
Evaluation of Service Quality of Public Sector Non Banking Financial Institution in Kerala: A Case Study

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ABSTRACT

KSFE is the only non banking financial institution owned by a state government in India. The company has 568 branches all over Kerala. Even though KSFE is a public sector firm, there are lots of complaints about KSFE. KSFE does not have online chitty payment system. Also KSFE does not provide a platform for online chitty auction. Single point cash counters are a big problem in major and super branches. Lack of customer complaint redressal department can also affect the customer relationships.

As KSFE has the largest customer base, there is a scope for analyzing the customer satisfaction. The key concepts of customer satisfaction were understood from the literature survey. A survey is conducted and results were analyzed by SPSS, IPA technique etc. In this project, the above mentioned shortcomings of the company are analyzed and a comparison between qualities of services provided in selected branches was done. Suggestions for improvement are also included in this work

KEYWORDS: *Service Quality, SERVPERF model, IPA Technique, Public sector Non Banking Financial Institution, Customer satisfaction.*

INTRODUCTION

Service quality is the difference between the customer's expectations of a service and the customer's perceptions of the same service received. In financial sectors, Customer satisfaction is a very important measure of service quality. The priority of all firm's are to meet the needs and the requirements of its customers. Customer is considered as the most important stakeholders in any organization, because without them organizations cannot be succeeded. As the financial institutions struggle to expand their reach, customer satisfaction with services offered by such institutions has become an issue.

Kerala State Financial Enterprises (KSFE) started functioning on 6th November 1969, with Trissur city as its headquarters. KSFE started with a capital of ₹ 2 lacs and 45 employees and 10 branches. The company now has 568 branches and 11 regional offices.. KSFE is a Miscellaneous Non-Banking Financial Company (MNBFC) and is fully owned by the Government of Kerala. KSFE is the only chitty Company owned by the Government in India.

The model identified from the literature review is applying in KSFE to evaluate the customer satisfaction in KSFE. The result of this study has managerial and academic implications. The company can use the findings as sources of reference to manage their business and improve their service quality.

1.1 Definitions of key concepts

Service quality is the difference between the customer's expectations of a service and the customer's perceptions of the same service received. The study of customer satisfaction with services offered by a firm requires a clear understanding of basic concepts. There are three key concepts of service quality.

1.1.1 Perceived Service Quality

“Perceived service quality is described as the gap between what customers expect the service should be and what they actually receive”- Parasuraman. Consequently, Parasuraman developed a service quality measurement tool called SERVQUAL which consisted of ten dimensions. However, he combined these ten dimensions into five dimensions comprised of tangibles, reliability, responsiveness, assurance, and empathy. Although SERVQUAL has been applied in many studies to assess service quality, the reliability and validity of this measurement had been debated by several authors, particularly in the expectation dimension. Cronin and Taylor (1992) stated that service quality concept according to SERVQUAL confounds satisfaction and attitude. The researchers concluded that service quality can be measured better by using only the perception dimensions, rather than using expectation-perception methodology. Subsequently, the researchers developed an alternative measurement tool for measuring service quality named SERVPERF.

1.1.2 Customer Satisfaction:

“If there is a necessity of defining customer’s satisfaction in the banking sub-sector, then one cannot ignore quality of service. This is because the two co-exist and deterioration of one often leads to deterioration of the other. Although some scholars claim that quality precedes satisfaction”- Cronin and Taylor, 1992. Other writers like Anderson and Mittal suggests that customer satisfaction is necessarily founded by quality of service or product. That’s why in the present study, quality in service is understood as satisfaction antecedent.

There are multiple definitions for customer satisfaction. However, no single definition of customer satisfaction has been universally accepted. Customer satisfaction simply defined according to the expectation-disconfirmation theory is the result of the comparing between customers ‘expectation’ before purchase and evaluation about the actual ‘performance’ of a product or service after purchase (Oliver, 1977).. Moreover, Kotler defined customer satisfaction as “conceptualized satisfaction as the pleasure felt by the customers occur when the actual performance of product or service meet their prior expectations. Therefore, high level of service quality is considered as one of the most important determinant in explaining customer satisfaction, which in turn, influences on customer loyalty towards the firm”.

