PERCEIVED SERVICE QUALITY AND CUSTOMER SATISFACTION IN PUBLIC SECTOR BANKS: AN EMPIRICAL STUDY

Kingshuk Adhikari*
Biswajit Paul**

Abstract

The impact of on-going process of economic reforms in India has been experienced by almost all the sectors of Indian economy and banking sector is no exception to this. The entry of private sector banks in India during the last two decades, following financial sector reforms coupled with liberalization and globalization of the economy, has been posing enormous challenges to the public sector banks in retaining their customers. Thus, public sector banks in India, under the changed regime characterized by highly competitive market and consumer sovereignty, are expected to reorient their policies in favour of customers, so that they can satisfy their customers by making persistent effort in making qualitative improvement of their services. Infact, service quality offers a way of achieving success among competing services.

The paper makes a modest attempt not only to assess the customer perception regarding various service quality dimensions but also to analyse the influence of perceived service quality on satisfaction of customers in the branches of public sector banks operating in Silchar town of Assam. The perception of bank customers on select dimensions of service quality has been analyzed using different statistical tools. The study concludes that all the dimensions of service quality significantly influence the satisfaction of bank customers except empathy dimension.

Key Words: *Responsiveness, Assurance, Reliability, Empathy*

JEL Classification: M31

Introduction

The political system of a country generally plays a significant role in deciding the type of economic system to be followed and it, in turn, dictates the type of relationship between the buyers and the sellers of that country. If the system of governance is democracy and also the industrialization is quite old in a country then it is quite likely that the country will practice market economy in which the bargaining power is more with the buyers. It is not out of context to point out that if the buyers are stronger than the sellers in the market in terms of their bargaining power, the sellers will experience a lot of competition among themselves. Competition among the sellers will naturally provide this opportunity to buyers to look towards

*Assistant Professor, Department of Commerce, Assam University, E-mail: adhikari.au@gmail.com
**Research Scholar, Department of Commerce, Assam University, E-mail: bpaul1987@gmail.com

such seller who can provide them a variety of such products and services which not only are better in terms of quality but also can be bought at a competitive price.

In the intensified competitive banking environment, banks offering quality services are in an advantageous position to retain and attract the existing as well as potential customers. Perceived service quality has been considered to be an important instrument of competitiveness for banking business in the globalized regime. To put it simple words, offering quality services has become a prerequisite for the banks not only to retain the existing share but also to expand the market share in the highly competitive and dynamic environment. Banks offering quality services will find easy survival in a highly competitive market place.

Liberalization of the Indian banking sector has permitted the foreign banks to start their operation in India by opening new branches in different cities and towns of the country. Apart from this, the entry of private sector banks even in small towns has created a sense of competitiveness for the public sector banks operating in a small town like Silchar of Assam. Due to the challenges posed by the private sector banks, public sector banks often find it difficult to retain their customers. In order to cope up with the ever changing business environment, public sector banks all over the country, both in cities and towns, are expected to deliver quality services to its customers, which in turn, will result in customer satisfaction, customer loyalty and long term profitability.

Perceived Service Quality

Perceived service quality can be defined as the customers' perception of overall service quality or superiority of a product or service with respect to its intended purpose, relative to alternatives (Parasuraman et.al., 1988). In other words, perceived service quality is the extent to which a firm successfully serves the purpose of customers (Zeithaml, Parasuraman and Berry, 1990). It has been accepted as an antecedent of customer satisfaction (Churchill and Suprenant, 1982; Oliver, 1997).

Perceived service quality enables an organization for establishing and sustaining satisfying relationships with its customers (Spreng and Machoy, 1996). In today's increasingly complex and changing environment, service quality has been recognized as the most powerful competitive weapon for a bank. For the success and survival in the banking sector, provision of high service quality is necessary in meeting several requirements, such as, customer satisfaction and its consequent loyalty, attracting new customers and to increase the market share and profitability (Kumari and Rani, 2011). Therefore, service quality has been considered to be an essential determinant for measuring the degree of customer satisfaction in banking business.

Customer Satisfaction

Satisfaction is a cumulative judgment based on collective encounters with a service provider over a period of time. To put it in simple words, "Satisfaction is a sense of

contentment that arises from an actual experience in relation to an expected experience" (Hernon and Whitman, 2001). Customer satisfaction can be defined as the result of a cognitive and affective evaluation, where customer expectation is compared with the actual perceived performance. It is the degree to which a customer perceives that a firm has effectively provided the services that meets his/her needs in the context in which he/she is aware of and / or using the service. Customer satisfaction helps a bank in building long-term relationship with its customers as well as brand equity. Thus, it is the transaction specific effective response to the evaluation of discrepancy between the prior expectations and actual experiences (Paul and Barman, 2010).

In the age of fierce competition, delivery of quality services helps a bank in making their customers feel satisfied. On the other hand, without measuring customer satisfaction, a bank will not be able to deliver better services to its customers. Thus, service quality and customer satisfaction are interrelated and both play a convincing role for improving the overall performance of a bank.

