An Empirical Investigation of Service Quality Gaps in NBFCs using SERVQUAL Model

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Abstract

Financial Institutions like Non-Banking Financial Companies (NBFCs) have a major role in the financial sector, in a booming economy like India. But in today's world, financial institutions have to look beyond the traditional mode of mere servicing to their customers. This research investigates how perceived service quality is important in analyzing gaps based on the SERVQUAL model. The research also highlights the major expectations of the customers in connection with the services provided by NBFCs. The research draws insights into the attributes of service quality which are important in providing satisfaction to customers and areas where significant gaps existed. The research identifies that empathy shown to the customers while addressing their needs coupled with procedural simplicity do play crucial roles and hence, these should be areas of vital concern for NBFCs to ensure customer satisfaction. The role of NBFCs is extremely significant to our economy, so are the services offered to its customers at par with their diverse financial needs and expectations, in order to foster economic development.

Keywords: NBFCs, Customer Satisfaction, Servqual, Gap Analysis

Introduction

"A satisfied customer is the best business strategy of all" - M i c h a e l LeBoeuf, Business Author.

The key focal point of any business striving to excel has always been and will always be excellence in customer service. As cited by the great business visionary Mr. Peter .F. Drucker, quality in a service or product is not what you put into it. It is what the customer gets out of it. Customer satisfaction undoubtedly plays a major role in today's competitive world. Studies have demonstrated that satisfaction of the stakeholders is critical for the success of any organization (D' Aveni, 1994). Customers are the most important stakeholders of any organization. This paper attempts to study the customer satisfaction levels with regard to deposits offered by one of the leading NBFCs in India. The research is based on SERVQUAL model which captures the quality indicators using a multidimensional approach.

Customer Satisfaction and Service Quality

The paramount goal of any business should be customer satisfaction. An organization that constantly satisfies its customers will be able to enjoy higher retention levels and greater profitability due to increased

customer loyalty. (Wicks &Roethlein,2009). Whether an organization provides quality services or not will depend on the customers' feedback on the satisfaction they get from consuming the products, since higher levels of qualitylead to higher levels of customer satisfaction (Kotler & Keller, 2009).

Service quality is the main ascendant factor of customer satisfaction. The knowledge on customer requirements and its importance will help managers to prioritize the development activities and determine what to be included in the offering and the amount to be spentin improving these requirements (Noriaki Kano, 1984).

Customer satisfaction is based on the customer's experience on a particular service sector (Cronin & Taylor, 1992), service quality is a determinant of customer satisfaction. Service quality is an integral factor that decides the sustainability of the service providers. According to , If the perceived service quality is high, undoubtedly it can lead to increase in customer satisfaction (Parasuraman, 1985).

Customer satisfaction on a service can be provided only if their expectations about the service are met. Service quality can be defined as the extent to which a service meets customers' needs or expectations (Lewis and Mitchell, 1990; Dotchin and Oakland, 1994; Asubonteng, 1996; Wisniewski and Donnelly, 1996).

In relating customer satisfaction and service quality, researchers have been more precise about the meaning and measurements of satisfaction and service quality. Satisfaction and service quality have certain things in common, but satisfaction generally is a broader concept, whereas service quality focuses specifically on dimensions of service, (Wilson, 2008). Although it is stated that other factors such as price and product quality can affect customer satisfaction, perceived service quality is a component of customer satisfaction (Zeithaml, 2006).

SERVQUAL Model

Service quality is defined as 'meeting the needs and requirements of customers' (Murdick, Render & Russell, 1990; Smith, 1995). Service quality indicates 'how well the service delivered matches the customer's expectations' (Lewis, 1989). Service quality is also defined as the ability of the organization to meet or exceed customer expectations (Parasuraman, 1988). It is the difference between customer expectations of service and perceived service. Perceived service quality results from comparisons of customer expectations with their perceptions of service delivered by the suppliers (Zeithaml et al., 1990). If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs (Parasuraman, 1985; Lewis and Mitchell, 1990).