1.1.3 Customer Loyalty

Lovelock described conceptualized loyalty as “the willingness of a customer to maintain a relationship with the firm, continue to purchase and use its products or services and more likely to recommend about the firm to others”. Similarly, Gremler and Brown defined customer loyalty as “those who repeat purchase from the same service provider and show a good impression towards the relationships with that service provider”. Customer satisfaction is widely recognized as a critical determinant for achieving customer loyalty in the service industry (Moordian and Oliver, 1997).

2. METHODOLOGY

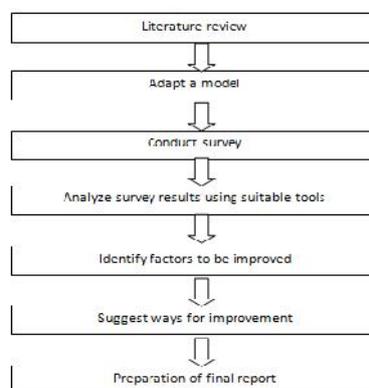


Fig.2.1 Methodology

The methodology used for this study is represented in fig.2.1. The work starts with literature review. From that a model is identified and its validity above other similar models was checked. A survey was conducted among the customers of KSFE. The survey results were analyzed by tools like Micro Soft Excel, SPSS and IPA technique etc. It was ensured that each objective was fulfilled at the end of analysis.

2.1 SERVPERF Model

Service quality currently has been considered as a strategic tool for positioning and means of attaining operational efficiency, improving business performance, as well as a key factor for the success of service providers. The improvement of service quality will result in the satisfaction improvement of service customers. There are numerous researchers in the field of service quality and the number is still growing. Among them, perhaps SERVQUAL and SERVPERF model are the most popular ones.

In SERVQUAL model, service quality is linked to the concepts of difference or gap between customers' perceptions and expectations. It is argued that the conceptual basis of the SERVQUAL scale is confusing with the service satisfaction and suggested to leave the perception alone; hence the SERVPERF model plays its role.

Methodologically, the SERVPERF scale represents marked improvement over the SERVQUAL scale. Not only is the scale more efficient in reducing the number of items to be measured by 50 per cent, it has also been empirically found superior to the SERVQUAL scale for being able to explain greater variance in the overall service quality measured through the use of single-item scale. This explains the considerable support that has emerged over time in favor of the SERVPERF scale

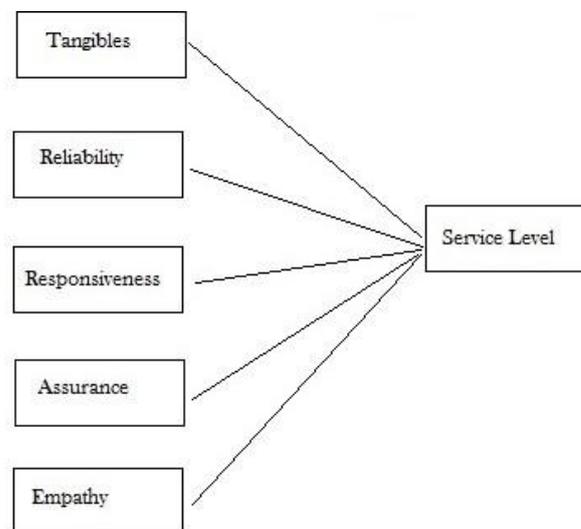


Fig. 2.2 SERVPERF Scale

Tangibles are the scale representing about physically visible aspects. It could be viewed from the cleanliness of washroom, car parking facilities, infrastructure of the office building, and the appearance of the employees. Reliability is the ability to provide reliable service immediately and accurately it describes about the communication of the firm with the customers, maintenance of the service records and updation of the systems. Responsiveness is willingness to respond to the wishes or needs of the customers' support and fast services. It includes fast resolution of customer complaints, providing services at promised time etc. Assurance includes the knowledge, courtesy, skills, and trust-worthiness of the employees, as well as free from danger, risk, or doubt. It includes the safety providing by the firm for customers and the trustworthiness

of the company. The last dimension, empathy, means the ease of relationships, good communication, personal attention, and understand the need of customers. It includes the personnel or individual attention for every customer.

