Influence of Service Quality on Customer Satisfaction

Application of Servqual Model

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Abstract

Financial liberalization has led to intense competitive pressures and private banks dealing in retail banking are consequently directing their strategies towards increasing service quality level which fosters customer satisfaction and loyalty through improved service quality. This article examines the influence of perceived service quality on customer satisfaction. The article concludes that increase in service quality of the banks can satisfy and develop customer satisfaction which ultimately retains valued customers.

Keywords: Perceived Service Quality, SERVQUAL, Customer satisfaction

1. Introduction

Private Banks dealing in retail banking Industry is consequently put into lot of pressures due towards increase in global competition. Various strategies are formulated to retain the customer and the key of it is to increase the service quality level. Typically, customers perceive very little difference in the banking products offered by private banks dealing in services as any new offering is quickly matched by competitors. Parasuraman et. al (1985) and Zeithaml et., al (1990) noted that the key strategy for the success and survival of any business institution is the deliverance of quality services to customers. The quality of services offered will determine customer satisfaction and attitudinal loyalty.

1.1 About private retail banking in India

Initially all the banks in India were private banks, which were founded in the pre-independence era to cater to the banking needs of the people. In 1921, three major banks i.e. Banks of Bengal, Bank of Bombay, and Bank of Madras, merged to form Imperial Bank of India. In 1935, the Reserve Bank of India (RBI) was established and it took over the central banking responsibilities from the Imperial Bank of India, transferring commercial banking functions completely to IBI. In 1955, after the declaration of first-five year plan, Imperial Bank of India was subsequently transformed into State Bank of India (SBI). In 1994, the Reserve Bank of India issued a policy of liberalization to license limited number of private banks, which came to be known as New Generation

tech-savvy banks. Global Trust Bank was, thus, the first private bank after liberalization; it was later amalgamated with Oriental Bank of Commerce (OBC).

At present, Private Banks in India includes leading banks like ICICI Banks, ING Vysya Bank, Jammu & Kashmir Bank, Karnataka Bank, Kotak Mahindra Bank, SBI Commercial and International Bank, etc. Undoubtedly, being tech-savvy and full of expertise, private banks have played a major role in the development of Indian banking industry.

This paper endeavors' to fill the gap in the service quality which determine customer satisfaction and attitudinal loyalty literature by exploring the dimensions of customer perceived service quality with that of the expected service quality in the context of the Indian retail banking industry.

1.2 Review of Literature

Many scholars and service marketers have explored consumers' cognitive and affective responses to the perception of service attributes in order to benefit by providing what consumers need in an effective and efficient manner. Consumer satisfaction (e.g. Cadott et al, 1987; Churchill & Surprenant, 1982; Fornell,1992; Oliver, 1997) and PSQ (e.g. Parasuraman et al, 1985, 1988; Rust & Oliver, 1994; Zeithaml et al, 1996) have been considered the primary intervening constructs in the area of service marketing because ultimately they lead to the development of consumer loyalty or re-patronization of a product or service.

Consumer perception of service quality is a complex process. Therefore, multiple dimensions of service quality have been suggested (Brady & Cronin, 2001). One of the most popular models, SERVQUAL, used in service marketing, was developed by Parasuraman et al (1985, 1988). SERVQUAL is based on the perception gap between the received service quality and the expected service quality, and has been widely adopted for explaining consumer perception of service quality. Originally 10 dimensions of service quality were proposed (reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding the consumer, and tangibles). Later these were reduced to five (reliability, responsiveness, empathy, assurances and tangibles).

There is general agreement that the aforementioned constructs are important aspects of service quality, but many scholars have been skeptical about whether these dimensions are applicable when evaluating service quality in other service industries (Finn & Lamb, 1991; Cronin & Taylor, 1992). For example, Cronin & Taylor (1992) argued that the evaluation of service quality based on the expectation-performance gap derived from Parasuraman et al (1985, 1988) is insufficient because much of the empirical research supported performance-based measures of service quality. This has more explanatory power than measures that are based on the gap between expectation and performance (e.g. Babakus & Boller, 1992; Babakus & Man gold, 1992; Churchill & Surprenant 1982). In addition, Kang & James (2004) argued that SERVQUAL focuses more on the service delivery process than on other attributes of service, such as service-encounter outcomes (i.e. technical dimensions). In other words, the SERVQUAL measurement does not adequately explain a technical attribute of service.