Review of Literature

The review of literature forms the basis for selecting the service quality dimensions influencing customer satisfaction. Ghost and Gnanadhas (2011) found that among the service quality dimensions assurance showed the highest impact and tangibility showed the lowest impact on customer satisfaction. Likewise, Jain and Gaur (2012) revealed that assurance dimension showed the highest impact and reliability dimension showed the lowest impact on customer satisfaction. Lohani and Bhatia (2012) inferred that reliability, responsiveness and assurance were found to be the most important dimensions affecting customer satisfaction. Similarly, Gopalakrishnan, Mishra, Gupta and Vetrivel (2011) found that service quality dimensions namely, reliability, tangibility and empathy had significant impact on overall customer satisfaction. Dutta and Dutta (2009) observed that reliability had the highest impact on overall customer satisfaction. Likewise, Munusamy, Chelliah and Mun (2010) revealed that among the dimensions of perceived service quality tangibility showed a significant impact on customer satisfaction. Al-Hawary, Alhamali and Alghanim (2011) inferred that the customers were satisfied with all five dimensions of perceived service quality. Shafie, Azmi and Haron (2004) concluded that highest degree of satisfaction was found with compliance dimension followed by reliability, assurance, responsiveness, empathy and tangibility dimensions of service quality. Vanpariya and Ganguly (2010) found that all five dimensions of SERVQUAL model (Parasuraman,1988) had a positive and significant correlation with customer satisfaction. Dharmalingam, Ramesh and Kannan (2011) stated that all the service quality dimensions (tangibility, responsiveness, reliability, assurance and empathy) were positively correlated with customer satisfaction.

Based on the above reviews it may be concluded that dimensions of service quality play an influential role with respect to satisfaction of bank customers. In this study, only five service

quality dimensions (tangibility, responsiveness, reliability, empathy and assurance) have been considered for the purpose of analysis.

Objectives of the Study

1.   To assess the perceived service quality in the branches of public sector banks operating in Silchar town of Assam.

2.   To examine the relationship between perceived service quality and customer satisfaction in the branches of public sector banks operating in Silchar town of Assam.

3.   To study the influence of perceived service quality on customer satisfaction in the branches of public sector banks operating in Silchar town of Assam.

Hypotheses of the Study

1.   There exists no significant correlation between perceived service quality and customer satisfaction in the branches of public sector banks operating in Silchar town of Assam.

2.   There exists no significant influence of perceived service quality on customer satisfaction in the branches of public sector banks operating in Silchar town of Assam.

Data Source and Methodology

The present study is based on primary data. The population of the study covers the customers of the branches of public sector banks operating in Silchar town of Assam. A structured schedule has been designed covering different components of five dimensions of service quality, namely, tangibility, responsiveness, reliability, empathy and assurance. The sample size for the present study is 60 customers of the branches of public sector banks operating in Silchar town of Assam. A five point Likert scale ranging from Strongly Disagree (1) to Strongly Agree (5) has been used to record the responses of customers. Cronbach's alpha has been calculated to judge the internal consistency among the items of the service quality in the survey instrument. For the purpose of analyzing the perception of bank customers, mean, standard deviation, correlation and multiple regression technique have been applied.

Results and Discussion

The data obtained with the help of structured questionnaire/schedule is generally evaluated to judge the reliability of the instrument before making any kind of analysis and interpretation. The reliability test has been applied in the present study to examine the internal consistency of the service quality variables in the survey instrument. In order to determine the reliability of the construct, Cronbach's alpha has been employed. Cronbach's alpha is the most widely used measurement tool with a generally agreed lower limit of 0.70 (Nunnally, 1978; Hair, et.al., 1998). Since the value of Cronbach's alpha is 0.919, which is much higher than 0.70, so, it can be concluded that there is a good internal consistency among the items of service quality in the survey instrument.

Table 1: Customer Perception about Service Quality

Service Quality Dimensions	Mean	Std. Deviation
Tangibility	3.97	.6218
Responsiveness	3.73	.8408
Reliability	3.68	.8271
Empathy	3.51	.9527
Assurance	3.95	.7157
Customer Satisfaction	4.02	.8535

Source: Field Survey

Table 1 reveals that the mean score for customer satisfaction is 4.02 with a standard deviation of 0.8535. Table 1 also illustrates the perception of bank customers on select dimensions of service quality. The mean values in the above table imply that the customer perceptions about service quality dimensions in public sector banks operating in Silchar town of Assam are by and large favourable. The mean score of customer perception is the highest with respect to tangibility dimension (3.97). However, relatively higher mean scores have also been observed with assurance dimension (3.95) and responsiveness dimension (3.73). But the level of perception of the bank customers is found to be moderate with reliability dimension (3.68). The table further discloses that the perception of bank customers is the lowest regarding empathy dimension of service quality (3.51).

The standard deviations of customer perception with respect to different dimensions of service quality have been computed to study the consistency /variation in their responses. The value of standard deviation with respect to tangibility dimension is the lowest which implies that the perception of customers is more concentrated about this dimension. On the contrary, since the value of the standard deviation with respect to empathy dimension is the highest, it denotes that the tilt of the views of the respondents is bent more towards this.