A higher perceived performance implies higher service quality. In equation form, it can be expressed as:

$$S = \sum_{j=1}^k P$$

Where

SQi = perceived service quality of individual 'i'

k = number of attributes/items

P = perception of individual 'i' with respect to performance of a service firm on attribute 'j'

2.2 Questionnaire

The questionnaire was prepared on the basis of the three key concepts namely customer loyalty, perceived service quality, and customer satisfaction. In the questionnaire there are four parts. The first part of questionnaire is used to collect personnel information. Personnel information contains 5 main questions including educational qualifications, occupation, branch of KSFE, annual income etc. The second part is used to measure the customer loyalty. This includes question to measure the customers loyalty towards KSFE. There are questions that asks the customers, whether they like to continue the business with KSFE, will they refer KSFE to others etc. The third part contains the concept of 'perceived customer service'. This includes the model SERVPERF. The SERVPERF model contains 5 scales; they are reliability, responsiveness, empathy, assurance and tangibles. It contains 22 variables. These 22 variables are included in 10 questions. The last part of the questionnaire contains the concept of customer satisfaction. The questions include overall rating and suggestion part.

2.3. Population of the study

The study population for this survey was all customers of the Kerala state financial enterprise Ltd irrespective of the type of bank services they avail. Thus the results of this study allow generalization to all customers of the KSFE.

This study used a sample of customers across eight branches of the KSFE Ltd from indefinite population. Indefinite population meant that the number of population is not known and is above 50,000, like in this study. In banking subsectors, the details of customers does not disclose due to the confidentiality issued. The aim of the sample is to select estimated population parameters.

2.3.1 Sample and sampling techniques

The sample size for this study was calculated by using the following formula:

$$N = \frac{(z^2 \times Q \times P)}{D^2}$$

Where; N= the desired sample size

Z=1.96 which is the standard normal deviation at required normal confidence

P= the portion in target population

Q= 1 – p

D= the level of statistical significance = 5%

$$\text{Therefore, } N = \frac{(1.96^2 \times (1-0.25) \times 0.25)}{0.05^2}$$

$$N = 288.12$$

Final sample of 320 customers were taken for the survey.

3. RESULT AND DISCUSSION

The survey conducted among 320 customers of KSFE. The branches of KSFE are classified into four, according to the business volume per month. They are super branches, major branches, medium branches and small branches. Two branches were selected randomly from each classification. Hence the survey covers all the categories of KSFE.

3.1 Statistical Package for the Social Sciences (SPSS)

SPSS is widely used software for analyzing survey results. This software is also used by market researchers, health researchers, survey companies, government, education researchers, marketing organization, data miners and others. In addition to statistical analysis, data management (case selection, file reshaping, creating derived data) and data documentation (a metadata dictionary was stored in the data file) are features of the base software.

In this paper, my work is analyzed by using IBM SPSS statistics 2.0. At first the reliability of this work is checked. To check the reliability of this survey, a pilot survey is done. The responses of 30 customers were taken for this analysis. The results were analyzed by using the SPSS.

Table 3.1 Questions of perceived service quality

| | | |
|-----|--|----------------|
| Q1 | KSFE is safe in transactions | Assurance |
| Q2 | Timely resolution of complaints | Responsiveness |
| Q3 | KSFE communicates effectively with customers | Reliability |
| Q4 | KSFE is dependable & trustful | Assurance |
| Q5 | KSFE provide services at the time they are promised to do so | Responsiveness |
| Q6 | KSFE keep their records accurately | Reliability |
| Q7 | Employees are helpful | Empathy |
| Q8 | KSFE has up to date systems | Reliability |
| Q9 | Customers gets individual or personnel attention | Empathy |
| Q10 | Branch's physical facilities are satisfactory | Tangibles |

At first, a pilot survey is conducted. Responds from 30 customers are collected. These responds were analyzed by using SPSS. The responds obtained from 30 customers were analyzed by SPSS software to check the reliability of the study.

Table 3.2 Reliability Statistics

| Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | N of Items |
|------------------|--|------------|
| .704 | .712 | 10 |

The reliability statistics obtained from SPSS shows that the pilot survey has Cronbach's alpha within the acceptable range.

After the pilot survey, a detailed survey is conducted among 320 customers of KSFE. The results are tabulated in Table 3.4. The Cronbach's Alpha of each question was above 0.6. The Cronbach's alpha for every scale was above 0.7. From Table 3.3, it is clear that, the responds obtained for questions under assurance, responsiveness and empathy are in acceptable range. The scale tangibles have good internal consistency. The reliability scale has excellent internal consistency.

