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Service Quality Gaps In Private Sector Banking: An Empirical Study From The Customer's Viewpoint

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Abstract
The rapid growth of private sector banks in India has significantly reshaped the banking environment; however, discrepancies persist between customer expectations and perceived service quality. This study investigates this service quality gaps in selected private sector banks in Chennai using the SERVQUAL framework, which assesses five dimensions: Tangibles, Reliability, Responsiveness, Assurance, and Empathy. Data were collected from a purposive sample of 200 bank customers through a structured questionnaire employing a five-point Likert scale. Gap analysis revealed that Empathy exhibited the largest shortfall, followed by Reliability and Responsiveness, whereas Tangibles and Assurance showed relatively smaller gaps. Attributes with the highest gaps included personalized attention and understanding of customer needs, while the lowest gaps were observed in safe transactions, modern equipment, and courteous staff. Stepwise multiple regression analysis demonstrated that Empathy (β = 0.365), Reliability (β = 0.285), and Assurance (β = 0.215) significantly influence overall service quality, collectively explaining 48.7 per cent of the variance. These results indicate that, despite strong performance in infrastructure and professionalism, private banks need to enhance human-centred services to improve customer satisfaction, loyalty, and retention.
Keywords: *Service Quality gap, SERVQUAL, Private Sector Banks.*

INTRODUCTION

The liberalization of the Indian economy in the 1990s facilitated the rapid growth of private sector banks, reshaping the traditional banking landscape through the introduction of advanced technologies, innovative financial products, and customer centric services. These banks are often distinguished by their operational efficiency, flexible service delivery, and robust infrastructure, which set them apart from public sector institutions. Nevertheless, despite these advancements, customers' perceptions of service quality frequently do not align with their expectations, resulting in measurable service quality gaps. Such gaps can significantly affect customer satisfaction, loyalty, and retention, factors that are crucial for maintaining a competitive edge in the evolving financial sector. In the current competitive environment, customers increasingly expect not only reliable and timely service but also personalized attention, empathy, responsiveness, and assurance regarding transaction security. Research indicates that, even with sophisticated technology and automated processes, the human element, including promptness, courtesy, and individualized care, remains a critical determinant of customer perceptions. Assessing these service quality gaps is therefore essential to identify areas of underperformance and to develop targeted strategies for improvement. This study applies the SERVQUAL framework, which evaluates service quality across five dimensions, Tangibles, Reliability, Responsiveness, Assurance, and Empathy, to empirically measure gaps from the customer's perspective. By highlighting both strengths and weaknesses in service delivery, the study aims to offer actionable insights to help private sector banks enhance customer satisfaction, reinforce loyalty, and foster long-term relationships in a competitive market.

REVIEW OF LITERATURE

Arasli et al. (2005) aimed to compare service quality perceptions in the banking sector between Turkish-speaking and Greek-speaking areas of Cyprus. Their goal was to determine whether cultural and regional differences influence customer evaluations of banking services. Using a quantitative approach, the authors employed the SERVQUAL model and collected data through a structured questionnaire administered to 268 bank customers across both regions. Statistical methods, including factor analysis, reliability tests, and t-tests, were used to assess differences between groups. The findings indicated significant variations in perceptions of tangibles, reliability, responsiveness, and empathy between the two customer groups, with Greek-speaking respondents generally reporting higher expectations and lower satisfaction than their Turkish-speaking counterparts. The study concluded that cultural and regional contexts play a decisive role in shaping customer service perceptions in the banking industry. The authors

