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IMPACT OF SERVICE QUALITY ON CUSTOMER SATISFACTION IN THE RETAIL BANKING SECTOR

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Abstract

Recent reports suggest that India's banking sector is set to emerge as the fifth largest worldwide by 2020 and the third largest by 2025. Competition in this sector is therefore also increasing at an equally rapid pace. In an industry where it is very easy to replicate products a key differentiator could be the service quality. The purpose of this study is to measure the impact of service quality on customer satisfaction. For this purpose a survey of 225 respondents was conducted across Delhi using a 22 item instrument based on the SERVQUAL model of 5 dimensions – Tangibility, Reliability, Assurance, Responsiveness and Empathy. Regression analysis was conducted to measure whether these dimensions impact customer satisfaction.

Key Words: Service Quality, Customer Satisfaction, Retail Banking, SERVQUAL.

1. Introduction

According to a recent report India's banking sector is set to emerge as the fifth largest worldwide by 2020 and the third largest by 2025. Deposits have increased steadily over the last decade and were estimated at US$ 1,274.3 billion in financial year 2013. Added to this, recent reports suggest that only 35% of Indian adults have a bank account, indicating tremendous potential for growth.

In a recent (2013) discussion paper RBI has suggested several banking sector reforms that aim at, amongst other things, enlarging the scope of financial inclusion, encouraging both private and public sector banks to voluntarily consolidate operations in order to create globally competitive Indian banking entities and expanding the size and capacity of the banking system. In keeping with the spirit of these reforms RBI has given an in-principle approval to 2 new NBFC's, Infrastructure Development Finance Company (IDFC), and Bandhan Financial Services Pvt Ltd, to start banking operations in 2014. This has further intensified competition in a market that is currently sluggish and underscores the need for banks to focus on continually improving and innovating to facilitate survival and growth.

Thus in an increasingly competitive market where a rising number of players is spoiling customers for choice, it is imperative that banks identify the factors that are best able to attract new customers and retain the existing ones. Since the nature of banking is such that product innovation is easy to replicate and therefore fails to offer any long term benefits, it is the service quality that can act as the differentiator and not only help banks carve a niche in the market but will also lead to satisfied customers who are likely to recommend the bank to others.

The objective of this paper is to determine whether there indeed is an impact of service quality on satisfaction of retail banking customers using the SERVQUAL model.

2. Literature Review

Kotler & Armstrong (1999), defined customer satisfaction as customers' perception that compare their pre-purchase expectation with post purchase perception. Jauhari & Datta (2009) state that, 'satisfaction is a broader concept that includes perceptions of service quality, price, situational factors, and personal factors'.

Quality has been defined by Kasper et al (1999) 'The extent to which the service, service process and the service organisation can satisfy the expectations of the user'. According to Kandampully (2000) the service quality is crucial for the success of any service organisation.

Service Quality is a qualitative factor that is extremely difficult to standardize. However, most studies in this area have concluded that service quality has a definite bearing on customer satisfaction. Service quality is defined as the degree of discrepancy between customers' normative expectations for service and their perceptions of service performance (Parasuraman et al., 1985). Smith (1988) defines service quality as meeting the needs and expectations of the customer. Since service quality has a strong human element associated with it, both at the provider and receiver's end, it is unlikely to remain constant in every interaction with the service provider. Further, Service quality has been identified as an antecedent of the broader concept of customer satisfaction (Gotlieb et al 1994).

Kaura (2013) in a study considered three dimensions of service quality - employee behavior, information technology and tangibility of which only the first two were found to have a positive impact on satisfaction of private sector bank customers in India. Gupta and Dev (2012) found that of the five factors driving customer satisfaction, 'service quality' was the most important. Siddiqui (2011) in a study conducted in Bangladesh concluded that there was a medium to high correlation between customer satisfaction and the five dimensions of service quality – tangibility, responsiveness, reliability, assurance and empathy – with empathy exhibiting the highest correlation.

Culiberg & Rojšek (2010) determined that assurance and empathy were the most critical factors in determining satisfaction amongst bank customers in Slovenia. They have further stated that assurance and empathy represent a "softer" dimension that deals with people's interaction while reliability and responsiveness represent a "harder" dimension that deals with bank processes.

The researcher considered the following five dimensions of SERVQUAL (Parsuraman et al), while designing the research instrument:

Tangibility: includes factors related to the appearance of the physical facilities, equipment, personnel and communication materials

Reliability: refers to the confidence that the service is provided accurately and consistently as promised.

Responsiveness: refers to the speed and willingness with which service is provided to customers.

Assurance: includes all the factors such as communication, courtesy and facilities that make customers confident and secure that the service commitment is fulfilled.

Empathy: refers to factors that indicate that employees are caring, approachable and sensitive to the needs of customers and are fully engaged with them in every interaction.