One of the most suitable measurements of service quality is the dimensions from the SERVQUAL model. In this model, Parasuraman, Zeithaml and Berry identified 97 attributes and reduced the same into ten dimensions. Thus the ten determinants influencing service quality of customers are Competence, Courtesy, Credibility, Security, Access, Communication, Tangibles, Reliability, Intangibility, Heterogeneity and Inseparability. These ten dimensions were found to have an impact on service quality and were considered as the significant criteria to study customer's expectations and perceptions on delivered service (Kumar et al., 2009, p. 214). In subsequent research, they found a high degree of correlation between several of these variables and hence consolidated them into the five broad dimensions:

- Reliability(dependable and accurate performance)

- Assurance (credibility, security, competence and courtesy)

- Tangibles(appearance of physical elements)

- Empathy (easy access, good communication, and customer understanding)

- Responsiveness(promptness and helpfulness)

The afore-mentioned five dimensions have been found to be pertinent for a broad range of sectors, even though the significance of the dimensions can vary for various sectors. Thus, the SERVQUAL model measures service quality as the gap between customer expectations for a service offering and the customer perceptions of the service received. The SERVQUAL scale, also called the gap model by Parasuraman, et al. (1988) has been recognized to be one of the best means to measure the quality of services delivered to customers. SERVQUAL is widely used in measuring the service quality in diverse sectors such as retail, food and beverages, health care, communication, financial services sector and a lot more.

Relevance of Service quality in NBFCs

NBFCs are financial institutions that provide certain types of financial services such as loans and advances, acquisition of shares/stocks/bonds/debentures, leasing, hire-purchase, insurance business,chit business and so on. Though most of their activities are similar to those of banks, these institutions do not hold a banking license and are not allowed to take demand deposits.NBFCs are an integral part of the Indian financial system. It is vital that NBFCs should give prime importance on constantly improving and innovating so as to ensure survival and growth amidst the cut throat competition that persists in today's world. To sustain in the ever-changing market it is essential for these financial institutions to focus more on the service quality that can certainly act as a differentiator.

Research Approach

The study was undertaken in the Chennai branch of a leading NBFC which has spread its activities over a range of financial services encompassing Commercial Vehicle Finance, Car Finance, Tractor Finance, Construction Equipment Finance and Fleet Cards. Through the various subsidiaries, the company has a diversified presence in General Insurance, Mutual Funds, Housing Finance, Business Process Outsourcing, Information Technology Services and Retail Distribution of a wide array of Financial Services and Products.

Objectives

For any organization striving to excel, it is imperative to understand what the customers want most and what the organization does. Such an endeavor can reveal a clear picture of the gaps between customer expectations and the services provided by the organization. In this respect, the objectives for the research have been framed as follows.

1) To understand the customers' expectations about the deposit schemes offered by the company

2) To identify the gaps between the customers' expectations and experience with respect to the deposit schemes offered by the company

Methodology

The methodology adopted to obtain data on customer satisfaction levels in the selected NBFC was through a survey amongst a sample chosen by Simple Random sampling. The data was thus collected using structured questionnaires from the existing customers (150 nos.) of the selected NBFC's Chennai branch, who were easily accessible for the researchers. The research used descriptive design since it establishes association between variables creating an accurate profile of a situation about the relationship between customer satisfaction and service quality. Descriptive Research is a fact finding approach largely related to the present and abstracting generalizations by the cross sectional study of the current situation.

The constructs of SERVQUAL model developed by Zeithaml and Bitner (1996) was used in the questionnaire developed for primary data collection. The respondents were asked to indicate their responses to the statements on a Five point Likert scale where 1 depicted highly dissatisfied and 5 indicated highly satisfied. Suitable statistical tests were used to analyze the data in SPSS.

