

A STUDY ON IMPACT OF SERVICE QUALITY ON RETENTION OF CUSTOMERS IN RETAIL BANKING IN INDORE (MP)

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Indian Banking Industry.

The Indian Banking industry governed by the Banking Regulation Act of India, 1949, falling into two broad classifications, non-scheduled banks and scheduled banks. Within the commercial banks there are nationalized banks, the State Bank of India and its group banks, regional rural banks and private sector banks (the old/ new domestic and foreign). With the economic growth picking up pace and the investment cycle on the way to recovery, the banking sector has witnessed a transformation in its vital role of intermediating between the demand and supply of funds.

Currently the banking sector in the country is strongly fragmented and hence with further policy changes taking place in the sector, consolidation is likely to take place at a faster rate. However this is subject to the removal of the ceiling on voting rights will ensure that private sector and foreign banks will be in a much better position to carry out acquisitions in the banking sector. A hike in FDI capital limits in the sector would further go a long way in the process of consolidation. The manufacturing sector has shown significant improvement in FY05. Hence as corporate growth picks up lending too is likely to see an uptick. Retail credit off-take is expected to remain strong going forward with the housing finance industry, the main contributor to credit off-take from this segment, expected to grow between 20%-25%

The focus of our research is on Indore's Private retail banking industry, because banks in this sector are increasing the competition substantially for households and individual customers as sources of revenue. After Financial Liberalization there is pioneered change in banking sector.

Current Scenario in Indian Banking Industry

“The Indian Banking industry has been undergoing rapid changes reflecting a number of underlying changes. Liberalization and deregulation witnessed in the Indian markets in the 1990s have resulted in a spurt in banking activity in India. Significant advances in communication have enabled banks to expand their reach, both in terms of geography covered as well as new products introduced.”

With increased competition in wholesale banking due to the entry of foreign banks and new private sector banks, the sector has witnessed a squeeze in margins. This has led to banks increasing their focus on retail banking so as to obtain access to low cost funds and to expand into relatively untapped, potential growth areas. Banks and financial institutions are thus continuously exploring new avenues for increasing their footprint and safeguarding their margins.

“The private players however cannot match the PSBs great reach, great size and access to low cost deposits. Therefore one of the means for them to combat the PSBs has been through the merger and acquisition (M&A) route. Over the last two years, the industry has witnessed several such instances. For instance, HDFC Bank’s merger with Times Bank, ICICI Bank’s acquisition of ITC Classic, Anagram Finance and Bank of Madura. Centurion Bank, Indusland Bank, Bank of Punjab, Vysya Bank are said to be on the lookout. The UTI bank- Global Trust Bank merger however opened a Pandora’s box and brought about the realization that all was not well in the functioning of many of the private sector banks.”

Literature Review

In general, banks the world over offer similar kinds of services Czepiel, J A (1990), quickly matching their competitors’ innovations. However, customers can perceive differences in the quality of service.

Banks have realized the importance of concentrating on service quality as a way to increase customer satisfaction and loyalty, and to improve their core competence and business performance (Czepiel, J A 1999; Stafford, 1996). This realization stems from believing that service quality is difficult for competitors to copy Kaynak, E. and Whiteley, A. (1999).

Service quality has been defined as customers’ overall impressions of an organization’s services in terms of relative superiority or inferiority (Johnston, 1995).

Customers evaluate banks’ performance mainly on the basis of their personal contact and interaction (Grönroos, 1990). Judgments are formed by comparing service expectations with the service actually received (Bloemer et al., 1998).

Berry, L.L., Zeithaml, V.A. and Parasuraman, A. (1985) and Bitner (1996) indicated that “service quality consists of five dimensions: tangibles (appearance of physical facilities, equipment, personnel and written materials), 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 a confidence), and empathy (caring and individual attention the firm provides its customers).

Definition of concepts; Banking refers to accepting for the purpose of lending or investments, the money is repayable to public on demand or otherwise and withdraw able by Cheque, demand draft etc.

