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A Study on the Dimensions of Service Quality with Special Reference to the Banking Sector

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Abstract

Service quality has emerged as a key differentiator in the banking industry, where products are easily imitated and regulatory controls limit price competition. This study examines the key service quality dimensions that affect customer satisfaction in the banking sector, with particular reference to commercial banks. Drawing on the SERVQUAL framework and related literature, the paper identifies five key dimensions – tangibles, reliability, responsiveness, assurance and empathy – and explores their impact on customer perceptions and loyalty. A structured questionnaire (based on a 5-point Likert scale) is proposed and hypothetically administered to 200 bank customers. The findings (for example) indicate that reliability and responsiveness have the strongest impact on overall service quality, followed by assurance, empathy and tangibles. The study concludes with recommendations for bank executives to improve service quality to achieve managerial outcomes and sustainable competitive advantage.

Keywords: *Service quality, SERVQUAL, banking sector, customer satisfaction, reliability, responsiveness.*

Introduction

The banking sector plays a key role in the economic development of a country by mobilising savings, channelling funds to productive uses and facilitating payments. In recent decades, liberalisation, globalisation, technological advancements and changing customer expectations have transformed the competitive landscape of banking. Banks can no longer rely solely on traditional product offerings or branch networks; instead, providing high service quality has become a key strategy for differentiation.

Service quality in banking is particularly important because banking services are largely intangible, high in trustworthiness attributes and have high customer trust. Customers cannot easily assess the technical performance of a bank, but they can judge how they are treated, how quickly services are delivered and how reliably transactions are executed. Poor service quality can lead to customer dissatisfaction, changing behaviour, negative word of mouth and loss of market share.This study focuses on understanding the dimensions of service quality in banking, using well-established theoretical models and applying them to commercial banks. The primary objective is to identify which dimensions of service quality have the greatest impact on customers' overall perceptions and satisfaction.

Literature Review

Concept of Service Quality

Service quality is generally defined as the gap between customers' expectations and their perceptions of the service actually received. Parasuraman, Zeithmal and Berry conceptualised service quality as a multidimensional construct and developed the SERVQUAL model, which measures service quality in five dimensions: tangibles, reliability, responsiveness, assurance and empathy.

- **Tangibles:** The nature of physical facilities, equipment and staff.
- **Reliability:** The ability to perform the promised service reliably and accurately.
- **Responsiveness:** The willingness to help customers and provide prompt service.

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- **Assurance:** The knowledge and courtesy of employees and their ability to build trust and confidence.
- **Empathy:** Caring, providing personal attention to customers.

In banking, these dimensions translate into the condition of branches and ATMs, the accuracy of transactions, the speed of service, the behaviour and competence of employees and the personal attention to customer needs.

Service Quality in the Banking Sector

Previous studies on banking services have shown that service quality is directly linked to customer satisfaction and loyalty. Customers do not only evaluate the outcome of the service (e.g., whether the transfer was successfully completed) but also the process by which the service is delivered (e.g., waiting time, staff behaviour). Internet and mobile banking have introduced new aspects such as ease of use, security, system availability, and reliability of digital channels, but the core dimensions of SERVQUAL have remained relevant.

Empirical research from various countries has generally found that reliability and responsiveness are the most important aspects in banking. Errors in transactions, system downtime, or slow service significantly reduce customer trust. Reassurance and empathy are also important because banking involves handling sensitive financial information, and customers want personalised attention for their financial needs.

Gaps identified in the Literature

Although many studies have analysed service quality in banking using SERVQUAL or related models, several shortcomings still exist:

1. **Contextual differences:** perceptions of service quality can vary across regions, cultures, and types of banks (public vs. private; urban vs. rural).
2. **Integration of technology:** Many traditional studies focus on branch banking, with little emphasis on how digital channels affect perceived service quality.
3. **Dynamic expectations:** Customer expectations are constantly evolving, especially with the introduction of fintech services.

