer satisfaction substantially and improving the service quality elements is widely considered as the main ancestor which could effectively bring significant contributions on customer satisfaction. Sudhahar and Selvam (2007) studied about service quality scale development in retail banking sector in India by measuring thirty four determinants with the help of scaling procedure. The availability of service operations in banks and employees performance are closely related to each other which directly influence customer perception towards the bank. Customer satisfaction in today's marketing era is believed to strongly connect with understanding consumer behavior. To understand the consumer buying pattern as firms are looking to influence them, each organization seeks help from external agencies and various sources to acquire the required information via the very common consumer behavior research analysis. Ultimately, there are certain motivating and influencing factors which play important role in convincing a customer to choose a product and the same factors are also responsible for the consumer satisfaction after the post purchase behavior. Consumers prefer products not base on the functional features anymore, rather products are preferred by them based on the environmental impacts and some other dynamic factors (Mont and Plepys, 2003). Also, one of the extremes, customer satisfaction is always intended to influence buyers' repurchase intention through positive word of mouth interaction; meanwhile being the other extreme, dissatisfaction leads to negative word of mouth communication. Moreover, satisfied customers always suggest others to go for the product while dissatisfied customers will also recommend others in huge numbers but in the context of negative marketing, most probably dissatisfied customers recommend others not to use the product (La Barbera and Mazursky, 1983).

Relationship between Reliability and Customer Satisfaction

Reliability is defined as the ability to perform the required service to customers dependably

and accurately as promised to deliver (Zeithaml et al., 1990). Dealing whatever the problems in services encountered by customers, performing the required services right from the first time, services being rendered at the promised time and maintaining error-free record are the paradigm of reliability in terms of service quality which will strongly influence the level of customer satisfaction (Parasuraman et al., 1988). In banking services provided to the customer, accuracy in completing orders, maintaining precise record and quote, accuracy in billing, maintaining promised services are the basic views of reliability which is considered as the most important factor in convincing customers to retain in banking services (Yang and Fang, 2004). The above literature reviews will lead to the development of the following hypotheses:

H1: Reliability will have a significant impact on Customer Satisfaction.

Relationship between Assurance and Customer Satisfaction

Assurance is defined as the knowledge and good manners or courtesy of employees (Van Iwaarden et al., 2003). Further, it is also defined as the ability of employees with the help of the knowledge possessed to inspire trust and confidence will strongly strike the level of customer satisfaction (Parasuraman et al., 1988). In banking services provided to the customer, assurance means providing financial assistance in a polite and friendly manner, ease in accessibility of account details, comfort or convenience inside the bank, a well experienced and professional management team and will have favorable outcomes on customer satisfaction (Sadek et al., 2010). The above arguments will lead to the development of the following hypotheses:

H2: Assurance will have a significant impact on Customer Satisfaction.

Relationship between Tangibility and Customer Satisfaction

Iwaarden et al. (2003) defined tangibility as physical facilities, equipment and appearance of employees and management team. Further, it is also defined as the ease in visibility of resources necessary for providing the service to customers, well groomed employees and ease in accessing written materials like pamphlets, brochures, folders, information books etc will have a favorable consequence on the level of customer satisfaction (Parasuraman et al., 1985). Modern looking or sophisticated equipments and visually appealing or attractive ambience are viewed as the positive impacts of tangibility on customer satisfaction in banking sector (Ananth et al., 2011). The above arguments will lead to the development of the following hypotheses:

H3: Tangibility will have a significant impact on Customer Satisfaction.

Relationship between Empathy and Customer Satisfaction

Empathy is defined as the ability to take care of customer's attention individually in providing service to customers (Iwaarden et al., 2003). Further, it is researched that understanding customer expectations better than competitors in providing the required customer service at any time without any inconvenience will strongly influence the level of customer satisfaction (Parasuraman et al., 1988). Convenient working hours, individualized attention, better understanding of customer's specific needs, enhanced communication between management and customers will have a positive outcome on customer satisfaction (Ananth et al., 2011). The above literature reviews will lead to the development of the following hypotheses:

H4: Empathy will have a significant impact on Customer Satisfaction.

