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AN ASSESSMENT OF SERVICE QUALITY GAP IN BANKING INDUSTRY

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Abstract
Indian banking sector has become highly competitive in the Environment of Liberalisation, Privatisation and Globalisation. Banks should not only focus on providing wide range of products to create competitive advantages; but also emphasise on the importance of services, particularly in maintaining service quality. The objective of this study is to study the determinants of quality of services and to analyse the difference between customers' expectations and customers' perceptions of services rendered by banks. The 22 attributes confined into 5 dimensions of the SERVQUAL instrument are used to measure the service quality of the banks. They are as Tangibility, Reliability, Responsiveness, Assurance and Empathy. The sample for this study comprises 200 customers from public and private sector banks and convenience sampling technique is chosen as the basic method to carry out the study. The study reveals that attributes under the three dimensions namely, Responsiveness, Assurance and Empathy are the major short falls of service quality rendered by banks. These are the service attributes a bank is required to pay more attention to maintain their customers satisfied.

Keywords: Customer Expectation, Customer Perception, Service Quality and Banking Industry.

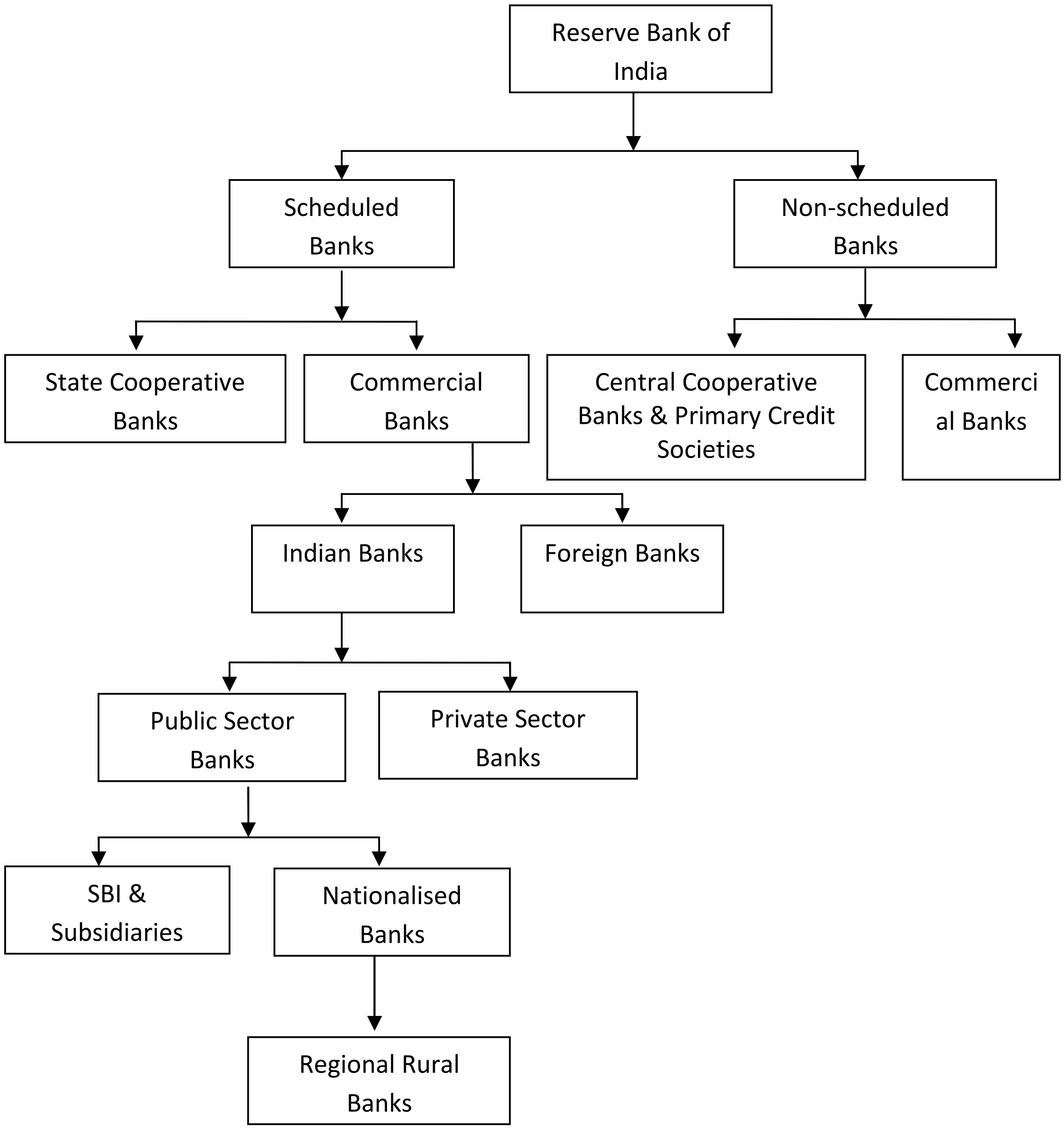
Introduction

The banking structure in India comprises of unorganized indigenous bankers and bankers in organized sector. In organized sector are scheduled commercial banks, non-scheduled commercial banks, some of which are in the public sector. In the Non-scheduled banks category are Co-operative Banks, Primary Credit Societies and a few commercial banks. Banking being a service oriented industry, service quality with the consequent customer satisfaction is an integral part of the business. Banks have started realizing that business goes to those who seek clients, serve them satisfactorily and strive hard to retain them. Banks should necessarily have to know their customers and understand their requirement. This