CHAPTER I
INTRODUCTION AND RESEARCH DESIGN
1.1 INTRODUCTION

The Banking industry plays a vital role in the economic development of a country. The growth of an economy depends on the robustness and stability of its banking system. Banks are the power house of the country’s wealth and financial health. King and Levine (1993)\(^1\) emphasize that a well-developed financial system enables smooth flow of savings and investments that supports economic growth.

Meenakshi and Mahesh (2010)\(^2\) perceives that a healthy financial system can help achieve efficient allocation of resources across time and space by reducing inefficiencies arising out of market frictions and other socio-economic factors.

The function of a bank may be briefed as it accepts deposits from individuals and organizations and lends to the businesses and individuals. The money collected as deposits are used for capital formation of the country. Wikipedia defines bank as “a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly by loaning or

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indirectly through capital markets. A bank links together customers that have capital deficits and customers with capital surpluses”.

1.2 FUNCTIONS OF BANKS

The functions of banks are briefly highlighted in following Chart.1.1

I. Primary Functions

The function of a bank is classified into primary function and secondary functions. The primary function of any commercial bank is accepting deposits and granting advances. The primary functions of a bank are also known as banking functions. They are the main functions of a bank.

1. Accepting Deposits: The bank collects deposits from the public. These deposits can be of different types, such as:-

   a. Saving Deposits: This type of deposits encourages the saving habit among the general public. The rate of interest is low. Withdrawals of deposits are allowed subject to certain restrictions. This account is suitable to salary and wage earners. This account can be opened in single name or in joint names.

   b. Fixed Deposits: Lump sum amount is deposited at one time for a specific period. Higher rate of interest is paid, which varies with the period of deposit.
Withdrawals are not allowed before the expiry of the period. Those who have surplus funds go for fixed deposit.

c. **Current Deposits:** This type of account is operated by businessmen. Withdrawals are freely allowed. No interest is paid. In fact, there are service charges. The account holders can get the benefit of overdraft facility.
CHART 1.1

Functions of a Bank

BANK

Primary Functions
- Accepting Deposits
  - Saving Deposits
  - Fixed Deposits
  - Recurring Deposits
  - Current Deposits
- Granting Advances
  - Loan
  - Over Draft
  - Cash Credit
  - Discounting of Bills

Secondary Functions
- Agency Functions
  - Transfer of Funds
  - Periodic Collection
  - Periodic Payments
  - Portfolio Management
- Utility Functions
  - Drafts
  - Lockers
  - Underwriting
  - Project Reports
  - Social Welfare Functions
d. Recurring Deposits: This type of account is operated by salaried persons and petty traders. A certain sum of money is periodically deposited into the bank. Withdrawals are permitted only after the expiry of certain period. A higher rate of interest is paid.

2. Granting Loans and Advances: The other important primary function of banks is Granting of Loans and Advances. The bank advances loans to the business community and other members of the public. The rate charged is higher than what it pays on deposits. The difference in the interest rates (lending rate and the deposit rate) is its profit. The types of bank loans and advances are Overdraft, Cash Credits, Loans, and Discounting of Bill of Exchange.

a. Overdraft: This type of advances is given to current account holders. No separate account is maintained. All entries are made in the current account. A certain amount is sanctioned as overdraft which can be withdrawn within a certain period of time say three months or so. Interest is charged on actual amount withdrawn. An overdraft facility is granted against a collateral security. It is sanctioned to businessman and firms.

b. Cash Credits: The client is allowed cash credit up to a specific limit fixed in advance. It can be given to current account holders as well as to others who do not have an account with bank. Separate cash credit account is maintained. Interest is charged on the amount withdrawn in excess of limit. The cash credit is given
against the security of tangible assets and / or guarantees. The advance is given for a longer period and a larger amount of loan is sanctioned than that of overdraft.

c. Loans: It is normally for short term say a period of one year or medium term say a period of five years. Now-a-days, banks do lend money for long term. Repayment of money can be in the form of installments spread over a period of time or in a lump sum amount. Interest is charged on the actual amount sanctioned, whether withdrawn or not. The rate of interest may be slightly lower than what is charged on overdrafts and cash credits. Loans are normally secured against tangible assets of the company.

d. Discounting of bill of exchange: The bank can advance money by discounting or by purchasing bills of exchange both domestic and foreign bills. The bank pays the bill amount to the drawer or the beneficiary of the bill by deducting usual discount charges. On maturity, the bill is presented to the drawee or acceptor of the bill and the amount is collected.

II. Secondary Functions of Banks

The bank performs a number of secondary functions, also called as non-banking functions. The secondary function of a bank is classified into two sub functions such as Agency Function and Utility Functions. These important secondary functions of banks are explained below.
A. Agency Functions: The bank acts as an agent of its customers. The bank performs a number of agency functions which includes Transfer of Funds, Collection of Cheques, Periodic Payments, Portfolio Management, Periodic Collections and Other Agency Functions

a. Transfer of Funds: The bank transfer funds from one branch to another or from one place to another.

b. Collection of Cheques: The bank collects the money of the cheques through clearing section of its customers. The bank also collects money of the bills of exchange.

c. Periodic Payments: On standing instructions of the client, the bank makes periodic payments in respect of electricity bills, rent, etc.

d. Portfolio Management: The bank also undertakes to purchase and sell the shares and debentures on behalf of the clients and accordingly debits or credits the account. This facility is called portfolio management.

e. Periodic Collections: The bank collects salary, pension, dividend and such other periodic collections on behalf of the client.

f. Other Agency Functions: They act as trustees, executors, advisers and administrators on behalf of its clients. They act as representatives of clients to deal with other banks and institutions.
B. General Utility Functions: The bank also performs general utility functions, such as Issue of Drafts, Letter of Credits, Locker Facility, Underwriting of Shares, Dealing in Foreign Exchange, Project Reports, Social Welfare Programmes and Other Utility Functions

a. Issue of Drafts and Letter of Credits: Banks issue drafts for transferring money from one place to another. It also issues letter of credit, especially in case of, import trade. It also issues travelers’ cheques.

b. Locker Facility: The bank provides a locker facility for the safe custody of valuable documents, gold ornaments and other valuables.

c. Underwriting of Shares: The bank underwrites shares and debentures through its merchant banking division.

d. Dealing in Foreign Exchange: The commercial banks are allowed by RBI to deal in foreign exchange.

e. Project Reports: The bank may also undertake to prepare project reports on behalf of its clients.

f. Social Welfare Programmes: It undertakes social welfare programmes, such as adult literacy programmes, Investor literacy and public welfare campaigns, etc.
**g. Other Utility Functions:** It acts as a referee to financial standing of customers. It collects creditworthiness information about clients of its customers. It provides market information to its customers, etc.

