

GROWING INFLUENCE OF BSQ ON THE PERFORMANCE OF COMMERCIAL BANKING SECTOR IN ORISSA

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Abstract

Banking performance comes from the Banking Service Quality (BSQ). The objective of the present study is to identify how Banking Service Quality dimensions are positively linked to the Banking Performance (BP). Nowadays, banks are in a fluctuating business environment as they have to face heavy competition in the industry and in customers' demand, and a decrease in profit margin. Hence, this study is focused on how the poor banking service quality in commercial banking sectors directly affects the performance of various commercial banks in Orissa. Despite financial sector reforms in India since the 1990s with an aim of improving profitability, efficiency and productivity in banking sector, commercial banks' performance is not so much encouraging as there remains a substantial gap in service delivery to the bank customers. It shows how the service performance is being driven by the customers' satisfaction and it's resulted from the best service quality. The literature review confirms this relationship between the BSQ and BP.

Key words: BSQ, BP, Customers' satisfaction, GSDP, SQ.

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Introduction

The banking industry in India is highly competitive. An efficient or effective service is one which is extended appropriately by identifying and understanding the needs of the individual customer from time to time (Reddy, et. al., 2000). Positive relationship between high levels of service quality and improved financial performance has been established by Roth and Van der Velde (1991) and Bennet (1992). The increase of customer satisfaction can contribute significantly to performance (Barnes & Cumby, 1995; Berry *et al.*, 1985). They contribute to economic growth of the country by making funds available for investors to borrow as well as financial deepening in the country. Commercial banks therefore have a key role in the financial sector and to the whole economy. In India, customers in the banking sector are very much aware about the BSQ due to the significant entry of private and foreign sector banks in to the public arena after the banking reforms during 1990s. Therefore, banks have to provide services carefully because of the competitive environment. Customers always want lower costs but better service comparatively. There is no guarantee that excellent service provided by the banks today will be accepted by customers tomorrow. But in order to survive in the competitive banking industry and to increase their financial performance they have to improve the BSQ level continuously that will satisfy their customers giving a direct boost to enhance their banking performance in all spheres.

Literature review

The notion that service quality enhances the relationship of buyer-seller and shared benefits including performance and customer satisfaction had been acknowledged widely (Zeithaml, 2000). The primary reason for seeking service quality improvement is the inference that the increase of customer satisfaction can contribute significantly to business performance (Barnes & Cumby, 1995; Berry et al., 1985). Hence, understanding the business performance in relation with quality service is important. According to Berry and Parasuraman (1991) the product for marketing quality services is the service performance. It is actually the performance is what customers buy. Therefore service quality is something each customer expects and something they value when they purchase a service. Since the product delivered is intangible and the levels of quality expected are varies and very much based on the perceived level of expectations of the specific customers. Parasuraman, Zeithaml, and Berry (1985) recognized the idea that service quality is a function of the expectation-performance gap. In a study (Berry & Parasuraman, 1991; Edvardsson & Gustavsson, 2000) have found the two key components of service quality i.e. the management of customer expectations and service reliability, contributing to the business performance. According to Caruana and Pitt (1997) service quality & satisfaction has been linked to performance. Rust *et al.* (1994), found close link between quality and financial return while relating the marketing literature with customer satisfaction and service quality to performance. Customer expectations are beliefs about a service that serve as standards against which service performance is judged (Zrithaml et al., 1993); which customer thinks a service

provider should offer, rather than on what might be on offer (Parasuram et al., 1988). According to the service quality theory (Oliver, 1980), it is predicted that customers will judge that quality as `low` if performance does not meet their expectations and quality as `high` when performance exceeds expectations. Parasuraman, Zeithmal and Berry (1985) proposed that service quality is a function of the differences between expectation and performance along the quality dimensions. Anil Dutta (2009) intended to study the expectations and perceptions of the consumers across the three banking sectors in India and then related it to financial performance of the banks.

Orissa banking Sector: A background

The banking sector plays a significant role in a developing country like India. With this fact in view, various reforms were introduced in the banking sector in India. After the introduction of reforms, there is an overall improvement of performance of all banks. These reforms brought about a remarkable improvement in the performance of commercial banks. But still then the result is not so much encouraging due to some gapping in BSQ and customers' satisfaction. The performance of a bank can be judged on various indicators of BSQ. The type of Indian banking sector is characterized by 3 categories of commercial banks: Public sector (nationalized banks), private sector and foreign sector banks. As per data released by Reserve Bank of India (RBI) there are a total of 2903 branch offices of commercial in Orissa. The state has a fairly well spread structure of banks with one branch of commercial bank for around 17 thousand persons on an average (RBI report). The percentage share of the banking and insurance sector to the GSDP (Gross State Domestic Product) is 6% only. Therefore, this research also focused on the measurement of customer satisfaction through the delivery of service quality in the banking sector in Orissa. A quantitative research was used to study the relationship between service quality dimensions and performance of the banks.

Objectives

- The research shows how there exists a direct and positive relationship between the BSQ and BP externally.
- It should help to draw some implications for policy that improves the performance of the banking sector in the region by using some external factors.

