Service Quality and Its Impact on Customer Satisfaction in Banking Sector

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Abstract

The success and survival of banks in the present globalised environment will depend upon the fulfillment of customer's needs and expectations by offering quality services that create customer satisfaction. Quality of service has a positive relationship with customer satisfaction. As banks provide identical services, it is the quality of services that play a key role in the present competitive environment. In order to face the competition in the present globalized environment, banks have to identify the customers' needs and expectations and not only deliver quality services but should constantly improve on them. The purpose of this paper is to determine the customers' perception toward the quality of banking services and the impact of such perception on customer satisfaction with a sample size of 500 customers taken from selected commercial bank branches of selected districts of Nagaland. The overall service quality and customer satisfaction has been done by comparing the Means of all dimensions' Mean Consideration and Mean Experience covering all the items. The findings of the study show that district-wise and banking sector-wise customers have different perceptions towards the quality of banking services. On the whole, both district-wise as well as banking sector-wise customers have experienced less than what they expected in the overall service quality. It is, therefore, suggested that commercial banks take necessary initiatives to improve on all the dimensions of service quality and increase the level of customer satisfaction by fulfilling the expectations of the customers irrespective of geographical locations as well as banking sector.

Key Words: Commercial Banks, Customer Satisfaction, Service Quality, SERVQUAL.

1. Introduction

Banking sector, which plays a significant role in the Indian economy, is facing unprecedented set of challenges due to rapidly changing market, new technologies, economic uncertainties, fierce competition, and more demanding customers. After nationalization, tremendous changes have been taking place in the banking system. Increasing domestic and international competition and fast changing technologies have led to growing pressure on banks to think in terms of increasing the effectiveness in such ways that should be beneficial to them. For banks, it has become a difficult task to retain the old customers and create new customers. In order to face the competition and survive in the market, banks need to maintain high level of customer satisfaction. Customer satisfaction and service quality are global issues that affect all organizations, be it large or small, profit or non-profit, global or local.

In the past three decades or so, although more and more research findings have appeared concerning quality, it is still worth noting here that there are distinct conceptualizations of quality. As cited in Zeina (2012), according to Lewis and Booms (1983), service quality is a measure of how well a delivered service matches the customers' expectations. Parasuraman et al. (1988) defines service quality as a difference between customers' expectation of service and customers' perceptions of the actual service. Quality is an ability of a set of inherent characteristics of product, system or process to fulfill requirements of customers and other interested parties. But service quality means overall collection of implicit and explicit characteristic that the service can satisfy the customer (Parasuraman et.al. (1990). Customer satisfaction is generally described as the fulfillment of one's expectations. Customer satisfaction is the feeling or attitude of a customer towards a product or service after it has been used. According to Oliver et al. (1992) "Customer satisfaction is a consumer's post-purchase evaluation and affective response to the overall product or service experience. Satisfaction (or dissatisfaction) results from experiencing a service quality encounter and comparing that encounter with what was expected". So, customer satisfaction is the collective outcome of perception, evaluation and psychological reactions to the consumption experience with a product or service.

Quality and satisfaction have been linked to customer behavioral intentions like re-purchase and loyalty intention, willingness to spread positive word of mouth, and referral. As banks provide identical services, it is the quality of services that play a key role in the present competitive environment. Quality of service is not only an important parameter of operational efficiency, but has a positive relationship with customer satisfaction. Therefore, in order to meet the expectations of the customers, and to keep pace with the changing environment, commercial banks have not only been adopting technology and innovative strategies at a faster rate but have also been offering numerous services and embracing many new features in their services. They have realized that product, service characteristics, customers' aspirations & perceptions and the availability of competing alternatives can be used to enhance customer satisfaction. This will enable the banks to survive in the present competitive environment. This study was intended to evaluate the impact of service quality on customer satisfaction in banking industry.

2. Research problem

Customer satisfaction and service quality are most important elements in achieving organizational goals. Organization tries to have constant customer satisfaction with the service provided by it. As service quality plays a vital role in determining customer satisfaction and in the prosperity of a bank to survive in the turbulent market, quality needs to be understood and managed throughout the services of an organization. Satisfaction and quality have evolved along parallel tracks (Strandvik & Liljander, 1995). In the modern customer centric competitive arena, satisfaction and quality prove to be key factors reciprocally interrelated in a causal, cyclical relationship. The higher the service quality, the more satisfied are the customers. In particular, financial institutions including banks have realized the strategic importance of customer value and continuously seeking innovative ways to enhance customer relationships. Level of customer satisfaction is becoming one of the major targets in the hands of banks to increase their market share (Aurora. et. al, 1997). Customer satisfaction is a feeling and the impact of that feeling differs from person to person which in turn influences customer retention and loyalty. The present study is initiated to find out the extent of impact of service quality on customer satisfaction.