involves informing him about various services and facilities available with the bank and serving them at the best. Bankers should undertake constant efforts to upgrade the quality of customer service so as to retain the customer on the basis of service factor. One of the greatest challenges facing organizations is the ever-growing competition, the continuous increase in customer expectation (Joseph & Walker, 1988; Leonard & Sasser, 1982) and customers' subsequent demands. It is extremely important to study whether their expectations are matching with their perceptions of the services rendered by the banking sector. In order to achieve competitive advantage and efficiency, organizations have to seek profitable ways to differentiate themselves. There are many different strategies to reach success, but the delivery of competent service quality is the vital one, especially in this competitive environment.

Indian Banking Industry

India has a well-developed banking system. Banking in India originated in the last decades of the 18th century. The oldest bank in existence in India is the State Bank of India, a government-owned bank that traces its origins back to June 1806 and that is the largest commercial bank in the country. Central banking is the responsibility of the Reserve Bank of India, which in 1935 formally took over these responsibilities from the then Imperial Bank of India, relegating it to commercial banking functions. Reserve Bank was nationalized in 1947 and was given broader powers. In 1969, 14 largest commercial banks were nationalized followed by six next largest in 1980. But with adoption of economic liberalization in 1991, private banking was again allowed.

Figure 1: Banking Structure in India



After 1991 the economic reforms took place and emphasis was laid down on decontrolling of the financial sector and markets. The Indian Banking Industry can be categorized into non-scheduled banks and scheduled banks. Scheduled banks constitute of commercial banks and co-operative banks. There are about 67,000 branches of Scheduled banks spread across India. As far as the present scenario is concerned the Banking Industry in India is going through a transitional phase.