Limitations

This study which is based on the standard five-dimensional structure of the SERVQUAL model considered only the influence of SERVQUAL constructs on customer satisfaction. There may be other situational factors too which are not being considered throughout the research. Also, though the five dimensions include and cover most of the original ten dimensions, data collection based on the ten dimensional structures would have provided a broader view.

This research based on SERVQUAL model with a limited sample size of 150 customers can be considered as a starting point to assess the service quality and definitely not the ultimate answer. It can be further enriched with additional qualitative or quantitative research to unearth the causes underlying the gaps identified. The expectations of customers can always be on the higher side as they want to get the best service. Their views can vary each time they are in touch with the company. This research can be extended by doing a longitudinal study, as the current study is cross sectional in nature.

Data Analysis and Interpretations

Meaningful insights on the objectives could be acquired from the analysis of the collected data using proper statistical treatments. Relevant statistical tests were used in this research so as arrive at the conclusions. The tests done are outlined below.

KMO and Bartlett's Test

At the outset, sampling adequacy was confirmed. For this purpose, KMO and Bartlett's Test was done. Table – I depicts the results of the KMO and Bartlett's Test.

Table - I
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.581
Bartlett's Test of Sphericity	Approx. Chi-Square	1492.944
	df	105
	Sig.	.000

The KMO measure is greater than 0.5 which confirms the adequacy of the sample collected.

Cronbach's Alpha Test of Reliability

In order to check the reliability and internal consistency of the attributes, Cronbach's Alpha Test was conducted in the research. When the attributes were put to a Cronbach's Alpha Test, it was found that an adequate reliability and consistency value of 0.864 exists. As the value is greater than 0.7, it can be inferred that there exists adequate reliability and internal consistency in the values of the attributes collected. Table – II shows the summary results of the Cronbach's Alpha Test. The results depict that the data is 86.4% reliable.

Table – II
Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.876	.864	14

Key expectations of depositors

Data collected based on various attributesregarding the expectations of the depositors were analyzed and the attributes that hold utmost importance in the mindsets of the depositors were identified using the popular data reduction technique – Factor Analysis. The analysis wasdone by Principle Component Analysis method for the various variables such as Simple paper formality, Consistency and accuracy of services, Satisfactory level of procedures, Easiness of renewal process, Perfect delivery of prompt service, Friendliness of employees, Willingness of employees to assist, Courteousness of employees, Time taken for transactions, Individualized attention, Concern of the customer interests, Suitability of working hours, Convenience in Branch location andSuitability of internal environment.The results of Factor Analysis are shown in the Table – III.

Table – III
Factor analysis depicting thekey expectations of customers
Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.030	35.930	35.930	5.030	35.930	35.930	4.640	33.141	33.141
2	3.191	22.795	58.725	3.191	22.795	58.725	2.275	16.247	49.388
3	1.402	10.016	68.742	1.402	10.016	68.742	2.129	15.209	64.598
4	1.313	9.381	78.123	1.313	9.381	78.123	1.894	13.525	78.123
5	.836	5.974	84.096						
6	.684	4.887	88.984						
7	.461	3.291	92.275						
8	.361	2.579	94.854						
9	.336	2.400	97.254						
10	.156	1.114	98.367						
11	.099	.710	99.077						
12	.071	.504	99.582						
13	.031	.220	99.802						
14	.028	.198	100.000						

Extraction Method: Principal Component Analysis.

Rotated Component Matrix[a]

	Component			
	1	2	3	4
Simple_paper_formalities	-.043	**.833**	.240	.050
Consistent_and_accurate_service	.004	**.825**	.300	.091
Quick_cheque_deposit_and_withdrawal_procedure	.065	.116	**.941**	.156
Simple_renewal_process	.037	.304	**.918**	.152
Delivery_of_prompt_service	.104	**.737**	-.100	.397
Customer_friendly_approach_by_employees	.065	.265	.149	**.859**
Desire_and_willingness_to_assist_customers	.218	.098	.164	**.852**
Courteousness of_employees	**.776**	.096	.066	.228

Completion_of_transcations_within_assured_time	**.812**	.108	.164	.029
Employees_provide_individualized_attention	**.885**	-.039	-.125	.056
Employees_have_the_best_interests_of_customers_in_mind	**.864**	-.176	.037	.212
Suitable_working_hours	**.833**	-.133	-.054	.261
Convinient_location_of_the_branch	**.724**	.314	-.164	-.208
Suitable_internal_environment	**.749**	.038	.340	-.040

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 6 iterations.

