Assessing the Service Quality of Banks using SERVQUAL - A Study on Bank of India

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Abstract

The recent advances in information and rapid globalization have changed the way companies used to operate their businesses. The service industry in particular has found it imperative to concentrate and focus on managing customer relationships in order to maximise their revenues. In this current scenarioof delivering quality service, it is considered an essential strategy for success and survival in today's competitive environment.The perceptions and expectations are continually evolving, making it difficult for the service providers tomeasure and manage services effectively. The key lies in improving the serviceselectively, paying attention to more critical service attributes/dimensions as a partof customer service management. The paper explores the use of SERVQUAL in finding out the customer's expectation and performance in context of the survey carried out in Bank of India, Guwahati and measuring the gap between performance and expectation. The study suggests the area of focus or the more important gaps, which require adequate attention for the bank to maintain their competitive edge in the sector.

Keywords: *Service Industry, Service Quality, SERVQUAL, Gap Analysis, Customer Satisfaction*

Introduction

Service Industry:

To survive and excel in today's competitive market organizations must realize the significance of customer-oriented business philosophies and quality management approaches in managing the business. Today's marketing environment is characterized by increased rivalry and many other changes in macroeconomics variables. One of these is increased competition and it goes without saying that one of the drivers if business success is having a unique competitive advantage. Customers are becoming more aware of their requirements. Their expectations and perceptions are continually evolving making it more difficult for the service providers to measure and manage services effectively and efficiently.Intensifying competition and rapid deregulation haveled many service and retail businesses to seek profitable ways to differentiate themselves (Parasuraman et al, 1988).

Banking industry environment experiences rapid changes reflected in the intensification of competition between banks and increased awareness of current and potential customers. Practitioners in the banking industry also face a large number of complex challenges in the global marketplace. It is crucial for banks to better understand changing customer needs and adopt the latest information technology system in order to compete more effectively with global organizations (Malhotra & Mukherjee, 2004).Product differentiation is impossible in a competitive environment like the banking industry.

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Banks everywhere are delivering the same products. Thus, bank management tends to differentiate their firm from competitors through service quality. As the banks compete in the market place with generally undifferentiated products, service quality becomes a primary competitive weapon. Banks that excel in quality service can have distinct marketing edge in terms of higher revenues, increased cross-sell ratios, higher customer retention (Bennett and Higgins, 1988) and expanded market share (Brown and Hedges, 1993).It has become imperative for banks to introduce new marketing practices in the Indian banking sector and has also brought the customer satisfaction to the center of the focus. As the numbers of banks are increasing; customers' expectations of service quality is growing. It has become imperative to measure the service quality of the bank so that the service providers can assess their level of service quality and identify the quality gaps for improvements. Service Quality is seen to be one of the main determinants of customer satisfaction.

Service quality can be defined as the difference between customer expectations of service and the perceived service. It is the extent to which a service meets customer's needs and expectations (Lewis and Mitchell, 1990). If the perceived service falls below the expected service, customers are dissatisfied and if the perceived service quality is above the expected level, it creates satisfied customers (Andreassen, 1995). SQ is a multi-dimensional concept (Jamal & Naser, 2002); it means different things to different people (Bennington & Cummane, 1998). Gronroos (1984) pioneered this concept and defines service quality as a set of perceived judgments resulting from an evaluation process where customers compare their expectations with the service they perceive to have received.

Measuring service quality is difficult due to its unique characteristics: Intangibility, heterogeneity, inseparability and perishability (Bateson, 1995). Service quality is linked to the concepts of perceptions *European Journal of Social Sciences – Volume 16, Number 2 (2010)* 232 and expectations (Parasuraman*et al.*, 1985, 1988; Lewis and Mitchell, 1990).Customers' perceptions of service quality result from a comparison of their before-service expectations with their actual service experience. The service will be considered excellent, if perceptions exceed expectations; it will be regarded as good or adequate, if it only equals the expectations; the service will be classed as bad, poor or deficient, if it does not meet them (Vázquez *et al.*, 2001).

Based on this perspective, Parasuraman et al. developed a scale for measuring service quality, which is mostly popular known as SERVQUAL. This scale operationalizes service quality by calculating the difference between expectations and perceptions, evaluating both in relation to the 22 items that represent five service quality dimensions known as 'tangibles', 'reliability', 'responsiveness', 'assurance' and 'empathy'.

Literature Review

Service Quality:

In today's increasing competitive atmosphere, providing service quality is important for any service industry. Service quality is linked to the concepts of perceptions and expectations (Parasuramanet al., 1985, 1988; Lewis and Mitchell, 1990). Customers' perceptions of service quality result from a comparison of their before-service expectations with their actual service experience. Service quality has been identified as a critical success factor for organizations to build their competitive advantage and increase their competitiveness. Many business firms are channelizing more efforts to retain existing customers rather than to acquire new ones since the cost of acquiring new customer is greater than cost of retaining existing customers.