3. Research Methodology

A questionnaire was administered to 250 respondents in Delhi whose primary savings account was held with a private bank. Primary savings account, here, means the account which is most frequently used for banking transactions. Therefore, although most respondents held accounts in more than one bank they were required to respond with reference to the particular bank whose account was most frequently used by them. The number of completed questionnaires received was 236, of which 225 were accepted as complete and valid.

SPSS version 20.0 was used for analysis purposes.

3.1 Data Collection Procedure

A 22 item questionnaire was prepared which has been primarily adapted from Siddiqi (2011) and is based on SERVQUAL. Service quality was assessed based on Parasuraman et al's (1988) five dimensions namely, *tangibility, reliability ,responsiveness, assurance* and *empathy*. A 5- point likert scale where "1=strongly disagree", "2=moderately disagree", "3=neutral", "4=moderately agree", and "5=strongly agree", was used in the 19 items to measure the five dimensions. The remaining 3 items in the instrument were used to measure customer satisfaction. Again a 5-point Likert scale was used to measure the customer satisfaction items where "1=highly dissatisfied", "2=moderately dissatisfied", "3=neutral", "4=moderately satisfied", and "5= highly satisfied"

3.2 Hypotheses

H1: There is no impact of Tangibility on customer satisfaction among retail banking customers.
H2: There is no impact of Reliability on customer satisfaction among retail banking customers.
H3: There is no impact of Responsiveness on customer satisfaction among retail banking customers.
H4: There is no impact of Assurance on customer satisfaction among retail banking customers.
H5: There is no impact of Empathy on customer satisfaction among retail banking customers.

3.3Validity

This study addresses construct validity by adapting instruments used in previous research.

3.4 Reliability

The .instrument used for the current study uses multiple items in all constructs in which case calculating Cronbach alpha helps measure the internal consistency i.e. the extent to which all items in a test measure the same construct.

Table 1: Internal Consistency of the Scale

Dimensions	Cronbach Alpha
Tangibility	0.839
Reliability	0.799
Responsiveness	0.679
Assurance	0.669
Empathy	0.850
Customer Satisfaction	0.678
Overall Instrument	0.898

Although opinion is divided as to what value is desirable, an alpha value of greater than 0.6 is considered acceptable. As indicated in table 1, the Cronbach alpha values of all sub-scales as well as the overall instrument is greater than 0.6 thus indicating acceptable internal validity of the instrument.

4. Data Analysis and Interpretation

Analysis of the demographic data shows that out of the 225 valid respondents, 148, i.e. 66%, were male and 77 were female. In terms of primary bank used, 37% of the respondents held accounts with ICICI Bank, 29% with HDFC and 23% with Axis bank. The remaining respondents held accounts with "other private banks". Males accounted for 148 of the respondents, while female respondents numbered 77. 82% of the respondents held only a savings account with their stated bank while the remaining 18% held both a savings account and a fixed deposit with the bank.

Table 2 above shows that there is positive correlation between each of the five dimensions of service quality and customer satisfaction. Assurance and Empathy indicated the highest correlation with customer satisfaction with values of 0.596 and 0.570 respectively. The remaining three dimensions, Tangibility, Reliability and Responsiveness indicated a relatively moderate degree of positive correlation with customer satisfaction. Thus it may be interpreted that there exists a linear relationship between customer satisfaction and the dimensions of service quality considered here. A Positive correlation indicates that each of these five dimensions have a tendency to change together in the same direction as customer satisfaction.

Table 2: Inter-Correlation Matrix

	Tangibility	Reliability	Responsiveness	Assurance	Empathy	Customer Satisfaction
Tangibility	1					
Reliability	.673**	1				
Responsiveness	.578**	.573**	1			
Assurance	.398**	.367**	.526**	1		
Empathy	.291**	.255**	.407**	.764**	1	
Customer Satisfaction	.320**	.300**	.440**	.596**	.570**	1

**Correlation is significant at the 0.01 level (2-tailed).

4.1Hypotheses Testing

In order to measure whether the five service quality dimensions of tangibility, reliability, responsiveness, assurance and empathy have an impact on customer satisfaction in retail banking a regression analysis was conducted.

Table 3: Regression Model Summary (Dependent Variable Customer Satisfaction)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.320[a]	.102	.098	.64155
2	.340[b]	.115	.107	.63832
3	.447[c]	.200	.189	.60832
4	.615[d]	.378	.367	.53756
5	.640[e]	.409	.396	.52508

Predictors: (Constant), Tangibility; b. Predictors: (Constant), Tangibility, Reliability;
Predictors: (Constant), Tangibility, Reliability, Responsiveness;
Predictors: (Constant), Tangibility, Reliability, Responsiveness, Assurance;
e. Predictors: (Constant), Tangibility, Reliability, Responsiveness, Assurance, Empathy

Customer satisfaction was taken as dependent variable while the five service quality dimensions, namely tangibility, reliability, responsiveness, assurance and empathy were taken as predictors. The R^2 value of 0.409 (model 5) in Table 3 indicates that 40.9% of the variance in customer satisfaction is explained by change in the service quality. The results of stepwise regression indicate that 10.2% of the variance in customer satisfaction was explained by model containing the dimension of tangibility. Results show that Reliability could explain a little over 1.0% of the variance in customer satisfaction. Assurance alone accounted for 17.8% of the variance while responsiveness and empathy accounted for 8.5% and 3.1%, respectively, of variance in customer satisfaction.

