Functional Service Quality in Retail Banking – An Empirical Study

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Abstract:
Background: *The evolution of service quality and its existence is over for long period of time in banking sector. Service quality becomes the most essential for Retail Banking industry for client acquisition, engagement and retention. There are many attributes contribute to the service quality. This paper highlights and measures Functional Service Quality attributes and its contribution to service quality improvement and analyze majorly in three dimensions – Relative Importance, Customer View and Satisfaction level of retail bank customers in connection with their respective banks.*
Method: *A survey has been carried out among 100 bank customers and samples were drawn on random basis among bank customers in Bengaluru city. Data were collected using a structured questionnaire and administered through online. Data analyzed using t-Test, Friedman test and method of measure of central tendency.*
Results: *The findings in this empirical study reveals that bank customers are primarily looking for Service Quality criteria of the selected bank before choosing a bank for any service. Moreover, no change in banking preference pattern between Male and Female customers in terms of Relative Importance, Customer View and Satisfaction level of bank customers about their banks.*
Key Word: *Service Quality, Dimensions of service quality, Functional Quality, customer satisfaction.*

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I. Introduction

In Banking Industry, banks that focus on high levels of service quality have maintained a competitive edge over their rivals. Sustaining a conventional service quality within the retail banking sector, has resulted in banks increasing their levels of client acquisition as well as retention of their existing clients (Mbablemhle Bhengu and Vannie Naidoo, 2016). It is conclusive for banks to achieve customer longevity which can only be accomplished through service excellence. Inspite of service quality importance in banking industry, there is no bank-specific standard instrument for service quality assessment in Retail Banking Industry. (Gerrard and Cunningham, 2001;Beckett, 2000), banks need to understand service requirement of customers and understand the impact of service delivery performance on customer's attitudes.

Attributes of Service Quality:
Banks need to understand all the dimensions used by customers to evaluate service quality. According to A. Parasuraman, V.A.Zeithaml, and L.L.Berry, it is during the service delivery that the quality of services is assessed and the contact with each customer implies as a chance to satisfy or dissatisfy the customer, a moment of truth. They defined customer satisfaction with regards to service as 'by comparing perceptions of service received with expectations of service desired.' In addition, Parasuraman, Zeithaml, and Berry (PZB's1988) introduced five dimensions. They are :
Tangibles: refers to physical facilities, equipment, and appearance of a Service firm.
Reliability: The ability to deliver the promised service precisely and consistently.
Responsiveness: Willingness to help and attend customer queries with rapid service to them.
Assurance: Courtesy of staffs and their capability to inspire trust and confidence in customers
Empathy: Helpful and care about the customers' requirements along customized services.

II. Scope of this Study

The identified functional service quality variables of retail banking and its influence in retail bank customers are being analyzed against three broader categories: Customer's relative importance about their bank on these variables, customer's view about their bank on these variables and customer satisfaction level about their bank on these variables. This study would help to understand which attribute of functional quality of retail banking need to be focused for contributing to overall service quality improvement of the bank.

Objective :
To analyze the extent to which the **functional quality attributes contribute** to service quality.
To measure the satisfaction level of customers.

III. Review of Literature

a. Service Quality

Service Quality is basically documented as the difference between the customers' expectations of a service that is to be received and the perceptions of the service that is yet to be actually received Grönroos (1984) and Parasuraman, Zeithmal and Berry (1988). Perception is interpreted as the customer's 'experienced service' and expectations are viewed as the desires of the consumer about the service (2014,Khan, Tabassum & Jahan). Grönroos (1984) outlined technical and functional quality are two prime categories of service quality. The dominance of research has been intensely influenced by the conceptual model of service quality proposed by et. al. Parasuraman and successively operationalized and refined by the same authors. Quality is the most important factor for customers and also it is basis of their opinion, which will then result in the fact that service quality is achieved if the customer expectations are achieved.