Measuring Service quality in the service sector particularly in the banking sector is more difficult than measuring the quality of manufactured goods. The service sector as a whole

is very heterogeneous and what is heterogeneous may hold true for one service and may not hold for another service sector (Gayathri, 2010).

Service quality (SQ) 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; Bolding*et al.,* 1993), customer retention (Reichheld and Sasser, 1990), and positive word of mouth. Service Quality is widely regarded as a driver of corporate marketing and financial performance.

SERVQUAL*:*

Measuring service quality had always been a challenge for service providers because of the intangible and most notably the inseparable and heterogeneous nature of service. As such, services are more akin to performances rather than objects. These distinctions enabled Parasuranam, Zeithaml & Berry (1985) to develop an instrument for measuring Service quality, SERVQUAL, which has subsequently dominated both academic and practitioner perspectives (Buttle, 1996; Robinson,1999). SERVQUAL measures perceptions of service quality across five dimensions: tangibles; reliability; responsiveness; assurance and empathy.

Dimension 1 - Tangibles

Appearance of physical facilities, equipment, personnel and written materials.Berry and Clark (1991) provided validation of the physical appearance on the consumer's assessment of quality. With the research by Bitner (1990), it was noted that physical appearance might influence the consumer's level of satisfaction. Tangible was one of the original dimensions that were not modified by Zeithaml, et al (1988).

Dimension 2 - Reliability

Ability to perform the promised service dependably and accurately.Numerous researchers, including have found that reliability tends to always show up in the evaluation of service. Parasuraman, et al (1988) indicated that reliability normally is the most important attribute consumers seek in the area of quality service.

Dimension 3 - Responsiveness

It is the willingness to help customers and provide prompt service. Parasuraman, et al (1991) include such elements in responsiveness as telling the customer the exact time frame within which services will be performed, promptness of service, willingness to be of assistance, and never too busy to respond to customer requests.

Dimension 4 - Assurance

Employees' knowledge and courtesy and their ability to inspire trust and confidence.In banking studies by Anderson, et al (1976), it was determined that a substantial level of trust in the bank and its abilities was necessary to make the consumer comfortable enough to establish a banking relationship. Parasuraman, et al (1991) included actions by employees such as always-courteous behaviour instils confidence and knowledge as prime elements of assurance.

Dimension 5 - Empathy

Caring, easy access, good communication, customer understanding and individualized attention given to customers. Individual attention and convenient operating hours were the two primary elements included by Parasuraman, et al (1991) in their evaluation of empathy. The degree to which the customer feels the empathy will cause the customer to either accept or reject the service encounter.

Objectives

1. To identify the degree of importance attached to various dimensions of service quality viz. Tangibles, Reliability, Responsiveness, Assurance and Empathy by the Customers.
2. To find the gap between customers' expectations and perceptions of quality of services for the bank

Research Methodology

SERVQUAL is the most often used approach for measuring service quality has been to compare customers' expectations before a service encounter and their perceptions of the actual service delivered (Gronroos, 1982; Lewis and Booms, 1983; Parasuraman*et al.,* 1985). The SERVQUAL instrument has been the predominant method used to measure consumers' perceptions of service quality.In the SERVQUAL instrument, 22 statements (Appendix I) measure the performance across these five dimensions, using a seven point likert scale measuring both customer expectations and perceptions (Gabbie and O'neill, 1996).

Then, each of the five dimensions is weighted according to customer importance, and the score for each dimension is multiplied by the weights. Following this, the Gap Score for each dimension is calculated by subtracting the Expectation score from the Perception score. A negative Gap score indicates that the actual service (the Perceived score) was less than what was expected (the Expectation score).

A total of 207 usable questionnaires were returned by the respondents of Bank of India. The data collected through questionnaire were tabulated using Microsoft Excel and SPSS software 20.0. Descriptive statistics and SERVQUAL method was used for analysis and interpretation of the tabulated data.

Respondents Profile:

Table 1: Gender of Respondents

Particulars	Frequency	Percentage
Male	109	52.65
Female	98	47.35
Total	207	100

Table 2: Age group of Respondents

Age Group	Frequency	Percentage
<20	10	4.83
20-40	115	55.55
41-60	66	31.88
>61	16	7.74
Total	207	100

Branch of the Respondents:

Table 3: Branch of the Respondents

Branch Name	Frequency	Percentage
Abhaypur	17	8.21
Dispur	41	19.80
Fancy	6	2.89
G.S.Road	57	27.53
Kamakhya	35	16.94
Lokhra	8	3.86
Narengi	7	3.38
Zoo Road	36	17.39
Total	207	100.0

Customer Service Quality Compared with Respondents Profile:

The following analysis explains the customer service quality rating across categorical variables such as gender, age, and branch of the bank to which the respondents belonged to.

