

## SERVICE QUALITY IN HOUSING FINANCE COMPANIES IN MADURAI CITY

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### **Introduction- Housing finance market**

Given the population growth rate in the Indian economy and the consequential requirement for housing stock, the housing construction sector is increasingly becoming one of the most important sectors of the Indian economy having tremendous potential to become more and more important in coming years. One of the most significant factors that drove the growth of housing market in India in the recent years was the 'easy availability' of bank finance at 'affordable interest rates' owing to relatively comfortable liquidity position in the banking system and a soft interest rate environment. Housing market in India, as evidenced by the growth in bank exposures to the sector took off mainly since the year 2001. Banks despite being a late entrant have overtaken the Housing Finance Companies (HFCs) in the home loan market. The share of banks in total home loan disbursements has risen from 49.94 per cent in 2000-2001 to 71.46 per cent in 2007-2008. The retail loan portfolios of banks including housing and real estate advances expanded at rates ranging between 22 to 41 per cent since 2001-2002 and on an average accounted for 20.5 per cent of the incremental non-food credit during this period. Housing credit has formed a dominant share of overall non-food credit growth in India during the recent years. The rapid growth in housing loan market has been supported, inter-alia, by the growth in the middle class population, favorable demographic structure, rising job opportunities in the metropolitan centers, emergence of a number of second tier cities as upcoming business centers, boom in the IT sector in India and rise in disposable incomes. Furthermore, attractive tax advantages for housing loans make them ideal vehicles for tax planning for salary earners. For banks and other housing finance institutions, the regulatory framework enabled expansion in house loan portfolios given the helpful prescriptions on risk weights for housing exposures and the benefit of compliance with the targets mandated for priority sector lending by the Reserve Bank of India (RBI). Despite US financial crisis of 2008, the Indian housing industry continues to hold the fundamental level and will emerge as the fastest recovering housing industry across the globe because of its strong regulatory environment, growing domestic demand level due to demographic and income related factors which shields the Indian housing industry from after effects of economic crisis.

### **Role of Service Quality in Housing Financial Institutions**

Service quality has become an important factor among the customers in any Financial Institutions. For the success and survival in the services sector, provision of high

service quality is necessary in meeting several requirements such as customer satisfaction and its consequent loyalty, attracting new customers and to increase the market share and profitability. Service quality is consistently viewed in the literature as a unique construct from customer satisfaction. The consumer considers that the service quality stems from a comparison of what he feels about the service and what is the performance of that service offering. In short, in order to evaluate the service quality the discrepancy between consumer's expectations and perception should be calculated.

The service quality has become a principal competitive weapon in the service industry. Services are intangible and are also not easily duplicated. Quality on the other hand, is differentiable and stems from the expectations of the customers, Hence, it is necessary to identify and prioritize the customers' expectations for service quality and incorporate these expectations into a service process for improving quality. The key variables in meeting customer expectations begin with identifying the specific characteristics of service quality as perceived by the customer who defines the nature and importance of service quality.

#### **Need for the Study**

After liberalization and globalization there is a mushroom growth of housing finance companies in India. The competition among HFCs is hectic. The customers in the housing finance market are highly informative and educated. Their level of expectation and perception on the services and service quality offered by the HFCs are frequently changing. The private sector housing finance companies are posing more hidden charges on their customers. Hence, there is a higher switching trend in the market. The housing finance companies are struggling to retain their customers. They know it is possible when they are offering better services and service qualities to them, but these HFCs are not adopting that exactly. Hence there is a dare need to study the level of perception, expectation and its gap regarding the service quality of housing finance companies. The present study has been made on this attempt.