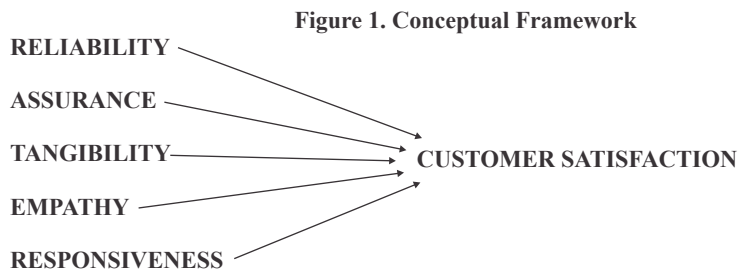
Relationship between Responsiveness and Customer Satisfaction

Zeithaml et al. (1990) defined responsiveness as the interests shown in providing prompt service to customers when required. Further, it is researched that willingness or readiness of employees to provide the required customer service without any inconvenience at any time will strongly influence the level of customer satisfaction (Parasuraman et al., 1988). Customers get satisfied when banks provide individual attention and the employees are paying attention to problems experienced by customers regarding safety in transaction (Kumar et al., 2009). The above literature reviews will lead to the development of the following hypotheses:

H5: Responsiveness will have a significant impact on Customer Satisfaction.

RESEARCH METHOD

Figure 1 exhibits the research framework of this study. It demonstrates the effects of five key predictors of service quality on customer satisfaction regarding banking services provided in Coimbatore



Research Methodology

This research contains six constructs namely reliability, assurance, tangibility, empathy, responsiveness and customer satisfaction. The measurement scale is developed with reference to ERVQUAL model (Parasuraman et al., 1988). In this proposed model of service quality measurement, gap analysis is used to find the difference between customers' expected service performance and actual service performance. Reliability indicates whether the service is provided accurately as promised to its customers. Assurance signals knowledge and courtesy of employees in bringing trust and confidence. Tangibility shows all physical facilities, equipments, personnel and communication materials primarily visible in an organization. Empathy suggests whether the organization shows care, individualized attention and providing the required service by understanding its customers' needs. Responsiveness indicates whether the organization is willing to help its customers readily. Parasuraman et al., (1994) stated that service quality is assessed by the following conditions: If the perceived service is greater than the expected service, it results in "QUALITY SURPRISE or EXCEPTIONAL QUALITY". If the customers' expectations match with the actual service performance, then it results in "SERVICE QUALITY or SATISFACTORY QUALITY". If the customers' expectations are unmet or unfulfilled or falls short, then it results in "UNACCEPTABLE QUALITY". The five gaps illustrated in this model which should be identified by any service organization in order to rectify the poor service quality as experienced by its customers are Market Research Gap, Service Standards Gap, Service Performance Gap, Internal Communication Gap and Customer Satisfaction Gap. In this study, customer satisfaction refers to the overall satisfaction in banking service being rendered to them. All the items of construct are measured with the Likert 5-point scale. The research employs convenience sampling method for data collection. Primary research Survey was carried out by means of a structured questionnaire. The respondents were those who are having accounts in various banks in Coimbatore. The respondents group comprises of various categories like Working Professional, Businessman, Housewife, Senior Citizen, Student etc. 150 respondents were interviewed.

ANALYSIS

Reliability and Validity Test

Cronbach's α was used to measure the consistency of each item under the same construct. All scales have greater than the suggested value of 0.70. All the constructs assurance, tangibility, empathy, responsiveness and customer satisfaction have the sufficient standard reliability values. Despite the slightly lowered value of 0.64, reliability is also taken into account for the purpose of research because the composite reliability values are higher than 0.70 for all constructs taken in the research including Reliability. The AVE values for all

constructs are greater than 0.50 as per the standard AVE rule and also the Composite Reliability values for all constructs are greater than AVE in all cases. Thus the reliability scale is proved to be higher in this research indicating the effectiveness of the study. The alpha value for each construct demonstrates adequate internal consistency. Table 2 shows the result of reliability analysis of constructs.

Table 2. (Bank) Cronbach's α value of each Construct

Construct	Dimension	Items	Cronbach's α
Service Quality	Reliability	4	0.738
	Assurance	5	0.790
	Tangibility	4	0.815
	Empathy	4	0.789
	Responsiveness	3	0.800
Customer Satisfaction	Overall Customer Satisfaction	3	0.776

Pearson Correlation Analysis

The Pearson Correlation Analyses were employed among variables. Table 3 shows the correlation analyses among all constructs for Bank sector. The result reveals that there are significant positive correlations between reliability and customer satisfaction ($r=0.418$, $p<0.01$), assurance and customer satisfaction ($r=0.470$, $p<0.01$), tangibility and customer satisfaction ($r=0.039$, $p<0.01$) empathy and customer satisfaction ($r=0.159$, $p<0.01$). There is significant negative correlation between responsiveness and customer satisfaction ($r=-0.083$, $p<0.01$). It means that poor responsiveness may result in negative effect on customer satisfaction.