Table 4: Customers Service Quality Rating distributed across gender

Gender	Mean	N
F	5.5998	98
M	5.6372	109
Total	5.6270	207

Table 5: Customer Service Quality Rating distributed across age groups

Age group	Mean	N
<20	5.4848	10
20-40	5.8595	115
41-60	5.5958	66
>61	5.6448	16
Total	5.6270	207

Table 6: Customer Service quality rating distributed across the branches of the bank

Branch	Mean	N
Abhayapur	5.7674	17
Dispur	5.3874	41
Fancy	5.7348	6
G.S.Road	5.7682	57
Kamakhya	5.5818	35
Lokhra	5.6250	8
Narengi	5.9416	7
Zoo Road	5.5871	36
Total	5.6270	207

Reliability Test

Before proceeding with the gap analysis, a reliability test was carried out to ensure that the data collected is reliable. The Cronbach's Alpha is calculated to measure the reliability of the five dimensions, i.e. Tangibility, Reliability, Responsiveness, Assurance and Empathy.

Table 7: Reliability statistics for 22-item Servqual Dimensions

Reliability Statistics		
Dimension	Cronbach's Alpha (Perception)	Cronbach's Alpha (Expectation)
22 items	0.8135	0.8431
Tangibility	0.7236	0.7355
Reliability	0.7567	0.7789
Responsiveness	0.7232`	0.7433
Assurance	0.7832	0.7654
Empathy	0.7123	0.7256

From Table 2, it can be seen that all the coefficients of alpha are above 0.7 for all the dimensions. Fujun et al. (2007) states that a Cronbach's alpha of greater than 0.7 indicates that the data is internally consistent. Thus, it can be concluded that the data is reliable.

SERVQUAL Dimensions Important Weights:

Extensive research conducted by the SERVQUAL developers have established that although all the fiveSERVQUAL dimensions have been found important to customers, they have also concluded that the customer base assign different levels of importance to each dimension. The SERVQUAL customer perception tool that was administered to the Bank of India included a section that in which the respondents were asked to divide 100 points between the five dimensions based upon their relative perception of importance among the

dimensions. The respondents were asked to assign the most points to the most important dimension and fewer points to the least important dimensions.

The average importance score was used to weight the gap scores for each dimension. Weighted scores were established by multiplying the dimension weight and the dimension gap score. The weighted score helps to clarify the significance of the perception/expectation gaps that were measured during the study. Accordingly, the respondents had attached mean weights of 21.32% for Tangibility dimension, 20% for Reliability dimension, 19.92% for Responsiveness, 22.3% for Assurance and 16.46% for Empathy.

Gap Score Analysis

Gap Score for Tangibility:

The Tangibility dimension of the SERVQUAL customer perception tool is comprised of the first four questions (equipment, physical facility, employees and materials) of Bank of India.

The average unweighted gap score (P-E) for the tangibility dimension of customer satisfaction is -0.16. The weighted score of the tangibility dimension is -3.58. In both cases, the survey results show that the expectations exceed the perceptions of the tangible aspects of the Bank of India.

Table 8: Tangibility Dimension - SERVQUAL Results

TANGIBILITY DIMENSION	EXPECTATION (E)	PERCEPTION (P)	GAP SCORE (P-E)	AVERAGE SERVQUAL SCORE FOR TANGIBILITY
1. Modern looking equipment	6.15	5.79	-0.36	5.68
2. Visually appealing physical facilities	5.67	5.31	-0.36	
3. Employees are neat in their appearance	5.67	5.76	0.09	
4. Visually appealing materials	5.87	5.86	-0.01	
Dimension Weight			21.32	
Average Unweighted Tangibility Gap Score			-0.16	
Weighted Gap Score			-3.58	

Reliability:

The Reliability dimension of the SERVQUAL instrument comprisedof questions 5-9, which included (acting according to promises, sincerity in problem solving, performing the service right at the first time, providing service at the promised time & insistence on error free records) of the Bank of India. The average unweighted gap score (P-E) for the reliability dimension is 0.30. The average weighted gap score is 6.69. In both cases, the survey results show that the perceptions of the respondents exceed their expectations.

A summary of the survey results for the reliability dimension of customer service quality are summarised in the tables that appear below.

