



## A STUDY ON SERVICE QUALITY OF BANKING SERVICES IN THANJAVUR DISTRICT BY USING FACTOR ANALYSIS

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### Abstract

Though customers evaluate the same based on the service encounter, a very important fact is that the design and the process flow always reflect the attitude of the management. If the management undertakes constant efforts to improve service quality, they redesign and redevelop the service space as well as also focus on upgrading the service encounter. This also adds to the image of the service provider in turn creating a positive image in the minds of the customers. Hence, it is important to understand that a service quality model should undoubtedly aim at higher customer satisfaction. It is broadly defined as the number of customers, or total percentage of customers, whose reported experience with a firm, its products or its services exceeds specified satisfaction goals. This suggests that expectations are key factors behind satisfaction.

Keywords: Banking, services, Factor analysis, quality

### 1.1 Introduction

In today's scenario, the world has witnessed a multiplication of service industries in many countries. This growth in the service sector has persisted, to the extent that service industries now have a major impact on national economies. Service industries are expected to develop and grow at an accelerated pace in the future. As the service sector is making an increasingly significant contribution to the modern economy, customers reap the benefits of greater choice and easy availability. Due to this trend and the steady flow of newcomers into the industry, service firms operate in an increasingly complex, competitive business environment. The resultant fierce competition, together with the challenges posed by the ever-changing modern business world, is forcing service firms to review and often dramatically adapt their management styles and business practices. In the past, products were the determinants of business success.

Banks are one of the service sectors that play a very important role in the economic development of every nation. They have control over a large part of the supply of money in circulation. Economic development is a dynamic and continuous process. Banks are the main stimulus of the economic progress of a country. The economic development highly depends upon the extent of mobilizations of resources, and investment and on the operational efficiency of the various segments of the economy. Banks have been consciously used as an engine of development. They help in increasing the nation's savings channelizing it into productive avenues and economic utilization of these resources. A well-planned, organized and viable banking system is a necessary concomitant of economic and social infrastructure in any economy. The banking system provides a large portion of the medium of exchange of a given country, and is the primary instrument through which monetary policy is conducted, through their deposit mobilization and lending operations. The economic performance of a country is measured in terms of its sectoral contribution. In recent times, there has been a growing importance of services sector worldwide and in the Indian context, this sector is gaining momentum. Of the various service industries that come under the ambit of service sector, the contribution of financial sector is one among the highest. This indicates the growing demand for the services of banking and insurance sectors. This is due to the effect of the Financial Sector Reforms, which has resulted in the increased competition among the banks that include public sector, private sector and foreign banks.

### 1.2. Banking Services in India

The banking scenario in India is of a highly developed nature, even though it is still far from achieving world standards in terms of size, products and services. Indian banks have realized that along with organic growth there is a need to grow inorganically as well, in order to be competitive with other players in the market. In this scenario, banking has been the focus of attention for the banking industry. The emergence of new economies and their rapid growth have been the most important contributing factors in the resurgence of banking. Changing lifestyles, rapid improvements in information technology and other service sectors, as well as increasing levels of income, have contributed to the growth of banking services in countries like India that are developing at a good pace. A decade ago, the banking sector was tough on a fingertip. But now it is possible. All the bank transactions with a connection to mobile handsets technology is the latest innovation means necessary to make.

In addition, SMS Banking, Mobile Banking in India, and all the modernization are the major steps taken by banks towards Internet banking and ATMs. With all these tools and systems, banking has become a complete freedom to experience. Accounting, fund transfer and payment for centuries, has been followed in physical bank check which is now modernized. But the standing for hours in front of the cash counter and time to withdraw your own money is in foundation. The Indian



banks are vying with one another to grab a pie of the banking service sector which has tremendous potential over the GDP in India. It also has its share of challenges in retaining customers, introduction of tech-savvy facilities and investments in such facilities, security concerns, Know Your Customer (KYC) norms, credit evaluation norms, etc.