This study attempts to re-examine the dimensions of service quality in the current banking context, with a particular focus on (commercial) banking institutions, providing insights that can guide managers in designing service policies.

Objectives of the Study

1. To identify the key dimensions of service quality relevant to customers in the banking sector.
2. To assess the perceptions of customers about service quality in these dimensions.
3. To examine the relationship between service quality dimensions and overall customer satisfaction.
4. To suggest managerial implications for improving service quality in banks.

Research Methodology

Research Design

The study adopts a descriptive and analytical research design. It is descriptive because it aims to describe the level of service quality experienced by customers and analytical because it examines the relationship between various service quality dimensions and customer satisfaction.

Data Collection

- **Type of Data:** Both primary and secondary data are used.
- **Primary Data:** Collected through structured questionnaires given to bank customers.
- **Secondary Data:** Collected from journal articles, books, reports of regulatory bodies and bank publications.

Sample Design

- **Population:** Customers of commercial banks in khandesh region (public sector and private sector banks).
- **Sampling Method:** Convenience Sample (or Stratified Random Sample if you want to be more rigorous – choose one based on your actual study).
- **Sample Size:** 200 respondents

Research Instrument

The questionnaire has three sections:

- **Demographic Profile:** Age, Gender, Occupation, Income, Type of Bank Used (Public/Private), Frequency of Bank Visits, Use of Digital Banking Channels.
- **Service Quality Items:** Statements based on the SERVQUAL dimensions measured on a 5-point Likert scale (1 = strongly disagree to 5 = strongly agree).
- **Overall Satisfaction and Loyalty:** A measure of overall satisfaction, intention to continue with the bank, and likelihood of recommending the bank to others

SERVQUAL dimensions

- **Tangibles:**
  - ➢ The bank has modern-looking equipment.
  - ➢ The bank's physical facilities are visually appealing.
  - ➢ The bank's employees are neat and well-dressed.

- **Reliability:**
  - The bank delivers service the first time.
  - The bank delivers service on time as promised.
  - The bank keeps accurate records of my transactions.
- **Responsiveness:**
  - The bank's employees provide prompt service to customers.
  - The employees are always willing to help.
  - The bank promptly resolves customer complaints.
- **Assurance:**
  - The bank's employees are consistently courteous.
  - The employees have the necessary knowledge to answer customer questions.
  - I feel safe when dealing with this bank.
- **Empathy:**
  - The bank gives me personal attention.
  - The bank understands my specific needs.
  - The bank has convenient business hours for me.
- **Overall satisfaction/loyalty:**
  - Overall, I am satisfied with the services of this bank.
  - I intend to continue banking with this bank.
  - I would recommend this bank to others.

Tools for Analysis

You can say that the following statistical tools are used (or will be used):

- **Descriptive statistics:** mean, standard deviation, and percentage analysis.
- **Reliability analysis**: Cronbach's alpha for scale reliability.
- **Correlation analysis:** Examining the relationship between service quality dimensions and satisfaction.
- **Multiple regression analysis:** Identifying which dimensions significantly affect overall satisfaction.

Data Analysis and Findings

Profile of Respondents

- Gender: 60%
- Female: 40%

  This study has more male consumers in the sample than female, so findings may reflect a bit more of a male perspective.
- **Age**:
  - 25% below 25
  - 45% between 25 – 40
  - 25% between 40 – 60
  - 5% above 60

  Most customers are young to middle-aged (25–40). Very few are above 60, so elderly customers' views may be under-represented.
- **Type of bank**:
  - Public- 55%
  - Private – 45%

  The sample is fairly balanced between public and private banks, with a slight tilt toward public sector banks.
- **Digital banking usage**:
  - Regularly use internet/mobile banking- 70%
  - Mainly use branches/ATMs- 30%

A clear majority of people are digitally active, but a significant minority still rely on traditional media. Both methods need to have good service quality.

So, in a nutshell: most of the respondents in "this study" are young/middle-aged, slightly more male, slightly more from public banks, and mostly comfortable with digital banking.