**1.3 BANKING SYSTEM IN INDIA**

A report of World Bank (2012)\(^3\) narrates that banking in India may be divided into two categories such as organized banking system and indigenous banking system. The structure of Indian Banking industry is briefly highlighted in the Chart.1.2.

The Reserve Bank of India (RBI) is the apex bank which regulates the functioning of all banks operating within the country. The banking system comprises of scheduled banks (banks that are listed under the Second Schedule of the RBI Act, 1934) and unscheduled banks. Scheduled banks are further classified into commercial and cooperative banks, with the basic difference in their holding pattern. Cooperative banks are cooperative credit institutions that are registered under the Cooperative Societies Act and work according to the cooperative principles of mutual assistance. Commercial banks are classified into Public Sector Banks, Private Sector Banks, Foreign Banks and Regional Rural Banks. The public sector banks further divided into Nationalised banks and State bank group of banks. Many researches justified this division of banks, since there is a difference among

commercial banks in terms of their organizational culture, profitability, employee perception on motivation and their business strategies (Sadhia and Uzma, 2012⁴; Saha Gurudas, 2001)⁵, Subrahmani and Raghav, 2001⁶; Kunal, 2003⁷; Chakrabarti and Gaurav, 2005⁸; and, Agarwal, 1993⁹).

Major shareholder of the public sector banks such as State Bank of India and Canara Bank is Government of India and major shareholders of private banks such as ICICI Bank and HDFC banks are private individuals. Foreign Banks such as Citi Bank, HSBC and Standard Chartered are owned by foreign entities. Regional Rural banks are operated by Central Government, concerned state government and by a sponsor bank with the investment ratio of 50, 15 and 35 respectively.

CHART 1.2
The Structure of Indian Banking System

RBI

Unscheduled Banks

Scheduled Banks

Co-Operative Banks

Commercial Banks

Urban Co-operative Banks

State Co-operative Banks

Public Sector Banks

SBI & Associates

Nationalised Banks

Other Public Sector Banks

Private Sector Banks

Foreign Banks

Regional Rural Banks

Old Generation Private Banks

New Generation Private Banks
The main source of income of a bank is interest income. Besides interest income, a bank also generates fee-based income in the form of commissions and exchange, income from treasury operations and other income from other banking activities. The general business segmentation of banks is divided into four such as Retail Banking, Wholesale Banking, Treasury Operations and Other Banking activities. The main function of retail banking is to provide loans to individuals such as Housing Loan, Auto Loan, Educational Loans and Personal Loan. They also lends to small businesses. In other hand wholesale banking provides loans to medium and large corporate through project financing, working capital loans, term loans and lease finance. Treasury operations include investment in bonds, equity, mutual funds, trading and foreign exchange.

Other banking activities of the bank based on the segments are hire purchase, leasing services, merchant banking and syndication services. The details of banks and number of bank branches functioning in different States and union territories are listed below in the Table 1.1.
### TABLE 1.1
State/Union Territory-Wise Number of Branches of Scheduled Commercial Banks –As on March 31, 2012

<table>
<thead>
<tr>
<th>S.No</th>
<th>State/ Union Territory</th>
<th>No of Bank Branches</th>
<th>Total Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Rural</td>
<td>Semi-Urban</td>
</tr>
<tr>
<td>1.</td>
<td>Andaman &amp; Nicobar</td>
<td>22</td>
<td>25</td>
</tr>
<tr>
<td>2.</td>
<td>Andhra Pradesh</td>
<td>2871</td>
<td>2989</td>
</tr>
<tr>
<td>3.</td>
<td>Arunachal Pradesh</td>
<td>54</td>
<td>44</td>
</tr>
<tr>
<td>4.</td>
<td>Assam</td>
<td>819</td>
<td>434</td>
</tr>
<tr>
<td>5.</td>
<td>Bihar</td>
<td>2574</td>
<td>1149</td>
</tr>
<tr>
<td>6.</td>
<td>Chandigarh</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>7.</td>
<td>Chhattisgarh</td>
<td>781</td>
<td>400</td>
</tr>
<tr>
<td>8.</td>
<td>Dadra &amp; Nagar Haveli</td>
<td>12</td>
<td>29</td>
</tr>
<tr>
<td>9.</td>
<td>Daman &amp; Diu</td>
<td>2</td>
<td>34</td>
</tr>
<tr>
<td>10.</td>
<td>Delhi</td>
<td>79</td>
<td>46</td>
</tr>
<tr>
<td>11.</td>
<td>Goa</td>
<td>205</td>
<td>328</td>
</tr>
<tr>
<td>12.</td>
<td>Gujarat</td>
<td>1773</td>
<td>1396</td>
</tr>
<tr>
<td>13.</td>
<td>Haryana</td>
<td>949</td>
<td>749</td>
</tr>
<tr>
<td>14.</td>
<td>Himachal Pradesh</td>
<td>880</td>
<td>233</td>
</tr>
<tr>
<td>15.</td>
<td>Jammu &amp; Kashmir</td>
<td>645</td>
<td>266</td>
</tr>
<tr>
<td>16.</td>
<td>Jharkhand</td>
<td>1100</td>
<td>514</td>
</tr>
<tr>
<td>17.</td>
<td>Karnataka</td>
<td>2487</td>
<td>1558</td>
</tr>
<tr>
<td>18.</td>
<td>Kerala</td>
<td>353</td>
<td>3386</td>
</tr>
<tr>
<td>19.</td>
<td>Lakshadweep</td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>20.</td>
<td>Madhya Pradesh</td>
<td>1854</td>
<td>1324</td>
</tr>
<tr>
<td>21.</td>
<td>Maharashtra</td>
<td>2391</td>
<td>1934</td>
</tr>
<tr>
<td>22.</td>
<td>Manipur</td>
<td>43</td>
<td>30</td>
</tr>
<tr>
<td>23.</td>
<td>Meghalaya</td>
<td>125</td>
<td>29</td>
</tr>
<tr>
<td>24.</td>
<td>Mizoram</td>
<td>61</td>
<td>20</td>
</tr>
<tr>
<td>25.</td>
<td>Nagaland</td>
<td>41</td>
<td>67</td>
</tr>
<tr>
<td>26.</td>
<td>Odissa</td>
<td>1820</td>
<td>809</td>
</tr>
<tr>
<td>27.</td>
<td>Puducherry</td>
<td>36</td>
<td>44</td>
</tr>
<tr>
<td>28.</td>
<td>Punjab</td>
<td>1470</td>
<td>1408</td>
</tr>
<tr>
<td>29.</td>
<td>Rajasthan</td>
<td>1953</td>
<td>1427</td>
</tr>
<tr>
<td>30.</td>
<td>Sikkim</td>
<td>62</td>
<td>29</td>
</tr>
<tr>
<td>31.</td>
<td>Tamil Nadu</td>
<td>2028</td>
<td>2476</td>
</tr>
<tr>
<td>32.</td>
<td>Tripura</td>
<td>136</td>
<td>74</td>
</tr>
<tr>
<td>33.</td>
<td>Uttar Pradesh</td>
<td>5600</td>
<td>2484</td>
</tr>
<tr>
<td>34.</td>
<td>Uttarakhand</td>
<td>692</td>
<td>449</td>
</tr>
<tr>
<td>35.</td>
<td>West Bengal</td>
<td>2558</td>
<td>845</td>
</tr>
<tr>
<td></td>
<td>All India</td>
<td>36503</td>
<td>26144</td>
</tr>
</tbody>
</table>