Research methodology

The methodology is based on a questionnaire developed in order to gather the data, which consists of two parts i.e. the first one is dealing with the demographic profile of respondents and the second one shows that there exists a positive and direct relation between BSQ and Banking Performance (BP) by using some external factors.

Limitations

The following limitations are observed during the research on finding the impact BSQ on BP.

- The study is limited within the commercial banking industry within Orissa, hence it is not applicable to any other sector.
- No of Sample of population is limited within 200 due to time & cost bound.
- It is restricted within a particular geographical location.

Data collection

The ‘Survey’ method is employed to collect the primary data with the help of a well structured questionnaire. Therefore, different places of Orissa have been chosen to conduct the survey of banking customers in this study. A sample of 200 customers was selected for the purpose of the study from different branches. The information has been collected through structured questionnaires. While some people responded promptly to the survey, others took some time to catch the points of questionnaire. But almost all of them are very helpful and cooperative to fill up the questionnaire. Most of the respondents even provided their own personal suggestions and opinions based upon which conclusions are drawn. Secondary data is collected from different published sources like, the banking journals, magazines, and bank’s website.

Sampling

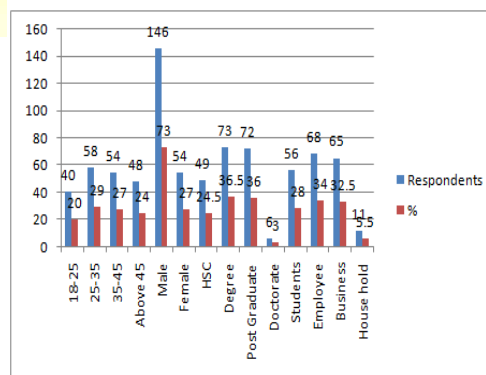
Scheduled Commercial Banks, operating in Orissa, are divided into three categories i.e. Public Sector, Private Sector and Foreign Sector banks. Thus, all the customers visiting a sample bank branch on the days of survey were requested to participate in the survey.

Analysis & interpretation of Data

Table 1: Customers’ demographic profile

Age	Respondents	%
18-25	40	20
25-35	58	29
35-45	54	27
Above 45	48	24
Total	200	100
Gender		
Male	146	73
Female	54	27
Total	200	100
Education		
HSC	49	24.5
Degree	73	36.5
Post Graduate	72	36
Doctorate	6	3
Total	200	100
Occupation		
Students	56	28
Employee	68	34
Business	65	32.5
House hold	11	5.5
Total	200	100

Fig 1



It is clear from the table 1, that out of 200, 73% are male and 27% are female and most of the respondents (29%) belong to 25-35 age groups. Regarding education most of the customers are highly qualified. But so far as their occupational distribution is concerned, more and more people belong to the employee (34%) and business class (32.5%) category.

Customers' distribution on the basis of services rendered by bank

Table 2

Service type	Respondents	%
Primary	54	27
Secondary	52	26
General	24	12
All of the above	70	35
Total	200	100

Fig 2

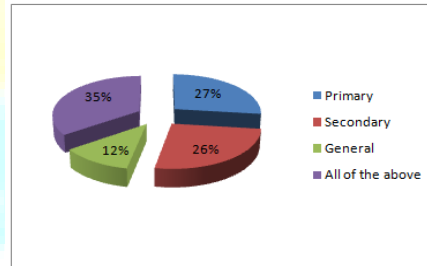


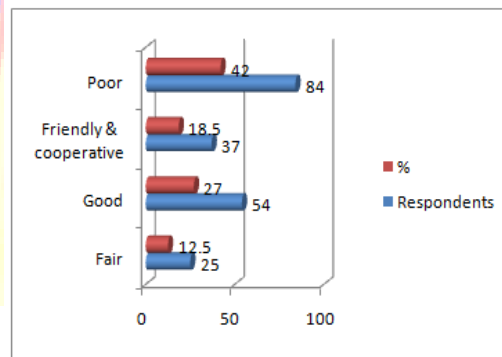
Table no 2 (and fig 2) depicts the types of banking services rendered by the commercial banks in Orissa. 27% respondents agree that banks perform their primary functions, 26% support the view that they regularly perform their secondary functions like deposit and clearance of cheques whereas 12% are in favor that banks also serve the general utility services. But 35% agree that banks generally perform all above three categories of services.

Customers' distribution on the basis of their relationship with the Bank

Table-3

Bank-Customers relationship	Respondents	%
Fair	25	12.5
Good	54	27
Friendly & cooperative	37	18.5
Poor	84	42
Total	200	100

Fig 3



The table 3 reflects the relationship between the bank and the customers. But most of the respondents (42%) admit that the relationship between the bank and the customers is very poor. Out of total, only 12.5% are maintaining a fair relationship with their banks, whereas 27% maintain a good relationship and 18.5% are maintaining a friendly and cooperative relationship. To maintain a good relationship with the bank customers is not only important but very much essential also, as it has a direct and positive impact on the banking performance both internally

as well as externally. Customers may switch over from one branch to another if consecutively they find it any difficult to manage there. For which ultimately the bank has to lose the customers in this competitive market by which performance is hindered.