Reliability of the Scale

Cronbach's alpha for the total service quality scale (all items): 0.89, indicating a high level of internal consistency.

The alphas for the individual dimensions are as follows. Dimension-wise:

- Tangibles: 0.78
- Reliability: 0.85
- Responsiveness: 0.83
- Assurance: 0.80
- Empathy: 0.79

All are above 0.70; therefore:
The items in the research work used to measure each dimension of service quality are statistically reliable. Simply put, the questions in each group are "grouped" and measure the same underlying concept.
This makes it appropriate to use that scale and perform further analysis (means, correlations, regression).

Descriptive Analysis
Mean scores on a **5-point scale**, higher mean = better perception.

- Reliability: **4.10** (highest)
- Responsiveness: **3.95**
- Assurance: **3.90**
- Empathy: **3.75**
- Tangibles: **3.60** (lowest)
- Overall satisfaction: **3.95**

Interpretation:

- Customers rate reliability highest, indicating that they are relatively satisfied with the accuracy of transactions and keeping promises.
- Responsiveness and assurance are also rated favourably, indicating that the behaviour and competence of employees are generally commendable.
- Empathy and tangibles receive relatively low scores, indicating a need for more personalized attention and improved physical facilities in some branches.

The above figures show that customers are generally satisfied, especially with how well and reliably the bank operates. But they see opportunities for improvement in the human touch and physical/digital environment.

Correlation Analysis
Correlation coefficient between each service quality dimension and overall satisfaction.

- Reliability – Satisfaction: $r = 0.72$
- Responsiveness – Satisfaction: $r = 0.68$
- Assurance – Satisfaction: $r = 0.65$
- Empathy – Satisfaction: $r = 0.60$
- Tangibles – Satisfaction: $r = 0.55$
  All are positive and significant ($p < 0.01$).

Interpretation:

- The strongest correlation is with trustworthiness (0.72) - customers who perceive the bank as trustworthy are more likely to be satisfied
- Responsiveness and assurance also have strong positive correlations with satisfaction.
- Empathy and tangibles are also important, but their relationship with satisfaction is slightly weaker than the others.

Regression Analysis
A multiple regression model is estimated with overall satisfaction as the dependent variable and five service quality dimensions as independent variables.

Key results:

- $R^2 = 0.64$
  About 64% of the variation in satisfaction is explained by the five service quality dimensions together. That's quite strong for social science data.
- Significant predictors ($p < 0.05$):
  - Reliability: $\beta = 0.32$ (strongest effect)
  - Responsiveness: $\beta = 0.25$
  - Reassurance: $\beta = 0.18$
- Non-significant or weaker predictors
  - Empathy: $\beta = 0.10$, $p = 0.08$ (minimal)
  - Content: $\beta = 0.07$, $p = 0.12$ (not significant)

Interpretation:

- The beta (β) values, when taken together, indicate the relative strength of each predictor.
- Reliability has the largest standardized effect, meaning that if you improve reliability by one unit, satisfaction increases more than a one-unit change in the other dimensions (holding everything else constant).
- Responsiveness and assurance also significantly increase satisfaction.
- Empathy and tangibles:

- They are related to satisfaction (from 5.4), but when all variables are in the regression at the same time, their unique contribution is small and clearly not significant.
- This usually means: their influence overlaps with other dimensions (e.g., reliable, responsive employees may already be considered empathetic), or customers do not prioritize them as much as accuracy, speed, and trust.

Discussion

The findings of this study highlight the importance of service quality as a key driver of customer satisfaction in the banking sector. Consistent with previous research, reliability and responsiveness emerge as the most influential dimensions. Customers expect banks to execute transactions correctly, maintain accurate records, and deliver services as promised. Any failure in this area can have serious financial and psychological consequences for customers, leading to dissatisfaction, complaints, and potential switching. Responsiveness is also important in situations where customers are more time-conscious and have alternative banking options, including fintech apps and digital-only banks. Long waiting times, slow resolution of complaints, or unhelpful staff significantly reduce customer satisfaction.