3. Review of Literature

Considerable research has been conducted on service quality and customer satisfaction. Quality and satisfaction has been widely discussed in various literatures since the mid 1970s. The literature featuring service marketing mainly that of the 1990s has supported the view that improved service quality is a means towards improving customer satisfaction and loyalty. This is also manifested in the case of banks where the achievement of superior service quality levels has become a primary objective towards customer satisfaction by fulfilling the needs and expectations of the customers. In the banking industry specially, researchers like Cronin & Taylor (1992) and Taylor & Baker (1994) as cited in Zeina (2012), regarded bank service quality as a sensitive requirement for customer satisfaction and retention. Cronin & Taylor (1992) conducted a thorough analysis and provided empirical support that service quality leads to customer satisfaction. Naceur et. al. (2002) pointed out that the service quality is identified as the determinants of customer satisfaction in banking.

Khan and Fasih (2014) indicated that service quality and all its dimensions have significant and positive association with customer satisfaction and customer loyalty. Qadeer (2013) observed that the quality of service has significant contribution towards customer satisfaction because it is affected by various factors such as human interaction, physical environment, value, price, performance, etc. Human aspects of service quality were found to influence customer satisfaction more than the technical and tangible aspects. Shanka (2012) confirmed the theory of literatures regarding the relationship between the service quality and customer satisfaction and indicated that there is a positive correlation between the dimensions of service quality and customer satisfaction. The results also showed that offering quality service have positive impact on overall customer satisfaction. The research proved that empathy and responsiveness plays the most important role in customer satisfaction level followed by tangibility, assurance, and reliability. The research findings also indicated that offering high quality service increases customer satisfaction, which in turn leads to high level of customer commitment and loyalty.

Munusamy et. al. (2010) found that Assurance has positive relationship but it has no significant effect on customer satisfaction. Reliability has negative relationship but it has no significant effect on customer satisfaction. Tangibles have positive relationship and have significant impact on customer satisfaction. Empathy has positive relationship but it has no significant effect on customer satisfaction. Responsiveness has positive relationship but no significant impact on customer satisfaction. Santhiyavalli (2011) indicated that among five dimensions of service quality, Reliability, Responsiveness, Empathy, and Tangibility are the major factors responsible for customer satisfaction among the customers of State Bank of India. Sanjuq (2014) found a positive relationship among assurance, empathy, and responsiveness, but that this relationship has no significant effect on customer satisfaction. Reliability was found to have a negative relationship to customer satisfaction, but no significant effect on the same. Only tangibles were found to have a positive relationship and a significant impact on customer satisfaction. The results show that, in the retail banking sector, the SERVQUAL model remains an effective way of measuring customer satisfaction. Selvakumar (2015) found that assurance has the most significant impact on customer satisfaction towards banking services and responsiveness has the least significant impact on customer satisfaction towards banks.

Kumbhar (2011) pointed out that there is a significant difference in the customers' perception in internet banking services provided by public and private sector banks; private sector banks are providing better service quality of internet banking than the

public sector banks. Shah (2014) pointed out that in regards to e-banking services, customers of private banks are happier compared to public banks; and suggested that banks should try in all the ways to ensure e-banking is working 24 hours; and service is available to customers hassle-free.   Ongori (2013) found that there is a significant relationship between self-service channels such as ATMs, internet banking, mobile banking, and customer satisfaction. Firdous and Farooqi (2017) found that the internet banking service quality dimensions have a significant impact on the customer satisfaction of internet banking customers. Hammoud et. al. (2018), found that reliability, efficiency, and ease of use; responsiveness and communication; and security and privacy have a significant impact on customer satisfaction, with reliability being the dimension with the strongest impact. They opined that e-banking has become one of the essential banking services that can, if properly implemented, increase customer satisfaction, and give banks a competitive advantage. Knowing the relative importance of service quality dimensions can help the banking industry focus on what satisfies customers the most.