Table 4: ANOVA (Dependent Variable Customer Satisfaction)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	41.867	5	8.373	30.371	.000[b]
	Residual	60.380	219	.276		
	Total	102.247	224			

b. Predictors: (Constant), Reliability, Empathy, Responsiveness, Tangibility, Assurance

ANOVA results, as seen in table 4, demonstrated predictive strength ($F_{5,219}$= 36.697, $p<0.001$) of the model suggesting its appropriateness for explaining variance in customer satisfaction.

Table 5: Coefficients (Dependent Variable Customer Satisfaction)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.486	.226		6.572	.000
	Tangibility	.021	.068	.024	.317	.751
	Reliability	.020	.067	.021	.291	.772
	Responsiveness	.152	.073	.149	2.067	.040
	Assurance	.242	.072	.291	3.345	.001
	Empathy	.209	.061	.274	3.403	.001

The beta coefficients (Table 5) indicate the extent of impact of SERVQUAL dimensions on customers' satisfaction with their banks. Responsiveness (beta=.149, t=2.067, p<0.05), Assurance (beta=.291, t=3.345, p<0.001) and Empathy (beta=.274, t=3.403, p<0.001) had high positive impact and their p-values ant t-values greater than 2 render them statistically significant as well. Although Tangibility and Reliability both had positive betas they are of little statistical significance as indicated by their p values of 0.751 and 0.772 respectively.

The p value of 0.751 for Tangibility means that the related null hypothesis – H1: There is no impact of Tangibility on customer satisfaction among retail banking customers – is not rejected.

The p value of 0.772 for Reliability means that the related null hypothesis – H2: There is no impact of Reliability on customer satisfaction among retail banking customers – is not rejected.

The p value of 0.040 for Responsiveness means that the related null hypothesis – H3: There is no impact of Responsiveness on customer satisfaction among retail banking customers is rejected.

The p value of 0.001 for Assurance means that the related null hypothesis – H4: There is no impact of Assurance on customer satisfaction among retail banking customers – is rejected.

The p value of 0.001 for Empathy means that the related null hypothesis – H5: There is no impact of service Empathy on customer satisfaction among retail banking customers – is rejected.

5. Conclusion

All the five dimensions considered in this study exhibited a positive correlation with customer satisfaction, indicating an expected change in the same direction. While evaluating the impact of these five dimensions on customer satisfaction using regression analysis it was found that 40.9% of the variance in customer satisfaction is explained by change in the service quality. The 'softer' dimensions, namely assurance and empathy, as well as the harder dimension – responsiveness, were of statistical significance. However the impact of Tangibility and Reliability on customer satisfaction was of little statistical significance.

The respondents of this particular study, which was limited to private banks in Delhi, indicated that although Tangibility had a positive beta value and accounted for about 10% of the variance in customer satisfaction due to change in service quality it was not considered to be of statistical significance due to its p-value. This could be because factors covered by Tangibility such as bank premises, quality and regularity of bank correspondence, etc., were more or less similar across banks and were possibly taken for granted by the respondents. Similarly, the Reliability dimension which considers respondents' satisfaction with regard to promptness and quality of service, ability to provide updated records etc., may also have been considered as a given by the customers thus resulting in its low statistical significance in determining customer satisfaction.

The remaining three dimensions that is Assurance ($p<0.001$), Responsiveness ($p<0.05$) and Empathy ($p<0.001$), apart from indicating a high positive beta also had significant p-values. This indicates that respondents satisfaction with service quality of banks was influenced by factors such as security measures taken by the bank, knowledge of employees, ability of bank employees to respond willingly and promptly, conviction that the bank has the customers' best interest at heart etc. All these factors were under one of the three given dimensions. These three dimensions together explained 29.4% of variance in customer quality due to change in service quality. They collectively accounted for approximately 72% of the variance in satisfaction due to change in service quality.

These findings can be used by banks to improve on these particular dimensions of their service offering in order to improve customer satisfaction which in turn is essential for both retaining existing customers as well as for attracting new ones. As is evident it is the softer dimensions that influenced customer satisfaction in this study indicating that it is the quality of human interactions that are far more important to customers.

There are, however, several limitations to this study. Firstly, it is limited to Delhi and covers customers of private sector banks only. Secondly the sample size of 225 can in no way be considered representative of the population. Thirdly, the use of convenience sampling does bear the risk of bringing in a certain element of bias. Fourthly, it uses only 20 items clubbed under five dimensions. Thus there is a definite scope for a more comprehensive study using a more elaborate instrument and covering a larger sample size across both public and private sector banks in more cities and towns across India.

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