#### **Service Quality and Switching Behaviour- Previous studies**

Poor service quality is one of the determinants of poor loyalty and unfavourable behavioural intentions (Aydin and Ozer, 2005). In banking industry, switching behavioural responses has also been related to perceptions of quality (Rust and Zahorik, 1993; Yavas et al., 2004). A high-level of service quality is essential in order to prevent banking customers from switching Clemes et al., (2007). Likewise, Chakravarty et al., (2004) examined the role of relationship in customer switching behaviour through various factors including service quality dimensions and relationship dimensions. Mavri and Ioannou (2008) examined the switching behaviour of Greek banking consumers and

concluded that product and service quality in combination to bank's brand name had positive effect in decreasing churn behaviour while demographic variable including gender and education level had little impact on switching. In contrast to previous researches Kura et al., (2012) found no significant effect of service quality (measured through empathy and assurance) on customer switching in banking. Kaur et al., (2012) studied switching intentions through various relational factors in Indian banking industry and revealed that service quality, satisfaction and trust significantly affect switching barriers. Based on extensive literature review on the relationship between service quality and switching behaviour, authors opted to use inconvenience, reliability and staff that deliver services as the three dimensions of service quality in their studies.

#### **Objectives of the study**

1. To reveal the profile of the customers;
2. To measure the customers' expectation, perception and its gap on housing service quality.

#### **Hypothesis of the study**

There is no significant difference among the customers in Public and Private Sector housing finance companies regarding the expectations and perceptions on housing service quality.

#### **Research design**

The research design followed in the present study is descriptive and diagnostic in nature.

#### **Locale of Research**

The present study focuses on the customers in selected HFCs located at Madurai city of Tamilnadu. The customers were identified with the help of managers of the respective housing finance company.

#### **Sample size**

Fifty customers each from LIC housing finance Ltd and Fifty customers from private housing finance companies like Diwan housing, HDFC etc are selected on convenience basis. The total selected sample is hundred.

#### **Data Collection**

Direct personal interview was used to collect the data.

### Design of Questionnaire

The well structured questionnaire was used to collect data from customers of housing finance companies. It was pre tested with ten customers initially and modifications made based on their suggestions.

### Tools for analysis

T- test, Exploratory Factor Analysis and one way analysis of variance are used for the study.

### Variables Measurement

With regard to the SERVQUAL instrument, the items were derived from the refined version published by Parasuraman et al. (1991). In this version five major dimensions are employed to capture the elements of perceived quality namely tangible elements, elements pertaining to the provider's reliability, responsiveness, assurance and empathy. All items were measured using a seven-point scale of agreement anchored 1 = 'I strongly disagree' to 7 = 'I strongly agree'. Yet, given the concerns and the criticism regarding the computation of difference scores that was presented in previous paragraphs, we assessed directly the service performance of the service providers as perceived by the respondents.

The development of the HOUSERV instrument was also based on known scales which were combined to form an alternative integrated approach to measure perceived service quality in housing finance services. Thus, to measure soft and hard process quality the scales suggested by Kaynak et al. (1994) were employed. Potential quality was measured using the scale suggested by Bochove (1994) while the scales suggested by Halinen (1994) were employed to capture immediate and final outcome quality. The variables in HOUSERV were drawn from the review of past studies. The included variables are listed in Table 1.

**Table 1 Variables in Housing Finance Service Quality (HOUSERV)**

Sl.No.	Variables in HOUSERV	Sl.No.	Variables in HOUSERV
1.	Offers full service	12.	Has required management philosophy
2.	Accepted enthusiastically	13.	Reaches objectives
3.	Keep time schedule	14.	Understand customer needs
4.	Listen to our problems	15.	Has a notable effect
5.	Has required personnel	16.	Has a low personnel turn over
6.	Argue if necessary	17.	Open to suggestions/ideas
7.	Meet deadlines	18.	Uses of networks
8.	Has required facilities	19.	Pleasant personality
9.	Look after customer interest	20.	Honour financial agreements
10.	Look at details	21.	Contributes to image
11.	Consistent in strategy	22.	Creative in terms of offering

The respondents are asked to rate the above said variables at five point scale.  
Discussions and findings:

### **Descriptive Statistics**

The customers are basically classified into the customers in Public Sector Company (PUSCs)- LICHF ltd and the customers in the private sector companies (PRSGs). The dominant gender among the customers is male whereas the dominant age group among the customers is 31 to 50 years. The dominant marital status among the customers is married whereas the level of education among the customers is degree/diploma and post graduation. The important occupational status among the customers in businessmen and private employees. The most important occupational status among the customers in PUSCs are private and government employees whereas among the customers in PRSCs, these are private employees and businessmen.