Thus many scholars have argued that the components of SERVQUAL could not fully evaluate consumer perception of service quality in certain industries (Cronin & Taylor, 1992; Finn & Lamb, 1991). Grönroos (1984) suggested two attributes of service which have been identified as dimensions of service quality based on the conceptualization of service quality as between perceived service and expected service. As an extension of Grunions' model, Rust & Oliver (1994) provided a three-component model explaining service quality through service product, service delivery and service environment, while Brady & Cronin (2001) suggested three service quality dimensions – service outcome, consumer-employee interaction and service environment. The notion of service product/service outcome and service delivery/consumer-employee interaction is consistent with the idea of technical attribute and functional attribute derived from Grönroos' model.

1.3 Service quality & customer satisfaction Measurement scale used for this study

In this research study additional three extra variables has been added to the original SERVQUAL scale ,the variables are Service charge charged by the bank, interest rate and Customer complain handling system suggested by the researcher like (Bahia and Nantel,2000 ,Suresh Chander 2002) after careful validation by academicians and industry experts and in the case of the Attitudinal measurement domain five variables are explicitly extracted from the Behavioral Intention Battery proposed by (Zeithaml, Berry and Parasuraman ,1996) and (Zeithaml V A 2000). Only customer satisfaction dimension is taken for this research study and the dimensions are given below in figure1.

2. Research Objective

To identify the key dimensions of perceived service quality as well as to investigate prevailing service quality level in the private retail banking consumers and to find out a regressive equation on the five dimensions of the service quality with that of the overall service quality.

Figure1: SERVQUAL Model

2.1 Methodology

A descriptive research was used to gain an insight into consumer's perceived service quality offered by private banks with respect to five dimensions of SERVQUAL scale. Primary data were collected for the research. An undisguised structured questionnaire, SERVQUAL by (Parasuraman, et al 1985), was used for the research. The sample size used was 300 respondents. Two top private banks in Tirchirappalli District Tamil Nadu , India was selected on the basis of business world Real 500 finance companies ranking statistics (Source: Business World, 2 November 2009, pp.70-72.). The respondents were selected on the basis of convenience sampling. The questionnaire is personally administered to the valued customers both in English and also in their respective vernacular language for better understanding.

3. Empirical Findings

Eleven demographic variables were investigated as covariates in this research. These variables were as follows: age, gender, marital status, educational qualification, occupation, monthly income, Number of dependents, Type of account and Frequency of visit to the bank.

A total of 350 questionnaires were distributed and 300 were returned. All the 300 data were included for analysis. So, each demographic variable had a varied response rate (see Table 1). There were 144 females and 156 males, ranging in age from less than 25 to greater than 46, with a mean age of 40.57; 93 subjects (31%) were aged between 36-45. 120 subjects were single and 80 were married. As to educational background, there were 144 subjects who had post graduate. 105 subjects were private employment followed by 81 in government employment and 51 were self- employed. In relation to income, 132 subjects had a monthly salary of less than 25,000 Indian Rupees, and 33 subjects had a monthly income between25000-40000.

As regards those items related to no. of dependants, 174 subjects had more than 4 dependants and 252 subjects had salary account with the bank and about 114 subjects visit the bank about 1-2 times in a fortnight followed by 102 subjects visit the bank about 1-2 times in a month. Each demographic variable shown above had a varied response rate.

Table 1: Demographic factors of the respondents

3.1 The Extent of Quality Disconfirmation in Relation to Five Dimensions

The purpose of this research was to investigate prevailing service quality level in the private banking industry, in relation to the dimensions of tangibles, reliability, responsiveness, assurance, and empathy. Table 2 reports the extent of quality disconfirmation scores in relation to each SERVQUAL item for all the subjects who answered the questions. The results (table 3) showed that responsiveness was the only dimension of sufficient significance to customers overall satisfaction with the private banks (r = .102; p = .0003).

Table 2: *Results of the Service Quality*

Table 3: *Predictors of Customer Satisfaction*

3.2 Predictors of Customer Satisfaction

Table 3 shows the predictors of five dimensions and their level of significance in relation to customer satisfaction.

