"An Empirical study on Quality of Services provided by Retail Banks and its impact on Customer perception with special reference to Bangalore District"

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Abstract:

The study empirically describes the customer perception of service quality among retail banking services in order to develop the better understanding of the quality of services provided to banking customers. Retail banking has emerged as a buzzword in the Indian Banking Systems. It encompasses various retail deposit schemes, retail lending, issues and managing credit cards and debit cards, dealing with insurance products, providing Demat services, etc. Retail banking services takes care of the banking needs of the individual customers. The results show that Indian customers' quality perceptions differ between the two genders and across age categories and also the various dimensions like Service Delivery, Core Service, Tangibles, Reliability and Competence. In this service quality model it finds and suggests the most important dimensions that contribute which improves service quality perceptions, Empathy, Service delivery and Sales agent quality.

Keywords: Retail Bank, Service quality assurance, Customer Perception, Quality management Quality of Services, Efficient delivery.

1.0 Introduction:

1.1. Conceptual Framework of the Study:

Retail banking has emerged as a buzzword in the Indian Banking Systems. It encompasses various retail deposit schemes, retail lending, issue and managing credit cards and debit cards, dealing with insurance products, providing Demat services, etc. Retail banking services takes care of the banking needs of the individual customers. Here how the quality of services offered with above attributes plays an important role in retail banks.

Domestic or international service firm managers are aware that service quality in banking is a route to competitive advantage and corporate profitability. More precisely, quality superiority has been found to provide significant performance related advantages such as customer loyalty, responsiveness to demand, market share growth and productivity (Berry et al., 1985; Capon et al., 1990; Berry and Parasuraman, 1991; Anderson et al., 1994; Rust et al., 1994; Barnes and Cumby, 1995; Lassar et al., 2000; Roberts et al., 2003;

Jabnoun and Al-Tamimi, 2003). Bank service quality is commonly noted as a critical prerequisite for satisfying and retaining valued customers (Taylor and Baker, 1994). Thus, service managers realise that to successfully leverage service quality as a competitive edge, they first need to correctly identify the antecedents of what the consumer perceives as service "quality".

With the opening up of the economy, there has been a sea change in banking sector giving way to the private sector banks and foreign banks to operate their business in India, along with the public sector banks. This necessitated the need for various reforms in banking sector. The present study is an attempt to analyse the impact of innovation in Retail Banking on the profitability of banks.

Service encounters are first and foremast social encounters, thus rules and expectation related to them vary considerably across countries (Malhotra et al., 2005). Consumers of services in different countries are expected to have different perceptions of what service quality is, due to diversities that exist in terms of economic development level and political and socio-cultural system (Furrer et al., 2000; Witkowski and Wolfinbarger, 2000).

1.2 The Scenario of Service Quality:

The Indian banking industry is comprised of commercial banks, regional rural banks, co-operative banks, small finance banks and payment banks. The various service quality offered in different scenario helps in measuring the perceptions of service quality (Gro ̈nroos, 1983; 1990; Parasuraman et al., 1985; 1988;, 1991; Stafford, 1996; Bahia and Nantel,2000;AldlaiganandButtle,2002).The SERVQUAL model of Parasuramanetal. (1988) proposes a five-dimensional construct of perceived service quality: tangibles; reliability; responsiveness; assurance; and empathy – with items reflecting both expectations and perceived performance. The SERVQUAL approach has not gone uncriticised however. There has been concern about the central role of expectations and the significance of a subtractive "gap" as a measure of quality (Asubonteg et al., 1996; Buttle, 1996). More importantly, the universality of the SERVQUAL dimensions across different types of services has been questioned (Babakus and Mangold, 1989; Carman, 1990; Bresinger and Lambert, 1990; Finn and Lamb, 1991; Babakus and Boller, 1992). Carman (1990) for instance, found that it is often necessary to incorporate additional items in certain dimensions because they are particularly important for some service categories. A further critique of SERVQUAL concerns its emphasis on service and product dimensions, and its neglect of other dimensions of the marketing mix – especially price (Gilmore and Carson, 1992). Bahia and Nantel (2000) consequently developed a specific new scale for perceived service quality in retail banking. This Bank Service Quality (BSQ) model is an extension of the original 10 dimensions of the model of Parasuraman et al.(1985). In addition, Bahia and Nantel (2000) incorporated additional items such as courtesy and access, as proposed by Carman (1990), and items representing the marketing mix of the "7Ps" (product/service, place, process, participants, physical surroundings, price and promotion) from the Boom and Bitner (1981) framework. After purification, the BSQ was left with 31 items of service quality relevant to the banking sector.