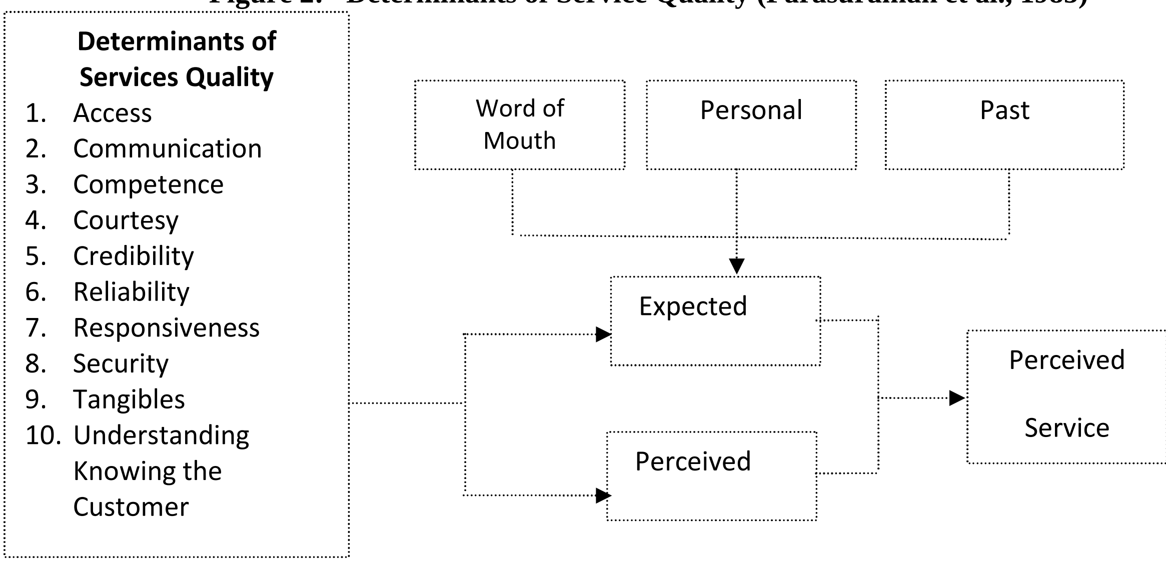
Currently, India has 96 scheduled commercial banks (SCBs) - 27 public sector banks (that is with the Government of India holding a stake), 31 private banks (these do not have government stake; they may be publicly listed and traded on stock exchanges) and 38 foreign banks. They have a combined network of over 53,000 branches. According to a report by ICRA Limited, a rating agency, the public sector banks hold over 75 percent of total assets of the banking industry, with the private and foreign banks holding 18.2% and 6.5% respectively.

The Total deposits of the commercial banks have gone up significantly since 1999. All bank groups recorded higher deposit especially after 1999. Total deposit of all banks increased to Rs. 13907.54 billion in 2007, which was Rs. 5283.27 billion in 1999. The growth outlook for 2012-13 remains weak as combination of global and domestic macroeconomic factors that slowed down growth in the preceding year have persisted and show no signs of getting resolved. The Present Banking Structure in India is shown in Figure 1.

Literature Review

Service quality is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Lehtinen and Lehtinen, 1982; Lewis & Booms, 1983, Gronroos, 1984; Parasuraman, Zeithaml, and Berry, 1985; 1988; Caruana and Malta, 2002). Service quality is defined as the degree of discrepancy between customers' normative expectation for service and their perceptions of service performance (Parasuraman et. al., 1985). The definition of service quality was further developed as "the overall evaluation of a specific service firm that results from comparing that firm's performance with the customer's general expectations of how firms in that industry should perform (Parasuraman et al., 1988).

Figure 2: Determinants of Service Quality (Parasuraman et al., 1985)



Source: Parasuraman, Zeithaml and Berry, 1985

Parasuraman et. al. (1985) reported a ten-factor model of service quality. The factors included reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding, and tangibles.

Following on further testing and refinement, they accepted a conceptual model of service quality consisting of one tangible factor and four intangible factors of service quality (reliability, responsiveness, assurance and empathy), which form the basis of the 22-item SERVQUAL questionnaire (Parasuraman, Zeithaml and Berry, 1988). These five dimensions of service quality are shown in the following table (Table 1).

The banking industry as a service industry, directed towards the customer's money and its management. A membership relationship is entailed in this industry due to its continuous nature. Banking is also high in credence quality, meaning that it can not be evaluated confidently even immediately after receipt of the goods / services. In addition, an extended period of time may be required in this industry for a fully informed evaluation (Devlin 2001, in Mishra, Das, Pattnaik, and Mohanty, 2010). Service quality in banking implies consistently anticipating and satisfying the needs and expectations of customers (Howcrof 1991). Today, the banking industry has become highly competitive in India. It is not only focusing on providing wide range of products to create competitive advantages; but also emphasises on the importance of services, particularly in maintaining service quality (Sousa 1999).