Table.3.3 Item-Total Statistics

| | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Squared Multiple Correlation | Cronbach's Alpha if Item Deleted |
|-----|----------------------------|--------------------------------|----------------------------------|------------------------------|----------------------------------|
| Q1 | 36.4531 | 10.926 | 0.343 | 0.774 | 0.675 |
| Q2 | 36.9063 | 9.013 | 0.456 | 0.406 | 0.651 |
| Q3 | 36.8188 | 9.309 | 0.391 | 0.515 | 0.667 |
| Q4 | 36.2375 | 11.799 | 0.116 | 0.508 | 0.701 |
| Q5 | 36.8969 | 9.779 | 0.565 | 0.695 | 0.637 |
| Q6 | 37.1969 | 11.632 | 0.201 | 0.704 | 0.693 |
| Q7 | 37.1531 | 10.857 | 0.305 | 0.588 | 0.679 |
| Q8 | 37.0563 | 8.856 | 0.480 | 0.578 | 0.645 |
| Q9 | 37.4094 | 10.362 | 0.351 | 0.465 | 0.672 |
| Q10 | 37.0969 | 10.433 | 0.315 | 0.469 | 0.678 |

Table 3.4 Cronbach's alpha for each scale

| Scale | Cronbach's Alpha |
|----------------|------------------|
| Assurance | 0.756 |
| Reliability | 0.91 |
| Responsiveness | 0.752 |
| Empathy | 0.749 |
| Tangibles | 0.864 |

Service quality is measured by multiplying the weights with the perception scores:

$$S = \sum_{j=1}^k (W \cdot P_j)$$

Where ,SQ_i = service quality of item statement j,

W_{ij} = weighting factor of item statement j to an individual i,

P_{ij} = perception of individual i with respect to the performance on item statement j.

The weighting factor is the normalized importance score:

$$W = \frac{I_i - M}{M - M}$$

Where ,I_{ij} = importance score obtained from the questionnaire,

Min = minimum score and

Max = maximum score of the importance score.

By using these equations, the performance of service quality for each question is calculated. The results are shown in Table 3.5. The service quality of each scale is tabulated in Table 3.6.

Table 3.5 Service quality for each question

| | Questions | Cronbach's Alpha | I _{ij} | W _{ij} | P _{ij} | SQ _{ij} |
|----------------|-----------|------------------|-----------------|-----------------|-----------------|------------------|
| Assurance | Q1 | 0.675 | 4.572 | 0.572 | 4.567 | 2.61 |
| Responsiveness | Q2 | 0.651 | 4.119 | 0.78 | 4 | 3.12 |
| Reliability | Q3 | 0.667 | 4.206 | 0.735 | 4.233 | 3.11 |
| Assurance | Q4 | 0.701 | 4.788 | 0.788 | 4.767 | 3.76 |
| responsiveness | Q5 | 0.637 | 4.128 | 0.564 | 4.167 | 2.35 |
| Reliability | Q6 | 0.693 | 3.828 | 0.828 | 3.8 | 3.15 |
| Empathy | Q7 | 0.679 | 3.872 | 0.436 | 3.9 | 1.7 |
| Reliability | Q8 | 0.645 | 3.969 | 0.656 | 4.067 | 2.67 |
| Empathy | Q9 | 0.672 | 3.616 | 0.539 | 3.6 | 1.94 |
| Tangibles | Q10 | 0.678 | 3.928 | 0.464 | 4.033 | 1.87 |

Table 3.6 Service quality for each scale

| Scale | Service quality |
|----------------|-----------------|
| Assurance | 3.185 |
| Reliability | 2.98 |
| Responsiveness | 2.735 |
| Tangibles | 1.87 |
| Empathy | 1.82 |

Form these results; it is clearly visible that the assurance scale has the highest performance in service quality (3.185). The questions 1 and 4 are coming under this scale. Questions 3,6 and 8 are coming under reliability. Reliability has the second highest score in service quality (2.98). The scales tangibles and empathy have least value in service quality. Tangibles has 1.87 score and empathy has 1.82.

To analyze the performance and importance of each question, these results should be further analyzed by using IPA technique.

3.3 IMPORTANCE PERFORMANCE ANALYSIS (IPA)

IPA technique can be used to prioritize the service attributes based on the importance and the performance, which are the results of SERVPERF model. The IPA is the two dimensional state space where the vertical axis described the importance of the selection attributes, while the horizontal axis described how well the service firm is performing the service.