Rao and Lakew (2011) revealed that there is a strong dissimilarity in service quality perceptions between customers of private sector and public sector banks. Haidar & Islam (2011) found that tangible is the most important factor in determining the service quality of private commercial banks followed by reliability, empathy, accessibility, and assurance. However, these factors or dimensions vary across gender, age, education level, and occupation. Ghost & Gnanadhas (2011) concludes that there is a close link between the customer's perception on the service quality factors and the customer satisfaction. But the impacts of service quality factor on customer satisfaction among the customer are not unique; it depends upon the demographic profile of the customers. Malli (2011) concluded that each aspect of service quality leading to customer satisfaction is influenced by one or the other demographic factors which results into varied customer satisfaction for all categories of banks. Haq and Muhammad (2012) found that customer satisfaction varies from person to person. Bootwala & Gokhru (2012) concluded that only income level and occupation of the customers effect decisions; the remaining variables are not significant. The findings of this study suggest that banks should be looking carefully at each one of the dimensions where customers perceive receiving a different service than expected and consider the extent to which they should work on influencing perceptions. Fozia (2013) found that different occupation groups of customers have different perceptions toward e-banking services. The results points out that demographic factors impact significantly internet banking behavior, specifically, occupation and age. The paper suggests that an understanding about the customers' perception regarding the e-banking services will help the bankers to understand the customers' need in a better way.

4. Scope of the Study

The scope of the study is discussed in the context of geographical coverage and theoretical coverage.

[a]. Geographical Coverage

The two districts of Nagaland state, viz. Dimapur & Kohima were selected for conducting the study because most of the banks are existed in these two districts. The state of Nagaland is located in the north eastern part of India. It has a population of about 19, 80,602 as per 2011 census, accounting for 0.16 percent of total population of India. As per the statistics made available by State Bank of India, Regional Business, Dimapur, 28 banks are operating in the state which includes 18 public sector commercial banks, 8 Private sector commercial banks, 1 regional rural bank and 1 state cooperative bank.
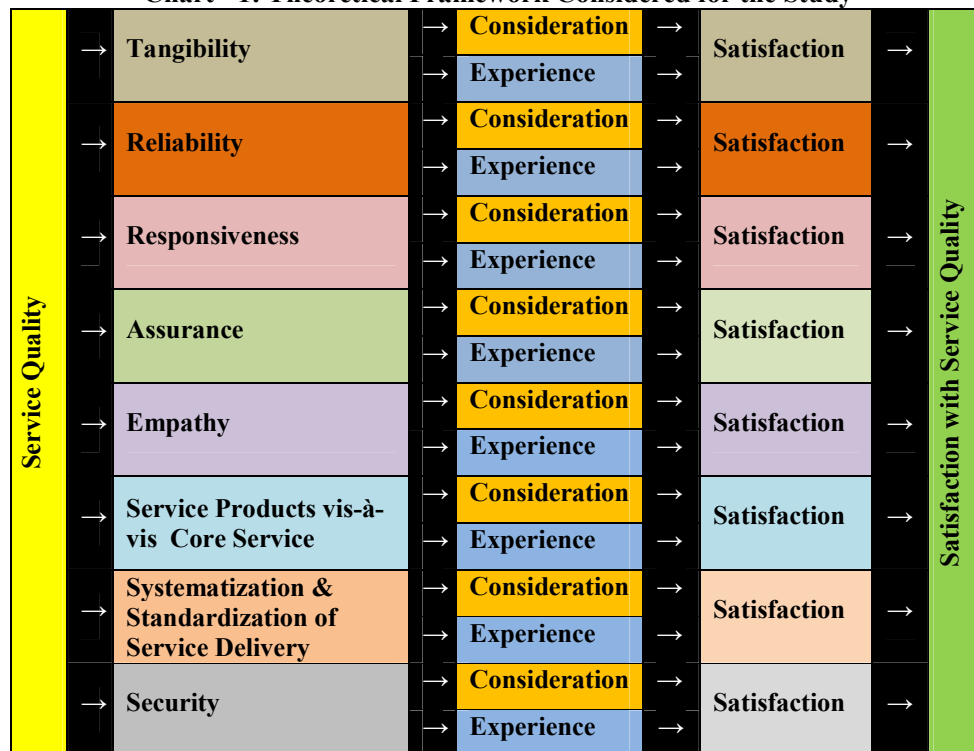
[b]. Theoretical Coverage

The research literature on service quality contains numerous models including various dimensions of service quality by different researchers across the world. However, the

