SERVICE QUALITY DIMENSIONS IN INDIAN BANKING SECTOR: A LITERATURE REVIEW

ANITA.B.R*; DR.S.J.MANJUNATH**

***Research scholar, BIMS, Manasagangotri, University of Mysore, India.**

****Associate Professor, BIMS, Manasagangotri, University of Mysore,India.**

Abstract

Banking sector, one of the core sectors of service economy is fiercely competitive. Post liberalization the competition has only increased. Due to this the importance of service quality and its management has gained in importance. One of the most popular ways to measure the service quality is SERVQUAL. All banks in India offer similar services but are different in terms of service quality. The role of service quality plays an important role in banking sector and it provides new entrants about the current diffusion of technology and the unprecedented competition in the industry. The construct of service quality has therefore been a subject of great interest to service marketing researchers. In order to achieve better understanding of service quality in banking sector, the proposed five service quality dimensions i.e. RATER are conceptualized to illustrate the overall service quality of the banking sector. Service quality measure is based on modified version of SERVQUAL as proposed by which involve five dimensions of service quality namely Reliability, Responsiveness, Empathy, Assurance and Tangibles. The purpose of this study is to review the literature survey on service quality in banking sector. The customers expect a high level of service quality factors, which influences the performance of bank.

Key words: service quality, service dimensions, Indian banks.

Introduction

Banking sector is the backbone of any financial system of the economy. Commercial banks play an important role in the development of developing economies by mobilization of resources and their better allocation. The service quality has gained importance in last decade due to its unique characteristics of services involving intangibility, inseparability, variability and perishability. The researchers have been coming up with different structure in various dimensions of service quality. Technical – functional quality and image model by (Gronoors 1984), Gap model (Customer expectation and perception of expectation and perceived service by (Parasuraman et al 1985). Managing the quality of services is difficult as compared to the quality of goods due to heterogeneity, perishability, intangibility and dimensions of services. All the players of banking industry are providing more or less same services to customers. Banking practitioners have to pay close attention to superior service provision because service quality does not only impact the customer decision-making process, but also influences customer satisfaction, purchase retention, loyalty and business survival as shown in many studies.

Service Sector in India

Industrial revolution was believed to be the only solution to social problems such as poverty and unemployment. However, at present the services sector promises to fulfil the task. Services touch the lives of every person every day, be it in the field of food services, communication, leisure services or financial services, to name a few. Our welfare and the welfare of our economy are now based on services. Services lie at the very hub of economic activity in any society. It is no wonder that the services

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sector will be the biggest driver of new economic growth and profit earner in the new millennium for the world in general and India in particular. The services sector can best be characterized by its diversity. The services sector emerged as the largest contributor to the country's GDP and grew faster than the agriculture and industrial sectors. In 1993-94, the agriculture sector had 26.5% share in the real GDP which was reduced to 20.5% in 2004-05. Similarly, the industrial sector had 22.1% share in the real GDP in 1993-94 which was reduced to 21.9% in 2004-05. While in the case of the services sector, its share in the real GDP increased from 50.5% in 1993-94 to 57.6% in 2004-05. Trade, transportation, communication, financial services, software services including the Information Technology Enabled Services (ITES) and Business Process Outsourcing (BPO) are the key movers of the services sector. The banking sector plays a significant role in the economic development of the country. Banks, by providing remittance facility with their vast branch networks, help in the free flow of funds to different parts of the country, wherever there is a need, instead of allowing them to lie dormant in stagnant pools.

Banking Sector in India

The banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income which are marked among its regions. There are high levels of illiteracy among a large percentage of its population, but at the same time, the country has a large reservoir of managerial and technologically advanced talent. Between about 30-35% of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centres. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth-led exports rather than the 'export-led growth' of other Asian economies, with emphasis on self-reliance through import substitution. These features are reflected in the structure, size, and diversity of the country's banking and financial sector. The banking system has had to serve the goals of economic policies enunciated in the successive five-year development plans, particularly concerning equitable income distribution, balanced regional economic growth, and the reduction and elimination of private sector monopolies in trade and industry. In order to serve as an instrument of state policy, the banking industry was subjected to various nationalization schemes in different phases (1955, 1969, and 1980). As a result, banking remained internationally isolated (few Indian banks had presence abroad in international financial centres) because of preoccupation with domestic priorities, especially massive branch expansion and attracting more people to the system. Moreover, the sector has been assigned the role of providing support to other economic sectors such as agriculture, small-scale industries exports, and banking activities in the developed commercial centres (i.e., metro, urban, and a limited number of semi-urban centres). The banking system's international isolation was also due to strict branch licensing controls on foreign banks already operating in the country as well as entry restrictions facing new foreign banks. A criterion of reciprocity is required for any Indian bank to open an office abroad. These features have left the Indian banking sector with weaknesses and strengths. A big challenge facing Indian banks is how to attain operational efficiency suitable for modern financial intermediation, under the current ownership structure. On the other hand, it has been relatively easy for the public sector banks to recapitalize, given the increases in Non-Performing Assets (NPAs), as their government-dominated ownership structure has reduced the conflicts of interest that private banks would face.

