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Service Quality of Banking Sectors in India: An Overview

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Abstract

The changing focus of service quality from a mere competing instrument to that basic core of service concept in meeting and exceeding customer expectation is an emerging important issue in service organization. The premises of 'Quality of service' as the competitive edge in gaining market leadership has been well recognized both in academic research and by leading service organization. It has become increasingly important for organizations to find ways, not only to reach the top, but to maintain that leadership in ever increasing competitive market place. In order to protect their long term interest, service organizations are seeking ways to forge and maintain service quality. The banking industry, being very competitive, not only focuses on providing wide product lines to create competitive advantages, but also emphasizes the importance of its services, particularly in maintaining service quality. Commercial banks form the largest and the country's most important group of financial institutions. With stiffer competition from domestic and foreign banks, it is important for the commercial banks in India to improve the quality of their services. As globalization and liberalization of financial institutions accelerate, competition among banks in offering products and services becomes more intense. Customers in India have become more educated better informed, more internalized, and as Indian economy becomes more and more knowledge based, the demand for high quality services expands with increases in customers' buying power. This paper discusses an overview of Service Quality of banking sectors in India.

Keywords: *Service Quality, Banking Sector*

Introduction

In the present scenario, it is quite difficult for the banks to win the heart of the customers. It can be done by providing excellent services to them. Service quality plays a major role in this regard. It acts as a strategic tool for the service providers to attain the interest of their customers and change their perceptions about the banks in a positive way by providing them satisfactory services. Banking sector is the backbone of any financial system and economy. Commercial banks play an important role in the economic development with proper allocation and mobilization of resources. The Indian Banking System is regulated by the Central Bank of the country i.e. Reserve Bank of India (RBI), which was nationalized in 1949. RBI is a regulator for the banking sectors and exercises control over all banks. RBI acts as a protector and

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controller of banking system as it protects the depositors and helps to stabilize the banking system. In 1969, the government did nationalization of 14 major banks and broke the ownership and control of some private players. Service Quality acts as a strategic tool for the service providers to attain the interest of their customers and change their perceptions about the banks in a positive way by providing them satisfactory services. Customers in India have become more educated better informed, more internalized, and as Indian economy becomes more and more knowledge based, the demand for high quality services expands with increases in customers' buying power.

Review of Literature

A comprehensive study was carried out by Parasuraman et al (1985) to identify the determinants of perceived service quality. They have identified ten determinants of service quality. The determinants are reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer, and tangibles.

Johnston (1995) evaluated the customer's perception towards the service quality of the banking services. The service quality dimensions such as Access, Aesthetics, Alternatives, Availability, Care, Cleanliness, Comfort, Commitment, Communication, Competence, Courtesy, Flexibility, Friendliness, Functionality, Integrity, Reliability, Security and Responsiveness were taken for further analysis. Attentiveness, responsiveness, care and friendliness were the main sources of satisfaction of service quality and integrity, reliability, responsiveness, availability and functionality were the sources of dissatisfaction.

Zairi (2000) found that satisfied customers possibly share their experiences with five or six people while dissatisfied clients might inform another ten. It costs 25 percent more to recruit new customers than to maintain existing ones. Naumann (1995) and Dawes and Swailes (1999) also pointed out that retaining an existing customer costs about five times less in money, time and corporate resources than attracting a new customer. Newman et al (1998) indicated that an increase of only 5 per cent in customer loyalty would lift profitability about 25-85 per cent.

Bloemer et al (1998) analyzed the positive correlation between image, customer satisfaction, quality and loyalty among each other. The author found that quality and satisfaction had direct positive impact on loyalty whereas image had indirect relationship between image and bank loyalty via perceived quality.

In the banking industry generally, service quality improvement has started at the front counter (Nazer et al 1999, Kaynak and Whiteley 1999, Nielsen et al 1998, Zineldin 1996, Boyd et al 1994, Haron et al 1994) and has moved to electronic services (Delvin 1995, Joseph et al 1999, Jayawardhena and Foley 2000, Mols 2000, Daniel 1999, Sathye 1999). Accordingly, there has been a growing trend to switch from personal banking services to electronic services with a matching improvement in service quality. Financing service quality is considered a winning strategy because it increases customer satisfaction, and maximizes a company's profits and market share (Lee et al 2000, Newman et al 1998).

Conduit and Mavondo (2001) found positive relationship between internal service quality, satisfaction, and customer retention. The study revealed that the level of employee internal service quality experienced by the staff in the main delivery systems can enhance a firm's overall quality performances.