In IPA, the two dimensional state space was categorized into four quadrants: 'concentrate here', 'keep up with the good work', 'low priority' and 'possible overkill'. The first quadrant that is concentrate here is located in the North West corner; it had the attributes that become the priority of the management due to having high importance but indicates low performance ratings. The second quadrant: keep up with the good work, identified that both importance and performance of the customers already high rated and should be maintained well by the management.

Attributes that were rated low in both importance and performance were put in the third quadrant: low priority, which is located in the south west corner. The last is possibly overkill, where there were unnecessary attributes that need to be maintained by the management due to having low importance but high performance rating.

Figure 3.1 is the result obtained from the Importance Performance Analysis. The questions 1 to 10 were distributed among the four quadrants.

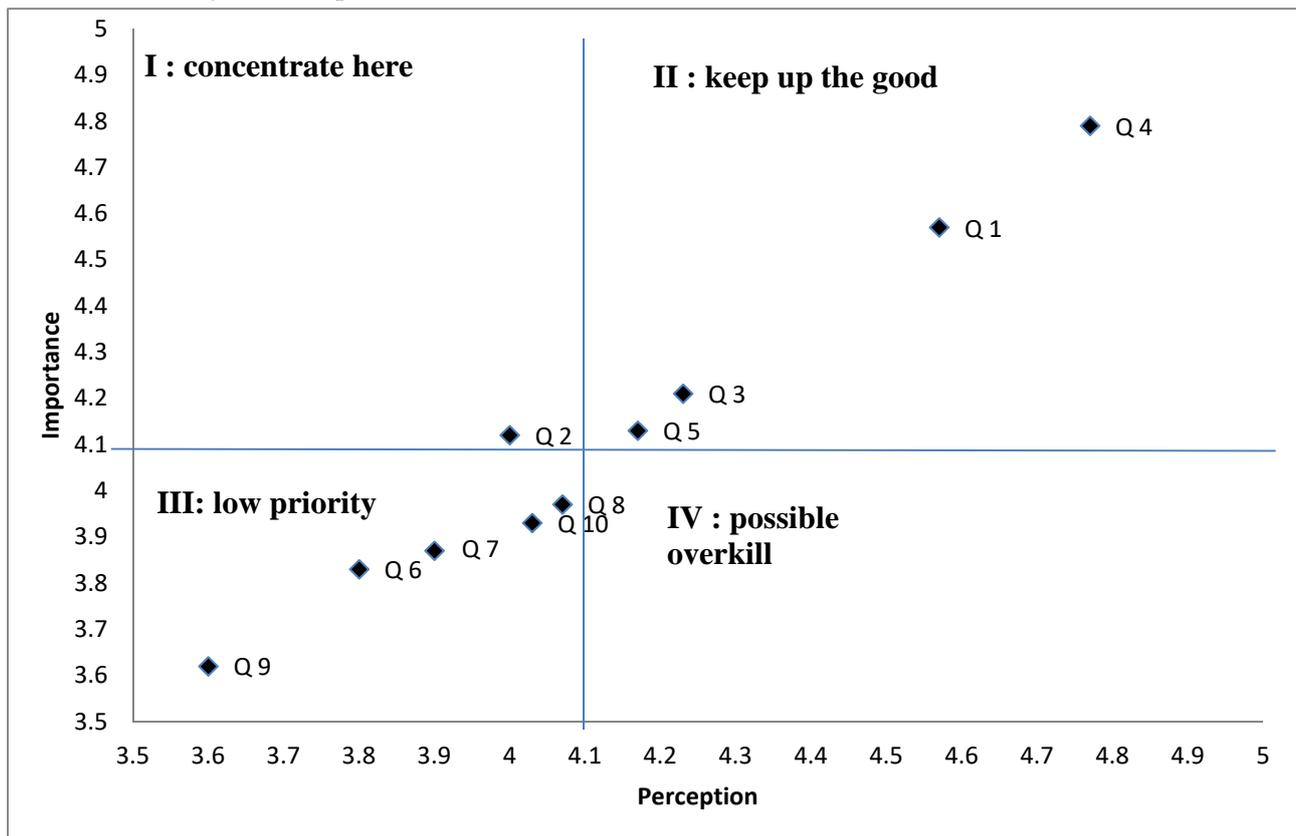


Fig. 3.1: Importance – performance analysis

The quadrant one has minimum performance and maximum importance. So the variables coming under this section needs more focus. Hence this quadrant is called “concentrate here” section. The second quadrant has maximum importance and maximum performance. The variables falling under this category are the strength of the company.

