Segmented Service Quality Audit (SSQA) for Banks: An Empirical Analysis

BY

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Introduction

Since 1990, the Indian economy has moved towards greater openness and less controls. Many of the regulations which restricted entry, expansion of capacity and competition have been removed. This has increased the number of choices for the Indian consumer as well as competition among firms. The banking sector in India has seen several regulatory changes which have led to increased level of competition. At the same time the banks have had to meet the prudential norms set by the Reserve Bank of India (RBI). This period has also seen a gradual de-regulation of interest rates for products offered by banks and lowering of reserve requirements. More importantly, the reforms in the banking sector, following the recommendations of the Narasimhan Committee, permitted the entry of private banks, increasing the choice available to the consumer. The Indian consumer has been exposed to greater number of options and better service in almost all areas thus increasing their expectations from products and service providers. The innovations in information technology and its applications in financial services have helped in improving customer service but have also raised customer expectations regarding better technology enabled service.

In this changing context it is important for banks to be aware of the various requirements and expectations amongst the different customers. This issue is gaining importance due to the fact that new age customers such as Double Income No Kids (DINK) groups have very different expectations and saving habits compared to retired-rich groups or the rural farmer. Also, rapid industrialization and blurring of geographical boundaries has brought in new challenges to banks regarding the levels of services to be offered. This study presents empirical evidence that suggests the value of conducting segmented service quality audits (SSQA).

Method

In this approach a field survey is a preferred research strategy for its advantage in representing a wide variety of customers and their perceptions. Questionnaire for its ease of administration and measurement of scaled variables such as the SERVQUAL instruments designed by Parasuraman, Zeithmal and Berry (1988) has been most widely used for measuring service quality. This study developed an instrument appropriate to banking services based on the SERVQUAL model.

The sample was chosen to reflect the geographical diversity, level of computerization and variations in the volume of business. The sample branches were chosen to ensure:

- ❖ adequate representation of branches from all regions of the country.
- ❖ adequate representation from the metro, urban, semi-urban, port and rural branches.
- ❖ adequate representation of manual, ALPM, and TBA branches.

From each branch customers were contacted, of which half were savings account customers (retail banking) and the other half were current account holders (corporate banking). Data was collected through personal interviews, often at the branch itself, from the retail customers. The interviews with corporate customers were conducted at the customers' premises itself.

We categorised the customers into groups based on: 1) years with the bank - newcomers (less than two years), loyalists (2 to 5 years) and insiders (more than 5 years), 2) income - low (upto Rs. 6000 p.m.), moderate (greater than Rs. 6000 and upto Rs. 15000 p.m.) and high (greater than Rs. 15000 p.m.), 3) age – young (less than 35 years), middle aged (35-55 years), and senior citizens (over 55 years). Similarly branches were categorized by size, geographical locations and level of computerization.

Survey Instrument

To analyse both retail and corporate client customers' perceptions of service, we asked them to rate the service quality, in terms of the tangibles (physical facilities and communication materials), reliability, responsiveness, assurance and empathy. Each of these dimensions are well researched. The items we chose for data gathering are as shown in table 1. The survey instrument is also designed to obtain relevant demographic information on customers in order to segment customers into appropriate categories.

We also had open-ended items to identify what additional services would the customers be interested from the bank, and their suggestions for improvements. To

analyze corporate customers' rating of service, data has been gathered from them on their perceptions about three important kinds of services offered by banks, viz., credit facilities, foreign exchange facilities and issue of LCs and guarantees. We also asked the customers about other banks they banked with and their comparative perceptions. This was used to arrive at a customer specific peer bank benchmark to obtain a measure of difference in service quality with respect to competitors.

Table 1: Variables and measure used for the study

TANGIBLES	Appearance of physical facilities, equipment, personnel, and communication materials.
RELIABILITY	Dependable in its ability to perform the service, as promised and accurately.
EMPATHY	Caring, individualised attention provided to its customers. This broadly comprises three components: **Access**: Approachability and ease of contact. **Communication**: Keeping customers informed in a language they can understand and in turn listening to them. **Understanding the Customer**: Making the effort to know customers and their needs.
RESPONSIVENESS	Willingness to help customers and provide prompt service
ASSURANCE	Knowledge and courtesy of employees and their ability to convey trust and confidence, consisting of **Competence**: Possession of the required skills and knowledge to perform the service. **Courtesy**: Politeness, respect, consideration, and friendliness of contact personnel. **Credibility**: Trustworthiness, believability, honesty of the service provider. **Security**: Freedom from danger, risk, or doubt.

Analytical techniques

The study adopted both univariate and multi-variate analysis of techniques. Analysis of Variance (ANOVA) technique was adopted to evaluate the differences in customer groups based on income, age and other categorical variables. To identify the important predictors of the overall service quality within each group and for the overall sample, we employed multiple regression analysis. Path analysis was adopted to identify the variables which directly influence service quality and indirectly affect service quality amongst different segments.