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The SERVQUAL Approach

Among general the most popular model used for evaluation of service quality is SERVQUAL, a well-known scale developed by (Parasuraman et al., 1985, 1988). The attributes of (Parasuraman et al., 1985) were tangibles, reliability, responsiveness, competency, courtesy, assurance, credibility, security, access and understanding. Parasuraman et al., 1988 later reduced these ten dimensions into five by using a factor analysis. Based on (Parasuraman et al 1988) conceptualization of service quality, the original SERVQUAL instrument included 22 items. The data on the 22 attributes were grouped into five dimensions.

1. Tangible: Well-maintained waiting cues, clear and easy bank statement and convenient   location, faster operation with modern technology.

2. Reliability: Provide services when promised.

3. Responsiveness: Employees attention in solving problems, employees full service, promptly errors correction.

4. Assurance: Safe feeling for transaction, competitive loan rates, Interest Rate on saving and time deposit, helpful employees.

5. Empathy: Employees search for solution.
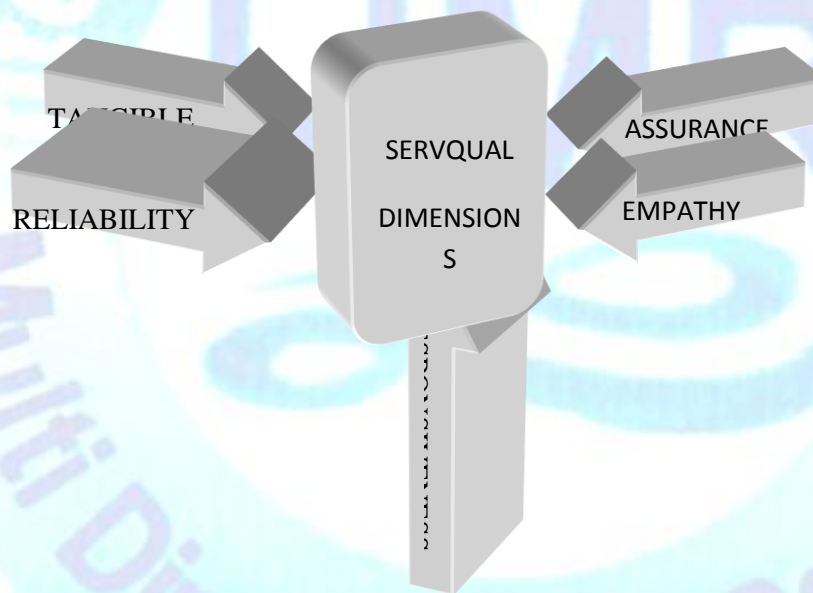
Review of Literature

Most research in the area of service quality has been based upon the model developed by (Parasuraman et al 1985, 1988), which incorporates a comparison of customer expectations and perceptions of service performance. It is relevant to refer briefly in the related areas of the subject to find out and to fill up the research gaps. Literature on Service Quality dimensions like Tangible, Reliable, Responsiveness, Assurance and Empathy and few studies which are undertaken on the customer perception in banking sector.

Aashish Shashikant Jani (2012) identify relative important factors affecting the areas of strength and weaknesses of public and private sector banks in terms of different technologies

Offered to customers and future growth of e-channels in retail banking. Parameters like money transactions, efficiency, financial services, reliability and motivation were used to find

the above. The empirical data from 100 respondents of customers of bank were selected using a survey questionnaire and hypothesis were framed and tools like Mean, Standard Deviation, Coefficient of Variation, Correlation Analysis and Z test were used. The result reveals that use of technology inferred a positive perception of customers of public sector and private sector banks.

Dharma lingam et al., (2012) examined to identify and evaluate the gap existing between expected and perceived services and the areas that need to be improved to deliver superior quality of service in selected new private sector banks. Service quality dimensions like tangible, reliability, responsiveness, assurance, empathy, access, security and price and product variety were considered for customer service quality expectations and perception. 8 hypotheses were taken for the study and a sample of 780 respondents were selected and paired t-test measurement results indicates that customer's highest expectations are in the security and accessibility dimensions and customer's lowest expectations in responsiveness dimensions, largest service gap exists in reliability and price and product variety and smallest service gap exists in empathy and tangible dimensions.