Out of 25 items included in the five dimensions of the servqual model a regression equation (table 4) was developed to find out the overall satisfaction of the customers which is given below:

Table 4: Regression on overall Service Quality

Overall Service Quality = 3.793+4.976A+2.958B+2.630C-4.830D-2.453E-3.226F-3.463G

Where,

A= employees respond to customer request, B= consistently courteous with customer, C= complaint handling system, D= modern looking equipments, E= promises to do something, F= service at the time they promise, G= willing to help the customer

4. Conclusion

The means of the quality disconfirmation scores were all greater than zero, as shown in Table 2. This result is similar to that of the study by O'Connor et al. (2000). The extent of the quality disconfirmation in five dimensions is based on the order from the lowest mean to the highest mean, as follows: tangibles (.684), empathy (.619), responsiveness (.378), reliability (.243), and assurance (.336). Since all quality disconfirmation scores were positive, the subjects' perceptions (actual) were greater than expectations and the subjects were satisfied with banks service quality in varying degrees. The findings also showed that only responsiveness was found to be significant in predicting overall satisfaction with the banking service (b = 0.143, p = .0003), although the R-square is .102. Being responsive means being attentive to the needs of customer's in a timely manner. Though prompt service has both an objective and subjective component for both the provider and consumer of a service (Sower. et al., 2001), the results in this study suggest that recognizing responsiveness as another form of responsibility is essential to every member of the health care system in order to increase customers' overall satisfaction with banking service. So the study affirms that the service quality level in the proposed study on private banks was at adequate level and the regression on overall service quality lists out the various servqual items which has a spread in all the dimensions of the servqual model.

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Table 1. Demographic factors of the respondents *Characteristics of the Subjects (N = 300)*

Variables	Frequency	Percentage (%)	M	SD
AGE				
<25	63	21		
26-35	87	29		
36-45	93	31		
>46	54	18		
13	3	1	40.57	1.46
Educational Qualification				
<HSC	42	14		
UG	90	30		
PG	144	48		
Diploma	24	8		
Others	0	0	2.50	0.83
Marital Status				
Married	180	60		
Unmarried	120	40	1.40	0.49
Gender				
Male	156	70		
Female	144	30	1.50	0.522
Occupation				
Government	81	27		
Private	105	35		
Self-Employed	51	17		
Student	24	08		
House Wife	12	04		
Retired	27	0	2.54	1.51
Monthly Income				
<10000	12	42		
10001-25000	132	44		
25001-40000	33	11		
>40000	9	3	1.75	0.77
No. of dependants				
One	06	02		
Two	18	06		
Three	87	29		
Four	174	58		
Others	15	05	3.58	0.76
Type of Account				
Salary	252	14		
Savings	21	30		
Current	27	0	1.25	0.609
Often visit your bank				
Every Day	12	14		
1-2 Times Per Week	69	30		
1-2 Times Per Fortnight	114	48		
1-2 Times Per Month	105	0	3.04	0.86

Table 2. Results of the Service Quality

SERVQUAL items	Mean	Std. Deviation
Have State of the Art Technology	1.5600	.94623
Physical Facilities -Visually Appealing	1.3800	.56461
Employees Neat Appearance	1.4700	.57656
Materials(E.g. Brochures and Statements) visually Appealing	1.5000	.64354
Promises to do so by a certain time, they will do so.	1.6000	.63564
Customer have a problem, excellent banks will show sincere interest in solving it.	1.5100	.57726
The services of a bank should be performed right the first time	1.5400	.64228
Bank should deliver the services on time	1.5700	.79462
Bank should insist on Error free Records	2.0100	1.23497
Tell customers when exactly the services will be performed	1.6300	.83672
Employees in a bank should give prompt service.	1.8800	.94580
Employees should always be willing to help customers	1.8700	1.21152
Employees never too busy to respond to customers request	1.9400	1.09931
Behaviour of employees should instill confidence in customers	1.9200	1.26075
Customers of a bank should feel safe in all their transaction	1.8000	1.11916
Employees should consistently be courteous with customers	1.8400	1.07984
Employees should have the knowledge to answer customers questions	1.7100	1.17461
A bank should give customers individual attention	1.8000	1.06363
The operation hours of the bank should be convenient	1.8500	1.20080
Employees of a bank should give their customers personal attention	1.9300	1.12146
A bank should have a customers best interest at heart	1.8500	1.01876
Bank employees should understand the specific needs of their customers	1.7900	1.05692
Bank offers competitive interest rates	1.7600	1.03592
Bank charge reasonable service charge	1.7500	.98857
Bank has excellent complaint handling system	1.9400	1.19612