The term "service quality" is basically difference between the customers' expectations of a service that is to be received and the perceptions of the service that is yet to be actually received. Grönroos (34-40: 1984) and Parasuraman, Zeithmal and Berry (12-40: 1988) Perception, in this case, is interpreted as the customers's 'experienced service' and expectations are viewed as the desires of the consumer about the service (Khan, Tabassum & Jahan 2014:4). In his work Grönroos (34-44:1984) defined technical and functional quality which illustrate the above named two prime categories of service quality. Technical quality was reliant on the outcome of the service process and what the consumer received, whereas functional quality was focused on the service process of the service provider and was concerned with the manner in which the service was delivered to the customer (Jones & Shandiz 5:2015).

b. Service Quality Definition

According to Philip Kotler (1997) defined service as 'an action or an activity which can be offered by a party to another party, which is basically intangible and can not affect any ownership. Service may be related to tangible product or intangible product'

Zeithaml and Bitner (85:2003) mentioned that, 'Service quality is a focused evaluation that reflects the customer's perception of specific dimensions of service namely reliability, responsiveness, assurance, empathy, tangibles.'

c. Service Quality in Retail Banking

It has become very important that Indian banks to determine various service quality factors which are relevant for better customer satisfaction and service quality improvement in Retail Banking. The retail banking sector is predominantly characterized by a high level interaction with customers directly. In order for a bank to distinguish from other banks in the retail banking industry, bank uses excellence in its service quality to stand out against its competitive banks. The banking industry in India is to determine the dimensionality of customer perceived service quality and identification of these dimensions would make the banks to improve the delivery of customer-perceived quality during the rendering service. In the rapidly changing Indian retail banking industry, it is crucial for banks to understand in-depth the key dimensions of service quality and it's effect on improving service quality. Service quality includes providing right service, to the right people, at the right time, at the right place and at the right price and fast turnaround time for attaining ultimate customer satisfaction.

Retail banks operate in a volatile market. They are constantly being dragged due to inflation, interest rate hikes and foreign exchange rates can cause destruction in the bank industry's market. Excellence in service quality could be a key ingredient in their continued sustainability and their service quality that distinguishes them from their competitors. According to Muyeed (116:2012) commercial banks are assaulted by pressures from globalization and competition from non-banking financial institutions are constantly seeking more research to add value to their services. Dhurup et al (2: 2014) adds that the banking arena has become infiltrated with constant product differentiation, technological advancements as well as aggressive marketing campaigns to acquire and retain clients.

d. Functional Service Quality in Retail Banking- Review of Literature

Functional quality is considered as the degree of users' perception of the service delivery process.

(1978,1982,1983),Gronroos first proposed that customer's overall evaluations of service quality were a result of their assessment of two dimensions - Functional and Technical Quality and of an organization's image. Gronroos, 1984 defined Service Quality as : " the perceived quality of a given service will be the outcome of an evaluation process, where the consumer compares his expectations with the service he perceives he has received, ie, he puts the perceived service against the expected service. The result of this process wil be perceived quality of service.

Parasuraman et al. (1985, 1988) developed a technology for measuring and managing SQ-SERVQUAL which has received the most attention. Meanwhile, Gronroos published a series of papers and books (Gronroos, 1978,1982,1983,1984,1987,1990,1993,1994: Gummesson and Gronroos, 1987). (1993) Gronroos claims that a customer's perception of the service encounter considers three dimensions:

i)   Functional Quality or Process
ii)   Technical Quality or Outcome
iii)   The image of the service provider

(1984),Gronroos2   identified two dimensions of service quality -technical quality and functional quality. Technical quality defined as "what the consumer receives as a result of interactions with a service firm" and identified employees' technical ability, employees' knowledge, technical solutions, computerized systems and machine quality as its five attributes. Functional quality defined as "the way in which the technical quality is transferred" and identified behavior, attitude, accessibility, appearance, customer contact, internal relationships, service-mindedness as its seven attributes and concluded that the technical and functional quality of service built up the corporate "image" of the Company.

