

SERVICE QUALITY AND BANK PERFORMANCE: A COMPARATIVE ANALYSIS OF PUBLIC AND PRIVATE BANKS IN THE STATE OF GUJARAT

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Abstract

This paper is attempt to study and measure of service quality and customer satisfaction among Private sector and Public sector banks and to study the impact of service quality in financial performance. Research has been done in cities of Gujarat namely, Ahmedabad, Rajkot, Baroda, and Surat. 246 samples are surveyed in above stated cities on convenience sampling technique. In public sector banks SBI, BOB and BOI are taken, while in Private sector banks ICICI Bank, HDFC Bank and AXIS Bank are taken as they are market leader. Financial parameters like Advances, Deposits, Net Profit, Return on Equity, Return of Asset are analyzed to see association between service quality and financial performance of the bank. From the research it is found that there is association between service quality and financial performance of the bank.

Keywords: Customer Satisfaction, Service Quality, SERVPERF and Financial Performance

Paper type: Research paper

JEL code: M10, M31.

INTRODUCTION

The cut throat competition, new set of challenges, more informed and better educated customers and innovations in banking technology have resulted shift from price to service quality in banking sector. Service quality has become one of the main determinants of sustainable competitive advantage. Excellent services provided by the banks are a tool that may not only provide direct impact but also will bring a positive psychological reaction of customers towards the products and services of the bank and hence increase the financial performance of the bank. In this context,

it may be useful to make study on retail banking services provided by the various banks to analyze the customer satisfaction towards these services and its impact on financial performance. Hence the objective of this research paper is to comparatively study of customer's satisfaction and service quality between private sector banks and public sector banks.

LITERATURE REVIEW

Service quality has been identified as a critical success factor for organizations to build their competitive advantage and increase their competitiveness. Pioneering work by Parasuraman et al. (1985) led to a list of ten determinants (reliability; responsiveness; competence; access; courtesy; communication; credibility; security; understanding the customer; and tangibles) of service quality. These ten attributes distilled into five overall dimensions of service quality. The five dimensions of SERVQUAL are (Parasuraman et al., 1988, 1991): (1) Tangibles, which pertain to the physical facilities, equipment, personnel and communication materials; (2) Reliability, which refers to the ability to perform the promised services dependably and accurately; (3) Responsiveness, which refers to the willingness of service providers to help customers and provide prompt service; (4) Assurance, which relates to the knowledge and courtesy of employees and their ability to convey trust and confidence; and (5) Empathy, which refers to the provision of caring and individualized attention to customers. SQ is a multi-dimensional concept (Jamal & Naser, 2002); it means different things to different people (Bennington & Cummane, 1998). Here in this paper researcher have

attempted to measure service quality through SERVPERF model.

In the banking industry, the study on service quality has been undertaken for example by Rajyalaxmi and Vijaya Kameswari(2011), A.Ananth, R.Ramesh, Dr.B.Prabaharan(2011), Shirshendu Ganguli, Sanjit Kumar Roy, (2011), David Longbottom, Julie Hilton, (2011), Dr. Rajendra Pandey & Sanjiban Bandyopadhyaya(2011), Mukesh Kumar, Fong Tat Kee, Vincent Charles.(2010), Koushiki Choudhury (2010), Mishra brothers & Saroj Kanta Biswa (2010), Kirti Dutta and Anil Dutta (2009), Riadh Ladhari (2008), Francois A. Carrillat, Fernando Jaramillo and Jay P. Mulki (2007), Huseyin Arasli, Salime Mehtap-Smadi and Salih Turan Katircioglu (2005), Yavas et. al. (2005), Charles chi cul, Barbara R. Lewis, Wan Park (2003), Naceur Jabnoun and Hussein A. Hassan Al-Tamimi (2003), Ahmad Jamal and kamal Naser (2002), Karin Newman (2001), Kamillia Bahia and Jacques Nantel ((2000), Parasuraman et al. (1985; 1988).