The output of factor analysis is obtained by applying the principal component analysis and specifying the number of rotations. As per the rule-of-thump, eigen value decides the number of factors to be extracted. Higher the eigen value, higher is the amount of variance obtained by the factor. It is evident from the table that 4 factors with higher eigen values can be extracted in the above data. It accounts for 78.123% of the total variance. Thus,using factor analysis procedure, thenumber of attributes has been reduced to 4. Thesefour attributes have been identified as the major expectations of the depositors of the selected NBFC. These could, in turn, be considered as areas that require attention by the organizationto function in line with the customer expectations. A brief explanation of these four factors is given below.

Factor 1is a combination of attributes such as courteousness of employees, time taken for transactions, individualized attention to the customers, concern of the customer interests, suitability of working hours, convenience of the branch location andsuitability of internal environment. Hence, Factor I which accounts for 35.9% of the variance has been named as 'Empathetic Factor'.In this factor, two of the attributes, i.eIndividualized attention and Concern of the customer interestshave high factor loadings. This stresses the need for providingpersonalized attention to the customers to take care of their varied needs.

The attributes such as simple paper formality, consistency and accuracy of services and prompt delivery of services form Factor 2. Looking at the nature of these attributes, factor 2 has been named as 'Execution Related Factor'.This factor accounts for 22.795% of the total variance. In the execution related factor, simple paper formality has the highest factor loading. This finding brings into limelight that, what the customers mainly want is effortlessness in formalities. Organizations should focus the shift from complicated execution hassles to execution simplicity, but without omitting essential scrutiny.

The variables loaded into the Factor 3 weresatisfactory level of procedures and easiness of renewal process. Both these have very high loadings. Factor 3 accounts for 10.016% of the total variance.This factor has been named as 'Procedural Factor'. This result too reveals the need for easiness in procedures. We are currently in the era of options. Customers have a wide variety of options in front of them. Minimal customer effort is what they prefer mostly.

Friendliness of the employees and their willingness to assist the customers form Factor 4. Factor 4, named as 'Employee Approach'highlights the impact ofemployees' behaviors on overall customer satisfaction. The organization should focus on creating and sustaining positive employee attitude which in turn is one of the crucial aspects in customer satisfaction.

Gap Analysis

SERVQUAL approach was used in the research to do a gap analysis inorder to identify whether there exists any discrepancy between expected service and perceived service from the customer's perspective. The areas wherein such gaps are observed are explained in Table – IVand Table –V.

The SERVQUAL instrument captures customer expectations of service quality (E) as well as their perception about the services (P) actually provided to them. The perceived service quality, or gap score (denoted as Q) is calculated for each statement by subtracting the E score from the P score (P-E). As mentioned earlier, the SERVQUAL model basically measures service quality based on the five dimensions – reliability, responsiveness, assurance, empathy and tangibility. In order to identify the key dimensions of SERVQUAL where the gaps exist, the gaps were calculated separately for each of the five dimensions and the following graph depicts the same.

