

Enhancing Banking Services through SERVQUAL: A Pathway to Customer Excellence

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Abstract:

The global financial crisis and the increase of competition in the banking sector necessitate that banks enhance their understanding of clients and collaborate more effectively with them. The foundation of banks' survival and profitability lies in delivering high-quality offerings that serve as assets for cultivating long-term relationships. The objective of the paper is to assess the impact of banking service quality dimensions on client satisfaction and loyalty utilising a modified SERVQUAL model. The primary research question is to investigate which dimensions of banking service quality influence client satisfaction and loyalty, as well as the nature and intensity of this impact. To assess clients' perceptions of the quality of banking services, the survey method utilising a questionnaire technique was employed. The questionnaire was disseminated to clients of banks functioning in the Udupi district and Dakshina Kannada, Karnataka. Three hundred thirty-seven banking customers responded positively to all the information contained in the questionnaire. The simple random sampling technique was employed. The analysis was performed by processing the primary data using the statistical software SPSS, where multiple statistical analyses were executed. The study concludes that knowledge of products or services, issues related to technology usage, perceptions of the bank, tangible aspects, assurance, empathy, responsiveness, and preferences in bank selection vary significantly by age group of the respondents.

Introduction:

The banking sector is essential to any contemporary economy. It is a crucial financial pillar of the financial sector, significantly contributing to the functioning of an economy. The economic development of a country necessitates that the financing needs of trade, industry, and agriculture are addressed with enhanced commitment and responsibility. The advancement of a nation is intrinsically connected to the evolution of its banking system. In a contemporary economy, banks should be regarded not merely as financial intermediaries but as catalysts for development. They are pivotal in the mobilization of deposits and the allocation of credit across diverse sectors of the economy. The banking system signifies the economic vitality of the nation. The robustness of an economy relies on the strength and efficiency of the financial system, which is contingent upon a sound and solvent banking system. An effective banking system adeptly channels savings into productive sectors, while a solvent banking system guarantees the institution's ability to fulfil its obligations to depositors. In India, banks are instrumental in the socio-economic advancement of the nation post-independence. The banking sector predominates in India, comprising over fifty percent of the financial sector's assets. Indian banks are experiencing a remarkable period characterised by swift transformations due to the gradual implementation of financial sector reforms. In the past year, the banking industry has experienced swift transformations, evident in banking reforms. Telecommunications and information technology are the most significant sectors that have undergone rapid transformation.

Globalisation is defined as the global movement towards an economic system dominated by corporate trade and banking institutions that lack accountability to democratic processes or national governments. Globalisation is transforming all significant institutions, including the nation, state, family, labour, services, commerce, leisure, culture, and knowledge. This has led to a transformation in global lifestyles, unifying the world in decision-making processes. In the contemporary age of economic globalisation and liberalisation, the financial integrity, stability, and quality provided by the banking sector are crucial for attaining the desired levels of economic

growth in any nation, whether developed, developing, or underdeveloped. Following the liberalisation of the Indian economy, the Government has implemented various reform measures in accordance with the recommendations of the Narasimhan Committee to enhance the economic viability and competitive strength of the banking sector.

In the early 1990s, the Narasimha Rao administration initiated a liberalisation policy, permitting a limited number of private banks. These institutions became recognised as New Generation tech-savvy banks, including Global Trust Bank (the inaugural establishment of this category), which subsequently merged with Oriental Bank of Commerce, along with Axis Bank (formerly UTI Bank), ICICI Bank, and HDFC Bank. This action, coupled with the swift expansion of India's economy, transformed the banking sector, which has experienced significant growth due to robust contributions from government banks, private banks, and foreign banks. The subsequent phase for Indian banking has been established with the proposed easing of regulations regarding Foreign Direct Investment, allowing all foreign investors in banks to potentially possess voting rights that may surpass the current limit of 10%, which has now increased to 49% with certain restrictions.

In the past twenty years, India's financial sector has undergone significant transformations due to the advancement of new technologies, liberalization and deregulation of financial markets, and international regulatory initiatives. Considering that India's financial system is predominantly bank-based and the essential role of the Indian capital market, a stable and profitable banking sector is crucial for long-term and sustainable economic growth and development. The dynamics of changes characterizing banking institutions enable the utilization of various instruments to enhance their market position and improve business profitability.

Indian Banking System:

The Indian banking system has “scheduled banks” and “nonscheduled banks”. Nonscheduled banks do not meet the conditions of the second schedule of the Banking Regulation Act of 1965. Schedule banks, as defined in the Second Schedule of Banking Regulation Act of 1965, must meet two conditions: (1) a minimum of Rs. 5 lakh in paid-up capital and reserves, and (2) satisfy the RBI that their operations do not harm deposit interests.