suggested that bank managers should adopt region-specific strategies and tailor service improvements to the cultural values and expectations of their customer base to enhance satisfaction and competitiveness.
Bahia and Nantel (2000) aimed to create a more accurate and context-specific tool for measuring service quality in the banking industry by addressing the limitations of the SERVQUAL model. Using survey data from banking customers, the authors employed exploratory and confirmatory factor analysis to develop a new scale called BANKSERV. The study involved a large customer sample and refined the measurement into six reliable and valid dimensions: effectiveness and assurance, access, price, tangibles, service portfolio, and reliability. Results showed that BANKSERV offered stronger reliability and better conceptual fit for banks compared to SERVQUAL, as it incorporated both service delivery and outcome aspects. It concluded that BANKSERV provides researchers and practitioners with a solid framework for evaluating and improving service quality in banking, while emphasizing the importance of context-based adaptations in measuring service quality.
Ladhari (2009) aimed to review twenty years of SERVQUAL research to examine its dimensionality, reliability, validity, and practical use in various service industries. Using a systematic literature review method, the study analysed more than 40 empirical articles published between 1988 and 2008 across sectors such as banking, healthcare, retail, tourism, and education. The review, instead of relying on a single sample, synthesized evidence from these studies to identify common patterns and criticisms. The findings showed that SERVQUAL is the most widely used tool for measuring service quality. However, its five-dimensional structure often lacks consistency across different contexts, with many researchers adapting or modifying the scale. The study concluded that despite its limitations, SERVQUAL remains a valuable framework for assessing service quality perceptions and expectations. The author suggested that future research should refine the model to improve its contextual validity and adapt it to modern service environments, such as e-banking and digital platforms.
Parasuraman et al. (1988) This study examines service quality gaps in private sector banks from the customer's perspective using the SERVQUAL framework. Its primary objective was to assess the differences between customer expectations and perceptions across five dimensions: Tangibles, Reliability, Responsiveness, Assurance, and Empathy. A structured questionnaire consisting of 25 items on a five-point Likert scale was administered to 150 customers of HDFC, ICICI, and Axis banks in Chennai. The collected data were analysed using mean gap scores and ANOVA. The results indicated that Tangibles and Assurance largely met customer expectations, while Reliability exhibited moderate gaps. The most pronounced gaps were observed in Responsiveness and Empathy, with customers expressing dissatisfaction regarding prompt service, complaint handling, and personalized attention. The study concludes that private sector banks need to enhance human interaction and implement customer-focused strategies to reduce service gaps, thereby improving overall customer satisfaction and loyalty.
Sureshchandar et al. (2002) explored the relationship between service quality and customer satisfaction to see if they are separate or overlapping. Using a quantitative research approach, the authors surveyed more than 250 respondents across various service industries in India with a structured questionnaire. They used an expanded multidimensional service quality framework with five main factors, analysed through statistical methods like correlation and regression. Results showed that service quality and customer satisfaction are different but closely related, with aspects such as core service, human element, and social responsibility having a significant impact on satisfaction. The study concluded that improving service quality can directly increase customer satisfaction, but it is important to measure them separately for clarity. The authors advised managers to take a comprehensive approach to service quality improvement by addressing both functional and emotional factors to build lasting customer loyalty.
Venkatesh and Sangeetha (2017) conducted a study to examine customers' perception towards NEFT and RTGS services in the Indian banking industry, focusing on awareness, satisfaction, and usage patterns. Using a descriptive research design, data were collected through structured questionnaires from banking customers and analyzed with appropriate statistical techniques. The findings indicated that customers recognized the efficiency, speed, and security of NEFT and RTGS, yet expressed concerns about hidden charges, lack of awareness, and limited user-friendliness. The authors suggested that banks should invest in customer education through awareness programs, enhance transparency in transaction charges, and simplify digital interfaces to strengthen customer confidence. The study concluded that while NEFT and RTGS have revolutionized fund transfers in India, their effectiveness and adoption can be maximized only through customer-centric improvements in service delivery and financial literacy.

STATEMENT OF THE PROBLEM

The rapid growth of private sector banks in India has transformed the financial services sector by introducing advanced technology, innovative products, and customer focused services. However, despite these advances, customer attitudes toward private sector banks remain complex and diverse, influenced by factors such as service quality, trust, accessibility, transparency, and satisfaction. Many customers view private banks as efficient and modern, while others raise concerns about high service charges, lack of personalized attention, and aggressive marketing tactics. This variation in customer attitudes presents a significant challenge for private banks to retain current customers and attract new ones in a highly competitive market. Therefore, it is crucial to study and understand customer perceptions of private sector banks to identify service gaps, enhance customer experience, and build long-term relationships.

RESEARCH METHODOLOGY

This study adopted a quantitative research method to evaluate the service quality of selected banks in Chennai, utilizing the SERVQUAL model. The population included bank customers, from which a purposive sample of 200 respondents was chosen to share their perceptions and expectations regarding service quality across five dimensions: Tangibles, Reliability, Responsiveness, Assurance, and Empathy. Data were gathered through a structured questionnaire using a five-point Likert scale, capturing both expectation and perception scores. Gap analysis was performed by subtracting perception scores from expectation scores to identify service shortcomings. Additionally, stepwise multiple regression analysis was conducted to examine how each service quality dimension influences overall service quality. The results indicated the highest service gaps in Empathy (1.40), followed by Reliability (1.00) and Responsiveness (1.00), with Tangibles (0.55) and Assurance (0.60) exhibiting smaller gaps. Regression analysis revealed that Empathy ($\beta = 0.365$, $t = 4.95$, $p < 0.001$) was the most significant predictor of overall service quality, followed by Reliability ($\beta = 0.285$, $t = 4.20$, $p = 0.001$) and Assurance ($\beta = 0.215$, $t = 2.65$, $p = 0.008$), with the model accounting for 48.7% of the variance ($R^2 = 0.487$). This approach provided a systematic assessment of customer satisfaction and identified key areas for improvement in bank service delivery.