Table – IV
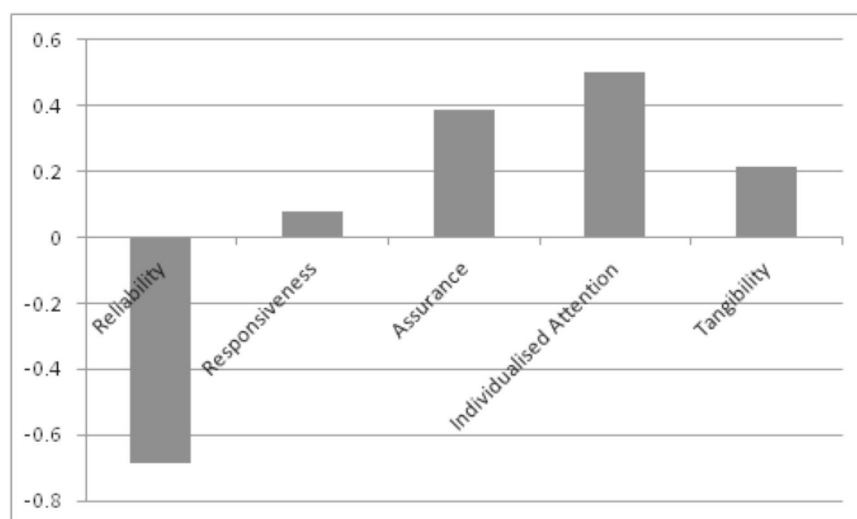
According to the analysis, the calculated service quality gap scores (i.e. the difference between customers' expectations and perceptions) of the five dimensions, indicate that gaps exist the most in reliability (-0.685). Gaps were also observed in the other dimensions such as empathy (0.503), assurance (0.385), tangibility (0.213) and responsiveness (0.077). The organization can attempt to pave more focus on the areas that do not meet the expectations of the customer.

The gap analysis reveals that the customers are more satisfied with the empathyshown to them by the employees. In the results of the factor analysis, high factor loadings were observed in the attributes related to individualized attention provided to the customers and concern of the customer interests. Hence it is crucial for the organization to do persistent efforts to maintain customers' contentment in those key areas.

Subsequent to the gap analysis based on the five dimensions of SERVQUAL, the gap score of each attribute is calculated separately to find out the key attributes where the gaps exist. The results of the same are depicted in Table – V. The mean gap score observed was 0.24.

Table – V

Sl No.	Attributes Considered	Gap Score (P-E) (Mean value) of various attributes
1	Easiness of paper formality	-2.63
2	Consistency and accuracy of services	-0.06
3	Satisfactory level of procedures	0.01
4	Easiness of renewal process	-0.06
5	Perfect delivery of prompt service	0.01
6	Friendliness of employees	0.07
7	Willingness of employees to assist	0.15
8	Courteousness of employees	0.46
9	Time taken for transactions	0.31
10	Individualized attention	0.43
11	Concern of the customer interests	0.57
12	Suitability of working hours	0.51
13	Branch location is convenient	0.21
14	Suitability of infrastructure	0.44

The scores in the above table reveal that there exists a gap between the expectations and experiences of the customers primarilyin areas such assimplicity of procedures. It is imperative for the organization to think of giving more focus on this aspect and make suitable changes so that the expectations of the customers are met. Wherever possible, formalities can be made online in a judicious way so as to ease the difficulties in connection with paper formalities.

Conclusion

The research brings into limelight the fact that empathetic factor does occupy a prime position in the mindsets of the customers. The customers expect individualized attention and concern by the organization in preserving customer interests. The research further points out, that procedural simplicity isanother area to be looked upon. With the advancements in technology, it is possible for the organizations to modernize the procedures so as to ease the formalities.

Though this research investigated the customer perspectives of just one of the NBFCs, the results obtained can be generalized as it helps the players to understand the basic gaps between customer expectations and experience. Thesefindings can be used by other financial institutions as well in evaluating the level of services currently offered by them. Subsequently, a re-examination of their service orientation can be done to identify the service gaps prevailing in the organizations. As pointed earlier, since the current research is cross sectional in nature, a longitudinal study can be undertaken to reiterate whether these gaps are consistent irrespective of the time horizons. This would definitely enable the financial institutions in the country to scale up to the expectations of the customers.

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