Retail Banking refers to banking in which banking institutions execute transactions directly with consumers, rather than corporations or other banks. Services offered include: savings and current accounts, mortgages, personal loans, debit cards, credit cards, and so forth. Banking services offered to individual customers such as savings accounts, personal loans, cheque cashing etc.

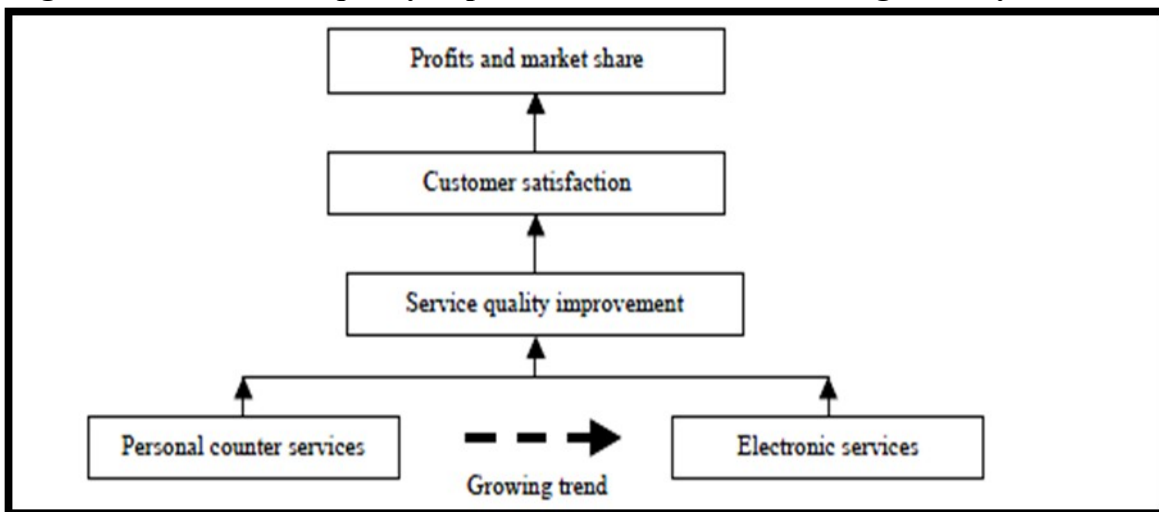
Customer Retention is the activity that a selling organization undertakes in order to reduce customer defections. Customer retention is more than giving the customer what they expect; it's about exceeding their expectations so that they become loyal advocates for your organization

Service Quality means a comparison of expectations with performance. According to Lewis and Booms (1983) service quality is a measure of how well a delivered service matches the customer expectations.

Customer Expectation is the perceived-value customers seek from the purchase of a good or service. It also includes customer needs and customer requirements.

Customer Perception is the kind of services that the customers are actually getting from the service provider.

Fig 1. Model for service quality improvement in the retail banking industry



Source: Study developed by Dr Chaisomphol Chaoprasert* & Dr. Barry elsey

Objective of the Study:- Following were the Objectives taken into the consideration while conducting the whole study:

1. To identify the key factors of Expected service quality in private Retail Banking.

- To identify the significant difference between Expectation & Perception of the Customers of Private Retail Banking.

Research Methodology

Our thrust was to determine the effect of service quality on customer retention in private retail banking. We prepare set of 25 statements reflecting various attributes of the problem. We administered to 170 respondents, out of which 150 responses were found relevant. The respondents were requested to rank the statements on a 5-point Likert scale basis (from strongly disagree to strongly agree). Factor analysis was imposed to identify the factors & also to identify the impact of service quality on private retail banking to retain customers.

Table 1: Tabular Summary of Research Methodology

Area of Study	Indore (M.P).
Sampling Method	Convenient & Judgmental Sampling
Data Type	Primary Data
Type of Respondents	Customers of Private Retail Banks
Sample Size	150
Type of Questionnaire	A standard format of undisguised structured questionnaire of Parasuraman <i>et al.</i> (1985)
Statistical Tool	Factor Analysis & Chi-Square test.
Software for Data Analysis	SPSS 17.0, MS Excel 2007

Demographic Profile Analysis :-Following were the results which came out from the questionnaire filled by various respondents of Private Retail Banks.