Parasuraman et al (1988) said that service quality can be measured using the expectation-perception gap and this view has been widely accepted. The task of Banks is to balance customer expectations and perception and to close any service quality gaps. Gaps at any point in service design and delivery can damage relationships with customers. commitment and leadership, information analysis and continuous improvement and found differences among all three categories of banks in terms of human resource management, technical system, service culture, social responsibility, union intervention, benchmarking, customer focus and employee satisfaction.

Grönroos (1984) found that the perceived quality of a service is affected by the experience that the consumer went through for a service. Therefore, he encapsulated the perceived quality of a given service as the outcome of an evaluation process; a comparison between the consumer expectations of the service with his perceptions of the service he has received. He also pointed that expectation is influenced by traditions, ideology, word-of-mouth communication, and previous experience with the service and the consumer's perception of the service itself determines his perceived service.

Sureshchander et al (2002) analyzed the differences between the public, private and foreign sector banks for total quality service (TQS) implementation. The study found no difference between private and foreign sector banks in terms of top management

Sureshchander et al (2002) found reliability, responsiveness, empathy and assurance are the important factors and correspond to human element in the service delivery. Moreover, they contended that SERVQUAL does not address other important constituents of service quality.

Banks have realised 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 (Kunst and Lemmink 2000, Stafford 1996).

Sureshchander et al (2003) analyzed the customer's perspective of service quality and found that there is a differences between the public, private and foreign sector banks with respect to service quality factors from customer's point of view. Core service, human element, service delivery, tangibles of services and social responsibility were the five dimensions found in this study.

Parasuraman et al (1988) stated that the dimensions are instruments for measuring perceived service quality. They also posit that consumer- perceived service quality is usually seen as a multi-dimensional construct.

Objectives of the Study

- To find out the various factors that affect the service quality of banking services.

Research Methodology

Secondary data has been used for the study.

Bank

Bank is a lawful organization, which accepts deposits that can be withdrawn on demand. It also lends money to individuals and business houses that need it. Banks also render many other useful services - like collection of bills, payment of foreign bills, safe-keeping of jewellery and other valuable items, certifying the credit-worthiness of business, and so on. Banks accept deposits from the general public as well as from the business community. Banking Regulation Act of India, 1949 defines Banking as "accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheques, draft, and order or otherwise." 'Banking' as an activity involves acceptance of deposits and lending or investment of money. It facilitates business activities by providing money and certain services that help in exchange of goods and services.

Indian Banking Industry

The growth in the Indian Banking Industry has been more qualitative than quantitative and it is expected to remain the same in the coming years.

History of Banks

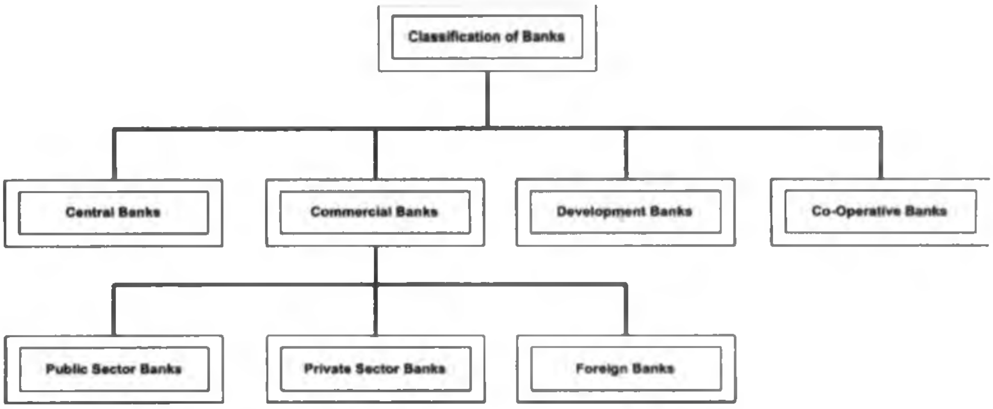
The banking system of India should not only be hassle free but it should be able to meet new challenges posed by the technology and any other external and internal factors.

