Customer perception towards banking sector in Nepal

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Abstract

In order to survive and excel in the competitive scenario, organizations have to understand the customers' requirements. Service quality can be measured with the help of the two important instruments, namely SERVQUAL and SERVPERF. BANKSERV model can be used to measure the service quality of the banking sector. Customers' perception with regard to various services rendered by the banking industry was taken for this study. Data were collected from 350 customers of the bank located in Kathmandu Valley, Nepal. In order to evaluate the association between the variables used in the model, structural equation modeling (SEM) was used for data analysis. The findings of the research showed that, absolute fit indices fits the sample data and reveals that the proposed model has the acceptable fit, by way of satisfying the recommended values.

Key words: Banking industry, service quality, customers" perception, structural equation modeling (SEM), and confirmatory factor analysis.

INTRODUCTION

In banking sector, service quality is related to bank loyalty through satisfaction (Bloemer et al., 1998). In the globalized environment, banking industry in Nepal is witnessing keen competition in acquiring new and retaining existing customers. Banks in Nepal have to compete with private banks, and joint venture banks. The BANKSERV model was developed in Australia by Avkiran (1994), to measure service quality in retail banking as perceived by customers. Service quality is measured based upon the expectation and perception of the customers in BANKSERV model. The objective of this study has to explore the impact of individual aspects of banking operation on various types of customers" perceptions of service quality. In this study, data were collected based upon the bank customers" perception (SERVPERF) about the four- factor pertaining BANKSERV model (Avkiran, 1994:15) with some modifications (refer appendix) in order to suit Nepalese environment. Data were collected from 350 customers of nationalized banks such as Nepal Bank, Rastriya Banijaya Bank, SBI Bank, Everest bank, Standard chartered, Nabil Bank, Himalayan Bank. Bangladesh Bank, Global IME bank, and NCC bank of Nepal.. Banking customers" opinion about banking service quality was elicited from the perspective of banks" staff conduct, credibility, communication and customer accessibility. Statistical methods like exploratory factor analysis and confirmatory factor analysis were used.

Significance of the study

Nationalized banks in Nepal have to compete with other commercial banks and also with some joint venture banks, since banking industry is privatized and globalized in Nepal. In order to sustain and excel in the competitive environment nationalized banks in have have to satisfy and delight their existing customers and formulate suitable strategies to acquire new customers. Hence, this type of research gains importance.

LITERATURE REVIEW

The long term survival and success of any organization depends upon the high quality products and services providing value for money, for the consumer, which will lead to consumer satisfaction and loyalty (Zeithaml et al., 1990; Robledo, 2001). The positive consequences of companies achieving high levels of customer satisfaction and service quality are well documented (Rust and Zahorik, 1993; Zeithaml et al., 1990). Service quality is a critical issue in the service

industry and of particular importance for financial service providers who characteristically offer products that are homogeneous in nature (Stafford et al., 1998). Service business success has been associated with the ability to deliver superior service (Gale, 1990). If we want to manage something, it should be measured first. Without measurement, managers cannot be sure of whether service quality gaps exist or not (Christopher et al., 2006) and, of course, measurement is needed to determine whether goals for improvement are being met after changes have been implemented (Christopher et al., 2006). In general, it is difficult to measure and quantify service quality. The main purpose of measuring service quality is to ensure whether service is provided as per the expectations of the customers. Zeithaml et al. (1990) suggest that the criteria used by customers in molding their expectations and perceptions fit in five dimensions of service quality: tangibles, reliability, responsiveness, assurance and empathy.

Objectives of the study

The objectives of this study are as follows:

1. To identify the determinants of service quality that is vital to banking industry.
2. To examine the usefulness of the BANKSERV (measuring only performance) model for assessing customer perceptions of service quality in banking industry.

METHODOLOGY

Avkiran‟s (1994) 17-item BANKSERV instrument was adopted with some modifications (Appendix 1) for data collection. In this research, a perceptions-only measure (similar to SERVPERF) was used to collect data from the bank customers. A five-point scale (5 indicating strongly agree and 1 indicating strongly disagree) was used in preference to a seven-point scale to increase the sensitivity of the measure. In this study, Banking customers‟ perceptions were measured with a self administered questionnaire. This study employed primary sources of data only. Data were collected from 350 banking customers.' Banking customers‟ opinion about banking service quality was elicited from the perspective of banks‟ staff conduct, credibility, communication and customer accessibility. Out of the total 500 questionnaires distributed, researcher was able to collect only 350 questionnaires fully completed in all aspects which amount to 70 % of response rate.

Analysis and Results

Collected data were analyzed with the help of software package SPSS, and analysis of moment structure (AMOS) 16. Statistical techniques like descriptive analysis, reliability analysis, exploratory factor analysis, confirmatory factor analysis were used to evaluate the service quality.

RESULTS AND DISCUSSION

Customers involved in this study 350 bank customers, 55.3% were male and 44.7% were female. With regard to the level of education, 30% of bank customers had post graduate degree, 34.3% of the bank customers had under graduate degree, and 7.7% of the bank customers had diploma qualification. With reference to monthly income of the customers‟, 23.3% bank customers‟ income were below ≤ Rs.20,000, 21.7% of the bank customers‟ income were in the range of Rs. 21,000 to 50,000, 15.3% of the banking customers‟ income were in the range of Rs.51,000 to 1,00,000 and 8.3% of the banking customers‟ monthly income were in the range of above Rs.1,00,000. The collected data reveals that, in terms of occupation, 20.7% of the banking customers were private employees, 24.7% of the banking customers were Government employees, 22% of the banking customers were self employed and 12.3% of the banking customers unemployed.