Functional Quality is of the exchange process as how he service is provided, including all interactions between the organization and customer (Gronroos, 1982,1983). The Functional (FSQ) dimensions are of seven attributes that are process related. These are related to Employee's 1) Behavior, 2) Attitude 3) Accessibility 4) Appearance 5) Customer Contact 6) Internal Relationship and 7) Service-mindedness.

Holmlund and Kock (1996) added a third dimension to technical and Functional Quality, ie, economic quality.They defined as " the value that a customer receives in a relationship and comprises elements like profitability and producivity". In their examination of a rural Finnish retail banking context, they found that the bank customers were unable to identify any Technical SQ problems. All problems were of an economic or functional kind.

(2011) H.Emari et al The main objective of this research was to determine the dimensions of service quality in the banking industry of Iran. For this the study empirically examined the European perspective (i.e., Gronroos's model) suggesting that service quality consists of three dimensions, technical, functional and image. The results from a banking service sample revealed that the overall service quality is identified more by a consumer's perception of technical quality than functional quality

(2000) Lassar, et al - The study compared two models, that is , SERVQUAL and technical/functional quality model of technology using 65 bank customers using SERPERF SCALE. The findings revealed that technical/functional quality model was better than SERVQUAL because latter was lacking technical dimensions. 2 models were having distinct and unique strength for measuring service quality aspects.

(1997) Moira [29] indicated that customer retention rates in many service businesses is particularly difficult to measure because many companies do not understand the significance of improving customer retention rates and the impact that this can have on profitability. The customer service is a positive relationship between service quality ,staff satisfaction and customer satisfaction leading to profitability while SERVQUAL distinguishes between functional service quality and technical service quality and recognizes the significance of staff satisfaction and their service performance would lead to customer satisfaction.

Sweeney et al. (1997) established retail service quality and perceived value model for measuring service quality and related factors in retail business. They proposed two models related with value perception of the customers. In model one functional service quality and technical service quality play a significance influence on value perception of the customers besides price and quality of the products. On the other hand model two reflects functional quality perception stimuli the technical quality perception and customer's interest to buy the products.

IV. Research Methodology

This study is carried out using a survey method and both Primary and Secondary data were collected. A questionnaire was used for collection of Primary data. The variables covered under Functional service quality are - Q1-Customer oriented services,Q2-Supportive bank staff, Q3 - Quickness in service delivery, Q4 - Customized services, Q5 - Convenient ATM location and Q6 - Maintenance of customer privacy at bank

branch. Organized random sampling was done among retail bank customers and the sample size for this study is 100. Six variables of Functional quality are being rated based on respondent's bank in three major categories like - Relative importance, customer view and customer satisfaction. Review of Literature was done for secondary data collection.

The research was conducted in Bengaluru in the year 2020, March. The result of the study could vary if the similar survey is conducted in different places/region of the country.

V. Data Analysis and Interpretations

Analysis of data was done in two sections - the first section of analysis presents respondent's statistics in terms of Demographic characteristics and Frequency & Percentage analysis done. The second section of analysis deals with inferential statistics and it covers Friedman Test , Reliability ,t-Test and Mean.

Frequency & Percentage Analysis:

Frequency distribution shows the set of all distinct values of the variables arranged in the order of their magnitude. (Agarwal, 2001), A frequency distribution consists of two parts, one part shows the magnitude of the values whereas other part shows the number of times a value or group of values has been repeated. Distribution of sample based on demographic characteristics is given below. (Sharma, 2001), Percentage refers to a special kind of ratio which is expressed as a rate per hundred. They are used to compare the relative terms, the distribution of two or more series of data.