Results

In this section, we illustrate how SSQA can be used to determine which dimensions are most predictive of overall service quality in different customer groups. We take the case of customers segmented by their association with the bank, i.e., newcomers, loyalists and insiders. Regression analysis was carried out within each group. The results, presented in table 2 below, show that assurance and responsiveness are the most salient dimensions for newcomers. Empathy and reliability for loyalists and responsiveness, communication materials and assurance for insiders.

Table 2: Regression of `years-of-banking' with overall quality as the dependent variable

	NEWCOMERS	LOYALISTS	INSIDERS
RELIABILITY	-0.03	0.35**	0.07
RESPONSIVENESS	0.33**	0.17	0.45***
ASSURANCE	0.46***	0.23	0.23**
EMPATHY	-0.03	0.41***	0.10
COMMUNICATION	0.03	0.15	0.22***
FACILITIES	0.00	0.19	0.07
ADJUSTED R^2	0.49	0.44	0.51

The results presented in table 3 show that assurance and empathy are the most salient dimensions for the young and responsiveness, communication materials and reliability for the middle-aged. For the senior citizens, assurance and responsiveness are the most salient dimensions.

Table 3: Regression of `age-groups' with overall quality as the dependent

	YOUNG	MIDDLE AGED	SENIOR CITIZEN
RELIABILITY	-0.08	0.26**	-0.10
RESPONSIVENESS	0.11	0.35***	0.27*
ASSURANCE	0.58***	0.08	0.46***
EMPATHY	0.26*	0.13*	0.05
COMMUNICATION	0.02	0.22***	0.08
FACILITIES	0.05	0.03	0.08
ADJUSTED R^2	0.57	0.55	0.42

To establish which dimensions are most predictive of overall service quality in the three customer groups based on level of income regression was carried out. The results presented in the table 4 indicate that responsiveness is a significant predictor of overall quality, irrespective of customer income level.

Table 4: Regression analysis of `income-groups'

	LOW	MODERATE	HIGH
RELIABILITY	0.01	0.06	-0.00
RESPONSIVENESS	0.44***	0.29**	0.50***
ASSURANCE	0.42***	0.38***	-0.06
EMPATHY	0.06	0.10	0.12
COMMUNICATION	0.06	0.10	0.42***
ADJUSTED R^2	0.58	0.49	0.55

Table 5 shows the category-wise customer perceptions of service quality. Results reveal that to enhance perceptions of overall service quality among the semi-urban, urban and metro branches, the banks need to focus on responsiveness – providing prompt service and empathy – demonstrating a better understanding of customer needs.

Table 5: Regression analysis of different category branches

	PORT	RURAL	SEMI-URBAN	URBAN	METRO
RELIABILITY	0.11	0.04	0.16	0.00	0.15
RESPONSIVENESS	0.38	0.35*	0.47***	0.33***	0.61***
ASSURANCE	0.66**	0.44**	0.11	0.20*	0.21**
EMPATHY	-0.06	-0.10	0.26**	0.38***	0.13
COMMUNICATION	0.03	0.03	0.22**	0.05	0.22*
FACILITIES	-0.30	0.13	0.47	0.03	0.13
ADJUSTED R^2	0.38	0.48	0.51	0.63	0.43

Table 6: Regression analysis for branches with different levels of computerization

	MANUAL	ALPM	TBA
RELIABILITY	-0.06	0.10	0.12
RESPONSIVENESS	0.39***	0.42***	0.26
EMPATHY	0.02	0.31***	0.20
COMMUNICATION	0.26***	0.05	0.06
FACILITIES	0.08	-0.02	0.31**
ADJUSTED R^2	0.64	0.43	0.49

The results presented in table 6 above indicate that responsiveness, assurance and communication materials are the most significant predictors of overall service quality in manual branches. Responsiveness and empathy are the most significant predictors of overall quality in ALPM branches, while assurance and physical facilities improve the overall service quality in TBA branches.

A path analysis was carried out to understand the linkages among different service quality dimensions and overall service quality. Figure 1 represents the results of path analysis for overall quality. The linkages among the various service quality dimensions and overall service quality, were arrived at, using LISREL. The model has an adjusted goodness of fit index of 0.93, indicating sufficient robustness for inferences. From the figure, it is evident that the dimensions having a direct effect on overall quality are primarily responsiveness and assurance, though empathy and communication materials also have a significant effect. Although facilities do not have a direct effect on overall quality, these are important because they have a direct effect on reliability. Reliability in turn influences customer perceptions of responsiveness and assurance. Further communication material, apart from having a direct effect on overall quality, influences customer perceptions of assurance, and thus has an indirect effect on overall quality as well. Hence, the bank need to evaluate the quality of communications.

How Can Bank Management benefit from SSQA?

What managerial insights would such a study offer? Firstly, the results of SSQA indicate there is a wide variations in perceptions of service quality across individual customer segments and locations of branches. The regression analysis of service quality for retail customers based on years of banking indicate a common problem in customer relationship marketing. Assuming that a long-standing customer would have learnt to work through the system and thus laying low emphasis on customising information for this group would result in loss of customers. Banks therefore may need to devise appropriate content and methods to improve the level of communication and information flow with their long-standing customer. Results from SSQA are quite useful here, to know where the service gaps exist, and therefore design appropriate service delivery systems.

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