Scheduled banks are "scheduled commercial banks" and cooperative banks. The former is further divided into four categories: (1) public sector banks ("Nationalised Banks and the "State Bank of India (SBI) banks"); (2) private sector banks ("Old Private Sector Banks" and "New Private Sector Banks" that emerged after 1991); (3) foreign banks in India; and (4) regional rural banks. The Companies Act registers these scheduled commercial banks except foreign banks in India.

Public Sector Banks:

The Imperial Bank of India (1921) and State Bank of India (1955) were nationalized as part of the All India Rural Credit Survey Committee's integrated rural credit scheme (1951), creating the public sector in banking. Several unique features make the Bank a permanent RBI agent where RBI has no branches. It is the largest bank in the country with 48 overseas offices in 28 countries across all time zones. SBI was founded to provide extensive banking facilities. The banking sector reforms lowered pre-emotions to boost bank profitability and strengthened the banking system with capital adequacy norms, income recognition, asset classification, and provisioning requirements based on international standards. New private sector banks and more liberal foreign bank entry are encouraged to boost competition. The Indian banking system is mostly branch-based.

Service Quality and Customer Satisfaction:

In most service industries, service quality and customer satisfaction are major issues. The best way to win customers and keep them is to provide high-quality, unique services. Since service quality is crucial to the profitability and survival of service industries like insurance and banking, it is increasingly important. One of the best parts of banking is customer service. Competition, changing market, risk and uncertainty, environment, and demanding customers are some of the challenges banks face. These issues affected industry structure and bank competition. Service quality is crucial for banks to survive in a competitive market. Service quality is becoming more important for banking survival and success, so it's important to understand how customers view it. Service quality has different meanings in different sectors.

SERVQUAL model (Service Quality Model):

Service quality is crucial for any company to gain a competitive edge. "Service Management" author James Fitzsimmons defines service as "a time perishable, intangible experience performed for a customer acting in the role of co-producer." The SERVQUAL model has been widely used to evaluate service quality from various providers, including banks. In the SERVQUAL model, service quality is the difference between customer perceptions of the service transaction and his expectations of how it should have been performed. SERVQUAL analyses quantitatively. A satisfaction survey that focusses on supplier-buyer transactions measures quality using generic, environmental factors. American marketing experts Valarie Zeithaml, A. Parasuraman, and Leonard Berry created the SERVQUAL model in 1988. Customer service quality is measured using it. SERVQUAL measures service quality with multiple attributes.

This study examines the importance of banking service quality for the development and operation of banks within the domestic financial market, emphasising satisfaction and loyalty as foundations for sustainable and profitable banking practices. An empirical investigation was conducted to assess the impact of various dimensions of banking service quality on client satisfaction and loyalty, utilising a modified SERVQUAL model. The primary research question is to investigate which dimensions of banking service quality influence client satisfaction and loyalty, as well as the nature and intensity of this impact.

Literature Review:

Ravi K. Dhar (2009) conducted a study titled "Service Quality Expectations and Perceptions of Public and Private Sector Banks in India," elucidating the factors influencing customers' expectations and perceptions of bank service quality. Their study indicates that in the fiercely competitive global market, where companies must thrive and expand based on volume rather than margin, service quality will be paramount in-service marketing.

Vivek Agrawal, et. al (2014)'A Conceptual Framework for the Review of E-Service Quality in the Banking Industry', a study examining E-service quality within the banking sector. The quality of e-service is crucial for the success or failure of any organisation providing online services. This will intensify competition among organisations to attract customers based on the quality of service offered. Improved e-service quality will strengthen customer relationships and increase satisfaction. The assessment of service quality is crucial, yet it is a complicated process owing to the intricate nature of services.

Bitta Martha Awuor (2009), in 'Service Quality and Customer Satisfaction in the Banking Sector in Kenya', elucidates the importance of service quality, which has garnered considerable attention from marketers in recent years due to its critical impact on business performance and the preservation of customer loyalty. The recent expansion of the service sector, including banking, has created a demand for service providers to comprehend customers' perceptions of service quality.

Ramaswamy Velmurugan (2015) conducted research on the 'quality of public sector banks' and identified that, in an era of intense competition, a primary challenge for Public Sector Banks is managing quality service, which is essential for customer satisfaction. Due to advancements in information communication technology, customers have become informed, discerning, and sensitive to value, with a broad array of options between Private and Foreign Banks. He asserts that Public Sector Banks must enhance their service quality to thrive in a competitive landscape.

Dr. Jitendra Kumar Sahu and Manabhanjan Sahu (2016), in their work 'Service Quality of Public Sector Banks in India: A Gap Between Perception and Expectation,' aim to provide a comprehensive analysis of diverse service quality dimensions within the Indian banking sector and to examine customer perceptions of service quality in the selected banks. The research examines the primary factors contributing to customer satisfaction, analyses service gaps, and draws conclusions regarding the significance of various dimensions of service quality in these studies.