**Source:** Master Office File (MOF) System, Department of Statistics and Information Management, Reserve Bank of India, as on October 05, 2013

It is inferred for the Table 1.1. is that the state of Utter Pradesh has the highest number of bank branches (12,312) followed by Maharashtra (9,704) and
Andhra Pradesh (8,555) in India. The highest number of Rural bank branches are located in Uttar Pradesh (5,600) followed by Andhra Pradesh (2,871) and Bihar (2,574). Kerala has highest number of Semi Urban bank branches (3,386) followed by Andhra Pradesh (2,989). Uttar Pradesh has highest number of urban bank branches (2,301) followed by Tamil Nadu (1,859). The state of Maharashtra has the highest number of Metropolitan branches (3,884) followed by Delhi (2,768).

1.3 BANKING IN POST LIBERALISATION

Indian banking system had undergone a paradigm shift especially after globalization. The paradigm shift scenario in India is presented below:

<table>
<thead>
<tr>
<th>Paradigm Shift-Scenario in India</th>
</tr>
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<tbody>
<tr>
<td><strong>Before 1991</strong></td>
</tr>
<tr>
<td>Seller’s market</td>
</tr>
<tr>
<td>Protected markets</td>
</tr>
<tr>
<td>Protected markets</td>
</tr>
<tr>
<td>Friendly competition</td>
</tr>
<tr>
<td>Patient customers</td>
</tr>
<tr>
<td>Limited choice for customers</td>
</tr>
<tr>
<td>Limited television promotion</td>
</tr>
<tr>
<td>Cost plus pricing</td>
</tr>
<tr>
<td>Limited role of service</td>
</tr>
<tr>
<td>Slower marketing reflexes</td>
</tr>
<tr>
<td>Speed @ will</td>
</tr>
<tr>
<td>Fundamental Standalone System</td>
</tr>
<tr>
<td>IT-competitive advantage</td>
</tr>
<tr>
<td>Gaining new customers</td>
</tr>
<tr>
<td>Monologue</td>
</tr>
<tr>
<td>Transaction</td>
</tr>
<tr>
<td>Standard of living</td>
</tr>
</tbody>
</table>

Source: IBA Bulletin 25 (8), August 2004, p.16.

When the banking services are opened to private sector as in initiative of the economic reforms posed great challenges to the public sector commercial banks.
1.4 EVOLUTION OF BANKING SYSTEM IN INDIA

The General Bank of India is the first bank in India was established in the year 1786. The East India Company established The Bank of Bengal/Calcutta (1809), Bank of Bombay (1840) and Bank of Madras (1843). The next bank was Bank of Hindustan, which was established in 1870. These three individual units (Bank of Calcutta, Bank of Bombay, and Bank of Madras) were amalgamated to form Presidency Bank. Allahabad Bank was established in 1865.

Punjab National Bank Ltd. was set up in 1894 with headquarters at Lahore. Between 1906 and 1913, Bank of India, Central Bank of India, Bank of Baroda, Canara Bank, Indian Bank, and Bank of Mysore were set up. In 1921, all presidency banks were amalgamated to form the Imperial Bank of India which was run by European Shareholders. After that the Reserve Bank of India was established in April 1935. Reserve Bank of India was vested with vast and extensive power to supervise banking system in India. (Ritika Gauba, 2012).

The Government of India came up with the Banking Companies Act, 1949 to streamline the functioning and activities of commercial banks. Later this act is changed to Banking Regulation Act 1949 as per amending Act of 1965 (Act No.23 of 1965). After independence, the Imperial Bank of India was nationalized in 1955, and was given the name "State Bank of India", to act as the principal agent of RBI.

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and to handle banking transactions all over the country. It was established under State Bank of India Act, 1955.

On 19th July, 1969, 14 major Indian commercial banks of the country were nationalized. In 1980, another six banks were nationalized, and thus raising the number of nationalized banks to 20. Seven more banks were nationalized with deposits over 200 Crores. On the suggestions of Narsimham Committee, the Banking Regulation Act was amended in 1993 and thus the gates for the new private sector banks were opened. Today, there were 89 scheduled commercial banks consisting 26 Public sector banks (20 Nationalised banks, and 6 State Bank Group of banks), 13 old private sector banks, 7 old private sector banks, and 43 foreign banks. (RBI, 2013)\(^\text{11}\).

While the banking services has become more and more developed in India, many kinds of financial and banking services have progressively been born as a result. Henceforth, Indian customers have had more opportunities for selection of more suitable places to buy and use banking services and satisfy all their demands. They have also become more informed and expected higher standards of service quality from banks, such as more friendliness in service styles, more effectiveness in solving all their complaints, or more modernization in equipment and tools. To bring satisfaction to customers therefore, banks have had to improve their service quality to keep their old customers and attract more new and potential ones. Angur

\(^{11}\text{Reserve Bank of India: A profile of Banks 2012-2013.}\)
et al., (1999)\textsuperscript{12} observed that Indian consumers are increasingly demanding better quality with greater choice because of the increasing awareness, intensive competition from local and international banks.

1.5 REVIEW OF LITERATURE

Kajal and Monica (2011)\textsuperscript{13} narrates that the economic reforms in India initiated some major changes in the functioning of banks in India. Increased competition, new information technologies and thereby declining processing costs, the erosion of product and geographic boundaries, and less restrictive governmental regulations have all played a major role for Public Sector Banks in India to forcefully compete with Private and Foreign Banks. They have examined the difference in performance between public and private sector commercial banks.

Nirmaljeet and Prabhjot Kaur (2012)\textsuperscript{14} perceived that economic globalization intensifies competition among service providers and creates a climate of constant change, winning and keeping customers has become all the more important. Banks are to compete each other since the cost of attracting a new customer by a bank is


much more than retaining existing customers. They narrates the typical today’s customer requirement as top quality services and products served with minimum wait time and prefers to bank with techno-savvy banks as well bankers. They explains that public sector banks in India which were earlier operating in a sheltered regime after nationalization faces the problem of long-run survival, tapping quality customers and forging way ahead by retaining their valued customers.