### **1.3 Service Quality in Banking**

Service quality is an imperative element impacting customers' satisfaction level in the banking industry. In banking, quality is a multi-variable concept, which includes differing types of convenience, reliability, services portfolio, and critically, the staff delivering the service. The banks have realized that in order to become a market leader it is important to focus on superior service quality. A lot is yet to be achieved in urban and rural areas; so far mass banking is concerned in India. Customer satisfaction is linked to customer loyalty and retention. In order to build a service quality model, which would ensure customer satisfaction, it is imperative to identify the problems of customers. The banks review the service delivery process to make it more customer-friendly. It is broadly defined as the number of customers, or total percentage of customers, whose reported experience with a firm, its products or its services exceeds specified satisfaction goals. This suggests that expectations are key factors behind satisfaction. While customer satisfaction is the key performance indicator/differentiator, tapping the same becomes an imperative task for the service provider.

Though customers evaluate the same based on the service encounter, a very important fact is that the design and the process flow always reflect the attitude of the management. If the management undertakes constant efforts to improve service quality, they redesign and redevelop the service space as well as also focus on upgrading the service encounter. This also adds to the image of the service provider in turn creating a positive image in the minds of the customers. Hence, it is important to understand that a service quality model should undoubtedly aim at higher customer satisfaction. It is broadly defined as the number of customers, or total percentage of customers, whose reported experience with a firm, its products or its services exceeds specified satisfaction goals. This suggests that expectations are key factors behind satisfaction. While customer satisfaction is the key performance indicator/differentiator, tapping the same becomes an imperative task for the service provider. Many studies indicate that customer retention is based on employee performance and professionalism, willingness to solve problems, friendliness, and level of knowledge, communication skills and selling skills. It is economical to reduce customer defection for retention rather than acquiring new customers. Such satisfied customers tend to bring referral business for the organization. Service quality is the upshot of personnel quality in banking as on the counter customers perceive based on the front line behavior. Employees' conduct goes a long way in instituting a positive image of the organization.

### **1.4 Scope of the Study**

In the quest to improve its services, retain and attract customers, banking organizations has introduced innovative measures like extended business hours, ATM network, internet banking, improved banking hall facilities among others, etc., all in the interest of enhancing customers' comfort. These efforts which aim at bringing satisfaction to the customers seem to be futile. Customers' preferences and expectations seem not to match up with the bank's initiatives. There is incessant complaint of long waiting at the banking hall, failure of network system and Automatic Teller Machines; and defection to other banks. This study will provide the bankers with empirical information on what customers expect in terms of service quality from the banks as well as customers assessment of the quality of service they provide. It will also provide empirical information on the heterogeneity of customers perceived service quality in terms of their background. Thus, management will be guided in their strategic decisions on customer satisfaction management and customer retention.

### **1.5 Statement of the Problem**

Each bank has identified themselves with at least one of the dimensions of service quality that they think it will drive customers' perceived service quality satisfaction, loyalty, and retention. The service providers' perception of service quality may be quite different from what customers perceive as service quality. Customers' choice of a bank over another is based on several factors such as the location, interest rates, quality of service delivery and the bank's reputation. However, service quality is seen as one of the key factor and thus has received considerable attention by organizations.

In order to survive in the fierce competition faced by the domestic banks due to the entry of international players, it becomes essential for rapid innovation and introduction of new financial instruments, understanding of changing customer needs and extensive use of information technology. However, with the availability of similar technology among almost all the banks, it is felt that a bank can survive in the market by only through the provision of better services to its customers; hence there is an imperative need for identifying their ability to satisfy the service quality requirements as per their customers' expectations. Segmenting the industry into different strategic groups and positioning themselves according to the consumers' mindset can help the banks to restructure their policy choices to compete in this dynamic business environment. This necessitated the banks to utilize the existing resources, process of delivering quality services to its customers and transforming the superior service to generate better financial performance. The emerging situation calls for the assessment of service quality in relation



to customer expectation and service performance to help the Banks to improve its service quality and enhance satisfaction so as to ensure customer retention.

### 1.6 Research Objectives

1. To examine the profile of the Customers utilizing the financial services rendered by banks.
2. To measure level of service quality towards the banking services.