Mohammad Hosein Moshref Javadi et al., (2012) in their study to evaluate the quality of private banks services provided to the customers and to measure the customer's satisfaction. SERVQUAL six dimensions scale to be measured are tangible, reliability, responsiveness, assurance, empathy and accessibility the ability to access private banks easily and conveniently. A pilot survey was conducted for the questionnaire and reliability and validity test satisfies and the final questionnaire was distributed to the 390 convenience respondent. Six hypotheses were framed for the above and tools like mean and t test were analysed and the result indicates that assurance, reliability seems to be most important dimensions and accessibility and tangibility are the most serious problem and private bank have to improve actions in mentioned dimensions.

Md. Abdul Muyeed (2012) in his study to evaluate the service quality in retail banking in the developing countries in general and Bangladesh. Service quality dimensions like reliability, competence, tangible and empathy with 14 parameters were measured and demographic profile of the customers were taken for the study. The questionnaire has designed on the basis of the study as parasuraman et al (1985) and questionnaire has been personally distributed on a sample size of 250 chosen from private and public sector banks. Tools like percentage analysis, mean, standard deviation and z test were taken for the study and the results indicates that customer's perception has reached on highest in the prompt and accuracy in transactions followed by safety of customer's investments and keep confidentiality of account and transactions and lowest in the service of modern equipment and decor. Due to increasing completion the bank need to consider the weak areas in order to meet customer perception about service quality.

Anber Abraheem Shlash Mohammad and Shireen Yaseen Mohammad Alhamadani (2011) to examine the level of service quality as perceived by customers of commercial bank working in Jordan and its effect customer satisfaction. Service quality measure is based on SERVQUAL proposed by (parasuraman et al., 1988), which involve five dimensions namely

Reliability, responsiveness, empathy, assurance and tangibles. Customer satisfaction was measured by 9 item adapted from (Walfried et al., 2000). A pilot study was conducted and questionnaire was distributed to 30 willing respondents through convenient distribution. A structured questionnaire contains 30 items and distributed to 260 randomly selected customers of commercial banks. Statistical tools like factor analysis and multiple regression analysis was employed to test the impact of service

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quality on customer satisfaction and the result indicates that to improve the elements of service quality is an important antecedent of customer satisfaction.

Emari et al., (2011) assessed to determine the dimensions of service quality in the banking industry in Iran. The study empirically examined Groonor's model suggesting that service

quality dimensions like modified SERVQUAL scale like tangible, assurance, responsiveness, reliability and empathy were used to measure functional quality, technical quality service items were developed by image, customer satisfaction and overall service quality. A standard questionnaire was used for collecting the data and 287 customers were selected through cluster sampling for the study. Tools like confirmatory factor analysis and chi-square test was utilized to verify the construct of validity and reliability test. The results reveals that the overall service quality is influenced more by a consumer's perception of technical quality than functional quality.

Ashfaq Ahmad et al., (2010) reveals to examine the perception of service quality of products offered by Islamic and conventional banks in Pakistan. Service quality like reliability, tangibles, responsiveness, assurance and empathy were taken for the study. A sample of 720 respondents was selected for this study and structured questionnaire was developed by using stratified random sampling. Descriptive statistics are used to a demographic characteristic of the respondent t-test; mean and standard deviation were used to show that policy makers and bankers to make effective and quality oriented arrangements to have satisfied and delighted customers for long term benefits and service quality score offered by Islamic banks are greater as compared to conventional banks.

Daing Maruak Sadek et al., (2010) whether to identify the factors affecting the customer's perception on service quality of bank in Islam and to measure the mean scores of dimensions

in service quality of bank and to determine the difference in means of service quality in bank. SERVQUAL comprises 33 items named CARTER with six dimensions compliance, assurance, reliability, tangible, empathy and responsiveness which customised for suitability of bank. Convenience sampling was used and questionnaire used was structured and close-ended question were distributed to any customers of account holder of the bank. Service quality of 5 gap model was derived as understanding, service standards, service performance, communications and service quality. Statistical tools like one-way ANOVA, t test and ranking method was used and the results indicated that compliance issues are very important for Islam bank customers, and the customers seemed more appreciate bank for its religious provision rather than its service quality offered.

Samli et al. (1992) in their work on " Service: the competitive edge in banking" say that with service as the product, banks can only gain a competitive edge by offering quality service.Technological advances and automation have been effective in reducing operating costs and improving operating efficiencies but such gains do not necessarily lead to quality improvements. Service quality is derived from personally tailored services and attention to individual needs. Service quality cannot be found in standardized responses or restrictive bank policies. Communication and interactive skills, and recognizing that customer needs should drive product offerings and operations, will ultimately add more to a bank's bottom-line than trying to find customers that fit the bank's needs.