Talib et al.,(2012)¹⁵ observes that liberalization and globalization of the banking industry in India has created an era of fierce competition. There is cut throat competition among banks for acquiring large customer base and market share due to liberalisation policy of Government of India and RBI’s easy banking operation norms. Banks now feels it is very costly and difficult to recover a dissatisfied customer. It is a herculean task for banks to build loyalty. It has become imperative for both public and private sector banks to perform to the best of their abilities to retain their customers by catering to their explicit as well as implicit needs. Customer satisfaction drives the success. High-performing businesses have developed principles and strategies for achieving customer satisfaction. Market-

oriented industries and organizations live and die with the satisfaction of their customers and thus view customer satisfaction as their life line (Vadim, 2003)\textsuperscript{16}.

Aaker and Jacobson (1994)\textsuperscript{17} identified that service firms that provide superior service quality as measured by customer satisfaction also experience higher economic returns than competitors that are not so service oriented.

Nirmaljeet and Prabhjot (2012)\textsuperscript{18} empirical proved that private banks managers are ahead of public banks in making relationship with their customer thus winning their satisfaction and public sector banks are lagging behind in use of modern technology and techno savvy staff. Even though there is no difference in satisfaction level of customers in public and private banks but their findings proved that the private sector banks are providing better services in terms of Value added services, query resolution through telephone, branch facilities, services by teller and above all customer relations with manager.

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Rupali et al., (2013)\textsuperscript{19} points that the economic reform has given opportunity to public, private and foreign banks for sailing their boats in the same market that created a situation of fittest will survive. The choice and preference of the customers for selecting a bank depends on not only on the offered services by the banks but also the quality the way services offered to customers. The profitability of bank lies on long run relationship with customers and services offered to them. They concluded that even though private banks are topped in overall service quality index, public sector also performs better than private sector commercial banks in certain behavioural components of service quality index.

Singh and Arora (2011)\textsuperscript{20} made a comparative study of banking services and customer satisfaction in Public, Private and Foreign Banks. Customers’ satisfaction was assessed with five parameters of quality of services, i.e., employee behavior, accessibility, ambience, infrastructure, and working hours. They found that majority of the respondents were not satisfied with employee behavior in public sector banks like State Bank of India, Punjab National Bank and Canara Bank. On the contrary, majority of the respondents were satisfied with employee behavior in private and foreign bank, i.e., ICICI, Centurion Bank and Standard Chartered Bank.


They found that customers of nationalized banks expected to improve employee behavior, ambience and infrastructure. They also wanted longer working hours. On the other hand, respondents of private and nationalized bank wanted improvements in other areas such as lower charges, more accessibility and good communication.

Puja Khatri and Yukti Ahuja (2013)\textsuperscript{21} made a comparative study on public sector banks and private sector banks in terms of customer satisfaction and various variables of service quality using SERVQUAL model. They found that Private Banks seem to have satisfied its customers with good services and they have been successful in retaining its customers by providing better facilities than Public sector Banks. Private sector Banks have been successful in achieving such relationship with customers however public sector banks have to improve in this area. They opined that still private banks need to go a long way to become customer’s first preference and need to concentrate more on their credit facilities and insurance services since customers do not have a very good opinion about these facilities being offered by private banks.

They also observed that Public sector banks enjoy the trust of the customers, which they have been leveraging to stay in the race however they need to improve their service quality by improving their physical facility, infrastructure and giving

proper soft skill trainings to their employees. The efforts have to be made in the direction of enhancing the retail banking experience.

They observed that, there are negative impressions on technical quality of public sector banks and there is a laxity at the end of employees who directly deals with the customers of banks. They are emphasized that the human factor at every touch point has become critical not only for customer acquisition but also customer retention. They listed that the interest rates, reputation and location of the bank, convenience, competence, friendliness and service were important criterion for choosing the bank.

Vijay (2011) found that there is significant difference in the customers’ perception in internet banking services provided by the public and private sector banks. He found that demographics of the customers’ are one of the most important factors which influence using internet banking services. He also found that Private sector banks are providing better service quality of internet banking than service provided by the public sector banks.

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The same view have been expressed by many other researchers, who have studied the service quality difference between Public Sector and Private Sector bank (Vinita,2013\textsuperscript{23};Basant and Pooja,2012\textsuperscript{24}; Umasankar et al.,2010\textsuperscript{25}; and Rupali et al,2010\textsuperscript{26};).

In Contrast, various researchers reported that the service quality in public sector banks is far better than private banks in India (Priya and Aastha,2013\textsuperscript{27} and Uppal (2009)\textsuperscript{28}. Uppal reported that public sector banks are more efficient in service delivery than private sector banks. Service quality in the attributes related to time


taken to withdraw money, encash a draft, make deposits, receive a draft, credit a local cheque and credit outstation cheque.

Some independent studies made on the service quality in private banks also shows that there is a service quality gap since the perceived service is lower than customer expectations (Swamy, et al., 2012\textsuperscript{29}; Vibhor Jain, et al.,2012\textsuperscript{30}; Anand, et al., 2011\textsuperscript{31}; and Singh and Sunayna,2011\textsuperscript{32}).

Bitner (1990)\textsuperscript{33} proved with an experiment that physical evidence, peoples and process influences the customer satisfaction. She developed a framework that reinforces marketing mix to be expanded along with physical evidence, process and people since it is related with the customer satisfaction.

\begin{footnotesize}
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\item \textsuperscript{29} Swamy, Kavita Tiwari. and Ritesh Tiwari(2012). “A Study on impact of service quality on retention of customers in retail banking in Indore”, \textit{Indian Journal of Entrepreneurship and Management Research}, Issue 1:1-10
\end{itemize}
\end{footnotesize}
Aminu and Hardini (2008)\textsuperscript{34} studied the impact of core services, Price, Distribution, Value added services and customer service on customer satisfaction. Through the regression analysis, they found that the five marketing mix variables predict 52\% of the variance on clients’ satisfaction. They also found that beta coefficients of core Service or product makes the strongest unique contribution in explaining clients’ Satisfaction followed by pricing, value added service and customer service, while distribution variable is not making significant contribution to the constructed model to measure the impact of marketing mix on customer satisfaction.

They also expressed after their detailed review of literature that, there is a very limited research on the impact of marketing mix on customer satisfaction. The Chartered Institute of Marketing (2009)\textsuperscript{35} narrates that successful marketing depends upon addressing a number of key issues. These include: What a company is going to produce, how much it is going to charge, how it is going to deliver its products and services to the customers and how it is going to tell its customers about its products and services”. Chartered Institute of Marketing elaborates that marketing strategy must be coordinated among the 7P’s of marketing, individual


\textsuperscript{35} Chartered Institute of Marketing., (2009). “Marketing and the 7P’s: A Brief Summary of marketing and How it works”:1-9 (www.cim.co.uk/marketing resources)
piece meal approach may not be beneficial. Because, that all elements of marketing mix directly or indirectly influences the customer satisfaction.

