

Impact of Service Quality on Customer Satisfaction - An Empirical Study of Indian Banking Sector

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Abstract

In Indian banking industry, satisfying customers is becoming very difficult mainly because of two reasons, first the homogeneity of the products and services and second, the pricing is largely regulated by the apex bank, the Reserve Bank of India. Hence distinction among the banks can be drawn through the service quality only. Service Quality plays a very important role in achieving customer satisfaction in all service sectors, the reason being services are perishable and intangible in nature, therefore, the person who delivers the service, and the quality of the delivered service, can create a long lasting impression on customer's mind. Therefore, in attaining customer satisfaction, service quality is becoming a tool for the success of the banks through retention of customers and expansion of existing customer base. With this idea, a study was conducted to determine the impact of service quality on customer satisfaction on 100 customers of private and public sector banks in Delhi NCR. Statistical tools such as factor analysis and regression were used for the purpose of data analysis. The results of the present study indicate that more improvements are needed in the dimensions of tangibility and responsiveness of service quality. The results also show a positive relationship between all service quality dimensions and customer satisfaction.

Keywords: Service Quality, Customer Satisfaction, Customer Retention, Service Quality Dimensions

Introduction

Banks play a very important role in the economic growth of any country, but with the regulatory and technological reforms in financial sector, retail banking has become very competitive. In this era of liberalization, privatization and globalization the banking industry is facing the challenge of customer satisfaction due to strong competition, strict regulations and the aware customers. Therefore, banks are putting more efforts in retaining existing customers rather than attracting new customers because customer satisfaction can be attained by retaining customers for a longer period. In Indian banking industry, satisfying customers is becoming very difficult mainly because of two reasons, first the homogeneity of the products and services and second the pricing is largely regulated by the apex bank, the Reserve Bank of India. Hence distinction among the banks can be drawn through the service quality only.

Service Quality plays a very important role in achieving customer satisfaction in all service sectors, the reason being services are perishable and intangible in nature, therefore, the person who delivers the service, and the quality of the delivered service, can create a long lasting impression on customer's mind. Therefore, in attaining customer satisfaction, service quality is becoming a tool for the success of the banks through retention of customers and expansion of existing customer base. A team of service quality researchers developed the SERVQUAL measurement (Parasuraman, A. Zeithaml, V.A., and Berry, L.L. (1988), which includes a set of five dimensions **tangibility** (appearance of physical facilities, equipment, personnel and communication materials) **reliability** (ability to perform the promised service dependably and accurately), **assurance** (knowledge and courtesy of employees and their ability to inspire trust and confidence), **empathy** (the caring, individualized attention the organization provides to its customers) and **responsiveness** (willingness to help customers and provide prompt services).

Satisfactions viewed as a comparison between what customers expect from a particular product or service and the actual performance received. Customers feel delighted if their perceived value is more than the expected on the other hand they are dissatisfied if they perceive less than the expected value. Customer satisfaction is one of the most important factors in the evaluation of the service quality (Du, Jiao and Tseng, 2006) but the relationship between service quality and customer satisfaction is debatable because some researchers argued that service quality is an antecedent of customer satisfaction (Bedi, 2010; Kumar, S.A., Mani, B.T., Mahalingam, S., and Vanjikovam, M. 2010; Parasuraman *et al.* 1988) and these two constructs are closely related with positive relationship (Yee, W.Y.,

Yeung, C.L., Cheng, T.C. 2010) while others argued that customer satisfaction is the antecedent to service quality (Bitner1990; Bolton and Drew, 1991) and there is an opposite relationship. Therefore, the present study attempts to identify the impact of service quality on customer satisfaction in Indian banking sector.

Literature Review

Nambiar, Ramanathan, Rana and Prashar (2019) recognized the moderating effect of customer knowledge on perceived service quality and customer satisfaction through customer value evaluation in the Indian banking sector. The results indicated that perceptions of service quality positively impacted customer satisfaction.

Ashraf and Venugopalan (2018) used SERVQUAL model to compare the service quality between public and private sector banks in Kerala. The results revealed that there is no significant difference between public sector and private sector bank in service quality dimensions and level of customer satisfaction.