The third quadrant, ‘low priority’ section, contains minimum performance as well as minimum importance. The fourth quadrant is a risky one. The quadrant contains minimum importance but has maximum performance. The variables coming under this category may lead the firm into financial crisis. But luckily in KSFE, there are no variables coming under this category.

From the result, it is clear that the questions 1, 3, 4 and 5 are performing very well. Those questions are in the second quadrant; ‘keep up the good work’. This section has greater importance and performance. The questions 6,7,8,9 and 10 are coming under the third quadrant; ‘low priority;’ section. This section has low importance and low performance.

The question 2 is coming under first quadrant, which is ‘concentrate here’. According to KSFE the ‘timely resolution of complaints’ need more focus. There is no question coming under the fourth quadrant- possible overkill.

4. CONCLUSION

KSFE is the Non Banking Financial Institution undertaken by the Government of Kerala. Since the company has a largest customer base, it was necessary to conduct a customer satisfaction analysis for the company.

Detailed literature review is conducted prior to the study. It gave the three key concepts of service quality. Viz. Perceived service quality, customer satisfaction and customer loyalty. From the literature review, a model called SERVPERF is evolved to be best for the analysis of service quality of banking institutions.

The survey covered all categories of the company. From the responds taken from 8 branches all over Kerala, an analysis is done by using SPSS software. The analysis result shows that, the service quality of KSFE is mostly reliable on the assurance scale. The service quality is least for empathy and tangibles scale.

The questions coming under perceived service quality are analysed by using IPA technique. From the results; it is clear that the customers are having problem in the timely resolution of complaints. The customers are happy with the assurance given by the company. Safety is the major attracting point of KSFE.

4.1 Findings

- The survey results were analyzed using SPSS software. The service quality of each scale was obtained.
- The assurance given by the KSFE has greatest service quality value. Reliability has the second highest value. Tangibles and empathy has the least service quality values. The results are shown in Table 4.9.
- The importance of each question and its performance were analyzed by IPA technique. From the results, the questions under perceived service quality are categorised into four quadrants.
- The quadrant one; 'concentrate here' indicated high importance and low perception. The complaints of the customers are not immediately resolved by the company. This falls under the 1st quadrant.
- The second quadrant has higher importance and higher performance. This quadrant is named as 'keep up the good work'. The assurance related questions falls under this quadrant.
- Empathy and tangibles are falling under the third quadrant. This quadrant has low importance and low performance.
- KSFE has no variables falling under the "possible overkill" section, i.e., the fourth quadrant.

By considering these findings, following suggestions are recommended for the company

4.2 Suggestions:

1. KSFE should focus on communication with customers.
 - Closely monitor the SMS services
 - Follow up the letter services
 - Chitty instalment amount should be informed
2. Provide online services.
 - Add facility for online chitty payment in all branches
 - Provide online auction services
 - Add net banking facility
 - Maintain updating of website at least over a month
3. Form a complaint redressal cell.
 - Follow up the complaints
 - Provide facility for online registration of complaints
 - Provide a facility to rate the company by the customers
4. Encourage customers.
 - Appreciate long time-loyal-customers by giving some token of respect
5. Improve marketing
 - Provide mind catching advertisements
 - Introduce attractive agency network
6. Abolish queue system and introduce token system
7. Redesign the interior of the branch premises so as to increase the accessibility of the customers to the officers.

8. Reduce the time consuming formalities
9. Use Malayalam in forms and applications

4.3 Limitations of this study

- KSFE has a large customer base, but the survey was conducted within a short customer circle. This can lead to variation in result, when complete customer base is considered for study.
- The different category of customers such as businessmen, government employees, private sector workers, self employed people and unemployed people are considered as a single group for this study.

4.4 Scope of future study

- A comparative study can be done between private non banking financial institutions and KSFE.
- The survey was conducted among 8 branches. The work can be done for all KSFE branches in future.
- After implementing the suggestions a comparative study can be done.

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