Table - 1
Demographic Characteristics - Distribution of Sample

Age	Frequency	Percent
18-25 years	12	12.0
26-40 years	61	61.0
41-60 years	25	25.0
Above 60 years	2	2.0
Total	100	100.0
Gender	**Frequency**	**Percent**
Male	43	43.0
Female	57	57.0
Total	100	100.0
Occupation	**Frequency**	**Percent**
Salaried	69	69.0
Businessman	3	3.0
Student	17	17.0
Housewife	8	8.0
Retired	3	3.0
Total	100	100.0
Bank Account Type	**Frequency**	**Percent**
Savings	93	93.0
Current	5	5.0
Recurring Fixed Deposit	1	1.0
Loan	1	1.0
Total	100	100.0
Education	**Frequency**	**Percent**
Graduation	26	26.0
Post graduate	49	49.0
Professional degree	25	25.0
Total	100	100.0

Bank Branch Visit in a month	Frequency	Percent
Less than 10 times	42	42.0
Not at all	58	58.0
Total	100	100.0

Bank Statement Mode	Frequency	Percent
Email/Soft copy	61	61.0
SMS	21	21.0
Passbook entry	11	11.0
ATM statements	7	7.0
Total	100	100.0

Table 1 shows 61% of respondents - retail bank customers are of the age between 26 to 40. Gender wise, 57% of sample count are female bank customers. 69% are of Salaried among 100. 93% of respondents have Savings bank account. 49% of respondents are post graduate as education qualification.58 % of bank customers won't walk into branch directly during a month for any service. 61% of bank customers are preferred with soft copy of bank statement.

Friedman Test reveals the factor looked into most by respondents before opening an account with the Bank.

Table 2
Factors considered before opening an account with a Bank

Factors	Mean Rank	Chi-Square Value	P Value
F1 - Brand Name	3.12	53.335	.000
F2 - Rate of Interest	3.58		
F3 - Service Quality	2.94		
F4 - Product Features	3.86		
F5 - Online Service	3.24		
F6 - Personal Teller Machine	4.27		

Table 2 reveals that the prime factor looked into by a customer is service quality of a bank before proceeding with any sort of service. The second and third factors are brand name and online services of the bank respectively. Rest of the factors like Rate of Interest ,product features and Personal teller machine would take fourth, fifth and sixth place accordingly.

Mean, The arithmetic average is also called mean, a method of measure of central tendency. The arithmetic average of a series is the figure obtained by dividing the total value of the various items by their number (2005,Pillai and Bagavathi,).

Table 3
Mean among 3 scales - RIFSQ, CVFSQ and SLFSQ

Relative Importance	Mean	Rank
RIFSQ3 - Quickness in service delivery	3.58	I
RIFSQ1 - Customer oriented services	3.51	II
RIFSQ2 - Supportive bank staff	3.51	II
RIFSQ6 - Maintenance of customer privacy at bank branch	3.48	IV
RIFSQ5 - Convenient ATM location	3.41	V
RIFSQ4 - Customized services	3.34	VI
Customer View	Mean	Rank

CVFSQ6 - Maintenance of customer privacy at bank branch	4.35	I
CVFSQ1 - Customer oriented services	4.34	II
CVFSQ3 - Quickness in service delivery	4.29	III
CVFSQ2 - Supportive bank staff	4.29	III
CVFSQ5 - Convenient ATM location	4.22	V
CVFSQ4 - Customized services	3.94	VI
Satisfaction Level	Mean	Rank
SLFSQ1 - Customer oriented services	4.30	I
SLFSQ6 - Maintenance of customer privacy at bank branch	4.30	I
SLFSQ3 - Quickness in service delivery	4.17	III
SLFSQ2 - Supportive bank staff	4.15	IV
SLFSQ5 - Convenient ATM location	4.11	V
SLFSQ4 - Customized services	3.96	VI

Table 3 reveals that from **relative importance** perspective of a bank customer (RIFSQ- relative importance functional service quality), the top ranking is given to one of the functional service quality attributes is "Quickness in service Delivery" in retail banking branch. Second equal importance that bank customers are looking for "customer oriented services" and "supportive bank staffs" in bank branches. "Maintenance of customer privacy at bank branch"," Convenient ATM location" and " Customized services" are fourth, fifth and sixth respectively.