RESULTS AND DISCUSSIONS

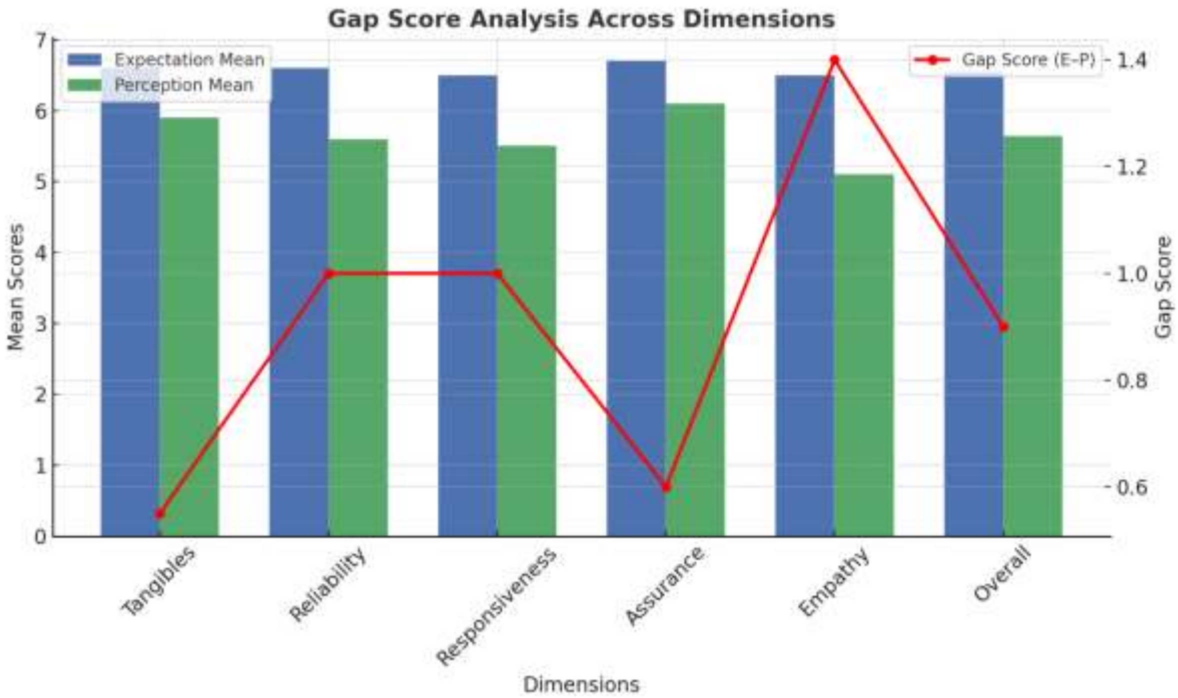
This section provides a detailed assessment of service quality in selected banks using the SERVQUAL model. The analysis explores the gaps between customer expectations and perceptions across five dimensions—Tangibles, Reliability, Responsiveness, Assurance, and Empathy, highlighting areas of strength and weakness. The highest and lowest gap attributes are identified to target specific service aspects that need improvement. Additionally, stepwise multiple regression is used to evaluate the relative influence of each dimension on overall service quality, offering insights into which factors most significantly affect customer satisfaction and loyalty. The findings give a thorough understanding of both human-cantered and infrastructure-related service performance, guiding recommendations for improving overall banking service quality.