Rajyalaxmi and Vijaya Kameswari(2011) studied various parameters of bank service quality like responsiveness, reliability, efficiency, empathy, conveniences on 550 customers of SBI on convenient basis. Shirshendu Ganguli, Sanjit Kumar Roy, (2011) aimed aims to identify the generic service quality dimensions of technology-based banking and to examine the effect of these dimensions on customer satisfaction and customer loyalty and identified four generic service quality dimensions in the technology-based banking services - customer service, technology security and information quality, technology convenience, and technology usage easiness and reliability. Shirshendu Ganguli, Sanjit Kumar Roy, (2010) aimed to identify the dimensions of service quality in the case of hybrid services. The service quality dimensions are identified using an exploratory factor analysis (EFA). Next the reliability and validity of the factors are established through confirmatory factor analysis (CFA) using AMOS. The researchers have identified nine service quality dimensions in the hybrid services - customer service, staff competence, reputation, price, tangibles, ease of subscription, technology security and information quality, technology convenience, and technology usage easiness and reliability. Chien-Ta Bruce Ho, Wen-Chuan Lin, (2010) developed a multiple item scale for measuring internet banking service quality. The researchers have identified five dimensions and 17 items in the measurement scale for measuring the service quality of internet banking. The five

dimensions are named customer service, web design, assurance, preferential treatment, and information provision. In the study of service quality in the banking sector, Mukesh Kumar, Fong Tat Kee, Vincent Charles.(2010) aimed to find the differences in the service quality between two types of banks, namely conventional and Islamic, in terms of common critical factors after re-examining the SERVQUAL model. Kirti Dutta and Anil Dutta (2009) intended to study the expectations and perceptions of the consumers across the three banking sectors in India and then related it to financial performance of the Banks .To explore the customers' perception of service quality the researcher surveyed 263 respondents across the three banking sectors. Riadh Ladhari (2008) aimed to identify the key conceptual and empirical issues that should be considered in the development of alternative industry-specific measurement scales of service quality (other than SERVQUAL). Francois A. Carrillat, Fernando Jaramillo and Jay P. Mulki (2007) aimed to investigate the difference between SERVQUAL and SERVPERF's predictive validity of service quality. Data from 17 studies containing 42 effect sizes of the relationships between SERVQUAL and SERVPERF with overall service quality (OSQ) are meta-analyzed. Huseyin Arasli, Salime Mehtap-Smadi and Salih Turan Katircioglu (2005) measured the service quality perceptions of Greek Cypriot bank customers and examined the relationship between service quality, customer satisfaction and positive word of mouth. Author found that the expectations of bank customers were not met where the largest gap was obtained in the responsiveness-empathy dimension. Ahmad Jamal and kamal Naser (2002) studied the impact of Service Quality Dimensions and Customer Expertise on Satisfaction from sample of 167 respondents of Abu Dhabi Commercial Bank. Author reported that both core and relational dimensions of service quality appear to be linked to customer satisfaction.

1. RESEARCH OBJECTIVES

- ❖ Comparative study of customer's satisfaction and service quality between private sector banks and public sector banks.
- ❖ To measure the most preferred dimension of banking sector.
- ❖ To study the impact of service quality with financial performance.

2. RESEARCH HYPOTHESIS

- ❖ Both Public and private sector banks meet customers' perception. There is no significance difference between private and public bank

regarding their service quality.

- ❖ Public sector banks are not more successful in providing retail banking services to their customers.
- ❖ There is no association between service quality and financial performance.

3. RESEARCH INSTRUMENT

SERVPERF model introduced by Cronin and Taylor was used for survey purpose with modifications. SERVPERF (Bank Service performance) is a replicate of SERVQUAL scale given by Parasuraman et al, (1985). This model computes difference scores with perception to conclude that perceptions only better predictor of service quality. Three more statements were added from Kirti Dutta and Anil Dutta's research paper namely, Bank has branches in convenient places, bank is providing tele-banking and internet banking facility and ATM machines are easily accessible. The degree of perception of customers for all 25 parameters is quantified by using a 5- point Likert scale.

