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Service Quality and its Impact on Customer Satisfaction: An Empirical Evidence from the Indian Banking Sector

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Abstract

In a service industry like banking, the quality of customer service acquires crucial significance in the context of sustained business growth. With the economic intensification of a country is on accelerating mode, role of banking industry is also important in this growth. In a hyper competitive market all commercial banks in India are faced with challenges of retaining the existing and attracting new customers. This comparative research was designed to investigate the impact of service quality on customer satisfaction in the Indian banking sector. Hypothesis developed for the study was "higher level of service quality leads to higher level of customer satisfaction". A sample of two hundred respondents, (one hundred from a foreign bank and one hundred from a public sector / nationalized bank located in the city of Jaipur in Rajasthan state of India) was drawn on the basis of simple random sampling. Various constructs of SERVQUAL model developed by Zeithaml and Bitner (1996) and five point customer satisfaction tool developed by Taylor and Baker (1994) were adopted and used for data collection. Results of the regression analysis indicated that service quality was proved to be a strong predictor of customer satisfaction in case of the foreign bank with the R2 value of 0.644 accepting research hypothesis and rejecting null hypothesis as compared value R2 of 0.156 that does not support the research hypothesis in case of public sector bank. The study concluded that service quality, if managed effectively, can contribute significantly towards customer satisfaction.

Keywords: *Service Quality, Customer Satisfaction, Indian Banking Sector*

Introduction

The banking industry in India has a huge canvas of history, which covers the traditional banking practices from the time of Britishers to the reforms period, nationalization to privatization of banks and now increasing numbers of foreign banks in India. Therefore, Banking in India has been through a long journey. Indian Banking Sector has witnessed a number of changes. It has undergone a huge transformation in the years since Independence. India is one of the top 10 economies in the world, where the banking sector has tremendous potential to grow. The last decade saw customers embracing ATM, internet and mobile banking. India's banking sector is currently valued at Rs. 81 trillion (US$ 1.31 trillion). It has the potential to become the fifth largest banking industry in the world by 2020 and the third largest by 2025, according to an industry report. The face of Indian banking has changed over the years. Banks are now reaching out to the masses with technology to facilitate greater ease of communication, and transactions are carried out through the Internet and mobile devices.

A bank is a financial institution that provides banking and other financial services to their customers. A bank is generally understood as

an institution which provides fundamental banking services such as accepting deposits and providing loans. There are also nonbanking institutions that provide certain banking services without meeting the legal definition of a bank. Banks are a subset of the financial services industry. A banking system also referred as a system provided by the bank which offers cash management services for customers, reporting the transactions of their accounts and portfolios, throughout the day.

Review of Literature

Dean (2004) research establishes a cause and effect relationship among organizational features, employee attitudes to customer loyalty and financial outcomes, concluding that organizational features and employees' attitude influence service quality.

Carlo and others (2005) study presents a framework focusing on quality of banking services, resulting in the creation of five elements (customer relationship, business transactions, information technology, branch and its image) which can lead to quality in services targeting customer satisfaction.

Astrid (2007) Research results indicate that markets remain concentrated, number of dominant banks remains almost constant across markets and most importantly, service quality increases in larger markets and is higher in larger banks because of their good will in the market.

Ghosh and Kailash (2010) has strongly argued that customer's knowledge is also one of the most important factor which can affect satisfaction.

Jun Cia (2010) identifies the importance of the satisfaction of the employees as internal customers in the organization and their significant influence at the quality of internal services. Workers within any service provider organization have a major role in the effective and evaluate the quality of internal services**.** Employees are considered customers within the organization, which in some researchers work is seen that the internal customer's in the organization is the final judge of the quality of service provided.

Abdullah, et al (2011) tested the relationship among the three dimensions of service quality and customer satisfaction in New Zealand. All the three factors, reliability, assurance and enabling are significant predictors of customer satisfaction in retail banking in New Zealand.

Kumar (2013) in his research paper found that a customer gives highest impotence to reliability dimension. Within that reliability dimension they give more focus on how banks fulfill their promise and how they show interest to do work.