Behera (2018) in his study determined the Impact of service quality on customer loyalty in Indian banking sector in the state of Odisha, with special reference to the district of Khordha and Puri. The five factors (Tangibility, Reliability, Responsiveness, Empathy, and Assurance) of service quality were taken for both Public and Private sector bank. 160 responses were analyzed with the help of one way ANOVA to compare the factors of service quality and it was found that customers of public sector bank are more loyal.

Kant, Jaiswal and Mishra (2017) identified the dimensions of service quality and also examined the effect of service quality dimensions on customer satisfaction in the selected public sector banks in India. The findings revealed that tangibility and assurance dimensions were most important predictors of customer satisfaction among all five dimensions of service quality. In addition, the results also validated that customer satisfaction is an important antecedent for influencing corporate image, and therefore customer satisfaction acts as a linkage between service quality dimensions and corporate image in the Indian context.

Ritu Sehgal and Sonia Chawla (2017) analyzed the gap between perceived service quality level and expected service quality level of customers using internet banking in Northern India with special reference to State Bank of India. The t-test and chi-square test were used for analysis purpose and the results indicated that perceptions are lower than expectations for the dimensions of service quality such as ease of use, reliability, responsiveness, security,

convenience, efficiency, technical characteristics, cost effectiveness and user involvement but in other dimensions like accessibility and product portfolio the perception was as per the expectations of customers.

Kaur and Singh (2017) conducted a study to find the relationship between perceived service quality and customer satisfaction in the direct to home TV Industry. The results found that reliability was the most significant dimension of service quality which had an impact on customer satisfaction.

Vibhor, Sonia, Smrita (2012) conducted their study using SERVQUAL and concluded that reliability and responsiveness were identified as the most relevant factor of service quality and HDFC bank has the highest perception of service quality followed by ICICI, Kotak Mahindra and IndusInd bank.

Shanka (2012) conducted a study to measure the quality of service offered by private banks operating in Ethiopia and also investigated the relationship between service quality, customer satisfaction and loyalty by using five dimensions (reliability, assurance, tangibility, empathy and responsiveness) of SERVPERF model. The results indicated that there is a positive correlation between the dimensions of service quality and customer satisfaction and also proved that empathy and responsiveness play the most important role in customer satisfaction level followed by tangibility, assurance, and reliability.

Fatima and Edwin (2011) found in their study that there is a close link between the perceived service quality factors and customer satisfaction but the impact is not unique and it also depends on the demographic profile of the customers.

Sulieman (2011) in an empirical study observed that reliability, tangibility, responsiveness and assurance have significant and positive relationship with customer satisfaction but empathy has negative effect on customer satisfaction.

Siddiqi (2011) analyzed that all the service quality attributes are positively related to customer satisfaction in the retail banking sector in Bangladesh. The results showed that empathy demonstrates the highest whereas tangibility shows the least positive correlation with customer satisfaction.

Sheng and Liu (2010) posited that efficiency and requirement fulfillment have positive effect on customer satisfaction but the system accessibility and privacy have no significant effect on customer satisfaction in their study.

Ravichandran, Mani, Kumar, and Prabhakaran (2010) examined the influence of perceived service quality on customer satisfaction. The results indicated that responsiveness is the only significant dimension of service quality that affects the satisfaction of customers positively. It was also concluded that increase in service quality of the banks can enhance customer satisfaction which ultimately retains valued customers

Jamal and Anastasiadou (2009) analyzed that reliability, tangibility, responsiveness and assurance have significant and positive relationship with customer satisfaction. Meanwhile empathy was found to have a significant and negative effect on customer satisfaction.

Lenka, Suar, and Mohapatra (2009) suggested that customer satisfaction increases with the help of better human, technical and tangible dimensions of service quality. It was also tested that human, technical and tangible aspects of service quality enhance customer loyalty.

Cronin and Taylor (1992), suggested that service quality is antecedent of customer satisfaction and customer purchase intentions are more related to levels of satisfaction than to level perceptions of service quality.

Objective:

The present study is empirical in nature and makes an attempt to develop a comprehensive instrument to measure service quality perceptions by identifying its relevant dimensions and to identify the impact of different dimensions of service quality i.e.; tangibility, responsiveness, empathy, reliability and assurance on customer satisfaction.