The dominant monthly income among the customers are Rs.50,001 to Rs.60,000 and Rs.20,000 to 30,000. The average monthly income among the customers in PRSCs is higher than that among the customers in PUSCs. The dominant family size among the customers is 3 to 4 whereas the dominant nativity among the customers is urban. The important earning members per family among the customers is only one. The dominant family income per month among the customers is Rs.50,000 to 70,000. The average family income per month among the customers in PRSCs is higher than that among the customers in PUSCs.

The dominant housing loan borrowed among the customers in Rs.20.01 to 25 lakhs. The average housing loan borrowed by the customers in PRSCs higher than that among the customers in PUSCs. The important period of housing loan borrowed by the customers is 15.01 to 20 years. The dominant type of housing loan borrowed by the customers is the construction of new house.

### **Housing Finance Service Quality (HOUSERV) among the Customers**

The HOUSERV among the customers in the present study is measured with the help of 22 variables. The customers are asked to rate these variables at five point scale according to their order of perception. The mean scores of the level of perception on variables in HOUSERV among the customers in PUSCs and PRSCs have been computed separately along with its 't' statistics. The results are given in Table 2

**Table 2**  
**Customers' Perception on Variables in Housing Finance Service Quality (HOUSERV)**

Sl.No.	Variables in HOUSERV	Mean scores among customers in		't' statistics
		PUSCs	PRSCs	
1.	Offers full service	3.3884	2.8676	2.4919*
2.	Accepted enthusiastically	3.4082	2.9671	2.6224*
3.	Keep time schedule	3.3844	2.9042	2.2117*
4.	Listen to customer problems	3.4172	3.0114	2.2117*
5.	Has required personnel	3.6842	3.0841	2.7332*
6.	Argue if necessary	3.5084	2.9908	2.6242*
7.	Meet deadlines	3.3093	2.7414	2.7346*
8.	Has required facilities	3.5117	2.9118	2.6841*
9.	Look after customer interest	3.3886	2.9679	2.3084*
10.	Look at details	3.4673	2.8896	2.7317*
11.	Consistent in strategy	3.2679	2.8242	2.3694*
12.	Has required management philosophy	3.3908	2.6917	2.8676*
13.	Reaches objectives	3.3088	2.9411	2.4162*
14.	Understand customer needs	3.4241	2.9142	2.6349*
15.	Has a notable effect	3.3778	2.7084	2.7084*
16.	Has a low personnel turnover	3.6603	2.9007	2.8449*
17.	Open to suggestions/ideas	3.4086	2.7119	2.8468*
18.	Uses of networks	3.4082	2.9446	2.6118*
19.	Pleasant personality	3.3174	2.8641	2.5949*
20.	Honour financial agreements	3.4028	2.7089	2.8646*
21.	Contributes to image	2.3941	2.8969	2.5119*
22.	Creative in terms offering	3.2886	2.7084	2.4968*

\*Significant at five per cent level.

The highly perceived variables in HOUSERV by the customers in PUSCs are 'has required personnel' and 'has a low personnel turnover' since their mean scores are 3.6842 and 3.6603 respectively. Among the customers in PRSCs these two variables are 'has required personnel' and 'listen to customer problems' since its mean scores are 3.0841 and 3.0114 respectively. Regarding the perception on variables in HOUSERV, the significant difference among the customers in PUSCs and PRSCs has been noticed in the case of perception on all 22 variables in HOUSERV since their respective 't' statistics are significant at five per cent level.

