

Measuring Service Quality of Banks: A Comparative Study on the Service Quality Level in Nationalised Banks and Private Banks in Vadodara

DR. AMIT R. PANDYA*, CS. ASHUTOSH A. SANDHE**

Commercial banks are very important in the economic development of a country like India since they mobilize the savings of individuals and help in capital formation. For this purpose, it is necessary that individuals have good banking habits. Good banking habits can be expected if banks offer efficient services to their customers. After liberalization, banking sector witnessed reforms. As a part of that, private sector was encouraged to enter this sector. Since then, there has been keen competition between private banks and nationalized banks. This study is aimed to measure the quality of services offered by these banks in Vadodara and find out how far are the customers satisfied with the service quality of these banks. For this purpose, the SERVQUAL model was used.

Key words: Service quality, satisfaction, tangibles, reliability, responsiveness, assurance, empathy.

Introduction

Banking sector is the backbone of an economy. It performs an important function of capital mobility and also capital formation. Government also promotes in its citizens, banking habits so that further capital formation can happen. However, for citizens to have good banking habits, it is necessary that commercial banks in the country offer good quality services and satisfy their customers. In India, the services offered by commercial banks, especially after the reforms that took place after 1991, have improved notably. After the entry of private and foreign banks in India, even the nationalized banks have become competitive in nature and have attempted to improve their service delivery to customers. This research paper was aimed to check the service quality levels of private banks as compared to their nationalized counterparts in Vadodara, Gujarat. For this, SERVQUAL model was used.

Literature Review

Customer expectations are beliefs about a service that serve as standards against which service performance is judged (Zeithaml et al., 1993); which customer thinks a service provider should offer, rather than on what might be on offer (Parasuram et al., 1988).

Research has indicated that service quality has been increasingly recognized as a critical factor in the success of any business (Parasuraman et al., 1988). Service quality has been widely used to evaluate the performance of banking services (Cowling and Newman, 1995). The banks understand that customers will be loyal if they receive greater value than from competitors (Dawes and Swailes, 1999) and on the other hand, banks can earn high profits if they are able to position themselves better than their competitors within a specific market (Davies et al., 1995). Therefore, banks need focus on service quality as a core competitive strategy (Chaoprasert and Elseey, 2004). Moreover, banks all over the world offer similar

*Associate Professor, M.S. University of Baroda, Vadodara.

**Practising Company Secretary, Sap-Fico Consultant & Research Scholar

kinds of services, and try to quickly match their competitors' innovations. It can be noted that customers can perceive differences in the quality of service (Chaoprasert and Elsey, 2004). Moreover, customers evaluate banks' performance mainly on the basis of their personal contact and interaction (Gronroos, 1990). From the literature, it is clear that higher the service levels, higher would be the customer satisfaction. Higher satisfaction would result in higher loyalty. In the case of service sector, the difficulty for the marketer is the intangibility of service as compared to the tangibility in case of product. Hence, service quality level is a critical way to win customers' loyalty. In highly competitive markets, service quality is a very important tool in the hands of managers. In the case of banks, which mostly offer similar types of services to customers, the biggest point of differentiation is the level of service quality offered by the bank. Since banks offer intangible products, there are no standards set to measure the effectiveness of their service quality. Measuring service quality seems to pose difficulties to service providers because of the unique characteristics of services: intangibility, heterogeneity, inseparability and perishability (Bateson, 1985). Due to these complexities, many researchers have tried to develop tools to measure the service quality standards. The SERVQUAL model of Parasuraman et al. (1988) proposes a five-dimensional construct of perceived service quality: tangibles; reliability; responsiveness; assurance; and empathy - with items reflecting both expectations and perceived performance. Service quality has become an important research topic because of its apparent relationship to costs (Crosby, 1979), profitability (Buzzell and Gale, 1987; Rust and Zahorik, 1993; Zahorik and Rust, 1992), customer satisfaction (Bolton and Drew, 1991; Boulding et al., 1993), customer retention (Reichheld and Sasser, 1990), and positive word of mouth. There are many research instruments developed to measure the perceived service quality. Among such general instruments, the most popular being the SERVQUAL model, a well known

scale developed by Parasuraman et al.