5.1 Gap Score Analysis

Table 1: Average Gap Scores across Dimensions

Dimension	Expectation Mean	Perception Mean	Gap Score (E–P)
Tangibles	6.6	5.9	0.55
Reliability	6.6	5.6	1.00
Responsiveness	6.5	5.5	1.00
Assurance	6.7	6.1	0.60
Empathy	6.5	5.1	1.40
Overall	**6.54**	**5.64**	**0.90**

Source: Primary Data



The results show that among the five SERVQUAL dimensions, Empathy has the highest gap (1.40), indicating that customers perceive a significant shortfall in the bank's ability to offer personalized attention, understand individual needs, and provide caring, tailored service. The underscores a critical area where banks are not meeting customer expectations. Reliability and Responsiveness both recorded a gap of 1.00, highlighting moderate issues with consistent service delivery and the promptness of handling customer questions or concerns. Customers might encounter occasional errors, delays, or a lack of follow-up, which influence their overall view of service dependability. Conversely, Tangibles (0.55) and Assurance (0.60) showed the smallest gaps, meaning customers are generally satisfied with the bank's physical facilities, modern equipment, appearance, safety protocols, and staff's professionalism and courtesy. These findings suggest that while banks perform well in providing a secure, well-equipped, and professional environment, they should pay more attention to human-centered aspects such as empathy and quick responsiveness to improve overall customer satisfaction and loyalty.

5.2 Highest Gap Attributes

Table 2: Attributes with Highest Gaps

Attribute	**Dimension**	**Gap Score**
The bank provides individual attention	Empathy	1.5
Employees understand customer needs	Empathy	1.3
Employees are not too busy to respond to queries	Responsiveness	1.2
Staff provide personal attention	Empathy	1.2
Errors in service are minimised	Reliability	1.1

Source: Primary Data

Table 2 highlights the service attributes with the biggest perceived shortcomings. The largest gap of 1.5 was for 'Bank provides individual attention' (Empathy), pointing to a lack of personalized service. Similarly, 'Employees understand customer needs' (1.3) and 'Staff provide personal attention' (1.2) reveal gaps in understanding and fulfilling individual customer needs. 'Employees not too busy to respond to queries' (Responsiveness, 1.2) indicates delays in addressing customer requests, while 'Errors in service are minimized' (Reliability, 1.1) suggests occasional service inconsistencies. Overall, the biggest gaps are

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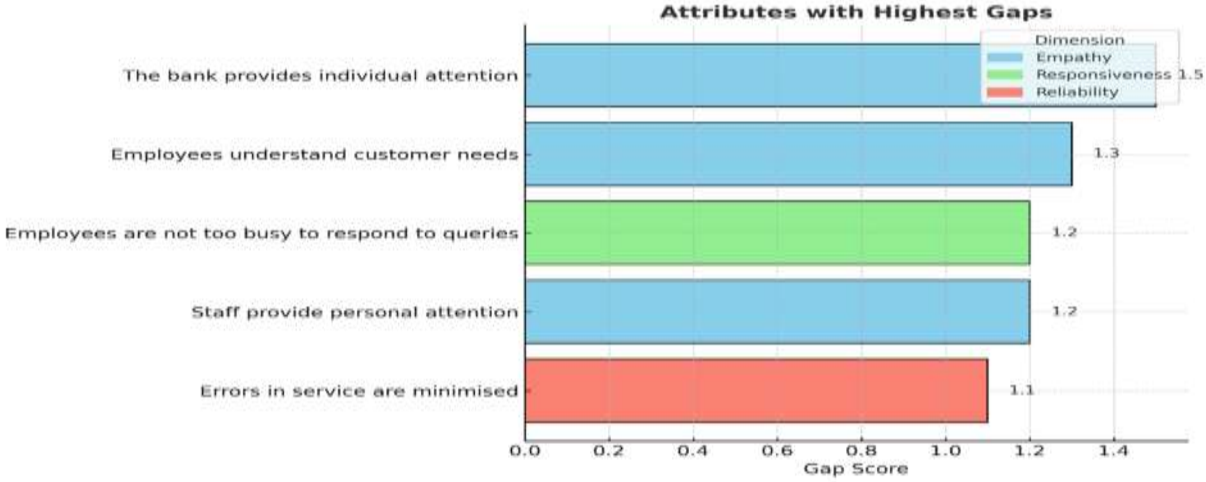
in human-centered areas, empathy and responsiveness, showing a need for banks to improve personalized attention, quick service, and reliability to boost customer satisfaction.