Antik Suprihanți (2011)\textsuperscript{36} analysed the effect of marketing mix (Product, Price, Place and promotion or 4P) and services to the customer satisfaction and loyalty. The results of her study proved that the marketing mix has significant direct effect on customer satisfaction as well as customer loyalty. Meanwhile service has indirect effect to the customer loyalty through customer satisfaction.

Moniri (2011)\textsuperscript{37} has tried to prioritize the importance of all indices of service marketing mix in customer satisfaction. He found that, there is an impact of service mix in the customer satisfaction. He also prioritised the service mix as Personnel, Product, Process, Price, Physical evidence, promotion and place.

Sankar and Kwon (2011)\textsuperscript{38} studied the relationship between marketing mix and customer retention among coffee Users. They attempted to identify and link the cause and effect relationship between marketing mix and customer retention. They found that product attributes and promotional activities have a positive relationship


\textsuperscript{37} Seyed Mahdi Moniri.,(2011)."Studying the impact of service marketing mix on increasing of Agricultural banks’ costumers", \textit{Advances in Environmental Biology}, 5(13): 3959-3966.

with customer retention. Price and place do not have a relationship with customer retention. They also found that customer preference, positive customer experience, satisfaction and lasting customer loyalty are factors that impact the relationship between marketing mix and customer retention.

Anandharaj (2012)\textsuperscript{39} measured the effects of marketing mix on brand loyalty in the retail sector in Malaysia. He studies the impact of price, store image, advertising spending, distribution intensity and price promotion on customer loyalty towards the brand. He concluded that price, store image, distribution intensity and price promotion has significant positive relationship with customer brand loyalty.

Shahzad Khan, et al., (2012)\textsuperscript{40} studied the impact of marketing mix on customer satisfaction using regression analysis. They found that the antecedents of customer satisfaction are product, price, brand, physical surrounding where service is delivered, product quality and service quality.


Mohammed, et al., (2012) investigated the impact of marketing mix to attract customers in the bank. They found that factors in the marketing mix have a significant positive effect on attracting and retaining of customers in the bank.

Manafzadeha, et al., (2012) studied the relationship between marketing mix and customer satisfaction in Dairy Products. They observed that there are relationship between marketing mix and consumer behavior. In addition, demographic variables such as age, gender and education also have strong impact on this relation. They observed that consumer behavior and their reactions vary according to age and gender. Hani(2012) tested the relationship between marketing mix on customer satisfaction in Telecommunication industry. He observed that there is statistically significant relationship between the marketing mix and customer satisfaction.

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28
Ankit Shah (2012)\textsuperscript{44} elucidates the impact of marketing mix on customer satisfaction by quoting various previous researches that “recent studies have shown that satisfaction is influenced by not only perceptions of service quality but also by perceptions of product quality, and pricing factors as well as situational and personal factors. For example, customer satisfaction with retail banking will be a broader concept and will certainly be influenced by perceptions of service quality but will also include perceptions of product quality (such as variety of deposit options available to customers), price of the products (i.e., charges charged by the bank or rates offered by the banks on various deposits), personal factors such as the consumer’s emotional state, and even uncontrollable situational factors such as weather conditions and experiences in conveying to and from the bank”.\par

Nagy Gayed and Nader Alber (2012)\textsuperscript{45} opined that, there is a need for more concentrated research tries to measure “service quality” through “marketing mix”. They analysed the impact of marketing mix on service quality. They found a strong positive relation between service quality and marketing mix.

\textsuperscript{44} Ankit shah.,(2012). “Market research on factors affecting customer satisfaction in retail banking in Vadodara, Gujarat, Western India”, \textit{Bauddhik}, volume 2, No.1, Jan-April:16-32.

Harvard Business School researchers Buell et al.,(2015) found that, customers defect at a higher rate from the current service provider following increased service quality competition, only when the current service provider offers high (low) quality service relative to existing competitors in a local market. They concluded that, these results are due to a sorting effect, whereby firms trade-off service quality and price, and in turn, the current service provider attracts service (price) sensitive customers in markets where it has supplied relatively high (low) levels of service quality in the past. They also found that, it is the high quality service provider's most profitable customers, who are the most attracted by superior quality alternatives. The results of their study emphasis the need for sustaining a high level of service quality is associated with the current service provider attracting and retaining more profitable customers over time. They have studied 82,235 customers in 644 geographically isolated markets for the period of five years.

1.6 RESEARCH GAP

It is found that, there are no sufficient recent studies related to identification of relationship between marketing mix, service quality, customer satisfaction and customer loyalty of banks in Madurai district. It is also identified that the comparative studies focusing on banks in Madurai district is also very rare. Hence

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this study has been proposed to carry out a comparative study on marketing mix and service quality in different commercial banks in Madurai district.

1.7 RATIONALE OF THE STUDY

Banking services are shaped by two dominant forces prevailing in the business environment such as increasing competition from new and existing banks and technological innovation that supports and defines best customer service. Both these forces facilitate customers to demand higher standard in services and sophistication in availing banking service. Customers’ perceptions and expectations are continually evolving, making it difficult for the banks to measure and manage services effectively. The success of banking lies in improving the product offerings through effective marketing mix, paying attention to more critical service quality dimensions as a part of customer service management. It is critical to understand how sensitive the customers are to various services attributes or dimensions.

Understand the customer perception of marketing mix, service quality is very essential for allocating resources in the fashion that is consistent with customer priorities. It can enhance the competitive advantage in the service space to deliver the quality product/service to the customers. Hence the present study makes an attempt to analyse the customer perception on marketing mix, service quality and its impact on customer satisfaction and loyalty among the customers of public sector and private sector banks.
1.8 SIGNIFICANCE OF THE STUDY

Government of India’s policy on financial inclusion mandates banks to expand to semi urban and rural areas, where there is a negligible presence of commercial banks. Service providers were continuously expanding themselves to acquire new market and new customers to improve their profitability. Relaxation in the service geographical area restriction make more banks competing to attract same customers. Customers of today’s bank have wider choice. Understanding the major determinants of choosing a bank by a customer may help each banks to understand their strength and weakness and develop strategies to attract new customers towards them.

Internal efficiency is considered key for low cost and profit making. Although, conducting efficient operation is still significant, but it is not sufficient for success. It is very important to design services based on customers’ needs, pricing competitively, distributing in the suitable ways and communicating the service to customers actively.

Every buyer is under the influence of different mix factors of marketing and their decision depends on type of the product and its features, pricing and payment, availability and promotional and motivating techniques (Henderson, 1971).  

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Analysing the perception of customers on marketing mix will help service providers in decision making on market related strategies to achieve desired goal of business.