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Table 1: Service Quality Dimensions

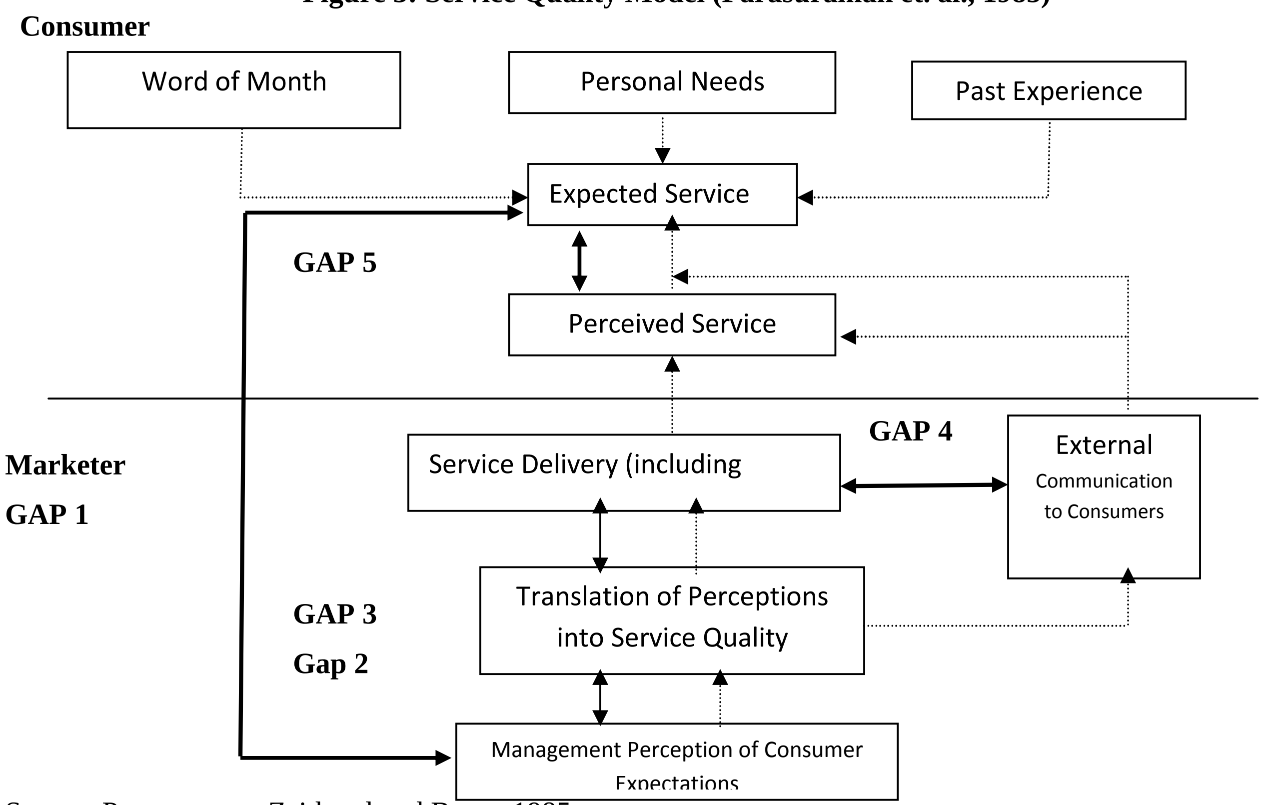
Dimension	Description
Tangibility	Physical facilities, equipment and appearance of personnel
Reliability	Ability to perform the promised service dependably and accurately
Responsiveness	Willingness to help customers and provide prompt service
Assurance	Knowledge and courtesy of employees and their ability to inspire trust and confidence
Empathy	Caring and individualized attention that the firm provides to its customers

Source: Parasuraman, Zeithaml and Berry,1988.

Parasuraman et. al. (1985) proposed that service quality is a function of the differences between expectation and performance along the quality dimensions. The ten dimensions were extracted from their research in terms of customers' perceived service quality. Based on their findings, they developed a service quality model (Figure 3) based on gap analysis. The various gaps visualized in the model are:

Gap 1: The Knowledge Gap: It is the difference between consumers' expectation and management's perceptions of those expectations, i.e. not knowing what consumers expect.
Gap 2: The Standards Gap: It is the difference between management's perceptions of consumer's expectations and service quality specifications, i.e. improper service-quality standards.
Gap 3: The Delivery Gap: It is the difference between service quality specifications and service actually delivered i.e. the service performance gap.
Gap 4: The Communications Gap: It is the difference between service delivery and the communications to consumers about service delivery, i.e. whether promises match delivery
Gap 5: The Overall Gap: It is the difference between consumer's expectation and perceived service. This gap depends on size and direction of the four gaps associated with the delivery of service quality on the marketer's side.