Table 2 :- Demographic Profile of the Respondents:

Gender:	% of Respondents
Male	62%
Female	38%
Age group:	
Less than 25	4%
26-35	30%
36-45	64%
46 & above	2%
Qualification:	
HSC	22%
UG	20%

PG	38%
Diploma Holders	20%
Occupation:	
Government Employed	25%
Private	35%
Self employed	18%
Students	22%

With the help of this data collected from the respondents, Factor Analysis and Chi-Square Analysis were applied to fulfill the Objective of the Study and furnish the Results.

Reliability Measurement

Table 3:-Reliability Statistics

Cronbach's Alpha	No. of Items
0.742	25

Twenty five variables were identified for use in this study .Cronbach’s Alpha is the most widely used measure of reliability, which access the consistency of a scale. The generally agreed upon lower limit for Cronbach’s Alpha is 0.7. The variables used resulted in a Cronbach’s Alpha value of 0.742 which is greater than 0.7, & hence establish the reliability of the scale.

Factor Analysis: Since the significance (0.000) is less than the assumed value (0.05), hence we reject the null hypothesis .This means that the factor analysis is valid. Inferring the KMO coefficient 0.550, the value is more than 0.05 (Table 3). So this implies that the factor analysis for data reduction is effective.KMO measure of sampling adequacy & Bartlett’s test of sphericity

Table 4 :- KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.550
Bartlett's Test of Sphericity	Approx. Chi-Square	1752.668
	Df	300
	Sig.	.000

KMO measure of sampling adequacy is an index used to test appropriateness adequacy of the factor analysis .The minimum required KMO is 0.5.The table above shows that the index for this data is 0.550 & chi-square statistics is significant (0.000 < 0.05).This means the

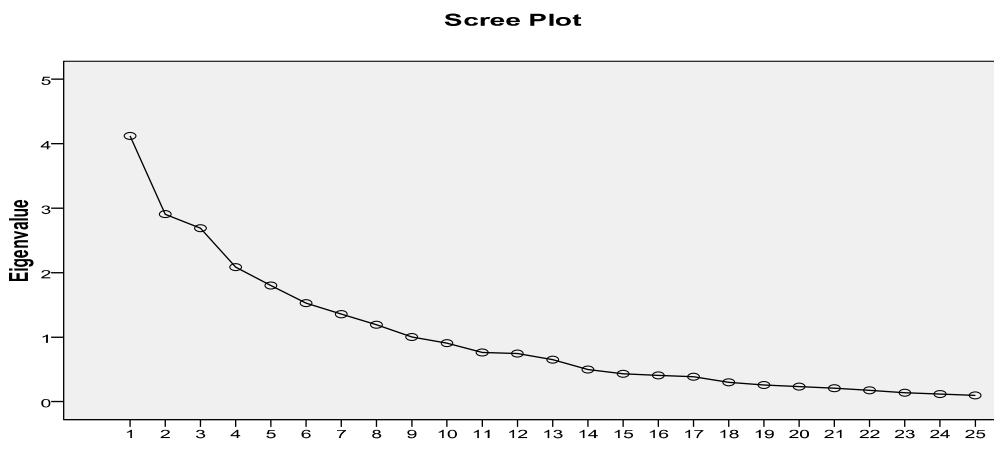
factor analysis is appropriate for this data. Therefore, we test for the null hypothesis that the population correlation matrix is an identity matrix (I;e each variable correlates perfectly with itself , but is uncorrelated with the other variables). The result of Bartlett’s test (the chi-square value is 1752.668 at 0.000 significance level) clearly rejects the null hypothesis that the population correlation matrix is an identity matrix. Therefore we can proceed with factor analysis.