Table 3. (Bank) Pearson Correlation Analysis

	Reliability	Assurance	Tangibility	Empathy	Responsive Ness	Customer Satisfaction
Reliability	1					
Assurance	0.937	1				
Tangibility	0.952	0.969	1			
Empathy	0.909	0.951	0.960	1		
Responsiveness	0.954	0.919	0.944	0.909	1	
Customer Satisfaction	0.961	0.974	0.967	0.948	0.929	1

Regression Analysis

It is verified that the five determinants of service quality as proposed by the SERVQUAL Model namely Reliability, Assurance, Tangibility, Empathy and Responsiveness have serious impacts on the dependent variable, Customer Satisfaction in the banking services provided to them. Thus, if an increase in the predictors by 0.941 will strongly affect the customer satisfaction in Coimbatore banks. Thus, the change in the five determinants will cause a 94% deviation in customer satisfaction as realized.

Table 4. (Bank) Results of Regression Analysis

Y X	Reliability	Assurance	Tangibility	Empathy	Responsiveness
Customer Satisfaction	0.146	0.383	0.27	0.200	0.056
T Value	2.569	6.142	2.882	4.101	0.847
R Square	0.798	0.884	0.912	0.807	0.839
Adjusted R Square	0.796	0.883	0.912	0.805	0.838

The results indicate that the determinant, Assurance has the highest impact on customer satisfaction than any other determinants of service quality of banking services provided in Coimbatore. If assurance increases by 0.383 will have increased customer satisfaction in banking sector. Similarly, the customer satisfaction in banks in Coimbatore is also strongly influenced by the tangibility where an increase in tangibility by 0.279 will cause a direct increase in the customer satisfaction in Coimbatore banks. Also, the customer satisfaction in Coimbatore banking services will be directly affected by empathy where an increase in empathy 0.2 will have a respective increase in the customer satisfaction within banks in Coimbatore. However, the lowest impact of the reliability and responsiveness on customer satisfaction, where an increase in them by 0.146 and 0.056 respectively will cause an increase in the customer satisfaction in banking services provided by banks in Coimbatore.

Table 5. Gap Score Analysis

Constructs	Mean Value		Sig. Value *	Gap Score
	Public Banks	Private Banks		
Reliability	3.16	2.91	0.000	0.25
Assurance	3.22	3.01	0.000	0.21
Tangibility	3.25	3.06	0.000	0.19
Empathy	3.26	2.91	0.000	0.35
Responsiveness	3.23	3.01	0.000	0.22
Customer satisfaction	3.23	3.00	0.000	0.23

In the above table, the significance value is the same for both public and private banks for all constructs taken in this study and hence the significance values are compressed into a single column as shown above. Thus the higher gap scores in services provided by public banks in Coimbatore are realized under all the dimensions of service quality than the private banks in the city. This clearly shows that the private banks are providing better service to the customers in the city in all aspects when compared to the public banks. Less the gap score, more the customer satisfaction is achieved. The customer satisfaction level is very high in private banks than the public banks in the city by considering the above mean values. The public banks or the government banks have to strive for attaining increased customer satisfaction by decreasing the gap exists in all dimensions of service quality. But by taking the overall gap score into account, the highest gap scores are realized under Reliability and Empathy. The banks need to take steps

and devise strategies to mitigate the gap occurred in the above dimensions. Consistent service, timely delivery and response, attention in handling concerns etc will improve the satisfaction level in the desired areas. Also, the banks should frame unique and customized strategies and policies to address the customer queries. Though, the dimension Tangibility got lesser gap score than others, it has no impact on influencing customer satisfaction in banking services provided in the city and it is of less or no significance to customers regarding the services provided. Among the key factors influencing the customer satisfaction in the city, Assurance has the least gap score than Reliability and Empathy. Thus all the banks operating in the city have been providing their respective services as promised or assured to the customers.

DISCUSSION OF EMPIRICAL RESULTS

According to above analytic results, this study examined the perception of service quality of banking services provided to customers in Coimbatore and the relative differences attached with the various determinants of service quality using the SERVQUAL model. The findings of the research suggest that customer satisfaction towards banking services in the city of Coimbatore is significantly influenced by Assurance, Tangibility, Empathy, Reliability and Responsiveness. It is found out that Assurance has the most significant impact on customer satisfaction towards banking services provided in Coimbatore and Responsiveness has the least significant impact on customer satisfaction towards banks in Coimbatore. From this findings, it is clear that the customer expectation exceeds well in assurance provided by the banks in Coimbatore in terms of giving importance to customers' suggestions and views, secured transactions, sufficient knowledge base management, accurate record maintenance, meeting customers regularly etc.