Customers' distribution on the basis of a positive relationship between BSQ & BP

Table-4

Customers' response	Respondents	%
Yes	148	74
No	17	8.5
Can not say	35	17.5
Total	200	100

Fig 4

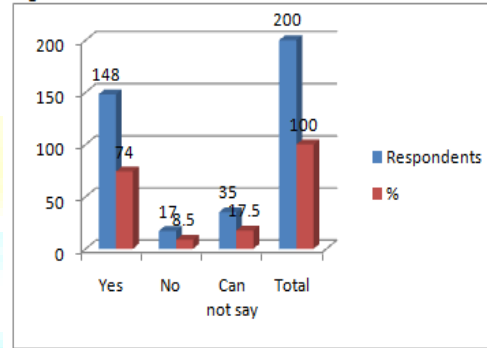


Table 4 shows how the customers agree that BP increases with the increase in excellent BSQ. Most of the customers (74%) believe that it is possible to increase the banking performance both internally (i.e. financial performance) as well as externally (i.e. business performance) in a present competitive market like ours, only by increasing the quality of service that banks perform towards their customers. And the BSQ can be increased when the Service Quality gaps are reduced properly by using several dimensions of service quality like tangibility, reliability, responsiveness, assurance and empathy. Out of these five dimensions except tangibility all are invisible hence it is difficult to measure them outwardly. But the customers not only judge the accuracy and dependability (i.e. reliability) of the delivered service but they also judge the other dimensions as the service is being delivered (Parasuraman et al., 1991a). The suggestion of the customers is that the bank should generate a strong confidence among the customers that its primary objective can be achieved through the provision of a good SQ level accurately and timely with a strong performance.

BSQ can improve BP

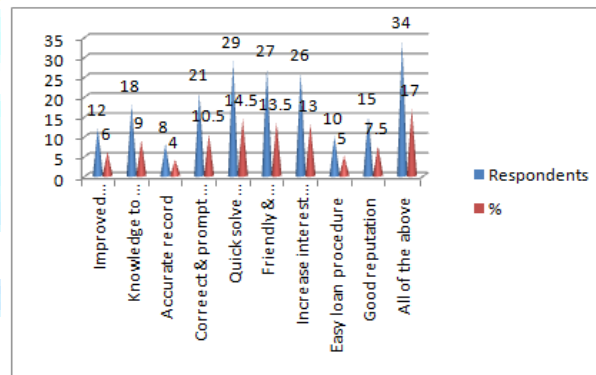
The table no 5 shows the distribution of customers as per their view on the basis of how the BSQ can improve the BP in commercial banking sector in Orissa on priority basis. Most of the respondents (14.5%) are in favor of the argument that BSQ level can be increased by increasing the responsiveness (e. g. quick solve problem) where as some other (13.5%) believe it is possible if bank maintains a friendly approach towards its customers. About 10.5% respondents are in favor of the fact that performance can be increased if the bank provides correct & prompt service. But about 13% customers believe that it can be increased if more customers can be attracted to the banks & that is possible by increasing the interest rate on various deposits (on savings & termed deposits). While 7.5% say good reputation is very much important for achieving good performance. 9% believe in that bank employees should have strong possession

of the quality of assurance (e.g. good knowledge) & 6% put stress on tangibility aspect (e.g. modern infrastructure) for achieving progress. But 17% believe that almost all above service qualities should be maintained properly by the bank employees to give a better performance to the banking sector.

Table 5

Customers' view	Respondents	%
Improved Infrastructure	12	6
Knowledge to answer questions	18	9
Accurate record	8	4
Correct & prompt service	21	10.5
Quick solve problems	29	14.5
Friendly & cooperative approach	27	13.5
Increase interest rate	26	13
Easy loan procedure	10	5
Good reputation	15	7.5
All of the above	34	17
Total	200	100

Fig 5



Discussion

This study will be beneficial to Commercial Bank managers as it will help them better to understand the external determinant factors of SQ and their effects on their bank's performance. From a managerial point of view, it can be concluded that service quality is indeed an important antecedent to customer satisfaction leading to increase in the financial performance of the banks. The results indicate that there is a weak positive relationship between service quality and performance of conventional banks. Bankers should improve their services by blending of traditional facilities and modern technology to meet customers' expectation for better performance in future. Similarly, bank managers should take quality initiatives to improve their products by considering demographic characteristics of the customers to retain them as satisfied customers for better performance. It is also suggested that bankers should introduce new, diversified and marketable products to meet requirements of different segments. Bank employees should focus on high quality services, and improve service quality effectively.

Conclusion

Moreover, our findings show that service quality is an important antecedent of customer satisfaction giving rise to the banking performance. To make them a world-class in the era of competitive environment, some factors like good reputation, friendly approach, quick, accurate and prompt service are very much important. On the basis of some important parameters of

efficient SQ, this paper concludes that there is a high competition among the commercial banks in Orissa, and they are competing among themselves with continuous improvement in their performance. But at the same time banks should provide effective, innovative and superior SQ to compete with one another, if they want to survive in this emerging competitive environment and that is the only success behind the achieving their excellent service performance which can convert the challenges into opportunities.

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