Hypothesis:

- There is significant relationship between tangibility and customer satisfaction in banking sector.
- There is significant relationship between responsiveness and customer satisfaction in banking sector.
- There is significant relationship between empathy and customer satisfaction in banking sector.
- There is significant relationship between reliability and customer satisfaction in banking sector.
- There is significant relationship between assurance and customer satisfaction in banking sector.

Research Methodology:

The present study adopts a survey method. Customers of top ten Indian banks (on the basis of market capitalization) have been considered as sample units. The selected top five public sector banks are State Bank of India, Punjab National Bank, Bank of Baroda, Canara Bank, and Union Bank of India and top five private sector banks are ICICI, HDFC, Axis Bank, Kotak Mahindra, and IndusInd Bank. The primary data was obtained from customers of the selected banks from May 2018 to January 2019 in Delhi, NCR, by using a convenience sampling technique. Respondents were selected from the customers who visited the sampled banks at different times. The questionnaire was administered to 500 bank customers giving a final sample size of 457 responses after eliminating unengaged responses. Service Quality with dimensions tangibility, empathy, responsiveness, reliability and assurance was considered as independent factor and customer satisfaction was considered as dependent factor. For these factors total 18 statements were given to respondents to rate those on a five point Likert Scale (i.e., Strongly Disagree, Disagree, Neither Agree nor Disagree, Agree, Strongly Agree). Regression was used to find out the impact of service quality on customer satisfaction. Factor analysis was used to reduce the variables into different components.

Data Analysis and Results

(1) Demographic Profile of respondents

Table No.1 shows that of the total 457 respondents, 267(58.4%) are male whereas the females are 190 (41.6%).

Majority of the respondents are in the age group of 31-50 years (44%) and 18-30 years (43.3%).

Majority of the respondents are postgraduate (41.6%) and graduate (29.8%) only 42 (9.2%) of the total respondents are doctorate and above, whereas 89 (19.5%) respondents are up to secondary or senior secondary level of education.

Furthermore, 230(50.3%) respondents are employed, 29.1% are students. Out of the total 457 respondents 232(50.8%) are customers of private sector banks and 225 (40.8%) customers are of public sector banks, which shows that the sample was equally distributed between the two categories.

Table 1. Demographic profile of Sample respondents

Variables	Category	No. of Respondent	Percentage
Gender	Male	267	58.4

	Female	190	41.6
Age	18-30	198	43.3
	31-50	201	44
	51-60	36	7.9
	Above 60	22	4.8
Educational Qualification	Up to XII	89	19.5
	Graduate	136	29.8
	Postgraduate	190	41.6
	Doctorate and Above	42	9.2
Occupation	Employed (Govt/ Pvt)	230	50.3
	Business/Self Employed	40	8.8
	Student	133	29.1
	Others	54	11.8
Marital Status	Married	271	59.3
	Unmarried	184	40.3
	Others	2	0.4
Category of Bank	Public Sector	225	49.2
	Private Sector	232	50.8
Duration of Association with Bank	Up to 5 Years	158	34.6
	5-10 Years	162	35.4
	10-15 Years	63	13.8
	Above 15 Years	74	16.2
Monthly Income	Up to Rs. 20000	198	43.3
	20000-40000	94	20.6
	40000-60000	72	15.8
	Above 60000	93	20.4

(2) Factor Analysis

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.827
Approx. Chi-Square	4042.021
Bartlett's Test of Sphericity	df
	153
	Sig.
	.000

Rotated Component Matrix^a

	Component					
	1	2	3	4	5	6
Sat2	.930					
Sat1	.925					
Sat3	.903					
Rel3		.843				
Rel1		.841				
Rel2		.818				
IT2			.862			
IT1			.834			
IT3			.793			
Ass2				.834		
Ass1				.804		
Ass3				.802		
Res3					.829	
Res1					.781	
Res2					.780	
Emp2						.850
Emp1						.835
Emp3						.796