MANAGERIAL IMPLICATIONS

It is important that the bank management should have a better understanding of what their customer needs are and what the customers expect from the services provided by the banks in terms of service quality. The bank managers should identify the gap prevails between the perceived service quality and actual service quality of banking services provided to customers and find effective ways to enhance customer satisfaction with respect to important service quality features. Because there is a stiff competition in banking sector in India, customer service by exceeding the required needs of customers is the most vital component for each bank and bank managers need to emphasize on ways to improve customer satisfaction regarding improved service quality. Also, the bank managers can use the results of this study to increase their understanding of which service quality dimensions has the strongest association with overall customer satisfaction. When providing banking services, observations on the level of fulfillment of customer needs and the degree of customer satisfaction with the respective bank periodically

need to be done and it will help the banks to decrease the gap in matching the perceived service and the rendered service so that customers' loyalty will increase thereby they will recommend their banks to others. From the gap analysis table, the maximum gap score is found under the dimension, empathy. It is the responsibility of the bank management irrespective of whether the bank is private, public or foreign to put serious efforts to enhance the skill of the employee, new training methods implementation to increase the caring and concerning attitude towards customers in order to satisfy the customers. Further, the banks have to maintain the momentum by providing the guaranteed services as promised to deliver in the city. Empathy is one main aspect where the banks need to work on and can be

enhanced by improving certain existing conditions prevailed like lack of attention in serving customer queries or complaints, lack of time spent in paying individual attention to senior citizens, physically challenged etc.

CONCLUSION

The Indian banks have been competing with same kind of products to the consumers and hence service quality is considered as the key differentiator among the banks providing better service to the customers. Consistency in providing the required service quality is the key to differentiate one another. Since the competition in this industry is intense, the competition prevails among not only banks but also with other financial institutions operating either locally or globally. However, the paradigm of understanding the principal factors that influence customer satisfaction in the banking sector in India which will likely to help the banks' management and the financial institutions to enhance the quality of service provided to the customers at least in the context of the city of Coimbatore. The term service quality has two core elements, customer expectation and customer perception. Customers will consider the service quality as low when the desired performance of services provided by their banks fails to meet up their expectation and alternatively, will consider the service quality as high when the bank's desired performance matches or exceeds their expectations. This study examined the perception of service quality of banking services provided to customers in Coimbatore and the relative differences attached with the various determinants of service quality using the SERVQUAL model. It is found out that Assurance has the most significant impact on customer satisfaction towards banking services provided in Coimbatore and Responsiveness has the least significant impact on customer satisfaction towards banks in Coimbatore. From the findings, it is clear that the customer expectation exceeds well in assurance provided by the banks in Coimbatore in terms of giving importance to customers' suggestions and views, secured transactions, sufficient knowledge base

management, accurate record maintenance, meeting customers regularly etc. The banks deliver the best service to the customers what they assured for. Obviously, the banks in Coimbatore fail to meet the expected customer service in the dimension of responsiveness. The banks are not helping the customers at times when the customers need them the most and the customer requests and other queries remains unanswered or unattended at most times. Problem handling is also one important aspect where the banks in Coimbatore fail miserably. Thus, the customer perceptions regarding responsiveness in quality of service provided to them falls short with high margin and responses to this study suggest that responsiveness has positive correlation and no significant effect on customer satisfaction. It is evident that both private banks and public banks operating in Coimbatore have not shown interests in responding to problems experienced by customers. There is a customer problem

handling department or a grievance redressal committee in many banks to address the queries related to customer service. It is the responsibility of the bank management to increase the effectiveness of those departments and be consistent in making them active to the fullest extent as possible. The operating hours of the banks have to be redesigned such that each category of customers can be provided individual attention by allocating special time zone as per the need of the category customers. Having adequate amount of resources need to provide banking services is the key in increasing the customer satisfaction amidst the benefits and features provided by the respective banks. By the gap analysis conducted in this research, the overall customer satisfaction in Coimbatore regarding banking services provides was realized in private banks due to the lesser gap scores in all aspects of service quality which influence customer satisfaction. Thus the public banks have more gaps in providing the desired customer services and hence the level of customer satisfaction is very low than the private banks. Empathy is the most important dimension where both banks need to improve by refining policies and procedures and devising new strategies to achieve increased customer satisfaction in Coimbatore. The private banks are operating very efficiently in the dimensions of service quality like Reliability, Assurance, Responsiveness when compared to the public banks and the key in gaining the momentum is Consistency. If not so, soon lesser gap scores will be experienced in the private banks despite stiff competition among banks and other financial institutions in acquiring and retaining customers.

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