In his 2016 work, "Service Quality and Delivery in Banking Services—An Indian Perspective," Abhinav Gupta elucidates the relationship between employee job satisfaction and the quality of service they provide. The study revealed that job satisfaction is highest among PSU bank employees. Employees of private and foreign banks exhibit lower satisfaction levels than their counterparts in public sector undertaking (PSU) banks. He asserts that when customers perceive employees as content, they are likely to be satisfied with the service rendered to them. This elucidates the pivotal moment when the customer engages with the service provider, which is likely to be more gratifying when the employee is content.

Research Methodology:

To assess clients' attitudes towards the quality of banking services, the survey method utilising a questionnaire technique was employed. This data collection method was employed due to its capacity to gather information from a substantial sample efficiently and cost-effectively per participant. It is straightforward to design and implement, providing the researcher with flexibility regarding the types and quantities of questions included in the survey (Chrysochou, 2017). The questionnaire was completed by clients of banks operating in Udupi and Dakshin Kannada via Google Forms. The simple random sampling technique was employed. The survey comprises two sections. The initial section of the questionnaire pertains to demographic data, while the subsequent section addresses enquiries regarding banking services and the variables of the SERVQUAL model (tangibility, reliability, responsiveness, assurance, and empathy), including statements related to respondents' age. The sample comprises 337 clients, consisting of 159 males and 178 females.

Objectives:

To measure the effectiveness of SERVQUAL dimensions on the satisfaction level of customers

Hypothesis:

There is a significant difference between age and dimensions of SERVQUAL

Limitation of the study:

The following are the limitations of the present study:

- The study is confined only to the public sector banks which are functioning in Udupi district and Dakshina Kannada.

- The study covers only the Udupi District and Dakshina Kannada and hence the results may not be generalized to other parts of the country as there exists difference in the socioeconomic profile of the respondents and the nature of functioning of these banks.
- Some of the respondents of the survey were unwilling to share information. The information given by the respondents might be biased because some of them might not be interested in providing correct information.

Data Analysis and Interpretation:

Table1: GENDER

		Frequency	Percent
Valid	male	159	47.2
	female	178	52.8
	Total	337	100.0

The result of the study summarized the gender of respondent of public sector banks. The total no of respondents is 337 out of which 159 (47.2%) are males and 178 (52.8%) are females.

Table 2: Result summary

Sr. No.	Dimension	Cronbach's Alpha	Ch-square	P Value	H ₀ or H ₁ Accept or Reject
	TANGIBLE	0.7	29.510	0.000**	H ₁ Accept
	ASSURANCE	0.802	10.734	0.217	H ₁ Reject
	RELIABILITY	0.829	23.201	0.003**	H ₁ Accept
	EMPATHY	0.785	28.099	0.000**	H ₁ Accept
	RESPONSIVENESS	0.861	10.086	0.259	H ₁ Reject

As the P value is 0.000 which is lesser than 0.01. null hypothesis is rejected @1% level of significance. Hence it is concluded that there is no association between age group and tangible dimension, reliability and empathy.

As the P value is 0.003 which is lesser than 0.01. null hypothesis is rejected @1% level of significance. Hence it is concluded that there is no association between age group and reliability .

As the P value is 0.217 and 0.259 which is greater than 0.05. H₀ is failed to rejected @ 5% level of significance. Hence it is concluded that there is no significance difference among age group with respect to assurance and responsiveness dimension.

Findings and Conclusion:

1. The chi-square test indicates that there is a association among age group and knowledge about product or services @5% significance level. The chi-square test indicates that there is a association between age group and charges taken by the bank, tangible dimension, reliability, empathy, preference on selecting the bank @1% significance level.
2. The chi-square test indicates that there is no association among age group and problem on technology usage, feeling or perception about the bank, Assurance, responsiveness.

Suggestions:

1. Public sector banks will train their employees to engage with customers empathetically. This can provide the necessary competitive edge and ultimately the advantage over private sector banks. Appropriate training programs will be provided to ensure bank employees remain informed and capable of addressing customer enquiries.
2. The customer's perception of tangibility dimension of service quality is lower in public sector bank. So, the public sector bank may take steps to improve latest technologies in providing services, adequate infrastructural facilities and location is easily accessible.

Conclusion:

Service quality is crucial for all organisations, including banking institutions. As customer perceptions of service quality evolve, banks must prioritise service quality attributes that enhance customer value. Banks must prioritise both attracting and retaining their customers. Individual customer needs must be addressed by banks to foster strong relationships. This also aids in maintaining competition. Utilising service quality as a strategic tool can provide a competitive advantage over rivals.

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