Table 2: Correlation between Perceived Service Quality and Customer Satisfaction

Service Quality Dimensions	Correlation Coefficient	Sig. (2 - tailed)
Tangibility	.690	.000
Responsiveness	.782	.000
Reliability	.826	.000
Empathy	.633	.000
Assurance	.718	.000

Source: Field Survey

Table 2 represents the degree of association between overall customer satisfaction and select dimensions of perceived service quality. It can be observed from the table that all the dimensions of service quality are positively correlated with overall customer satisfaction at 1% level of significance. Highest degree of correlation exists between customer satisfaction and perception about reliability dimension of service quality (0.826). The degree of correlation between customer satisfaction and perception about responsiveness dimension (0.782) as well as assurance dimension (0.718) are quite high. However, relatively moderate level of correlation has been observed between customer satisfaction and perception about tangibility dimension (0.690) and empathy dimension (0.633) of service quality. The p-values as shown against the select dimensions of perceived service quality indicate that there exist significant linear relationship between overall customer satisfaction and perception about all the individual dimensions of service quality.

The influence of different dimensions of service quality on customer satisfaction (dependent variable) of public sector banks in Silchar of Assam has been analyzed by employing multiple regression technique.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.916[a]	.839	.824	.31504

a. Predictors: (Constant), Tangibility, Responsiveness, Reliability, Empathy, Assurance

The value of R^2 (0.839) suggests that 83.90% of the variation in the level of customer satisfaction has been explained by explanatory variables, i.e. the select dimensions of perceived service quality. The adjusted R^2 value (0.824) also indicates that 82.40% of the variation in the degree of customer satisfaction is explained by the predictors. Thus, the dimensions of service quality selected for the study could explain a very large amount of variation in customer satisfaction. The difference between R^2 and adjusted R^2 is only 0.015 or 1.5% and this reduction implies that if the model were derived from the population, it would account for approximately 1.5% less variation in the outcome.

Table 4: Result of ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.890	5	5.578	56.203	.000
	Residual	5.360	54	.099		
	Total	33.250	59			

a. Predictors: (Constant), Tangibility, Responsiveness, Reliability, Empathy, Assurance
b. Dependent Variable: Customer Satisfaction

The overall predictability of the model is also calculated. The F statistics (56.203) giving p- value as 0.000 shows that the regression model is highly significant which implies that the data are well suited in explaining the influence of service quality dimensions on customer satisfaction in the branches of public sector banks operating in Silchar town of Assam.

Table 5: Multiple Regression Results of the Selected Variables

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	-.455	.292	-1.557	.125
	Tangibility	.215	.087	2.475	.016
	Responsiveness	.221	.078	2.842	.006
	Reliability	.231	.093	2.482	.016
	Empathy	.112	.058	1.913	.061
	Assurance	.325	.073	4.475	.000
a. Dependent Variable: Customer Satisfaction					

Source: Field Survey

Table 5 discloses the regression results of explanatory variables which reveal that all the select perceived service quality dimensions positively influence the satisfaction of customers under study since all the five predictors have positive b values. The b values indicate that the influence of assurance dimension on customer satisfaction is the highest if the effects of other dimensions are held constant. Similarly, it is observed from the table that influence of empathy dimension on customer satisfaction is the lowest out of the five predictors. The result of corresponding t value and p value make it clear that all the predictors are making significant contribution to the model except empathy dimension of service quality at 5% level of significance.

Summary of major findings

1.   The mean scores of select service quality dimensions indicate that the perception of customers in the branches of public sector banks operating in Silchar town of Assam are by and large favourable. Customers have recorded most favourable perception with respect to tangibility dimension followed by assurance, responsiveness, reliability and empathy dimensions of service quality. Least variation in the customer perception has been observed with respect to tangibility dimension while highest variation has been noticed in case of empathy dimension.

2.   The perception of customers about all service quality dimensions are positively correlated with overall customer satisfaction. Further there exists significant linear relationship between overall customer satisfaction and perception about all the dimensions of service quality.

3.   All five dimensions of perceived service quality positively influence the satisfaction of customers. The influence of perceived service quality on customer satisfaction is found to be highest with assurance dimension followed by reliability, responsiveness, tangibility and empathy dimension. There exists significant cause and effect relationship between all the dimensions of perceived service quality and customer satisfaction except empathy dimension of service quality.

Conclusion

In today's market of intensified competition, the satisfaction of customers is extremely important for the survival and growth of a bank. Infact, service quality dimensions are important predictors for judging the satisfaction level of bank customers. The study revealed that all the select dimensions of perceived service quality showed a positive influence on satisfaction of customers of the public sector banks operating in Silchar town of Assam. However, public sector banks are expected to formulate necessary plans and policies to improve the various components of empathy dimension of service quality.

Scope and Limitations of the Study

1.   The scope of the present study is confined to the customers of the branches of public sector banks operating in Silchar town of Assam.

2.   The sampling method adopted for collecting the data may not completely eliminate the possibility of sampling errors.

3.   Each study area has its own demographic, geographic, situational and cultural specificities. So, the findings of the study need to be inferred with great caution while making any kind of generalization.

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