Service quality is a critical antecedent of customer satisfaction and customer loyalty. Success or failure of a business is determined by customer satisfaction and their continuance with particular brand. The importance of understanding the service quality is extremely vital as it forms the basis of evaluation of the service itself. If the service provider understands customers’ expectation and perception of service quality on the services offered by them and implement the required changes in service quality level, then the efficiency level goes up amplifying the satisfaction and loyalty among existing customers. This is the ultimate aim of all the service providers as it is proved by earlier researches that getting new customers is time-consuming and less effective than retaining the existing customer.

1.9 STATEMENT OF THE PROBLEM

Increased complexity, rapid change and unexpected developments are the nature of today's business. Existing banks in India face stiff competition in recent years due to economic liberalization and privatization. The emergence of foreign banks, innovative customer services supported by technological innovations, and competing nature of banks to acquire same customer are posing various challenges to public and private sector commercial banks in India. Uniqueness in service offerings, superior customer service and retaining the existing customers are some of the strategies for survival and sustaining of banking services.
Understanding and comparing the determinants of customer choice of banks, customer perception on existing marketing mix, customer expectation and perception of service quality are prerequisite to develop strategies related to designing unique service offerings, change in marketing mix and to reduce service quality gap. Moreover, investigating the influence of the marketing mix and dimensions of service quality on customers’ behavioral intentions help banks to gain and sustain competitive advantages in the fast changing retail banking industry in India.

Hence, this study attempts to compare the determinants of customer choice of bank, customer perception on existing marketing mix, service quality gap and the impact of marketing mix and service quality on customer satisfaction and loyalty among commercial banks.

1.10 OBJECTIVES OF THE STUDY

The present study focuses on the following objectives:

1. To reveal the profile of the customers in selected banks
2. To examine the determinants of customer choice of banks
3. To measure customers’ perception towards marketing mix of Nationalised Banks, State Bank Group of Banks, Old Generation Private Banks and New Generation Private Banks
4. To compare the customers’ expectation and perception towards service quality of banks
5. To understand the relationship between marketing mix, service quality, customer satisfaction and customer loyalty

6. To make suggestions to develop strategies to offer unique service offerings, superior customer service and retaining the existing customers

1.11 RESEARCH MODEL

McCarthy (1964)\textsuperscript{48} proposed the 4Ps of the marketing mix ingredients model, which are product, price, promotion and place. She opines that marketer must compile these elements in order to create a distinct marketing mix which helps an organisation to achieve its marketing objectives effectively. Bitner (1991)\textsuperscript{49} found that 4P’s inadequate to services marketing. They have introduced an extended and modified 7Ps of marketing by adding another three new Ps which are “people”, “process” and “physical evidence”.

A very few studies have been analysed the impact of the service marketing mix on customer satisfaction and customers loyalty (Niharika and Nitin,2013)\textsuperscript{50}. They were found the positive impact of marketing mix on customer satisfaction


(Farinoosh, 2012; Shankar and Chin Kok Kwon, 2011). The following hypotheses are developed to test the relationship between customers’ perception of marketing mix on customers’ satisfaction and customer loyalty.

**Hypothesis 1:** Banking service marketing mix has positive impact on customer satisfaction in banking services

**Hypothesis 2:** Banking service marketing mix has positive impact on customer loyalty in banking services

There are substantive evidences that perceived service quality have direct positive impact on customer satisfaction and loyalty in various service industries including Retailing, Tourism, Hospitality, Higher Education, and Hotels (Taylor and Baker, 1994; Shonk and Packianathan, 2008; Yuksel et al., 2008, and, Ismail Farinoosh Ketabi, 2012).

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51. Farinoosh Ketabi.,(2012).“The Effect of the Marketing Mix of Services to Attract Customers, Banks (Case Study Tejarat Bank, Branches of Kermanshah Province)”, *Journal of Basic and Applied Science Research.*, 2(9):8632-8639.


et al, 2009\textsuperscript{56}). Similarly, it is expected that service quality in bank will positively impact customer satisfaction and customer loyalty in banking services.

*Hypothesis 3: Banking service quality has positive impact on customer satisfaction*

*Hypothesis 4: Banking service quality has positive impact on customer loyalty*

Various studies have indicated a positive relationship between customer satisfaction and customers’ behavioural intentions to repurchase and providing positive word of mouth about service provided (Hansemak and Albinson, 2004\textsuperscript{57}; Anthanassopoulos, et al., 2001\textsuperscript{58}; Taylor and Baker, 1994\textsuperscript{59}; and Anderson, and Sullivan, 1993\textsuperscript{60}). This is expressed in the following hypothesis:

*Hypothesis 5: Customer Satisfaction has direct positive impact on customer loyalty*


Dabholkar and Overby(2005)\textsuperscript{61} found that customer satisfaction strongly mediates the effect of service quality on customers’ behavioral intentions. Some studies had shown the direct relationship between service quality and customer loyalty. Zeithaml et al,(1988)\textsuperscript{62} observed that service marketing mix has direct relationship with service quality. The following hypotheses are framed to analyse the possible mediation function of customer satisfaction as well as the direct relationship between service quality and behavioral intentions.

\textit{Hypothesis 6: Customer satisfaction has a mediating effect on the relationship between service quality and customer loyalty}

\textit{Hypothesis 7: Customer satisfaction has a mediating effect on the relationship between service marketing mix and customer loyalty}

\textit{Hypothesis 8: Banking service marketing mix has positive impact on customer perceived service quality}

All the hypotheses are summarized in the conceptual framework shown in Chart 1.3. The study examines the direct and indirect relationships between the constructs, as depicted in the model.


1.12 RESEARCH METHODOLOGY

Research Methodology is the way of systematically solving the research problem. It is a science of studying how research is conducted. The research methodology enlightens the methods to be followed in research activities starting from investigation to presentation. It includes research design, locale of research, sampling framework, sources of data, collection of data, framework of analysis and limitations.
Research Design of the Study

“Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure”\textsuperscript{63}. The present study is descriptive research in nature since the study describes and compares the service quality in commercial banks. Cooper and Schindler (2006)\textsuperscript{64} illustrates that descriptive studies try to discover answer to the questions who, what, when, where and sometime how. The important emphasis in descriptive research is that the researcher has no control over variables.

1.13 DESCRIPTION OF THE STUDY AREA

The total geographical area of Madurai district is 3741.73 Sq.kms. accounting for 2.88 per cent of the geographical area in Tamil Nadu state. There are 2 revenue divisions and 13 blocks in the district. There are 652 villages in the district. There are 372 bank branches in the district. The district has a total population of about 30.41 lakhs comprising 15.28 lakh males and 15.13 lakh females. The district is basically agrarian in nature and agriculture is the main occupation. The district also offers scope in the field of Textiles, Readymade garment Making, Dairying, Floriculture, Coir units, Bakery units, Bricks kilns, Toy making, etc.