Figure 3: Service Quality Model (Parasuraman et. al., 1985)



Source: Parasuraman, Zeithaml and Berry, 1985.

According to this model, the service quality is a function of perception and expectations and can be modeled as:

$$SQ = \sum_{j=1}^{k}(P_{ij} - E_{ij})$$

where:

SQ → Overall service quality.
k → Number of attributes.
Pij → Performance perception of stimulus i with respect to attribute j.
Eij → Service quality expectation for attribute j that is the relevant norm for stimulus i.

This research is aimed at finding the gap scores measured from the gap 5, i.e. the gap between customers' expectations and customers' perceptions.

Research Methodology

The objective of this study is to study the determinants of quality of services and to analyse the difference between customers' expectations and customers' perceptions of services rendered by banks. Based on the review of literature, the 22 attributes confined into 5 dimensions of the SERVQUAL instrument are used to measure the service quality of the banks. They are as follows: Tangibility (Appearance of Physical Facilities, Condition of Equipments, Appearance of Bank Staff and Ambience in the Bank), Reliability (Bank employee's sincerity in serving you, Problem solving ability of employees, Correctness of information provided by Staff, Service provision in time, Accuracy in keeping records of the customers), Responsiveness (Waiting time for service, Promptness in responding your queries, Willingness of Bank employees to help you, Availability of bank staff to respond), Assurance (Trustworthiness of Bank employees, Ease of contact with Bank Staff, Politeness of Bank employees, Ability of Bank staff to answer your queries) and Empathy (Individual attention paid to you, Personal attention paid to you, Staff's understanding to your needs, Sensitiveness to your interest, Convenient operating hours)

For this study, sample includes the present customers of banks whether public or private and is either self employed or a salaried person. This study will be conducted in the National Capital Region (NCR) of Delhi comprising Delhi and its suburbs (Noida, Gbd, Frbd, and Gurgaon). The size of the sample should be decided before selecting the samples. The size of the sample should neither be too large nor too small. It should be optimum. The sample for this study comprises 200 customers from public and private sector banks. 200 well – structured questionnaires were distributed and 195 were returned. 5 more responses were collected so as to make the sample size as 200.

For this study, convenience sampling technique is chosen as the basic method to carry out the study. A convenience sampling technique is the one in which the only criteria for selecting the sample units is the convenience of the interviewer. This study is based on both primary and secondary data. Tables, Averages, Pie-charts and Graphs are the basic data analysis tools used in this study. For the current study, two 5 point Likert scale from "Most Important" to "Not Important" (to measure the expectations of customers) and from "Very Good" to "Very Bad" (to measure the perceptions of customers) has been used. After the data have been collected, it is necessary to analyze and process these data in order to make inferences regarding the population under the study.

Data Analysis

Table 2: Gap Score on Tangibility

Sl. No.	Factor: Tangibility	Customers' Expectation	Customers'Perception	Gap
1.	Condition of Equipment	3.89	4.11	0.22
2.	Appearance of Facility	3.76	3.93	0.17
3.	Appearance of Staff	3.89	3.96	0.07
4.	Ambience in the Facility	3.96	3.89	-0.07
5.	**Average**	3.89	3.97	0.08

The magnitude and direction of the difference (GAP 5) between expectation and performance along the quality dimensions determine the total perceived service quality (Parasuraman et al., 1985 and 1988). The gap score analysis enables us to find out how consumers perceive service quality and try to identify what dimensions of service quality they are satisfied with. A positive gap indicates that customers perceived quality more than they expected. A gap of 0.25 (negative) is generally considered by researchers (Rohoni and Mahadevappa, 2006) as the margin to measure the gap between perception and expectation of service quality.

In table 2, 3, 4, 5, and 6, the average perception and expectation mean scores for every attribute under all dimension of SERVQUAL scale and the differences between the two are presented.