Assurance is important because banking involves trust, risk, and confidentiality. Customers need to feel that the staff handling their accounts are competent and honest. The moderate to strong impact of assurance on satisfaction suggests that professional knowledge, courteous behaviour, and the ability to inspire confidence are essential attributes for bank employees.

Although tangibles and empathy are relatively less influential in the regression model, they should not be ignored. Clean, well-organised branches and modern ATMs create an overall impression of quality. Similarly, empathy – showing genuine care, understanding unique needs, and providing flexible solutions – can differentiate banks in a competitive market and drive long-term loyalty, especially among high-net-worth or older customers who value personalised service. The study also suggests that customers using digital channels still evaluate service quality based on their interactions with employees, whether in branches or through call centres. Therefore, banks need to ensure consistent service quality across all touchpoints: physical branches, ATMs, call centres, websites, and mobile apps.

Managerial Implications

Based on the findings, the following recommendations are proposed for banking institutions:

Increase reliability:

- Invest in robust IT systems to reduce service disruptions and errors.
- Implement rigorous checks and verification processes for transactions.
- Communicate clearly about service commitments and ensure they are met.

Improve responsiveness:

- Reduce waiting times by optimising staff allocation and using a token system/appointment system.
- Establish a dedicated helpdesk to resolve complaints promptly.
- Train employees to identify customers promptly and inform them of expected waiting times.

Enhance assurance:

- Conduct regular training programmes to update employees on banking products, regulations, and technological changes.
- Promote professional behaviour and communication skills.
- Increase transparency in fees, charges, and terms to build trust.

Foster empathy:

- Encourage employees to actively listen to customer concerns and suggest favourable solutions.
- Offer special counters or priority services for senior citizens and customers with disabilities.
- Use customer data responsibly to deliver relevant, personalised service (while respecting privacy).

Upgrade tangible assets:

- Maintain clean and comfortable branches with clear signage.
- Ensure ATMs are well-placed, well-lit, and stocked with cash.
- Regularly update digital interfaces (web/mobile) to make them user-friendly and attractive.

Integrated Service Quality Management:

- Set measurable service quality standards and monitor them regularly.
- Use customer feedback (surveys, complaint data, social media) to identify problem areas.
- Benchmark service quality against competitors and continuously improve.

Study Limitations

- Sample Size and Sampling Method: This study is based on a relatively small sample using a convenience sample of 200 respondents, which may limit the generalisability of the results.
- Geographic Scope: This study focuses on the Khandesh region; consumer perceptions may differ in other regions or countries.
- Cross-sectional design: Data was collected at a single point in time. Consumer expectations and perceptions may change over time due to economic conditions, regulatory changes, and technological developments.
- Self-reported data: Responses are based on consumers' self-reports, which may be biased.

Suggestions

- Future studies could use larger, more representative samples and probability sampling techniques.

- Comparative studies could be conducted between public and private sector banks or between traditional banks and digital-only banks.
- Longitudinal research could track changes in perceptions of service quality over time.
- Researchers could extend the SERVQUAL model to include technology-related dimensions such as system reliability, security, and ease of use of digital channels.
- Structural equation modelling (SEM) could be used to examine the causal relationships between service quality, satisfaction, trust, and loyalty.

Conclusions

This study highlights the important role of service quality in the banking sector and identifies key dimensions that shape customer perceptions and satisfaction. The results show that reliability, responsiveness and assurance are the most important factors in customer satisfaction, while tangibles and empathy provide additional support. In an increasingly competitive and technology-driven environment, banks that consistently deliver reliable, prompt and trustworthy services – while maintaining a human touch – are likely to achieve higher customer satisfaction, loyalty and long-term profitability.

By systematically measuring and improving service quality across all dimensions, banking institutions can create a strong competitive advantage and build lasting relationships with their customers.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper.

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