The service quality of a bank can be measured in terms of five attributes which are as under-

Tangibles

- Modern equipment
- Visually appealing facilities
- Employees who have a neat, professional appearance
- Visually appealing materials associated with the service

Reliability

- Providing service as promised
- Dependability in handling customers' service problems
- Performing services right the first time
- Providing services at the promised time
- Maintaining error-free records

Responsiveness

- Keeping customers informed as to when services will be performed
- Prompt service to customers
- Willingness to help customers
- Readiness to respond to customers' requests

Assurance

- Employees who instill confidence in customers
- Making customers feel safe in their transactions
- Employees who are consistently courteous
- Employees who have the knowledge to answer customer questions

Empathy

- Giving customers individual attention
- Employees who deal with customers in a caring fashion
- Having the customers' best interest at heart
- Employees who understand the needs of their customers

- Convenient business hours

Customer Satisfaction

According to Oliver (1980), the customer satisfaction model explains that when the customers compare their perceptions of actual products/services performance with the expectations, then the feelings of satisfaction have arisen. Any discrepancies between the expectations and the performance create the disconfirmation. Oliver (1980) identified three types of disconfirmation. They are:

- Positive disconfirmation occurs when Product/service performance > expectations. In this case, the customers are highly satisfied.
- Negative disconfirmation occurs when Product/service performance < expectations. In this case, the customers are highly dissatisfied.
- Zero disconfirmation occurs when Product/service performance = expectations.

Based on the above literature and definition of satisfaction, Giese and Cote (2000) identified the following components of satisfaction:

- Customer satisfaction is one kind of response (cognitive or emotional)
- The response emphasizes on a particular focus (product, consumption experience, expectations etc.)
- The response occurs at a particular time (after choice, based on accumulated experience, after consumption etc.)

Zaim et al (2010) find out that tangibility, reliability and empathy are important factor for customer satisfaction, whereas responsiveness and assurance are important factor, found by Mengi (2009). Kumar et al. (2010) and Lai (2004) found that assurance, empathy and tangibles are the important factor, and on the other hand, Baumann et al. (2007) found that tangibles are not related to customer satisfaction and Ahmed et al. (2010) find out that empathy is negatively related to

customer satisfaction. Researchers have identified various determinants of customer satisfaction in the retail banking sector. Arasli et al (2005) pointed out that reliability dimension of SERVQUAL has the highest impact on customer satisfaction in Greek Cypriot banking industry.

Rationale

The purpose of this research was to study the service quality levels offered by nationalized banks as compared to the private banks in Vadodara, Gujarat. Since, a large number of people living in urban areas have banking habits, it was thought fit to analyse the service quality levels of these banks and also find out which factor of the service is the most important one for the people of Vadodara. Based on the service quality level offered by the banks, an attempt was also made to study the satisfaction levels of customers with their respective banks. This was done since, it has been said earlier that higher the service quality level, more would be the customer satisfaction and loyalty towards the bank.

Research Methodology

This was an exploratory and descriptive research which attempted to explain an existing situation about the quality and standard of services offered by nationalized and private banks in Vadodara. A sample size of 200 was selected for this research. Stratified sampling technique was used in which the occupation of respondents were taken as the strata. Of the samples, approximately 40% respondents belonged to service sector, while 30% belonged to business and profession each. Responses were collected only from those respondents who undertake banking transactions and have bank accounts. The primary data was collected in the form of a structured questionnaire. The questionnaire was divided into four parts. First part of the questionnaire was about the demographic profile of the respondents in terms of their age, occupation, gender, income and education. The second part of the

questionnaire was about the weightage given by respondents to each of the five attributes. For this, respondents were asked to give weightage in points out of 100. The third part was regarding the expected level of service with respect to each attributes listed above. The final part of the questionnaire was regarding the actual service offered by the banks with respect to the same five attributes. To collect the data, in all, four banks were selected out of which two banks were nationalized and the other two were private. A sample of 50 was collected from each of the bank. The data obtained was analysed using statistical software like SPSS and MS Excel. The names of banks have been kept confidential.

Hypotheses

H_1 : There is no significant difference in the service quality offered by different banks in Vadodara.

H_2 : There is no significant difference in the satisfaction from the service quality offered by nationalized banks and private banks in Vadodara.

Data Analysis

Data for this research was collected through stratified sampling method. The strata were based on occupation of respondents. Accordingly, a sample size of 200 was selected. Data was collected from respondents in service, business and profession Table No.1 highlights the demographic profile of respondents in the current research.