Table 3: Gap Score on Reliability

Sl. N	Factor: Reliability	Customers' Expectation	Customers'Perception	Gap
1.	Staff's Sincerity in Services	3.87	3.80	-0.07
2.	Staff's Problem Solving Ability	4.00	3.87	-0.13
3.	Correct Service Performance	3.98	3.84	-0.14
4.	Service Provision in Time	4.42	4.27	-0.15
5.	Record Keeping Accuracy	4.18	3.98	-0.20
6.	**Average**	4.09	3.95	-0.14

According to Parasuraman et al., (1988), overall service quality is measured by obtaining an average gap score of the SERVQUAL dimensions. In general, taking all respondents together, it is found that, customers' perceptions of service quality offered by banks did not meet their expectations (all gaps scores the dimensions are negative except Tangibility). Dimensions that reported larger mean gaps were responsiveness (-0.26), assurance (-0.28) and empathy (-0.50), while smaller mean gaps obtained is reliability (-0.14) which is also not too small. Tangibility shows a positive gap difference.

Table 4: Gap Score on Responsiveness

Sl. N	Factor: Responsiveness	Customers' xpectation	Customers'Perception	Gap
1.	Waiting time for service	4.16	3.91	-0.25
2.	Promptness in responding	4.44	4.18	-0.26
3.	Willing to help customers	4.18	3.91	-0.27
4.	Availability to respond	3.98	3.71	-0.27
5.	**Average**	4.19	3.93	-0.26

Out of 22 items of the five dimensions of service quality, only five attributes, only three attributes of Tangibility have positive gap in which the attributes under tangibility dimension have positive gap score less than 0.25. Among the 22 attributes under all dimensions, the gap scores on Waiting time for service (-0.25), Promptness in responding your queries (-0.26), Willingness of Bank employees to help you (-0.27), Availability of bank staff to respond (-0.27) of Responsiveness Dimension; Trustworthiness of Bank employees (-0.27), Ease of contact with Bank Staff (-0.26), Politeness of Bank employees (-0.29), Ability of Bank staff to answer your queries (-0.29) of Assurance Dimension and Individual attention paid to you (-0.38), Personal attention paid to you (-0.44), Staff's understanding to your needs (-0.44), Sensitiveness to your interest (-0.53), Convenient operating hours (-0.71) of Empathy Dimension.

Table 5: Gap Score on Assurance

Sl.N.	Factor: Assurance	Customers' Expectation	Customers'Perception	Gap
1.	Trustworthiness of staff	4.20	3.93	-0.27
2.	Ease in interacting with staff	4.00	3.74	-0.26
3.	Politeness of the staff	4.00	3.71	-0.29
4.	Ability of staff to answer questions	4.07	3.78	-0.29
5.	**Average**	4.07	3.79	-0.28

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It is clearly understood that these are the service attributes a bank is required to pay more attention to maintain their customers satisfied.

Table 6: Gap Score on Empathy

Sl. No.	Factor: Empathy	Customers' Expectation	Customers' Perception	Gap
1.	Individual attention paid	4.09	3.71	-0.38
2.	Personal attention paid	4.13	3.69	-0.44
3.	Understanding customer's need	4.44	4.00	-0.44
4.	Sensitiveness to customer's best interest	4.42	3.89	-0.53
5.	Convenient operating hours	4.53	3.82	-0.71
6.	**Average**	4.32	3.82	-0.50

Conclusion

In the changing banking scenario of 21st century, the banks have to have a strong identity to provide world-class services. The banks now have to be of world-class standard, committed to excellence in customers, shareholders and employees' satisfaction. Using the service quality model, a comparative study of customers of private and public sector banks operating in NCR, India is undertaken to identify the differences between the bank customers' expectations and their perceptions toward the service quality management in banks. The study reveals that attributes under the three dimensions namely, Responsiveness, Assurance and Empathy are the major short falls of service quality rendered by banks. Politeness of the staff, Ability of staff to answer questions, Personal attention paid, Understanding customer's need, Sensitiveness to customer's best interest and Convenient operating hours are the areas in which banks have to give more importance while providing quality services to their customers. The present study suggests that the policy makers (managers) of banks should take appropriate decision to improve the quality of services in Indian banking sector. Service quality is, without any doubt, gaining more importance in banking industry in India.

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