 These 31 items were distributed across six dimensions: (1) Effectiveness and assurance: effectiveness refers to the effective delivery of service (particularly the friendliness and courtesy of employees) and the ability

of staff to inspire a feeling of security. Assurance concerns the staff's ability to exhibit their communication skills and to deal confidentially with clients' requests. (2) Access: assesses the speed of service delivery. (3) Price: measures the cost of service delivery. (4) Tangibles: assess the appearance and cleanliness of a bank's physical infrastructure. (5) Service portfolio: assesses the range, consistency, and innovation of the bank's products. (6) Reliability: measures the bank's ability to deliver the service you have been promised accurately and without error.

1.3 Bank Service Quality:

The resultant BSQ model was tested for its convergent, nomological, and discriminant (SERVQUAL vs BSQ) validity. Aldlaigan and Buttle (2002) have developed and validated a new 21-item scale that describes customers' service quality perceptions comprising four dimensions: service system quality, behavioural service quality, service transactional accuracy, and machine service quality. In comparing BSQ with SERVQUAL, Bahia and Nantel (2000) argued that the main advantage of BSQ for banks is related to its content validity. For example, the services portfolio dimension and the price dimension of BSQ are absent from SERVQUAL. It is for this reason (content validity) that the BSQ was chosen for use in the present study. Any concerns about using BSQ cross-culturally were eliminated, since other researchers have tested the BSQ in Greece in order to investigate the effect of the customers' gender and of the bank's status on quality perceptions (Spathis et al., 2001; 2004) and the specific tool has proven to be valid and reliable.

2.0 Literature review

Research states quality is defined from the users' perspective wherein goods and services exceed the customers' expectations (Parasuraman et al., 1985; Gronroos, 1990; Zeithaml et al., 1990). Parasuraman et al. (1985) posit that customers' perception regarding service quality depends upon the gap that exists between what the customers expect and what they receive in the service. It becomes imperative for companies to understand the expectation levels of the customers, and design service delivery according to their expectations. Delivering a service according to customer expectations and superior quality of service enhances the competitive advantage of a business (Ranganathan and Ganapathy, 2002) and helps in retaining customers (Zhu and Lin, 2010). Quality is a cognitive evaluation of the service (Cronin and Taylor, 1992) and is supposed to measure the 'gap' in the service delivery (Asubonteg et al., 1996). The intangible nature of services adds to the complexity in understanding services (Cowell, 1984; Wolak, et al., 1998). The pursuance of service quality improves customers' trust in the service provider and influences their intentions to use the service (Shamdasani et al., 2008). Service quality comprises of functional and technical components (Gronroos, 1990). The functional component combines the behaviour of the service personnel, the speed at which the service is delivered, and the competency of the staff. The technical aspects relate to the outcome of the service. The SERVQUAL model encompasses five perceived service quality attributes: tangibles, reliability, responsiveness, assurance and empathy (Parasuraman et al., 1988). It focuses on the delivery process but does not take into account the behavioural aspects (Baker and Lamb, 1993; Richard and Allaway, 1993). Research suggests multiple dimensions for understanding service quality. It encompasses

physical, interactive and corporate quality (Lehtinen and Lehtinen, 1982), service delivery processes (Berry et al., 1985), customer-employee interactions (Rust and Oliver, 1994) and 'how' the service was performed (Swartz and Brown, 1989). Customers' evaluate service as poor if it does not meet their expectations (Oliver, 1980). As service quality increases, the customer satisfaction also increases (Asubonteg et al., 1996; Gilmore, 1997; Kandampully, 1997; Colgate and Stewart, 1998; Durvasula et al., 1999) and this would affect their attitude about the service. Dabholkar et al. (1996) in their research on retail service quality proposed that perceptions of service quality are multilayered and comprise of overall customers' perception of quality (physical attributes, reliability, personal interaction, problem solving, and policy), and subdimension (appearance, convenience). The presence of these elements improves the assessment towards the service. Research suggests that SERVQUAL model cannot be applied for all service research studies and modifications have been proposed according to the differences in the nature of services (Parasuraman et al., 1988; Carman, 1990; Gronroos, 1990; Babakus and Mangold, 1992; Stafford, 1996; Bahia and Nantel, 2000; Aldlaigan and Buttle, 2002). The SERVQUAL model is said to measure the service delivery and not the outcomes (Buttle, 1996; Genestre and Herbig, 1996) and does not include all the marketing mix elements and only focuses on the product/service dimensions (Gilmore and Carson, 1992). In spite of limitations cited about SERVQUAL model, it have been extensively used to measure service quality of financial services (Bahia and Nantel, 2000; Lassar et al., 2000; Cui et al., 2003; Duff, 2004; Guo et al., 2008).

The research objective was to examine the following hypotheses: H1 Service quality attributes would show a positive relationship amongst themselves. H2 There will be difference between the two genders regarding the attitude towards service quality attributes of Retail banks in Bangalore District. Since retail banks are in the process of opening branches in different parts of India, the study attempts to understand the principle factors governing customers' attitudes and perceptions towards banking services offered by these banks.