4. RESEARCH METHODOLOGY

The study is based on survey conducted in Ahmadabad, Rajkot, Baroda, and Surat in the month of Feb - April 2011. Each representative bank has been evaluated on 25 parameters. Six dimensions of banking services - Tangibility, Reliability, Responsiveness, Assurance, Empathy and conveniences were used for final survey. The statements were added after pilot survey. Sample size was determined using the sample size determination formula $n = z^2pq/d^2$.

CHARACTERISTICS OF SAMPLE

Table1

HYPOTHESIS TESTING RESULTS

1. Both Public and private sector banks meet customers' perception. (Refer table2)
2. Public sector banks are not more successful in providing retail banking services to their customers.(Refer Table3).
3. There is no association between service quality and financial performance. (Refer Table 4)

Table 2

The standard performance for both sector banks is mean value of 5. Neither Public sector bank nor private sector bank is getting that value. So, Ho is rejected. Both sector banks are not providing service quality up to customers' expectation. The customer is not getting full/highest satisfaction from any sector banks.

Table3

From the above table it can be inferred that the overall

performance of service quality of Public sector banks is better than the performance of service quality of Private sector banks. So, Ho is rejected. Private sector bank is performing better than public sector bank only in one dimension whereas public sector banks are performing better than private sector banks in five dimensions as listed in above table.

Table4

In the above table comparison is done between service qualities of banks with the financial parameters. While analyzing the Service Quality Score, it is found that State Bank of India is providing best services to their customers. If we see overall Index score than Public sector banks are ahead than private sector banks as far as Service Quality Score is concerned. While comparing Service Quality Score with financial performance it is referred that financial performance of public sector bank superior in maximum parameters than private sector banks. So, we can conclude that there is an association between service quality and financial performance.

MAJOR FINDINGS

Both Public and private sector banks meet customers' perception, but average service quality score is not nearer to 5, it is approximately ranges between 3 to 4. Public sector banks are performing better than private sector banks in terms of Reliability, Assurance, Empathy and convenience, while private sector banks are good at Responsiveness and Tangibility. It is also inferred from hypothesis testing that there is association between service quality and financial performance. When a bank has a high service quality score its financial performance is also good.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The findings of this study are limited to the Gujarat State. It should be replicated in other part of countries especially with all Metro cities. Replication studies using large diversified samples elsewhere would be useful in order to corroborate our study findings. Sample is Ahmedabad, Surat, Rajkot, and Baroda focused; the participants in this study may possess attributes and behavior that may differ from those in other parts of state. Research was done in short period so time period is also one of the limitations of the research. Future Researcher can develop more specific service quality scale by incorporating link between service quality and customer satisfaction and their effect on purchase intentions, fewer complaints, emotional bonding, word of mouth, loyalty, recommending and switching etc.

CONCLUSION AND MANAGERIAL

IMPLICATIONS

When assessing the service quality managers should not employ general measures of service quality, but should ensure that they are evaluating all aspects of their service. Bank service providers should continually monitor the level of fulfillment of personal needs and satisfaction with the organization, if they wish customers to remain loyal. The study finding shows human aspects of service quality (Employees in the bank are always willing to help, Employees in the bank are never too busy to respond to our request, interesting in solving problems) are closely related to customer satisfaction. For that, bank should make effort to include interpersonal skills training in their overall training module.