Figure: 1 History of Banks

Phase I	The General Bank of India was set up in the year 1786. Next came Bank of Hindustan and Bengal Bank. The East India Company established Bank of Bengal (1809), Bank of Bombay (1840) and Bank of Madras (1843) as independent units and called it Presidency Banks. These three banks were amalgamated in 1920 and Imperial Bank of India was established which started as private shareholders banks. In 1865 Allahabad Bank was established and Punjab National Bank Ltd. was set up in 1894. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank and Bank of Mysore were set up. Reserve Bank of India came in 1935. To streamline the functioning and activities of commercial banks, the Government of India came up with the Banking Companies Act, 1949 which was later changed to Banking Regulation Act 1949 as per amending Act of 1965.
Phase II	Government took major steps in this Indian Banking Sector Reform after independence. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale specially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country. Seven banks forming subsidiary of State Bank of India were nationalized in 1960 on 19th July, 1969, major process of nationalization was carried out. 14 major commercial banks in the country were nationalized. The Second phase of nationalization of the Indian Banking Sector Reform was carried out in 1980 with seven more banks. This step brought 80% of the banking segment in India under Government ownership.
Phase III	In 1991, under the chairmanship of M Narasimham, a committee was set up by his name which worked for the liberalization of banking practices. The country is flooded with foreign banks and their ATM stations. Efforts are being put to give a satisfactory service to customers. Phone banking and net banking is introduced. The financial system of India has shown a great deal of resilience.

Source: Secondary data

Figure: 2 Classification of Banks



Source: Secondary data

Service Quality

Service quality can be defined as the difference between customer expectations of service and perceived service. If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs (Parasuraman et al 1985, Lewis and Mitchell 1990). Improvement of the quality of services requires 27 identification of the service quality attributes - the so-called dimensions- that are important to customers. A service has lot of intangible dimensions including reliability, responsiveness, competence, courtesy, friendliness, security, ambience etc.

Gronroos (1982) Found that "Service Quality" Comprises of Three Global Dimensions.

- Technical quality (the outcome of service): This dimension refers to the outcome or what is delivered or what the customer gets from the service and is called Technical product. The quality in designing the Basic Service Package (BSP) is reflected in the technical quality of service.
- Functional Quality (the process of service): Customers are also influenced by how they receive the service process. The way service processes are handled in a service encounter is called Functional Quality.
- Image: These two dimension s together determines the image of the service provider called Corporate Image. Most consumers will evaluate a firm by taking into consideration its resources, history and ways of operating service activities. Therefore a firms image at the corporate is the Corporate Image.

Service Quality in Banking Sectors

The services sector has registered a substantial growth during the last two decades in India. Its growth prospects are very high as per the expectations of industrialists and economists. With the change in government policy, leading to privatization and private participation in service sectors, competition has intensified. The entry of multinational corporations, collaboration with the private corporate giants in India, has further forced the sector to be market oriented. Under these circumstances, service companies of India have no other option but to adopt the marketing approach to achieve organizational objectives. Commercial banks form the largest and are the country's most important group of financial institutions. With stiffer competition among domestic and foreign banks, therefore it is important for the commercial banks in India to improve the quality of their services. Further, increase in consumer preferences toward banking products choosing the banks that give them the best service quality is a priority. As globalization and liberalization of financial institutions accelerate, competition among banks in offering products and services becomes more intense. Customers in India become more educated better informed, more internalized and as Indian economy becomes more and more knowledge based, the demand for high quality services expands with increases in customers' buying power.

Figure: 3 Service Quality Dimensions

Service Quality Dimensions	*Sl. No*	*Attributes*
Tangibles	1.	Modern-looking equipment
	2.	Visually appealing physical facilities
	3.	Employees are neat-appearing
	4.	Visually appealing materials associated with the service
	5.	Availability of Customer amenities (like Drinking water)
Reliability	6.	Show sincere interest in solving customer problems
	7.	Perform the service right the first time
	8.	Provide their service as promised
	9.	Insist on error-free records
Responsiveness	10.	Inform exactly when services will be performed
	11.	Employees give prompt service
	12.	Employees are always willing to help
	13.	Employees are never too busy to respond to requests
Assurance	14.	Employee behaviour instill customer confidence
	15.	Customers feel safe in their transactions
	16.	Employees are consistently courteous
	17.	Employees have knowledge to answer question
Empathy	18.	This Bank gives customer individual attention
	19.	Operating hours are convenient to all customers
	20.	Employees give customers personalized service
	21.	Customers' best interests are at heart
	22.	Employees understand the specific needs of customers

Source: Secondary data

Conclusion

In the present banking industry, as most of the banks are running to tap the pockets of customers, so the focus on service quality has become very critical and major issue. The present study highlights those significant factors of service quality affecting the banking services rendered to the customers. Tangibility and assurance are the most important factors found in the study. Educated persons critically evaluate the services from both the kinds of bank and then take further decisions whereas the preference towards public/private sector bank with respect to age and occupation found independent with each other.

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