3 Research methodology

3.1 Instrument design

The research was directed towards understanding customers' perceptions towards retail banks operating in India. The SERVQUAL model was adapted with some modification for the study. The instrument was designed keeping into consideration the Indian banking sector. Earlier research on banking industry was consulted for instrument design. Attributes like convenience (Berry et al., 2002), personal interaction (Dabholkar et al., 1996), assurance and access (Bahia and Nantel, 2002) and, competence (Kumar et al., 2009) were considered important in defining bank service quality. The total items for the scale were segregated under five service quality attributes: four items for tangibles, five items for reliability, eight items for competence, six items for personal interaction, and two items for convenience. The SERVQUAL scale developed by Parasuraman et al., (1985), and Kumar et al. (2009) were adapted and the personal interaction and competence attributes (Dabholkar et al., 1996; Bahia and Nantel, 2002) were modified according to Indian banking scenario.

3.2 Sampling Design

Random sampling technique was used for data collection. Customers visiting the five major banks in Bangalore district. The Banks selected were ICICI, HDFC (Private Banks), State Bank of India, Union Bank, and Punjab National Bank (Public sector banks). The sample size for was kept as 150 each. Since the purpose was to understand customers' perception towards service quality of retail banks, the sample was not kept of people having accounts with these banks. Thus, only customers visiting public and private banks in India were contacted. The questionnaires were administered in English and the responses of the customers was taken on a five-point Likert scale with responses varying on the scale of 1 for strongly agree and 5 for strongly disagree.

4 Findings and discussion

The reliability testing of the items was done. Chronbach's (1951) coefficient alpha measures the extent to which the scale items cohere with each other. The Chronbach alpha (α) for the five service attributes ranged between showing that the scale was reliable. These subscales provide a short-form measurement for each service quality attribute. The reliabilities are satisfactory in all cases with the exception of the convenience attribute, which has marginal reliability.

To find the relationship between the various service quality attributes, correlation test was run. The results suggest that there exists a high positive correlation between all the five service quality attributes (Table).

Table: Correlation analysis between the service qualities attributes of retail banks

Service Quality Attributes		Tangible	Reliability	Competence	Personal Interaction	Convenience
Tangible	Pearson Correlation	1	.755**	.872**	.783**	.456**
Reliability	Pearson correlation	.772**	1	.866**	.846**	.592**
Competence	Pearson Correlation	.833**	.851**	1	.871**	.618**
Personal Interaction	Pearson Correlation	.749**	.836**	.861**	1	.582**
Convenience	Pearson Correlation	.448**	.592**	.618**	.582**	1

Note: **significant at 01 level (two-tailed)

The Pearson correlation between Tangible and reliability is .755; with competence is .872, with personal interaction is .783 and with convenience is .456. The reliability with competence is .866, with personal interaction is .846, and with convenience is .592. Competence has a high positive correlation with personal interaction at .871 and with convenience at .618. Personal interaction attribute shows high correlation with

convenience at .582. The results suggest that the each attribute plays a significant role in determining the customers' perception towards service quality in retail banks in India. The results are significant at .001 levels. The results support earlier research findings that state that bank service quality encompasses the different quality attributes (Howcroft, 1991; Blanched and Galloway, 1994; Lassar et al., 2000; Bahia and Nantel, 2002; Kumar et al., 2009; Chen, 2009). The Indian customers' perception towards service quality of retail banks would be affected by the interplay of the quality attributes. The intangibility of services makes service delivery complex and multifaceted. The customers' perceptions are guided and determined by their past experiences about banking services. Their disappointment with service quality would influence their expectations about what they seek in a service. The retail banks with their superior brand image are likely to influence customers' perceptions and attitudes. The customers' perception governed by all the service quality attributes and presence and performance of one attribute supports the performance of the other four attributes. Thus, the H1 gets accepted.

5 Conclusions and future research directions

The research attempts to identify the quality of services and its impact on customers' perceptions about retail banks. It can help these banks in planning their marketing strategies and expanding in the smaller cities of the country. The results show that Indian customers are positive towards the retail banks and consider them efficient and competent. For a country where banking sector liberalisation is in full swing, the findings can help banks in understanding the expectations of the customers. The research was conducted in Bangalore district of South India. The research can be extended to more cities and a larger sample would provide different results. The profession and income levels of the customers/respondents may be also considered as important factors influencing their perception and attitude towards retail banks. A comparison between customers of foreign banks and Indian banks can be done in future to understand the important service quality issues given priority by the customers. This would also provide interesting insights regarding customers' service quality perception for Indian and foreign banks. The service quality can be extended to understanding the implication of different services offered by the banks.

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