Construct reliability and validity analysis for BANKSERV dimensions

While applying Likert- types scales in research, it is necessary to calculate the Cronbach alpha coefficient for reliability and consistency (Joseph et al., 2003) the Cronbach alpha for all dimensions except for „customer accessibility‟ are above 0.70 which indicates a high level of internal consistency for the scale. Moreover, over all Cronbach‟s alpha value for the BANKSERV dimensions is 0.904. The Cronbach‟s alpha values for the perceptions subscales are 0.835, 0.749,

0.852 and 0.643 for staff conduct, credibility, communication and customer accessibility. Structural equation modeling evaluates whether the data fit a theoretical model. In order to evaluate the model, emphasis was given to Chi-square/degrees of freedom (x2/df), CFI, GFI, AGFI, TLI, IFI, RMSEA and PGFI (Table 6). As per the result, Chi square statistics with p = 0.000 does not show a good fit of the model.

Model fit indices.

 Fit Indices Results Suggested values Chi-square 72.829 (0.000) DF- 29 P-value >0.05 Chi-square/degree of freedom (x2/d.f.) 2.51 ≤ 5.00 (Hair et al., 1998) Comparative Fit index (CFI) 0.947 >0.90 (Hu and Bentler, 1999) Goodness of Fit Index (GFI) 0.955 >0.90 (Hair et al. 2006) Adjusted Goodness of Fit Index (AGFI) 0.915 > 0.90 (Daire et al., 2008) Normated Fit Index (NFI) 0.917 ≥ 0.90 (Hu and Bentler, 1999) Incremental Fit Index (IFI) 0.948 Approaches 1 Tucker Lewis Index (TLI) 0.918 ≥ 0.90 (Hair et al., 1998) Root mean square error of approximation (RMSEA) 0.071 < 0.08 (Hair et al., 2006) Parsimony goodness-of-fit index (PGFI) 0.50 Within 0.5 (Mulaik et al., 1989). Suitability of the model based upon the collected samples. As recommended by Anderson and Gerbing (1988), measurement model to test the reliability and validity of the survey instrument was analyzed first, and by using AMOS version 16 the structural model was analyzed.

 Hypothesis

 Null (H1): The hypothesized model does not have a good fit.

 it is clear that values of all the items are above the suggested value of 0.5 (Hair et al., 2006). According to Bollen (1989a), the higher the probability associated with Chi-square, the closer the fit between the hypothesized model and the perfect fit. The test of our null hypothesis H0, that BANKPERF is a three-factor structure as shown in Figure 1, yielded a chi-square value of 72.829 with 29 degrees of freedom and a probability of less than 0.0001(p < 0.0001). It is suggesting that the fit of the data to the hypothesized model is not entirely adequate. As per the result, Chi square statistics with p = 0.000 does not show a good fit of the model. Consequently, this model is considered for further interpretation in the goodness of fit measures. According to Barbara (2009), both the sensitivity of the Likelihood ratio test to sample size and its basis on the chi-square distribution, which assumes that the population (that is, H0 is correct), have led to problems of fit are now widely known.

Level of significance for regression weight

 Maximum likelihood estimates

Relative contributions of each predictor variable to each outcome variable can be evaluated by standardized estimates. The BANKSERV structural model, Out of 17 banking service quality items, 10 items were taken for confirmatory factor analysis. It is clear that customers attach more values to staff conduct compares to other service quality items. Confirmatory factor analysis is furthermore known as measurement model. The root mean square error of approximation enlightens us how the model, with unknown parameter estimates would fit the population covariance matrix (Byrne, 1998). According to Kline (2005), CFI, RMSEA can be utilized along with Chi-Square test to calculate the measurement model fit. As an alternative to Chi-square test, goodness-of-fit statistic.

CONCLUSION AND IMPLICATIONS

 The aim of this research was to carry out an empirical analysis of the factors determining the bank customers‟ perception (SERVPERF) about the four factors-banks‟ staff conduct, credibility, communication and customer accessibility pertaining to BANKSERV model, using a structural equation modeling. This study affirms and develops an instrument of service quality in the context of banking industry, and examines the relationship among banking service quality, banks‟ staff conduct, credibility, communication and customer accessibility. The proposed model (BANKSERV scale was adopted with some modifications) is then calibrated using the data collected from customers of banking sector in Nepal.

Four significant determinants of banking service quality identified are: staff conduct, credibility, communication and customer accessibility. The findings show that Cronbach„s alpha for all dimensions except for „customer accessibility‟ are above 0.70 which indicates a high level of internal consistency for the BANKPERF scale (BANKSERV model with performance only measure). Moreover, over all Cronbach‟s alpha value for the BANKSERV dimension is 0.904 which is above the cut off value of 0.7. Based on the confirmatory factor analysis, it can be concluded that, the BANKPERF scale (BANKSERV model with performance only measure) used in this study adequately fit into the collected data. It could be very well concluded that the hypothesized three-factor model fits the sample data.

This study has got its own limitations. Since this study was confined only to nationalized banks of Nepal, the findings of the study may not be fully applicable to private and foreign banks in Nepal. Further, the study focuses only banking industry; hence generalization may not be applicable to other industries. Without any discrimination opinions expressed by customers of various branches of national banks spread over Kathmandu valley. The determinants of the service quality may be investigated across multi-national settings. Further research can be carried out in the banking industry, especially in the globalized environment from the perspective of different determinants of service quality which will facilitate to enhance the quality of service and customer satisfaction.

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