SERVQUAL instrument developed by Parasuraman et al. (1988), a 22 item scale that measures service quality along five factors, namely: reliability, responsiveness, assurance, empathy and tangibles, forms the foundation on which all other works have been built. Though there is a general agreement that items included in SERVQUAL are reasonably good predictors of service quality in its wholeness, a careful scrutiny of the items implies that the items at large deal with the element of human interaction/intervention in the service delivery and the rest on the tangible facets of the service. Therefore the SERVQUAL instrument seems to have overlooked some other important factors of service quality namely: the service product or the core service, systematization or standardization of service delivery, the social responsibility of the service organization. SERVQUAL has been widely used in variety of studies that include public services, higher education, hotel, banking, consulting, tourism, marketing, hospital, and telecommunication industry. But, it has been observed that most of the studies analyzed the perception of service quality in commercial banks by performance-only on the SERVQUAL scale measure. Also there is lack of exclusive study on the impact of perception on service quality factors on customer's satisfaction under different demographic profile.

In view of the above, there is wider scope to undertake studies on a continuous basis on different geographical locations, banking sectors, etc. taking into consideration the changing issues/factors of service quality in the banking sector. Therefore, in order to incorporate the missing issues/factors, in the previous studies, the present study is being proposed with three additional factors/dimensions of service quality. The eight dimensions of service quality considered for the study are Tangibility; Reliability; Responsiveness; Assurance; Empathy; Service Products vis-a-vis Core Service; Systematization & Standardization of Service Delivery; and Security.

Chart - 1: Theoretical Framework Considered for the Study

Source: *Compiled by the Researcher from the Survey of Literature*

Satisfaction on *Tangibility* implies difference between Consideration and Experience on *Tangibility* dimension. Same is the case for other dimensions.

5. Objectives of the Study

The study aims to make district-wise and banking sector-wise comparison of customers' overall service quality consideration and their satisfaction with the quality of services rendered by commercial banks.

6. Methodology

The dominant methodology used in this work is descriptive research. The study focuses on service quality of commercial banks and customer satisfaction in two districts of Nagaland, viz. Dimapur and Kohima using some identified variables.

6.1. Sampling Design

In the present study, a multi-phase sampling design was adopted in which the geographical locations was fixed first, followed by selection of banks and their branches from which the respondents were sampled and finally the sampling of the population of interest in this study. A total of 11 banks were selected for the study, taking 7 from public sector and 4 from private sector, using convenience sampling. While selecting the sample respondents, convenient as well as quota sampling were used. A total of 500 respondents were considered for the study which was divided in proportion to the number of accounts in each district, each banking sector, and each bank branch.

6.2 Data Collection and Scaling Technique

The study utilized both primary and secondary data sources. The secondary data sources consist of published studies and unpublished data from banks. The primary data was collected with the help of a well structured questionnaire from the customers of selected bank branches. The questionnaire was designed with multiple choice selections and consisted of statements on service quality variables. The opinion of the respondents on 70 variables (grouped into 8 dimensions) indicating their level of agreement or disagreement for quality consideration and their level of satisfaction or dissatisfaction, which were measured on a 5 point scale ranging from 5 to 1. In other words, to elicit the level of consideration, the respondents were required to choose their agreement or disagreement for quality assessment of various factors for each item into a five pre-defined level scale --'strongly agree', 'agree', 'indifferent', 'disagree', and 'strongly disagree'. Similarly, to elicit the level of experience, they were required to choose correct alternatives for each item vis-à-vis statement. The alternatives were 'strongly satisfied', 'satisfied', 'indifferent', 'dissatisfied' and 'strongly dissatisfied'.

6.3 Data Analysis Design

The data collected were analyzed with relevant statistical tools and techniques. To meet this end, SPSS software was used and the results were expressed in the form of tables and graphs. The overall service quality consideration and customer satisfaction level has been ascertained by comparing the Means of all dimensions' Mean Consideration and Mean Experience covering all the items.

7   Findings and Discussion

The basic data description of the respondents is presented in Table 1.