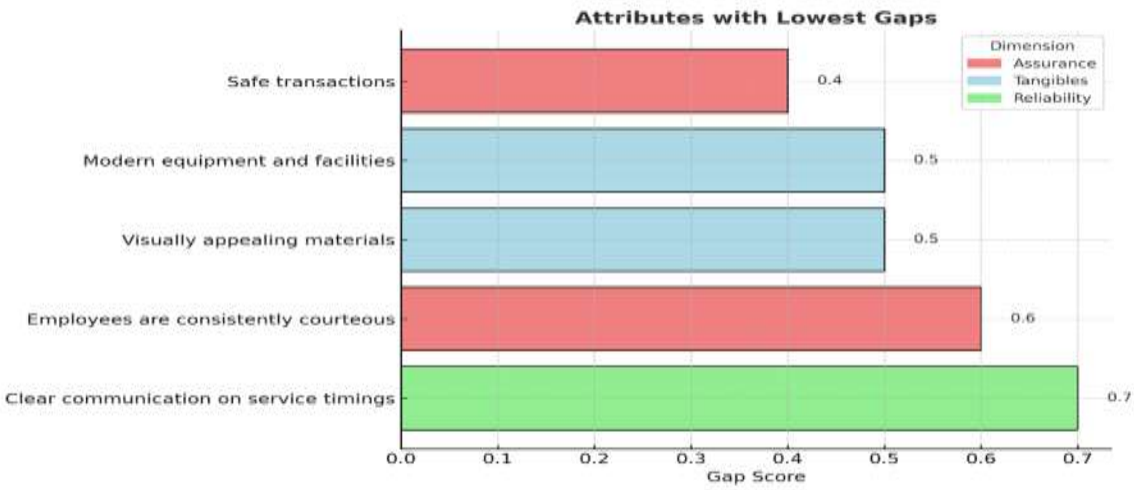
5.3 Lowest Gap Attributes

Table 3: Attributes with Lowest Gaps

Attribute	Dimension	Gap Score
Safe transactions	Assurance	0.4
Modern equipment and facilities	Tangibles	0.5
Visually appealing materials	Tangibles	0.5
Employees are consistently courteous	Assurance	0.6
Clear communication on service timings	Reliability	0.7

Source: Primary Data

Table 3 highlights the service attributes where banks perform well, showing minimal gaps between customer expectations and perceptions. The lowest gap of 0.4 was seen for 'Safe transactions' (Assurance), meaning customers feel confident about their banking security. Attributes like 'Modern equipment and facilities' (0.5) and 'Visually appealing materials' (0.5) under Tangibles show satisfaction with the bank's infrastructure and physical presentation. Similarly, 'Employees are consistently courteous' (Assurance, 0.6) and 'Clear communication on service timings' (Reliability, 0.7) indicate that staff professionalism and operational clarity meet customer expectations. Overall, these results demonstrate that banks are performing well in tangible and assurance-related areas, such as safety, infrastructure, and courteous behavior. However, gaps still exist mainly in empathy and responsiveness, which relate to personalized attention and timely service.



5.4 Regression analysis

Table 4: Regression Results

Predictor Dimension	Beta	t-value	Sig.
Empathy	0.365	4.95	0.000
Reliability	0.285	4.20	0.001
Assurance	0.215	2.65	0.008

Model Summary: R = 0.698, R^2 = 0.487, Adjusted R^2 = 0.478

A stepwise multiple regression was conducted to determine how individual service quality dimensions influence overall service quality. The results (Table 4) show that the model explains 48.7 per cent of the variance in overall service quality (R^2 = 0.487, Adjusted R^2 = 0.478), indicating that these dimensions can predict a significant portion of customer perceptions. Among the predictors, Empathy emerged as the strongest factor (β = 0.365, t = 4.95, $p < 0.001$), underscoring the importance of personalized attention, understanding customer needs, and caring service in perceived overall quality. Reliability (β = 0.285, t = 4.20, p = 0.001) and Assurance (β = 0.215, t = 2.65, p = 0.008) also significantly affect service quality, suggesting that consistent, error-free service and customer trust are crucial. Responsiveness and Tangibles were not significant predictors in the final model, implying that while these dimensions influence customer perception, their effect is less direct compared to empathy, reliability, and assurance. Overall, the findings highlight that banks aiming to improve overall service quality should focus on strategies that enhance empathy, ensure reliability, and strengthen assurance.

CONCLUSION

The study confirms that service quality gaps remain in private sector banks, especially in the human-centered areas of Empathy and Responsiveness, indicating that customers feel they receive insufficient personalized attention and experience delays in service. Reliability also leads to customer dissatisfaction because of occasional errors in service delivery. Conversely, Tangibles and Assurance show strong performance, reflecting customer approval of physical infrastructure, safety, and staff professionalism. Regression analysis identifies Empathy as the most important predictor of overall service quality, followed by Reliability and Assurance, highlighting the need for good interpersonal interactions along with operational efficiency. To improve customer satisfaction and build long-term loyalty, banks should focus on training staff in personalized service, enhancing responsiveness, and ensuring consistent, error-free operations while maintaining their strengths in infrastructure and assurance.

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