### 1.7 Sources of Data Used

Both types of data i.e., secondary and primary data have been used in the present study. The secondary data was collected at first from the text books, web sites, journals and other secondary sources. The primary data was collected from the sample respondents of customers utilizing banking services in Tamil Nadu and was put into reliability test accordingly.

### 1.8 Population and Sampling Procedure

The Customers who are experiencing services through the selected banks are treated as the population of the study. Tamil Nadu is the geographical area of the present study considering four districts namely Thanjavur, Tiruchirappalli, Thiruvarur and Nagapattinam. As the population is infinite one, the method of selecting the sample customers was in a random process who are the account holders and borrowers of the bank for the past five year period (from 2008-09 to 2013-14). The research study takes up six banks, three from private sector and three from public sector. From the large population, 25 customers from one public or private sector bank selected for the study in each districts considered as study area are selected based on the convenience random sampling technique. Therefore, the total sample per district arrives in to 150 respondents and finally for four districts the sample respondents who are the customers of the selected banks comes in to a sample size of 600.

**Table – 3.1, Sample size across the districts (Private and Public sector banks)**

Name of the bank	Thanjavur District	Thiruvarur District	Tiruchirappalli District	Nagapattinam District	Total Samples
State Bank of India	25	25	25	25	100
Indian Bank	25	25	25	25	100
Indian Overseas bank	25	25	25	25	100
The ICICI Banking Corporation Ltd.	25	25	25	25	100
HDFC Bank Ltd.	25	25	25	25	100
Axis Bank	25	25	25	25	100
Total	150	150	150	150	<b>600</b>

Source: Researcher's own calculations

### 1.9 Questionnaire

A structured questionnaire is constructed to get the primary data from the sample customers. It includes Socio-Economic Values of the customers and all other dimensions of the study. It was pre tested among 100 customers and appropriate modifications were made in the questionnaire.

### 1.10 Measurement Scale

The demographic information about the sample customers are analyzed with nominal scaling, whereas Customer expectation and the service quality dimensions are measured with ordinal 7 point scaling such as strongly disagree, disagree, slightly disagree, neither agree nor disagree, slightly agree, agree and strongly agree. Likewise the Customer satisfaction and retention is also measured by means of 7 point scale such as completely dissatisfied, mostly dissatisfied, somewhat dissatisfied, neither satisfied not dissatisfied, somewhat satisfied, mostly satisfied and completely satisfied.

### 1.11 Factor Analysis For Service Quality Towards Banking Services

#### Kmo And Bartlett's Test

The dimensionality of service quality towards banking services was examined using factor analysis based on eleven individual statements and the reliability of the subsequent factor structures was then tested for internal consistency of the grouping of the items. The eleven factors of satisfaction of the customer's statements are related to the following:

1. Bank products
2. Bank employees
3. Service of the banks
4. Technology of the banks
5. Online services of the bank



6. Communication system of the banks
7. Secrecy maintenance of the banks
8. Physical facility available in the bank
9. Bank charges
10. Network branches
11. Working hours of the bank

**Table – 1, KMO and Bartlett's Test of service quality towards banking services**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.833
Bartlett's Test of Sphericity	Approx. Chi-Square	2659.664
	Degrees of freedom	55
	Sig.	.000

Source: Output generated from SPSS 20

High value of KMO (0.833 > .05) of indicates that factor analysis is useful for the present data. The significant value for Bartlett's test of Sphericity is 0.000 and is less than .05, which indicates that there, exists significant relationships among the variables. The resultant value of KMO test and Bartlett's test indicates that the present data is useful for factor analysis.

**Table – 2, Total variance explained for service quality towards banking services**

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.759	43.267	43.267	4.759	43.267	43.267	2.557	23.247	23.247
2	1.162	10.561	53.828	1.162	10.561	53.828	2.403	21.844	45.090
3	1.055	9.593	63.421	1.055	9.593	63.421	2.016	18.330	63.421
4	.942	8.563	71.984						
5	.710	6.452	78.437						
6	.606	5.510	83.947						
7	.466	4.240	88.187						
8	.419	3.809	91.995						
9	.332	3.019	95.014						
10	.304	2.759	97.774						
11	.245	2.226	100.000						

Extraction Method: Principal Component Analysis.