Table 5: Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings	
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance
1	4.120	16.480	16.480	4.120	16.480	16.480	2.740	10.959
2	2.907	11.628	28.108	2.907	11.628	28.108	2.648	10.591
3	2.689	10.756	38.864	2.689	10.756	38.864	2.191	8.763
4	2.086	8.345	47.210	2.086	8.345	47.210	2.156	8.623
5	1.802	7.208	54.418	1.802	7.208	54.418	1.973	7.894
6	1.528	6.110	60.528	1.528	6.110	60.528	1.863	7.454
7	1.356	5.424	65.953	1.356	5.424	65.953	1.862	7.446
8	1.192	4.766	70.719	1.192	4.766	70.719	1.643	6.573
9	1.004	4.015	74.734	1.004	4.015	74.734	1.608	6.431

This output gives the variance explained by the initial solution .This table gives the total variance contributed by each component. We may note that the percentage of total variance contributed by the first component is 16.480, by second component is 11.628 ,by the third component is 10.756,by fourth component is 10.756 , by the fifth component is 7.208 ,by the sixth component 6.110,by the seventh component 5.424 ,by the eight component 4.766 and lastly by the ninth component 4.015.It may be noted that the percentage of total variances is the highest for the first factor & it decreases thereafter. It is also clear from this table that there are total three distinct factors for the given set of variables.

Scree Plot Figure 2:-



The Scree plot gives the number of factors against the Eigen values, & helps to determine the optimal number of factors .The factors having the steep slope indicate that larger percentage of total variance is explained by that factor. The shallow slope indicates that the contribution to total variance is less. In the above plot, the first nine factors have steep slope & later on the slope is shallow. It may be noted from the above plot that the number of factors for Eigen value greater than one are nine. Hence ideal number of factors are 9.

Table 6:- Rotated Component Matrix^a .

Component	1	2	3	4	5	6	7	8	9
e1	0.836								
a2	0.782								
e2	0.687								
res4		0.800							
a1		0.783							
r1		0.627							
a3		0.440							
res2			0.778						
res1			0.734						
res3			0.564						
t3			0.447						
p3				0.831					
p1				0.776					
p2				0.769					
e4					0.801				
e3					0.640				
t1					0.526				
t2						0.749			
t4						0.739			
a4							0.826		
r2							0.794		
r5								0.810	
e5								0.630	

r3									0.748
r4									0.736

[t1- t4 Tangibility,r1-r5 Reliability, res1-res4 Responsiveness,a1-a4 Assurance, e1-e5 Empathy , p1-p3 Price]

Interpretation of Factor Analysis :- Table 7

Factor No.	Labels	Factor Name	Statement	Loadings
F1	E1	Availability of Resources	Employees give individual attention to the customers.	0.836
	A2		Customer feels safe in their private retail bank transaction.	0.782
	E2		Operating hours of bank are convenient to all customers.	0.687
F2	A1	Assurance	The behavior of employees in private retail bank would instill confidence in customers.	0.783
	Res4		Employees respond timely to the customers.	0.8
	R1		When private retail bank promises, it fulfills.	0.627
	A3		Employees of private retail bank are consistently courteous.	0.44
F3	Res2	Reliability	Employees are always ready to give prompt services to their customers.	0.778
	Res1		Employees provides correct information at the correct time to their customers	0.734
	Res3		Employees are never too busy to respond their customers.	0.564
	T3		The appearance of frontline employees is found to be neat.	0.447
F4	P3	Value	The private retail bank has good complaint handling system to resolve any problem.	0.831
	P1		The private retail banks charges competitive interest rates.	0.776
	P2		The private retail bank charges reasonable service rates.	0.769