\textsuperscript{64} Donald R.Cooper and Pamela S.Schindler.,(2006). \textit{Business Research Methods}(New Delhi, Tata Mc Graw Hill Publications):11
The number of bank branches in Madurai district from 2008-09 to 2012-13 is shown in Table 1.2.

**TABLE 1.2**

Bank Branches in Madurai District

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Year</th>
<th>Total Number of Branches</th>
<th>Rural</th>
<th>Semi-urban</th>
<th>Urban</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2008-09</td>
<td>81</td>
<td>41</td>
<td>162</td>
<td></td>
<td>284</td>
</tr>
<tr>
<td>2.</td>
<td>2009-10</td>
<td>83</td>
<td>44</td>
<td>170</td>
<td></td>
<td>297</td>
</tr>
<tr>
<td>3.</td>
<td>2010-11</td>
<td>80</td>
<td>58</td>
<td>176</td>
<td></td>
<td>314</td>
</tr>
<tr>
<td>4.</td>
<td>2011-12</td>
<td>83</td>
<td>53</td>
<td>210</td>
<td></td>
<td>346</td>
</tr>
<tr>
<td>5.</td>
<td>2012-13</td>
<td>90</td>
<td>57</td>
<td>225</td>
<td></td>
<td>372</td>
</tr>
</tbody>
</table>

Source: Annual Credit Plan 2012-13, Lead Bank Office, Madurai.

The total number of branches in this district has increased from 284 branches in 2008-09 to 372 branches in 2012-13. During 2004-05, the number of banks in urban areas constituted 60.48 per cent to the total whereas in the rural areas, the number of branches constituted only 24.19 per cent. The number of branches in semi-urban area has increased from 41 branches in 2008-09 to 57 branches in 2012-13. Madurai district has 185 Nationalised bank branches, 61 State bank group of bank branches, 47 Old generation private sector banks, 29 New generation private sector banks, 9 Regional rural banks, 40 cooperative banks and a state financial
institution (TIIC). From among 372 branches of banks, co-operative and other types of bank branches which came around 50 were excluded purposively and 322 commercial bank branches alone are considered for the study.

**Group of Banks in the Madurai District**

The commercial banks are grouped into Nationalised banks, State Bank group of banks, Old generation private banks, and New generation private banks. The number of bank branches in Rural, semi-urban and urban areas during 2012-13 is shown in Table 1.3.

**TABLE 1.3**

**Number of Commercial Bank branches in Madurai district during 2012-13**

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Group of banks</th>
<th>Total Number of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Rural</td>
</tr>
<tr>
<td>1.</td>
<td>Public Sector Banks</td>
<td>44</td>
</tr>
<tr>
<td>2.</td>
<td>State Bank Group</td>
<td>14</td>
</tr>
<tr>
<td>3.</td>
<td>Old Generation Private sector</td>
<td>12</td>
</tr>
<tr>
<td>4.</td>
<td>New Generation Private sector</td>
<td>04</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>74</td>
</tr>
</tbody>
</table>

Source: Annual Credit Plan 2012-13, Lead Bank Office, Madurai.
Out of the 322 banks branches, 49.73 per cent are Public Sector banks, whereas the State Bank Group of banks constitutes 16.39 per cent to the total. The private sector bank constitutes 20.43 per cent. Among the 185 Public Sector bank branches, 62.70 per cent branches are located in urban area followed by 23.78 per cent, in rural areas. In the case of State Bank Groups, out of 61 bank branches, 60.65 and 22.95 per cent of its branches are situated in urban and rural areas respectively. In the case of Old generation private sector banks, the number of branches situated in urban area constitutes 59.57 per cent and in rural area it constitutes 25.53 per cent to the total respectively. New generation private banks have more presence in urban area than semi urban and rural area since it constitutes 72.41, 13.79 and 13.79 respectively. It is inferred that, new generation private sector banks have more focus in urban area than other group of banks in the sample area.

**Sampling Procedure**

Before determining the sample size, it is essential to need to determine a few things about the target population and the sample that the researcher need:

1. **Population Size** — The population of the study are account holders of Public and Private sector banks located in Madurai District. Banks are generally not disclosing the details of account holders. So, the population of this study is unknown.

2. **Margin of Error** — No sample will be perfect, so researcher needs to decide how much error to allow. The confidence interval determines how much higher or
lower than the population mean you are willing to let your sample mean fall. The confidence interval of the study is +/- 4%.

3. Confidence Level — The confidence in this study is determined to 95%.

4. Standard of Deviation — The accepted level of standard deviation for social science is 0.1 to 0.5 (Bill, 2004). The assumed standard deviation of the study is 0.5. Based on this assumption, necessary sample size is calculated using the following formula:

\[
\text{Necessary Sample Size} = (Z \text{ score})^2 \times \text{ Std Dev} \times (1-\text{StdDev}) / (\text{Margin of Error})^2
\]

\[
= ((1.96)^2 \times (0.5)(1-0.5)) / (0.04)^2
\]

\[
= (3.8416 \times 0.25) / .0016
\]

\[
=0.9604 / .0016
\]

\[
= 600.25
\]

The sample size required in this study is rounded off to 600. In the present study, Madurai district has 322 commercial banks. 10% of branches among 74 rural, 46 semi urban and 202 Urban branches are selected using simple random method. 8 rural, 5 semi urban and 20 urban bank branches are selected using simple random sampling method. The sample size is then divided by number of branches yielded (600/33) 18.18 samples per bank. The final sample size rounded to 18 samples per bank. Therefore, the sample size of the study stood at 594. The sample respondents were selected using convenient sampling method.

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65 Bill Godden.,(2004). “Basic Statistics”, Irwin, Austin University Press, USA
1.14 RELIABILITY TEST OF SERVICE MARKETING COMPONENTS

Reliability is the degree to which a scale accurately measures something free of error (Prous, 2009). The reliability of each construct was determined by computing the alpha coefficient of internal consistency. The most popular test within the internal consistency method is the Cronbach coefficient (Nunnally and Bernstein, 1994). Nunnally recommended that the minimally acceptable reliability for preliminary research should be in the range of 0.7 and above. Armstrong and Foley (2003) suggested that "the closer Cronbach's alpha is to 1.0, then, the more reliable the scale". Table 1.4 summarizes the Cronbach's alpha for individual and overall constructs. The Cronbach's alpha for the seven elements of service marketing mix constructs are 0.89, 0.84, 0.87, 0.78, 0.75, 0.85 and 0.80 respectively. The overall Cronbach alpha of 0.7561 confirms that variables in the instrument are highly reliable.