1. Table Showing Demographic Information about Respondents in Vadodara

Variables	N	N%
Age Group		
20-30	72	36
31-40	52	26
41-50	42	21
51-60	27	13.5
above 60	7	3.5
Total	200	100
Occupation		
Service	86	43
Business	56	28
Profession	58	29
Total	200	100
Education		
Undergraduate	11	5.5
Graduate	57	28.5
Post Graduate	75	37.5
Professional	55	27.5
Others	2	1
Total	200	100

Variables	N	N%
Income(lacs)		
below 1.00	12	6
1.01-2.00	33	16.5
2.01-3.00	48	24
3.01-4.00	30	15
4.01-5.00	38	19
above 5.00	39	19.5
Total	200	100
Gender		
Male	156	78
Female	44	22
Total	200	100

Table 1 shows that 43% of the respondents belonged to service class, while 28% respondents were businessmen and remaining 29% were professionals. Similarly, 36% respondents were of the age group between 20 years to 30 years while 3.5% respondents were of the age above 60 years. In terms of education, 37.5% respondents were postgraduates, 28.5% respondents were graduates, and 27.5% were professionals like doctors, and lawyers, etc. The respondents selected belonged to different income classes. Out of the respondents surveyed, 24% were in the income class of Rs.2 Lacs to Rs.3 Lacs, 19.5% were having annual income of Rs.5 Lacs or more, 19% respondents earned between Rs.4 Lacs and Rs.5 Lacs. As far as the gender of the respondents is concerned, 78% were males and remaining 22% were females.

The data for this purpose was collected in the form of a structured questionnaire where respondents were asked to rate the services offered by their respective banks on a seven point scale with "1" as "Very Strongly Disagree", "2" as "Strongly Disagree", "3" as "Disagree", "4" as "Neutral", "5" as "Agree", "6" as "Strongly Agree" and "7" as "Very Strongly Agree". Respondents were those who preferred nationalized banks and private banks. Two private banks and two nationalized banks were selected for study. Names of the banks were kept confidential. 50 respondents from each bank were surveyed and their responses were obtained. Thus, the study encompasses 100 respondents from nationalized banks and same number of respondents from private banks in Vadodara.

H_1 : There is no significant difference in the service quality offered by different banks in Vadodara.

2 : Table Showing SERVQUAL Score to Measure Service Quality Levels for Nationalised Banks and Private Banks in Vadodara

Factor	Nationalised Banks			Private Banks		
	Avg. Score	Weights	Weighted Score	Avg. Score	Weights	Weighted Score
Tangibles	4.47	15	67.09	5.48	20	109.60
Reliability	4.04	25	100.90	4.89	20	97.84
Responsiveness	3.94	20	78.75	5.14	25	128.50
Assurance	4.56	25	113.94	4.79	20	95.80
Empathy	4.23	15	63.50	5.10	15	76.50
Total	4.25	20	84.83	5.08	20	101.60
t-value	35.581			42.615		
p-value	0.00			0.00		

(Significance at 5%)

Table 2 shows the mean score for all the factors that determine the service quality level for a bank. It can be seen from the table that the mean score for private banks for all the factors was higher than nationalized banks. This suggested that the services offered by private banks were better as compared to nationalized

banks. To further strengthen the argument, weighted score for the two banks was also found out. It was observed that customers belonging to both the banks gave different weightage to the factors. In case of nationalized, customers gave maximum weight to bank's reliability and assurance, while those who preferred

private banks gave maximum weightage to the bank's responsiveness. The weighted score for private banks (Score = 101.60) was higher than nationalized banks (Score = 84.83). This implies that the service quality of private banks was better than nationalized banks. A breakup of the factors showed that in case of nationalized banks, respondents preferred nationalized banks because they perceived them to be safe and hence the factor 'assurance' had the highest mean (Mean = 4.56). The factor 'responsiveness' had the least mean value (Mean = 3.94) suggesting that nationalized were not prompt or too much willing to offer good quality services to their customers. Compared to this, the perception of customers of private banks was found different. The mean value for the factor 'tangibles' was highest (Mean = 5.48) which hinted that customers were quite satisfied with the equipment and facilities offered in the bank. The factor 'assurance' had the least mean value (Mean = 4.79) indicating that

customers were not very satisfied when it came to instilling confidence in the customers or safety of their money. This perception of customers was found to be significant in case of both the banks as is clear from the above Table 2.

To establish significance in the mean service quality for both the banks, paired sample t-test was applied to the results and it was found that there was significant difference in the service quality of nationalized banks as compared to private banks (t-value = 5.105, $p = 0.007$). Thus, it could be said that the service quality of private banks was significantly different to nationalized banks in Vadodara and hence the hypothesis H_1 was rejected.