F5	E4	Approachable	The private retail banks gives their customers best interest at heart.	0.801
	E3		The employees of the private retail bank gives personal attention to the customers.	0.64
	T1		Modern looking equipments are available in private retail bank.	0.526
F6	T2	Appearance	The physical facilities of the private retail bank are visually appealing with modern looking amenities.	0.749
	T4		Availability of required transaction related to banking like pay-in-slips, Withdraw slips, brochures etc.	0.739
F7	A4	Knowledge	Employees have enough knowledge to answer any question of their customers.	0.826
	R2		Employees of the bank always show positive interest in resolving the issues of their customers.	0.794
F8	R5	Accurate recording	The private retail bank always insists on error free records.	0.81
	E5		The employees of the private retail bank understand the specific needs of the customer.	0.63
F9	R3	Time	The private retail bank provides the services always at the first time by giving it first priority.	0.748
	R4		The private retail bank performs the service at the time they do promise.	0.736

Chi-square Analysis:- As per the second objective of the study, that is “To find out the relationship between Expectation & Perception of the customer of private retail banking”, the following hypothesis for “perceived service quality of private retail banks has a positive effect on customer expectation”, have been tested.

H₀: There is no association between perceived service quality & expected service quality.

H₁: There is association between perceived service quality & expected service quality.

Table 8:Chi-Square Test

S.No	Expectation(E)	Perception(P)	(E-P)	(E-P) ²	(E-P) ² /E
1	4.21	2.93	1.27	1.621	0.385
2	4.19	2.97	1.22	1.488	0.355
3	4.05	2.93	1.12	1.254	0.310
4	3.96	3.10	0.86	0.740	0.187
5	4.31	3.41	0.90	0.810	0.188
6	4.23	3.27	0.96	0.922	0.218
7	4.29	3.41	0.88	0.774	0.181
8	4.47	3.47	0.99	0.987	0.221
9	4.36	3.29	1.07	1.138	0.261
10	4.41	3.35	1.07	1.138	0.258
11	4.23	3.27	0.96	0.922	0.218
12	4.39	3.19	1.20	1.440	0.328
13	4.19	2.91	1.27	1.621	0.387
14	4.38	3.25	1.13	1.284	0.293
15	4.36	3.01	1.35	1.814	0.416
16	4.42	3.15	1.27	1.604	0.363
17	4.17	3.12	1.05	1.096	0.263
18	4.29	3.09	1.21	1.456	0.339
19	4.38	3.07	1.31	1.707	0.390
20	4.31	3.07	1.24	1.538	0.356
21	4.17	2.88	1.29	1.656	0.397
22	4.32	3.09	1.23	1.521	0.352
23	4.29	2.84	1.45	2.112	0.492
24	4.33	3.05	1.27	1.621	0.375
25	4.40	3.11	1.29	1.673	0.380
			Result	$\sum(E-P)^2/E$	7.914

The standard scale of SERVQUAL was administrated to 150 respondent .Gap analysis was done by calculating average mean for individual statements. A total of 150 responses were received.

Decision: From the Chi-square test, we found that the calculated value of chi-square is 7.914 which is less than the tabulated value of the chi-square i.e 36.415(According to chi- square table)

Conclusion: Hence we accept null hypothesis .Therefore we conclude that there is no significant difference between perceived service quality & expected service quality.

Interpretations from Factor analysis [Naming of The Factors]:-A factor loading represents the correlation between an original variable & its factor. The signs are interrelated just like any other correlation coefficient. On each factor ‘like signs’ of factor loading means factors are positively correlated & ‘opposite signs’ of factor loadings means that factor loadings & factors are negatively correlated. The names of the factors, statement labels & factor loading are summarized in the *Table 6* which has been formulated from SPSS data output.

Factor 1: Availability of Physical Resources:- It is one of the most important factor, statements such as :-Employees give individual attention to the customers (0.836),Customers feels safe in their private retail bank transaction (0.782) & Operating hours of bank are convenient to all customers (0.687).This factor signifies & proves the five dimensions of the SERVQUAL given by “Parasuraman “ that the model always helps the private retail banks to improve their quality of physical equipments as well as other resources available in bank for their customers.