Customer view (CVFSQ- customer view functional service quality) on given functional quality attributes of their bank says "Maintenance of customer privacy at bank branch" is with prime importance and second with "customer oriented services". Equal importance is for both attributes - "Quickness in service Delivery" and "supportive bank staffs". Least preference to " Convenient ATM location" and " Customized services".

Customer Satisfaction factor (SLFSQ - satisfaction level functional service quality) in terms of functional quality attributes of their bank says customers are really satisfied with "customer oriented services" and "Maintenance of customer privacy at bank branch". Survey says that satisfaction level of attributes "Quickness in service Delivery" and "supportive bank staffs" took third and fourth place.

Reliability a measuring instrument indicates the extent to which the instrument is without bias and ensures the stability and consistency of the research instrument. Stability of the research instrument is the ability to produce same results at two points of time of the study. The stability of the instrument shows that in spite of changes in the testing conditions the concept can be measured. Consistency indicates the relationship between the variable for this study. The three broad categories grouped together for a better understanding of the respondents.

(Nunnally and Bernstein, 1994, pp. 264-265), "A satisfactory level of reliability depends on how a measure is being used. In the early stages of predictive or construct validation research, time and energy can be saved using instruments that have only modest reliability, e.g., .70"

Table 4
Reliability statistics under 3 major Scale - Relative Importance, Customer View and Customer satisfaction of bank customers.

Scale: Relative Importance	
Cronbach's Alpha	N of Items
.988	32

Scale: Customer View	
Cronbach's Alpha	N of Items
.968	32

Scale: Satisfaction Level	
Cronbach's Alpha	N of Items
.971	32

Reliability Statistics	
Cronbach's Alpha	N of Items
.960	96

Table 4 shows that reliability statistics as >.70 and actual result is .988. The measure of instrument seems to be reliable.

Hypothesis Testing

p > .05	Reject H_1
p ≤ .05	Accept H_1

Independent-Samples T-Test

Independent-samples t-test is used to compare means of the two groups, basically gender - Male and Female. This test is used to compare the significant difference between the means of managing change dimensions, change implementation methods with the gender. The null hypothesis is used to test the significance of the difference between the means of two groups. The null hypothesis is accepted or rejected based on the significant values of the test. If the significant value is less than .05, then the null hypothesis will be rejected.

H_1: *There is a significant difference between the male and female with regard to relative importance, customer view and customer satisfaction dimensions.*

Table 5
t-Test for significant difference between the male and female with regard to relative importance, Customer Value and Satisfaction Level dimensions

Scale	Gender	Mean	SD	t Value	P Value
RIFSQ	Male	3.28	1.38	1.28	.204
	Female	3.62	1.30		
CVFSQ	Male	4.12	.754	1.39	.169
	Female	4.33	.729		
SLFSQ	Male	4.167	.626	.021	.983
	Female	4.164	.736		

Table 5 says that the significant values are greater than .05 and results suggest that significant differences are not found between Male and Female bank customers in three scales - Relative Importance Functional Service Quality (RIFSQ), Customer View Functional Service Quality (CVFSQ) and Satisfaction Level Functional Service Quality (SLFSQ).

VI. Conclusion

Survey says that Retail bank customers are satisfied with the functional quality attributes like "customer oriented services" and "Maintenance of customer privacy at bank branch". Study also reveals that quality attributes - "Quickness in service Delivery" and "supportive bank staffs" are the attributes to be focused by retail banks in Bangalore for improvement of service quality, which would lead to customer satisfaction and to retain loyal customers. Various methods and technology are to be introduced to improve the quickness in service delivery. Proper training and awareness to bank staffs regarding importance of service quality and bank product features & process. Satisfaction level of bank staffs are also vital point to be monitored as happy bank staffs can produce better output as satisfy bank customers.

Future scope of Study

The further scope of study can be done based on different functional quality attributes of retail banks. Quickness in service at branch level and supportive bank staffs are two variables to be studied further across regions to understand the outcomes and area of improvisation as part of retail banking service quality. The similar study can also be done in different region of the country to get a wider understanding of functional quality attributes in retail banking.

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