Kamble et al (2001) In their study aimed to study and compare the perceived level of bank service quality and to investigate the dimensions of quality banking service in private and public sector bank using an instrument banking service quality scale (BSQ) specifically designed for measuring service quality in banks. The results show that the customers of public sector and private sector banks differ in terms of their service quality perceptions. Private banks are perceived to be superior on the service quality dimensions: effectiveness, access and tangibles whereas, the public sector banks score better on the dimensions of price and reliability.

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Bodla (2004) examined and measured the service quality provided by commercial banks (both public and private) in India using the SERVQUAL instrument. This study brought out that actual service delivery by both private and public sector in India falls short of the expectations of customers on a large majority of the elements of service quality. Nevertheless

private sector banks have an edge over public sector banks in terms of quality of service being offered to customers.

Ravichandran et al (2010) studied the influence of service quality on customer satisfaction by applying Servqual Model. The article examined the influence of perceived service quality on customer satisfaction. They concluded that increase in service quality of the banks can satisfy and develop customer satisfaction which ultimately retains valued customers.

Khurana (2010) in her research paper investigates the level of customer satisfaction with the service quality of private banks. In the study a structured survey was conducted in Hissar district, India, with a sample of 250 respondents who had at least one savings account in a private sector bank. The questionnaire was based on SERVQUAL model This study examined the service quality gap by comparing customers' expectations and actual perceptions. This study also focused on customers' satisfactions towards the various service provided by private sector banks. The results of the study indicated that the overall service quality provided by the private banks was below customers' expectations.

Veerabhadrappa, H. Jayanna, S (2013) in their paper attempted to identify, evaluate and prioritize the service quality dimensions of private sector banks. The SERVPERF scale developed by Cronin and Taylor (1992, 1994) is used to measure the service quality. The service quality dimensions are then derived from factor analysis. TOPSIS (technique for order preference by similarity to ideal solution) is used to rank or prioritize the service quality dimensions.

Findings

➢ The use of technology has a positive perception of customers of public sector and private sector banks.

➢ The largest service gap exists in reliability and price and product variety and smallest service gap exists in empathy and tangible dimensions.

➢ An improvement on the elements of service quality is an important antecedent of customer satisfaction.

➢ The overall service quality is influenced more by a consumer's perception of technical quality than functional quality.

➢ The policy makers and bankers to make effective and quality oriented arrangements to have satisfied and delighted customers for long term benefits and service quality score offered by Islamic banks are greater as compared to conventional banks.

➢ The compliance issues are very important for Islam bank customers, and the customers seemed more appreciate bank for its religious provision rather than its service quality offered.

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➢ Service quality cannot be found in standardized responses or restrictive bank policies. Communication and interactive skills, and recognizing that customer needs should drive product offerings and operations, will ultimately add more to a bank's bottom-line than trying to find customers that fit the bank's needs.

➢ The customers of public sector and private sector banks differ in terms of their service quality perceptions. Private Banks are perceived to be superior on the service quality dimensions: effectiveness, access and tangibles whereas, the public sector banks score better on the dimensions of price and reliability.

➢ The actual service delivery by both private and public sector in India falls short of the expectations of customers on a large majority of the elements of service quality. Nevertheless

➢ Private sector banks have an edge over public sector banks in terms of quality of service being offered to customers.

➢ Increase in service quality of the banks can satisfy and develop customer satisfaction which ultimately retains valued customers.

➢ The overall service quality provided by the private banks was below customers' expectations.

➢ Finally through the various literature reviews, the TOPSIS (technique for order preference by similarity to ideal solution)was developed ,which is used to rank or prioritize the service quality dimensions.

Contribution of Knowledge

This research provides information on the service quality as well as service quality improvements in banking sectors. Hence, bankers can apply knowledge and findings for their banks to build or improve a competitive edge, increase customer satisfaction and maintain long-term profits.

Conclusion

Nowadays, banks are working in a dynamic business environment as they experience cut-throat competition and changes in customer demand, and a decrease in profit margins. Understanding the changing needs and expectations of customers is an essential prerequisite for the financial sector. Thus, it is significant for banking practitioners to focus on service quality improvement, to satisfy their customers, as customer satisfaction plays an inter-mediator role in the relationship.

Recommendations

- Modern equipment's, new improved technology should be replaced with the old ones.
- Staff should be encouraged to present relevant options to banking customers.
- Bank employees would be encouraged to learn to recognize these regular customers, learn their names, and begin to identify their basic service requirements.
- The five-dimensional structure could possibly serve as a meaningful framework for tracking a banks service quality performance over time and comparing it against the performance of competitors.

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