H_2 : There is no significant difference in the satisfaction from the service quality offered by nationalized banks and private banks in Vadodara.

3. Table Showing Mean Scores for Perceived Service Quality and Actual Service Quality of Nationalised Banks Compared to Private Banks in Vadodara

Factor	Nationalised Banks			Private Banks		
	Perceived	Actual	Gap	Perceived	Actual	Gap
Tangibles	4.50	4.47	0.03	5.68	5.48	0.20
Reliability	6.16	4.04	2.12	5.14	4.89	0.25
Responsiveness	4.35	3.94	0.41	6.20	5.14	1.06
Assurance	6.22	4.56	1.66	5.50	4.79	0.71
Empathy	5.00	4.23	0.77	6.34	5.10	1.24
Overall	5.25	4.25	1.00	5.77	5.08	0.69
t-value	19.944			12.578		
p-value	0.00			0.00		

Customer satisfaction can be measured by comparing the perceived service quality with the actual service quality by a bank. It was found that the actual service quality of both the banks was less than the perceived

service quality implying that both the banks would have to improve their service quality levels. Table 3 shows that overall, the perceived service quality of nationalized bank (Mean = 5.25) was less than private banks (Mean

= 5.77). This means that the expectations of customers from a private bank with respect to the quality of service was higher than that expected from a nationalized bank. A break up of the overall mean value showed that in case of nationalized bank, the least perceived value was for tangibles (Mean = 4.50) like the equipments, materials and other physical attributes of a bank. Against this, the mean value for assurance (Mean = 6.22) was highest suggesting that customers expected nationalized bank to be more safe for their money and also instill confidence in the minds of customers. Customers also felt that a nationalized bank has to be more reliable and hence its mean value was also high (Mean = 6.16). Against this, in case of a private bank, customers expect the empathy to be showcased by a bank to be very high and hence it had the highest mean value (Mean = 6.34). Similarly, customers also expect the responsiveness of a bank to be very high and hence this factor also had a high mean value (Mean = 6.20). Thus, it was found that customers of both the banks had different expectations from their banks in terms of the service attributes.

To measure satisfaction levels of customers for each type of bank, a gap between the perceived service quality and actual service quality was obtained. The gap in case of nationalized bank (Gap = 1.00) was higher than private banks (Gap = 0.69). A study of this result showed that in case of nationalized banks, the highest service gap was in case of reliability (Gap = 2.12) suggesting that nationalized were not found to be very reliable in providing timely services to their customers. The lowest gap was found in tangibles (Gap = 0.03) indicating that the tangibles of a nationalized were as expected. However, it is to be noted that both, i.e. perceived as well as actual service quality levels for tangibles were found to be very low for nationalized banks. In case of private banks the largest gap was found for empathy. Even though the mean value for actual service quality for this attribute was high, it was

still less than the expected level. The smallest gap was found for tangibles (Gap = 0.20) showing that private banks were able to satisfy customers in terms of their physical characteristics.

This difference in the results was found to be highly significant. Further, the service quality gap for both the banks was compared and this difference in the gap levels was found to be highly significant (t-value = 4.506, $p = 0.011$). Thus, it can be said that the satisfaction level of customers in case of nationalized banks was not same as in case of private banks in Vadodara. Hence, the hypothesis H2 was rejected.

Findings

- The service quality level of nationalized banks was lower than private banks in Vadodara.
- In case of nationalized banks, reliability and assurance were given the maximum weightage, while in case of private banks, responsiveness was given the maximum weightage.
- Assurance was the factor with highest actual service quality mean in nationalized banks while tangibles was the factor in case of private banks. Thus, it was found that customers of both the banks had different expectations from their banks in terms of the service attributes.
- The perceived service quality levels in a nationalized were lower than those in private banks. However, the gap between perceived levels and actual service quality levels were more in nationalized banks as compared to private banks.
- In case of nationalized bank, the highest service quality gap was found in reliability while in case of private banks the same was found in assurance and reliability.

Limitations

This research was carried out only in the city of Vadodara. Rural areas were not covered. Because

of limited resources, only two banks representing private and nationalized banks each were selected. Foreign banks and cooperative banks were not covered in the study. Only service quality in general and customer satisfaction in terms of service gap was studied. Further research can be carried out with respect to these variables by also including the demographic characteristics of the respondents.

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