Significance and Limitations

Every study has two parameters, one is theoretical contribution and the other one is applied aspects. Theoretical contribution is that either it is contributed by or it is a contribution to the body of knowledge. Applied aspects are that who is going to benefit from this research. The results and findings of the study would be applicable to the industry so that by taking this into account they can improve their productivity also. If the service quality effects negatively then it will decrease the productivity and as a result, profitability of the bank will decrease. The limitations are that scope of the study is restricted to the research plan i.e. the impact of service quality on customer satisfaction.

Objectives of the Study

The objectives of research are:

- To study the service quality level in nationalized and foreign banks in India.
- To examine the customer satisfaction level in nationalized and foreign banks in India.
- To test the relationship if any between the two variables i.e. service quality and customer satisfaction.

Methodology

This comparative research was designed to investigate the impact of service quality on customer satisfaction in the Indian banking sector. The universe for the present study consisted of two leading banks operating in India.

One dealing with the foreign sector i.e. Citibank, a leading American Bank having branches all over the country and the other one from the public sector i.e. Punjab National Bank, having a wider network of branches all over the country. The greater the service quality of the bank, the higher will be the customer satisfaction. There are two variables involved; Independent Variable is Service Quality and its various constructs are Reliability, Assurance, Tangibles, Empathy, and Responsiveness. The dependent variable is Customer Satisfaction.

Sampling Details

A sample of two hundred respondents, (one hundred from a foreign bank and one hundred from a public sector / nationalized bank located in the city of Jaipur in Rajasthan state of India) was drawn on the basis of simple random sampling from the list of active customers. Sample details are as follows:

Table 1 : Final Sample for the Study

Bank	Active Customers
Citi Bank	100
Punjab National Bank	100
Total	200

Source: Authors

Hypothesis

H1: The greater the service quality of the bank, the higher will be the customer satisfaction.

H0: There is no relationship between service quality and customer satisfaction.

Research Tools

A five point Likert Scale starting from strongly disagree to strongly agree (1–5) was used for the study. Testing of hypothesis is performed through regression analysis and t-test.

Data Analysis and Interpretation

Demographic characteristics of the sample

- A dominant majority (74.0%) of the customers from Citi Bank were below the age of 40. In case of Punjab National Bank, majority (67.0%) of the respondents were in the age group of 20 to 40. The data indicated that Citi Bank had a dominating majority of young customers. This seems to be the Citi Bank strategy to hire young people with modern and broader vision.
- A heavy majority (95 %) of the Citi Bank customers were bachelors and master degree holders whereas 91 % were of the same qualifications in case of Punjab National Bank. Education level of the officers of both the banks appeared to be generally the same.
- Citi Bank was found to have 96.0 % of male customers and 4.0% female customers. In case of Punjab National Bank, overwhelming majorities (98.0%) of the customers were male and almost 2.0% were female.

Testing of hypothesis through regression analysis

For empirical analysis, the researcher used service quality as an independent variable and customer satisfaction as a dependent variable. Testing of hypothesis is performed through regression analysis:

Table 2: Regression Analysis (Service Quality and its Impact on Customer Satisfaction)

Citi Bank N=100				
R	R2	Adjusted R2	F statistics	P value
0.815	0.664	0.661	193.877	0.000

Punjab National Bank N=100				
R	R2	Adjusted R2	F statistics	P value
0.395	0.156	0.147	18.115	0.000

Source: Authors

The above table indicates a strong relationship (0.815) between the two variables in case of Citibank. R2 value is 0.664 indicating that service quality is a strong predictor of customer satisfaction. The situation is opposite in case of Punjab National Bank. Data reveal a weak relationship between the independent and dependent variables. The results of the empirical analysis indicate that if service quality is

monitored carefully, this can improve customer satisfaction.

Application of t-test

Two independent samples were also analyzed with the application of *t* test. In both cases i.e. service quality and customer satisfaction, strong *t* values were recorded ranging from 13 to 17 indicating a significant difference between the two sets of samples.

Conclusion

Customers of foreign bank perceived high level of service quality whereas customers of nationalized bank experiences low level of service quality form the bank personnel. The difference has also been statistically verified through the application of t test. It is further concluded that service quality is a strong predictor of customer satisfaction in case of foreign bank whereas the situation is vice versa in case of nationalized bank. The empirical evidence shows that public sector banks are unable to manage the factors influencing quality as well customer satisfaction. On the other hand, foreign sector banks are keen to improve upon such issues. The data proves that there is a significant relationship between service quality and customer satisfaction.

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