Table 3. Predictors of Customer Satisfaction

Predictors	Beta	*t* value	*p*	*R*2
Overall Satisfaction				**.102**
Tangibles	**0.105**	**0.684**	**.49600**	
Reliability	**0.041**	**0.243**	**.80900**	
Responsiveness	**0.143**	**3.781**	**.00030***	
Assurance	**0.075**	**0.336**	**.73800**	
Empathy	**0.104**	**0.619**	**.53800**	

Table 4. Regression on overall Service Quality

Servqual items	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Over all Service Quality(Constant)	**2.690**	**.709**		**3.793**	**.000**
EMPLOYEES RESPOND TO CUSTOMER REQUEST(A)	**.430**	**.086**	**.487**	**4.976**	**.000**
CONSISTENTLY COURTEOUS WITH CUSTOMER(B)	**.200**	**.102**	**.169**	**2.958**	**.053**
COMPLAINT HANDLING SYSTEM (c)	**.307**	**.117**	**.250**	**2.630**	**.010**
MODERN LOOKING EQUPIMENTS(D)	**-.225**	**.123**	**-.149**	**-4.830**	**.070**
PROMISES TO DO SOMETHING(E)	**-.129**	**.089**	**-.120**	**-2.453**	**.150**
SERVICE AT THE TIME THEY PROMISE(F)	**-.023**	**.103**	**-.022**	**-3.226**	**.822**
WILLING TO HELP CUSTOMER(G)	**-.153**	**.104**	**-.136**	**-3.463**	**.147**
Durbin-Watson Score	**3.873**				
Adjusted R Square	**.784**				

a. Dependent Variable: OVERALL SERVICE QUALITY

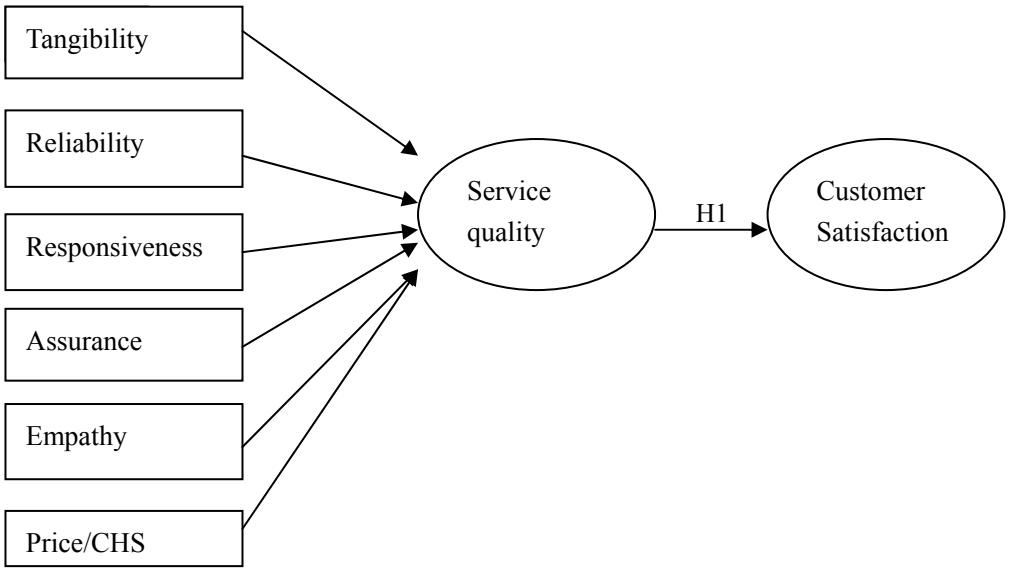

Figure 1. SERVQUAL Model