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Table1. Characteristics of sample

Demographics of respondents	Public Sector	Private Sector	Overall
Gender			
Male	93	109	202
Female	36	8	44
Total	129	117	246
Age			
<25	60	41	101
25-40	35	53	88
41-55	34	21	55
55 & Above	0	2	2
Total	129	117	246
Marital Status			
Single	66	59	125
Married	63	58	121
Total	129	117	246
Annual Income			
<1,00,000	33	28	61
100000-300000	61	58	119
300000-500000	28	24	52
More than 500000	7	7	14
Total	129	117	246
Occupation			
Student	29	16	45
Businessman	39	21	60
Homemaker	5	2	7
Salary Employed	50	72	122
Professionals	2	5	7
Others	4	1	5
Total	129	117	246
Education Level			
High School or less	12	13	25
Undergraduate	8	9	17
Graduate	50	56	106
Postgraduate	59	39	98
Total	129	117	246

Table 2. Dimensions wise Mean score of public and private sector banks

Statements	Mean		Accept/ Reject
	Public	Private	
Tangibles			
Modern looking equipments	3.8	4.03	Reject
Physical features are visually appealing	3.73	3.97	Reject
Reception desk employees are neat appearing	3.92	3.79	Reject
Materials are visually appealing	3.91	3.99	Reject
	3.84	3.95	
Reliability			
When bank promises to do something by a certain time it does	3.74	3.67	Reject
Bank shows sincere interest in solving problem	3.88	3.92	Reject
Performs the services accurately	3.95	3.93	Reject
Performs the services right at first time	3.9	3.51	Reject
Bank insist on error free records	3.87	3.93	Reject
	3.87	3.79	
Responsiveness			
Employees tell you exactly when the services are performed	3.48	3.68	Reject
Employees give you prompt services	3.52	3.72	Reject
Employees are always willing to help	3.58	3.72	Reject
Employees are never too busy to respond	3.39	3.74	Reject
	3.49	3.71	
Assurance			
Behaviour of employee is instill confidence in customer	3.78	3.56	Reject
Filling safe in transaction	3.91	3.81	Reject
Employees are consistently courteous with you	3.78	3.83	Reject
Employees have the knowledge to answer your questions.	4.02	3.69	Reject
	3.87	3.72	
Empathy			
Bank gives you individual attention.	3.33	3.32	Reject
Operating hours convenient to all its customers.	3.71	3.5	Reject
Employees give you personal attention	3.63	3.55	Reject
Bank has your best interests at heart.	3.52	3.6	Reject
Employees understand your specific needs.	3.58	3.7	Reject
	3.55	3.54	
Conveniences			
Branches in convenient places.	3.97	3.52	Reject
Provides tele-banking and internet banking facility.	4.26	3.86	Reject
ATM machines are easily accessible.	4.18	3.76	Reject
	4.13	3.72	

Table3. Comparative analysis of Perception Score of Service Quality Dimensions

Dimensions	Public Sector		Private Sector		Difference	Which Sector Performs Best?
	Mean	Rank	Mean	Rank		
Tangibles	3.84	4	3.95	1	-0.11	Private Sector
Reliability	3.87	2	3.79	2	0.08	Public Sector
Responsiveness	3.49	6	3.71	3	-0.22	Private Sector
Assurance	3.87	2	3.72	4	0.15	Public Sector
Empathy	3.55	5	3.54	6	0.01	Public Sector
Conveniences	4.13	1	3.72	4	0.41	Public Sector

Table4. Service Quality Score and Financial Performance

Banks	Service Quality Score	Deposits (crore)	Advances (crore)	Net Profit (crore)	Owner's Equity (crore)	ROE (%)	ROA (Times)
SBI	3.79	804116	631914	9166	65,949.20	13.90%	0.88
BOB	3.77	241044	175035	3058	15,106.39	20.24%	1.21
BOI	3.75	229762	168491	1741	16,207.25	10.74%	0.7
Total	11.31	1274922	975440	13965	97262.8	44.88	2.79
ICICI	3.71	202017	181206	4025	51,618.37	7.80%	1.13
HDFC	3.78	167404	125831	2949	21,522.49	13.70%	1.53
AXIS	3.68	141300	104343	2515	16,044.61	15.68%	1.67
Total	11.17	510721	411380	9489	89185.47	37.18	4.33