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.248	29.154	29.154	5.248	29.154	29.154	2.564	14.244	14.244
2	2.595	14.417	43.572	2.595	14.417	43.572	2.348	13.046	27.290
3	2.048	11.377	54.948	2.048	11.377	54.948	2.345	13.026	40.316
4	1.383	7.682	62.630	1.383	7.682	62.630	2.280	12.666	52.982
5	1.309	7.270	69.900	1.309	7.270	69.900	2.146	11.920	64.901
6	1.198	6.654	76.555	1.198	6.654	76.555	2.098	11.653	76.555
7	.518	2.879	79.434						
8	.484	2.691	82.125						
9	.445	2.474	84.599						
10	.431	2.395	86.994						
11	.391	2.172	89.166						
12	.362	2.013	91.179						
13	.338	1.877	93.056						
14	.325	1.804	94.859						
15	.269	1.493	96.353						
16	.247	1.373	97.726						
17	.233	1.295	99.021						
18	.176	.979	100.000						

Extraction Method: Principal Component Analysis.

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
IT1	65.396	68.016	.586	.646	.810
IT2	65.372	69.239	.522	.597	.814
IT3	65.265	68.862	.530	.478	.813
Rel1	65.359	67.217	.572	.620	.810
Rel2	65.462	67.052	.582	.601	.810
Rel3	65.442	68.282	.494	.503	.815
Ass1	65.473	68.048	.542	.531	.812
Ass2	65.470	68.149	.539	.522	.812
Ass3	65.462	67.705	.581	.567	.810
Emp1	65.492	74.579	.179	.404	.830
Emp2	65.453	74.007	.215	.457	.829
Emp3	65.477	73.132	.274	.381	.826
Res1	65.621	70.078	.425	.431	.819
Res2	65.523	69.645	.481	.436	.816
Res3	65.567	71.492	.355	.425	.822
Sat1	65.464	72.811	.204	.702	.832
Sat2	65.444	73.068	.203	.716	.832
Sat3	65.503	72.356	.249	.649	.829

Descriptive Statistics

		N	Mean	Std. Deviation
	IT	457	3.9643	.81317
	Rel	457	3.8877	.91395
	Ass	457	3.8403	.85982
	Emp	457	3.8344	.71332
	Res	457	3.7381	.78562
	Sat	457	3.8381	.99244
	Valid N (listwise)	457		

Correlations

Control Variables		IT	Rel	Ass	Emp	Res
Sat	IT Correlation	1.000	.419**	.462**	.167**	.386**
	Rel Correlation	.419**	1.000	.457**	.126**	.376**
	Ass Correlation	.462**	.457**	1.000	.148**	.428**
	Emp Correlation	.167**	.126**	.148**	1.000	.037
	Res Correlation	.386**	.376**	.428**	.037	1.000

** . Correlation is significant at 0.01 level

(-) Identifying the Relative Contribution of each dimension of Service Quality towards Customer Satisfaction : (Sep 19)

In order to determine the relative contribution of each dimension of service quality towards customer satisfaction, multiple regression is used

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.114 ^a	.013	.002	.99146	.275

a. Predictors: (Constant), Res, Emp, Rel, IT, Ass

b. Dependent Variable: Sat

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	5.799	5	1.160	1.180	.318 ^b
Residual	443.330	451	.983		
Total	449.129	456			

a. Dependent Variable: Sat

b. Predictors: (Constant), Res, Emp, Rel, IT, Ass

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
	B	Std. Error	Beta			Zero-order	Partial	Part
1 (Constant)	3.823	.358		10.681	.000			
IT	.070	.068	.057	1.022	.307	.050	.048	.048
Rel	.081	.060	.074	1.341	.181	.062	.063	.063
Ass	.012	.067	.010	.175	.861	.023	.008	.008
Emp	-.036	.066	-.026	-.549	.584	-.010	-.026	-.026
Res	-.129	.068	-.102	-1.882	.060	-.049	-.088	-.088

a. Dependent Variable: Sat

Residuals Statistics^a

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.3544	4.2067	3.8381	.11277	457
Residual	-2.91326	1.31866	.00000	.98601	457
Std. Predicted Value	-4.289	3.269	.000	1.000	457
Std. Residual	-2.938	1.330	.000	.995	457

a. Dependent Variable: Sat