CHAPTER - 2

LITERATURE REVIEW
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The banking sector in India has made remarkable progress since the economic reforms in 1991. New private sector banks have brought the necessary competition in the industry and spearheaded the changes towards higher utilization of technology, improved customer service and innovative products. Customers are now becoming increasingly conscious of their rights and are demanding more than ever before.

The recent trends are showing that most banks are shifting from a “product centric model” to a “customer centric model” as customer satisfaction has become one of the major determinants of business growth. In this context, prioritization of preferences and close monitoring of customer satisfaction have become essential for banks. Keeping this in mind an attempt has been made to find the factors influencing the customers regarding preferences towards public and private sector banks.

European Journals of Economics, Finance and Administrative Services Issue 24(2010) Uma Shankar Mishra, Jyoti Ranjan Das, Sanjib Pattnaik, Ayasa Kanta Mohanty. Researchers concluded in their study that delivering superior service quality appears to be prerequisite for the banks. As electronic banking becomes more prevalent, now a days customers are evaluating banks based more on their “high touch” factors than on their “high tech” factors in most of the developing economy like India. The operationalization of customer satisfaction in banking sector is somewhat hazy, and it should be operationalized along the same dimensions that constitute service quality.

Volume 20, Number 1 Article by Vimi Jham & Kaleem Mohd Khan March, 2008. IIM Banglore. Customer Satisfaction in the Indian Banking Sector: A Study. This study, conducted among five Indian banks, aimed at identifying customer satisfaction variables which lead to relationship building, and developing a conceptual framework of relationship marketing practices in
Indian banks by capturing the perspectives of customers with respect to their satisfaction with various services. Reporting on the different satisfaction levels of the customers, the findings suggest that while private banks have been able to attract the younger customers with higher educational levels, who are comfortable with multi channel banking, the customers of the national bank are older and more satisfied with the traditional facilities. The results from this study could provide managerial lessons on assessment of strengths and improvement of services and in evolving a research strategy that will benefit the management of banks.

Prithviraj Nath et al (2003) have studied the role of trust in Online banking services in India and have concluded that trust enhances customer's commitment in online banking transactions. The Perceived risk is the key dimension of trust in this research. Factors like extra services offered, image of the bank and convenience were given much importance by customers of local banks. A bank can differentiate offerings and target men and women specifically based on their choices.

Banking in the Western world is one of the many service industries where customer satisfaction has been the focus of research (Holliday, 1996). This is mainly because of the fact that the banking sector is increasingly experiencing a high level of competition. This puts a tremendous amount of pressure on banks to improve their services (see for example, Levesque and McDougall, 1996; Good et al., 1996; Good and Moutinho, 1996; 1995; File and Prince, 1992; Nicholls et al., 1993). However, a similar argument can be made in connection with the banking sector in many Asian countries. For instance, the banking sector in Pakistan has become competitive in recent years. The government in recent years has pushed the industry from state ownership towards privatization. Related to this are the liberalization policies followed by the government, which has encouraged some international players to intensify their activities in the market. Customers are also increasingly becoming sophisticated as they have access to the latest forms of information technology (such as the Internet). Consequently, many financial institutions
have to focus on increasing customer satisfaction and customer retention through improved quality of their services.

Varde and Singh (1979) in a thought-provoking study of nationalized banks in India, concluded that an average, the profitability of nationalized banks in India declined during 1964-77. They highlighted that the main causes of this decline were low spread, high manpower and other operational expenses.

Shah (1979) in his study argues that bank profitability is linked with bank management, customer service and financial performance.

Minakshi and Kaur (1990) in their study empirically proved that pre-liberalization banking being highly regulated and controlled has suffered a lot so far as profitability is concerned.

Saha, Gurudas (2001) in his study analyses that public sector banks have a better competitive edge that gets lost because of poor governance.

Ballabh (2001) analyzed challenges in the post-banking sector reforms. With globalization and changes in technology, financial markets, world over, have become closely integrated. For the survival of the banks, they should adopt new policies/strategies according to the changing environment.

Laxman, Deen and Badiger (2008) examined that banking industry is undergoing a paradigm shift in scope, content, structure, functions and governance. Their very characters, composition, contour and chemistry is changing. The information and communication technology revolution is radically and perceptibly changing the operational environment of the banks.

Muniappan (2002) studied paradigm shift in banks from a regulator point of view. He concluded the positive effect of banking sector reforms on the performance of banks. He suggested many effective measures to strengthen the Indian banking system. The reduction of NPAs, more provisions for standards of the banks, IT, sound capital bare are the positive measures for a paradigm shift. A regulatory change is required in the Indian banking system.

Singh (2003) analyzed profitability management of banks under the
deregulated environment with some financial parameters of the major four bank groups i.e. public sector banks, old private sector banks, new private sector banks and foreign banks, profitability has declined in the deregulated environment. He emphasized to make the banking sector competitive in the deregulated environment. They should prefer non-interest income sources.

Subbaroo (2007) concludes the Indian banking system has undergone transformation itself from domestic banking to international banking. However, the system requires a combination of new technologies, well regulated risk and credit appraisal, treasury management, product diversification, internal control, external regulations and professional as well as skilled human resource to achieve the heights of the international excellence to play its role critically in meeting the global challenge.

Uppal and Kaur (2007) analysis the efficiency of all the bank groups in the post banking sector reforms era. Time period of study is related to second post banking sector reforms (1999-2000 to 2004-05). The paper concludes that the efficiency of all the bank groups has increased in the second post banking sector reforms period but these banking sector reforms are more beneficial for new private sector banks and foreign banks.

Wahab (2001) has analyzed the performance of the commercial banks under reforms. He also highlighted the major issues need to be considered for further improvement. He concluded that reforms have produced favorable effects on performance of commercial banks in general but still there are some distortions like low priority sector advances, low profitability etc. that needs to be reformed again.

Sarkar et al(1998) compared public, private and foreign banks in India to find the effect of ownership type on different efficiency measures by using regression analysis. Rammohan (2002,2003) also used financial measures for comparing operational performance of different categories of banks in post liberalization period. However most of the studies which look at the efficiency
of Indian commercial banks concentrate on cost, profit and revenue efficiencies. Rammohan and Ray (2004) compared the revenue maximizing efficiency of public, private and foreign banks in India and found that public sector banks are significantly better in revenue maximization efficiency.

Sathye (2005) studied the impact of privatization on banks performance and found that partially privatized banks have performed better than fully public sector banks and they are catching up with the banks in the private sector.

In today’s competitive environment banks need to keep up with current and potential customers if they are to survive, grow and continue to prosper (Mohebi and Hechter, 1993). This finding is supported by Holliday (1996) where the banking industry is vulnerable to a changing environment for example loyal customers can be stolen away through an aggressive marketing campaign.

Myloankis et al’s (1998) findings showed that banks today are focusing most of their competitive efforts on physical presence (such as branch network development in very attractive locations and promotion as well as offering supplementary services to differentiate themselves from others.

Debasish (Nov 2009): Banks should provide better quality services by paying attention to all dimensions of service quality then customers would be satisfied. Public sector banks should focus on assurance empathy and private sector should focus on reliable services. Tangibility and reliability provides maximum satisfaction to customers of both sector banks.

For employees satisfaction: Spector (1997) has reviewed the most popular job satisfaction instruments and summarized the following facets of job satisfaction as appreciation, communication, coworkers, job conditions, nature of work, nature of organization, pay, personal growth, recognition, security and supervision.