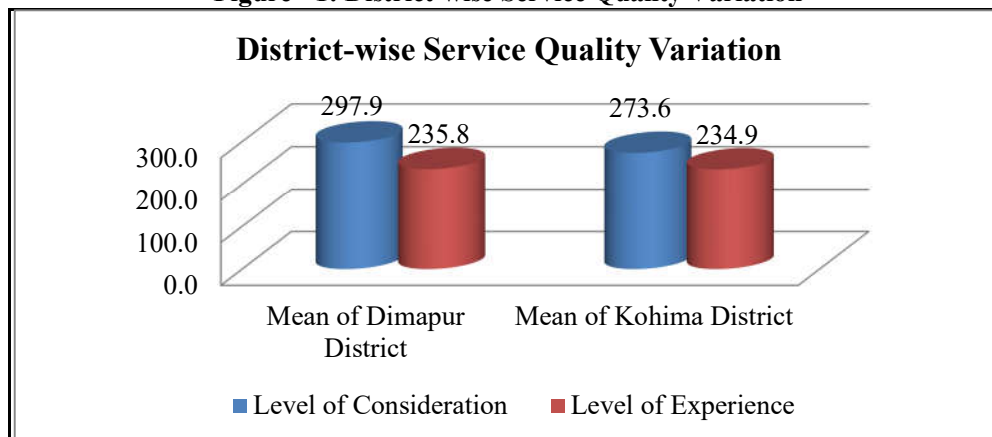**Table - 1: Basic Data Description of the Respondents**

Residential District	Frequency	%	Banking Sector	Frequency	%
Dimapur District	317	63.4	Public Sector Banks	452	90.4
Kohima District	183	36.6	Private Sector Banks	48	9.6
Total	**500**	**100**	**Total**	**500**	**100**

Source: *Based on Survey Data*

District-wise distribution shows that 63.4 % of the respondents are from Dimapur district and 36.6 % from Kohima district. Banking sector-wise distribution of respondents shows 90.4 % of the respondents are from public sector commercial banks and 9.6 % are from private sector commercial banks.

[a]. District-wise Variation

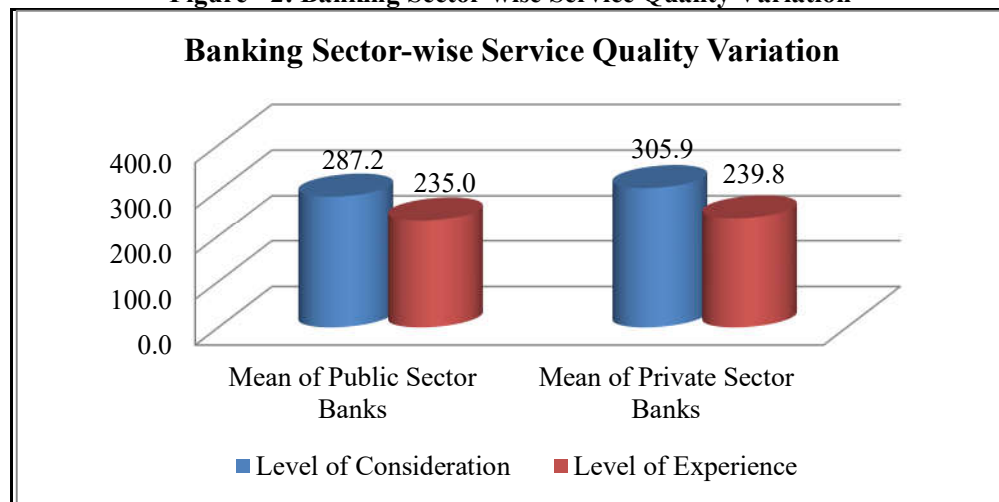**Figure - 1: District-wise Service Quality Variation**

Source: *Based on Survey Data*

From the figure 1, it is found that in respect of overall service quality, the *Consideration* level of the customers of Dimapur District is more than Kohima District; also the overall *Experience* level of the customers of Dimapur District is more than Kohima District. On the whole the customers of both the districts experience less than what they consider in the overall service quality.

[b]. Banking Sector-wise Variation

Figure - 2: Banking Sector-wise Service Quality Variation

Source: *Based on Survey Data*

From the figure 2, it is found that in respect of overall service quality, the *Consideration* level of the customers of private sector commercial banks is more than public sector commercial banks; also the overall *Experience* level of the customers of private sector commercial banks is more than public sector commercial banks. On the whole the customers of both the categories of banks experience less than what they consider in the overall service quality.

8 Conclusion & Suggestions

It is found that, on the whole, the customers of both the districts as well as both the banking sectors experienced less than what they expected in the overall service quality. It is, therefore, suggested that commercial banks, take necessary initiatives to improve on all the dimensions of service quality and fulfill the expectations of the customers of both the districts as well as both the banking sectors.

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