### Important HOUSERV Factors

The score of all 22 variables in HOUSERV have been included for factor analysis in order to narrate the variables into factors. Initially, the validity of data for factor analysis has been tested with the help of KMO measure of sampling adequacy and Bartlett's test of sphericity. Both these two tests satisfy the validity of data for factor analysis. The factor analysis results in four important HOUSERV factors. The Eigen values and the per cent of variation explained by these four factors are presented in Table 3.

**Table 3 Important HOUSERV Factors**

Sl.No.	Houserv	Number of variables in	Eigen values	Per cent of variation explained	Cumulative per cent of variation explained
1.	Potential quality	6	4.6424	21.10	21.10
2.	Soft process quality	6	4.3969	19.99	41.09
3.	Hard process quality	5	3.8804	17.64	58.73
4.	Output quality	5	3.6972	16.81	75.54
KMO measure of sampling adequacy: 0.7682			Bartlett's test of sphericity: chi-square value: 81.08*		

\*Significant at five per cent level.

The first two important HOUSERV factors narrated by the factor analysis are potential quality and soft process quality since its Eigen values are 4.6424 and 4.3969 respectively. The per cent of variation explained by these factors are 21.10 and 19.969 per cent respectively. The last two important HOUSERV factors identified by the factor analysis are hard process quality and output quality since its Eigen values are 3.8804 and 3.6972 respectively. The per cent of variation explained by these two factors are 17.64 and 16.81 per cent respectively. The narrated four HOUSERV factors explain the 22 variables in it to an extent of 75.54 per cent. These four factors have been included for further analysis.

### Service Quality Gap in HOUSERV Factor

The service quality gap in HOUSERV factor has been estimated by the difference between the level of perception and expectation on the HOUSERV factor among the customers. The mean score of service quality gap in all four HOUSERV factor among customers in PUSCs and PRSCs have been estimated separately. The 't' test has been

administered to find out the significant difference among the two groups of customers. The results are shown in Table 4.

**Table 4 Service Quality Gap in HOUSERV Factor**

Sl.no.	Houserv Factor	Mean Scores among Customers in		't' Statistics
		Puscs	Prscs	
1.	Potential quality	-0.4916	-0.6170	-2.2344*
2.	Soft process quality	-0.7057	-0.4703	2.3996*
3.	Hard process quality	-0.5108	-0.5800	-0.4143
4.	Output quality	-0.6399	-0.5506	1.7314

\*Significant at five per cent level.

All the score on service quality gap in HOUSERV factors are in negative which reveals that the level of perception on these HOUSERV factors are not up to the level of expectation on it among the customers. The higher negative scores are noticed in the case of soft process quality and output quality since its mean scores are -0.7057 and -0.6399 respectively among the customers in PUSCs. Among the customers in PRSCs, these are noticed in the case of potential quality and hard process quality since its mean scores are -0.6170 and -0.5800 respectively. Regarding the score on service quality gap, the significant difference among the customers in PUSCs and PRSCs have been noticed in the case of potential and soft process quality since their respective 't' statistics are significant at five per cent level.

#### **Concluding remarks**

The present study concludes that the service qualities offered by the PUSC is highly perceived by their customers compared to the customers in PRSCs. But the level of perception on various service qualities of the housing finance companies are not upto their level of expectation

#### **Policy implications**

Based on the findings of the study, the following suggestions are drawn:

#### **Enrichment of Interactive Service Quality**

Since the customers in PRSCs are poor rating the services and service quality offered by the company, there is a higher need for the continuous enrichment of interactive service quality of the housing finance company especially in the case of service convenience. The private sector housing finance companies are advised to focus on the decision, access, transaction, benefit and post benefit convenience offered to their customers.

### Reduction of Service Quality Gap

Since the level of perception on the service quality in HFCs are not up to the level of expectation among the customers, it is highly essential to measure the service quality gap among them and also the reasons for it. Then only, the housing finance companies can reduce the service quality gap in order to generate the customer satisfaction and loyalty towards the HFCs.

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