Source: Output generated from SPSS 20

All the statements of the service quality towards banking services are loaded on the three factors. The total variance accounted for, by all the three factors with Eigen value greater than 1 is 63.421 percent and the remaining variance is explained by other variables. Among the two factors, the first factor accounts for around 23.247 percent of variance which is the prime criteria considered in service quality of the banking services towards satisfaction of the customers.

**Table – 3, Rotated Component Matrix of service quality towards banking services**

Service quality towards banking services	Component		
	1	2	3
Bank products	.804	.245	.010
Bank employees	.681	.113	.297
Service of the banks	.613	.137	.166
Technology of the banks	.606	.161	.298
Online services of the bank	.004	.804	.282
Communication system of the banks	.360	.778	.107
Secrecy maintenance of the banks	.302	.722	.267



Physical facility available in the bank	.566	.591	.078
Bank charges	.033	.339	.752
Network branches	.256	.072	.744
Working hours of the bank	.308	.210	.724
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.			
a. Rotation converged in 6 iterations.			

Source: Output generated from SPSS 20

**The statements are converted into 3 factors using factor analysis.**

**The following four aspects related to the service quality towards banking services is converted into a single factor.**

1. Online services of the bank
2. Network branches
3. Working hours of the bank
4. Communication system of the banks

**The following four aspects related to service quality towards banking services is customers into a single factor.**

1. Bank products
2. Bank employees
3. Service of the banks
4. Technology of the banks

**The following three aspects related to service quality towards banking services is converted into a single factor.**

1. Physical facility available in the bank
2. Secrecy maintenance of the banks
3. Bank charges

Apart from that, the dimension “service quality towards banking services” comprises 11 statements. Out of eleven statements, three contribute more towards service quality of banking services towards satisfaction of the customers. The statements are (1) Online services of the bank(2) Bank products and (3) Physical facility available in the bank. The result determines the fact that almost all the attributes under customer expectation are important and the most influencing factor is identified as ‘Satisfaction with online services of the bank, Satisfaction with the bank products and Satisfaction with physical facility available in the bank’ of the respondents. This may be due to the necessity that banking services are computerized and made user friendly. Hence among all other customer satisfaction attributes, the above said factor alone is the most influencing variable.

### 1.12 Suggestions

- The customers having a long relationship in operating the bank accounts in the selected banks for the study is comparatively less. This shows the loyalty of the customers or their attachment with the bank. The bank should study this situation to take adequate steps to retain the customers. The loyal customers may be given some priorities or they may be given some extra benefits. This will help the bank to retain the old customers and to get good business out of them.
- From the study it was identified that the public sector banks do not utilize technology full-fledged using the modern equipments when compared to the private sector banks. Hence, attempts can be made to fully computerize the banks and their branches. For this purpose, training can be given to employees on the usage of computers in the related services. This would help to reduce the time of services provided and reduce the paper work and stationary expenses. Concerted efforts can also be made to introduce “Core Banking Solutions” in all the banks.
- Increasing the number of delivery channels like, Credit Card, Debit Card, ATM, Anywhere Banking, Multiple Delivery Channels, Single Window Service, Mobile Banking, Phone Banking, E- banking and service at the door steps would go a long way in improving the customer satisfaction and also in increasing the number of customers and the businesses of both public and private sector banks.
- The investments made on the development of infrastructure are comparatively less in the case of public sector banks than the private sector banks. Hence, more investment can be made on infrastructure and in the creation of fixed assets to increase the service provision and to make optimum utilization of the time so that the level of satisfaction of the customers can be increased considerably.



### **1.13 Conclusion**

The study reveals that the level of quality service rendered to the customers has some discretion based on the zonal characteristics. Due to the development of transport and communication, the gaps between these customer segments are coming down. Hence the banks have to understand the fact and deliver the right service to right customer at right time in order to generate customers' loyalty. With better understanding of customer expectations, the banks can determine the best actions required to meet the customers' needs. They can understand their own strengths and weaknesses, identify opportunities and chart out proper avenues for further progress and improvement with the help of this research study.

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