Factor 2: Assurance:-Employees respond timely to the customers (0.800),The behavior of employees in private retail bank would instill confidence in customers (0.783) & When private retail bank promises ,it fulfills (0.627) & Employees of private retail bank are consistently courteous (0.44).This is second significant factor indicates Assurance to the customers which helps the private retail bank in gaining confidence of the customers.

Factor 3: Reliability:-Employees are always ready to give prompt services to their customers (0.778),Employees provides correct information at the correct time to their customers (0.734),Employees are never too busy to respond their customers (0.564) & The appearance of frontline employees is found to be neat (0.447).Four factors are been loaded on to this factor. The factor ‘Reliability’ is the third significant factor. This implies the quality of right information at the right time asked by the customers is required to be provided by the private retail bank on the basis of adopted SERVQUAL model.

Factor 4: Value :-The private retail bank has good complaint handling system to resolve any problem (0.831),The private retail banks charges competitive interest rates (0.776) & The private retail bank charges reasonable service rates (0.769).Three factors have been loaded on to this factor. The factor Value is the fourth significant factor. This implies that the bank always charges the interest rates & service charges on the basis of its customer affordability level.

Factor 5: Approachable:-The private retail bank gives their customers best interest at heart (0.801),The employees of the private retail bank gives personal attention to the customers (0.640) & Modern looking equipments are available in private retail bank. (0.526). This

factor comprises of three factors .This implies that the employees of the private retail gives personal attention & also helps in fulfilling the specific needs of the customers.

Factor 6: Appearance:-The physical appearance of the private retail bank is visually appealing with modern looking amenities (0.749) & Availability of required transaction related to banking like ,pay-in-slips, Withdraw slips, brochures etc .(0.739). Two statements has been loaded on to this factor. This factor emphasizes that there is always availability of depositing & withdrawing slips as well as modern looking equipments are visually appealing to the customers.

Factor 7: Knowledge:- Employees have enough knowledge to answer any question of their customers (0.826) & Employees of the bank always show positive interest in resolving the issues of their customers (0.794).Two statements has been loaded on to this factor. This factor emphasizes that the employees of the bank always takes positive interest in answering & resolving the queries of the customers.

Factor 8: Accurate Recording:-The private retail bank always insist on error free records (0.810) & The employees of private retail bank understands the specific needs of the customer (0.630).This factor comprises of two factors .This implies that the employees of the private retail bank insist on error free record & also understands the priority of their customers.

Factor 9: Time :-The private retail bank provides the services always at the first time by giving it first priority (0.748) & The private retail bank performs the service at the time they do promise (0.736). Two statements has been loaded on to this last factor .This factor emphasizes that the private retail bank always provides priority and timely services.

The Chi-square is being used as another powerful statistical tool which helped in determining the gap between the perception & expectation of the customers that (Perception means ‘What actually customers are getting’ & Expectation means ‘What the customers wants apart from they are getting’). The Chi-Square analysis showed that there is no significance difference between Expectation and Perception of the customers but still if the Private Retail banks emphasize more on to improve the quality of services they are rendering to them, they can attract more new customer as well as retain existing customers.

Conclusion:The Present study emphasized, on identifying the various factors influencing the quality of services provided by the private retail banks. On the other hand, it also emphasized on determining the gap between quality of services rendering & customer expectations by the banks which influences the service quality of private retail banks in Indore city.From the factor analysis it is concluded that private retail bank employees give individual attention and respond timely to their customers. Employees are always ready to give prompt services to their customers. The physical appearance of the private retail bank is visually appealing with modern looking amenities and few more. These factors showed the impact of service quality in Private Retail Banking and how the banking services can be improved by reducing the variance in those factors.

Limitations of Study; This study was carried out mainly in Indore city and, therefore, the results obtained may not be applicable to the country as a whole, since the banking

consumers differ in their preference, culture and demographics in various parts of the country. So if the sample size of 150 may increase to more number of respondents then it will be helpful and useful to judge the expectation and perception of the Customers of not only private retail banking but public retail banking as well. The scope of the research in this area is having no limits.

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