Table 9: Reliability Dimension - SERVQUAL Results

RELIABILITY DIMENSION	EXPECTATION (E)	PERCEPTION (P)	GAP SCORE (P-E)	AVERAGE SERVQUAL SCORE FOR RELIABILITY
5. Acts according to promises	5.74	5.63	-0.11	5.63
6. Sincere interest in solving problems	5.21	5.71	0.51	
7. Services are performed right the first time	5.72	5.82	0.10	
8. Provides service at the time promised	4.91	5.59	0.68	
9. Insist on error free records	5.08	5.41	0.33	
Dimension Weight			20.00	
Average Unweighted Tangibility Gap Score			0.30	
Weighted Gap Score			6.69	

Responsiveness:

The Responsiveness dimension of the SERVQUAL instrument is comprised of questions 10-13, which included (informing when service will be performed, providing service promptly, willingness to help, never being too busy to respond to request for service) of the Bank of India. The average unweighted gap score (P-E) for the responsiveness dimension of customer satisfaction is 0.61.The average weighted gap score is 12.19. In both the cases, the survey results show that the perception of the Bank of India exceeds the expectations.

A summary of the survey results for the responsiveness dimension of customer service quality are summarised in the tables below.

Table 10: Responsiveness Dimension - SERVQUAL Results

RESPONSIVENESS DIMENSION	EXPECTATION (E)	PERCEPTION (P)	GAP SCORE (P-E)	AVERAGE SERVQUAL SCORE FOR RESPONSIVENESS
10. Informs exactly when service will be provided	5.14	5.77	0.63	5.81
11. Provides prompt services	5.25	5.77	0.52	
12. Always willing to help	5.53	5.84	0.31	
13. Never too busy to respond to customers requests	4.88	5.84	0.96	
Dimension Weight			19.92	
Average Unweighted Tangibility Gap Score			0.61	
Weighted Gap Score			12.19	

Assurance:

The assurance dimension of the SERVQUAL instrument is composed of questions 14-17 which included (employees behaviour instils confidence, customers feel safe in their transactions, employees are constantly courteous, employees have the knowledge to answer questions) of Bank of India. The average unweighted gap score (P-E) for the assurance dimension of customer satisfaction is 0.195 and the weighted gap score is 4.375. In both cases, the survey results show that the perception of the Bank of India exceed the expectations.

A summary of the survey results for the assurance dimension of customer service quality are summarised in the tables below.

Table 11: Assurance Dimension - SERVQUAL Results

ASSURANCE DIMENSION	EXPECTATION (E)	PERCEPTION (P)	GAP SCORE (P-E)	AVERAGE SERVQUAL SCORE FOR ASSURANCE
14. Employees behaviour instills confidence	5.18	5.55	0.37	5.63
15. Customers feel safe in their transactions	5.53	5.82	0.29	
16. Employees are constantly courteous	5.39	5.25	-0.13	
17. Employees have the knowledge to answer questions.	5.63	5.89	0.25	
Dimension Weight			22.30	
Average Unweighted Tangibility Gap Score			0.195	
Weighted Gap Score			4.375	

Empathy:

The Empathy dimension of the SERVQUAL instrument is comprised of questions 18-22 which includes (provides individual attention, has convenient operating hours, employees provide personal attention, has the best interest of customers at heart, employees understand the needs of the customers) of the Bank of India. The average unweighted gap score (P-E) for the empathy dimension is -0.088 and the weighted gap score is -2.052. In both the cases, the survey results show that the Perception of Bank of India falls below their expectations.

A summary of the survey results for the empathy dimension of customer service quality are summarised in the tables below.

Table 12: Empathy Dimension - SERVQUAL Results

EMPATHY DIMENSION	EXPECTATION (E)	PERCEPTION (P)	GAP SCORE (P-E)	AVERAGE SERVQUAL SCORE FOR EMPATHY
18. Provides individual attention	5.31	5.23	-0.08	
19. Has convenient operating hours	5.57	5.30	-0.27	
20. Employees provide personal attention	5.79	5.10	-0.69	5.43
21. Has the best interest of customers at heart	5.39	5.65	0.26	
22. Employees understand the needs of their customers	5.55	5.89	0.34	
Dimension Weight			16.46	
Average Unweighted Tangibility Gap Score			-0.088	
Weighted Gap Score			-2.052	

Conclusion & Discussion

Satisfying clients is not an easy task. The need of the hour for bankers to remain competitive is to identify cost-effective ways for bridging the service quality gaps and better allocate resources to provide better service to external customers. In addition, they can prioritize which gaps to focus on to effectively reduce the gap between perception and exception of the most important dimensions from the service quality point of view.

Assessing service quality and better understanding how various dimensions affect overall service quality would enable organizations to efficiently design the service delivery process. By identifying strengths and weaknesses, pertaining to the dimensions of service quality organizations can build on their expertise to better serve their customers and thereby increase their competitive advantage in the overall industry.

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