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TABLE 1.4

Elements of Service Marketing Mix and its Reliability

<table>
<thead>
<tr>
<th>S.No</th>
<th>Element of Services Marketing Mix</th>
<th>Reliability (Cronbach Alpha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Product (5 Variables)</td>
<td>0.8922</td>
</tr>
<tr>
<td>2.</td>
<td>Price (5 Variables)</td>
<td>0.8418</td>
</tr>
<tr>
<td>3.</td>
<td>Place (4 Variables)</td>
<td>0.8729</td>
</tr>
<tr>
<td>4.</td>
<td>Promotion (6 Variables)</td>
<td>0.7834</td>
</tr>
<tr>
<td>5.</td>
<td>Process (7 Variables)</td>
<td>0.7532</td>
</tr>
<tr>
<td>6.</td>
<td>Physical Environment(7 Variables)</td>
<td>0.8568</td>
</tr>
<tr>
<td>7.</td>
<td>People (5 Variables)</td>
<td>0.8012</td>
</tr>
<tr>
<td></td>
<td>Overall Scale (39 Variables)</td>
<td>0.7561</td>
</tr>
</tbody>
</table>

1.14 FRAME WORK OF ANALYSIS

For analysing the data collected during the investigation, the following statistical tools were used based upon the nature of data and relevance of information required.

A. Independent ‘T’ Test

In order to test the differences between two means in different samples, the t test is applied.
In the present study, the independent t-test analysis has been used to analyse:

i) The significant difference among customers perception towards the determinants of selecting a banking service provider, marketing mix, customer satisfaction and customer loyalty based on the gender and nativity of respondents.

ii) The significant difference in the expectation and perception of service quality dimensions based on the gender and nativity of respondents

B. Paired t Test

It is applied to test the significant difference between two means from same samples.

\[
t = \frac{\bar{X}_1 - \bar{X}_2}{\sqrt{\frac{(n_1 - 1)\sigma_1^2 + (n_2 - 1)\sigma_2^2}{n_1 + n_2 - 2}} + \frac{1}{n_1} + \frac{1}{n_2}}
\]

With degree of freedom = \((n_1+n_2 -2)\)

\(t\) – value

\(\bar{X}_1\) – Mean of the first sample, \(\bar{X}_2\) - Mean of the second sample

\(\sigma_1^2\) -Variance in the first sample, \(\sigma_2^2\) -Variance in the second sample

\(n_1\) - Number of sample in first group,

\(n_2\) - Number of sample in second group
\[ t = \frac{\Sigma d}{\sqrt{\frac{n(\Sigma d^2) - (\Sigma d)^2}{n-1}}} \]

With degree of freedom = n-1 where n= number of pairs in two sample.

Where as,

\[ \Sigma d = \text{Sum of squared deviations between the pairs of variables} \]

In the present study, the paired t test analysis has been used to analyse:

i. The gap between customers’ expectation and perception of the service quality.

C. One way ANOVA

The one way analysis of variance is applied in the present study when the variables are in interval scale and if samples have more than two groups. In order to find out the significant difference among the samples regarding the particular variable, the F statistics is calculated through the ANOVA.

F ratio = Variance between the group/ Variance within the group

In the present study, the One way ANOVA has been used:

i. To find out the significant difference among the customers belonging to four groups of banks related to their perception on determinants of selection of a service provider.
ii. To find out the association between the profile of customers and their perception on Service Marketing Mix, Service Quality, Customer Satisfaction and Customer Loyalty.

D. Exploratory Factor Analysis

The multivariate statistical technique of factor analysis has wide applications in various business-related researches. Factor analysis is a generic name given to a class of multivariate statistical methods whose primary purpose is data reduction and summarisation. In the present study, the factor analytic technique is used to summarise the information contained in a number of original variables into a smaller set of new composite dimensions (factors) with a minimum loss of information. In the present study, the factor analysis is used to develop a model related to the determinants of banking service selection, and banking service quality dimensions.

E. Correlation Analysis

When two social, physical, or biological phenomena increase or decrease proportionately and simultaneously because of identical external factors, the phenomena are correlated positively; under the same conditions: if one increases in the same proportion that the other decreases, the two phenomena are negatively correlated. A perfect positive correlation between the two variables results in a coefficient of +1, a perfect negative correlation in a coefficient of -1, and a total
absence of correlation in a coefficient of 0. Intermediate values between +1 and 0 or -1 are interpreted by degree of correlation.

\[ r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2 \sum (Y - \bar{Y})^2}} \]

\[ r = \text{Correlation co-efficient} \]

\[ \bar{X} = \text{Mean of X Variable and} \]

\[ \bar{Y} = \text{Mean of Y Variable} \]

In the present study correlation analysis is used to understand the relationship between service quality dimensions and satisfaction.

F. Structural Equation Model

Structural equation modeling (SEM) uses various types of models to depict relationships among observed variables, with the same basic goal of providing a quantitative test of a theoretical model hypothesized by the researcher. More specifically, various theoretical models can be tested in SEM that hypothesize how sets of variables define constructs and how these constructs are related to each other. SEM can test various types of theoretical models. Basic models include regression and confirmatory factor. Structural Equation Model is used in this research to test the link between marketing mix, service quality, customer satisfaction and customer loyalty.
1.15 LIMITATIONS OF THE STUDY

The present study is subjected with the following limitations.

i) The present study is confined only to the commercial banks in Madurai district only. Cooperative and other types of banks are excluded.

ii) Convenience sampling, a non-probabilistic sampling method is adapted to select respondents.

iii) The impact analysis is carried out with an assumption of linear relationship between dependent and independent variables.

iv) It is assumed that when analysing the impact of one independent variable on dependent variable, the value of other independent variables are zero or constant.

1.16 CHAPTERISATION

The present study has been organized into seven chapters for the purpose of clear presentation.

The first chapter is devoted to introduce the function of a bank, structure of banking industry in India, evolution of banking system in India. The Statement of the Problem, Scope of the study, Objectives of the study, Period of study, Methodology, Sampling Design, Frame work for Analysis and Limitations of the study are also explained in this chapter.
The second chapter deals with the conceptual framework of research, defining the factors that influencing selection of bank, concept of services marketing mix, components of marketing mix and its importance. It also discuss the framework that forms the base for this research, service quality, construction of Banking Service Quality Scale (BSQ), constructs of customer satisfaction and service quality in banking services.

The third chapter focuses towards the profile of respondents and their perception towards the determinants of banking choice, underlying dimension and the impact of customers profile on the choice of banking.

The fourth chapter devoted to discuss the result of Customers’ Perception on Products and services, Price, Placement, Promotion, People, Process and Physical evidence aspects offered by the four groups of banks and the impact of customers profile on their perception towards the seven elements of services marketing.

The fifth chapter elaborates the customers’ expectation and perception on service quality, service quality dimension and service quality gap in the services of four groups of banks. The impact of customers’ profile on their expectation and perception towards the banking service quality is also discussed in this chapter.

The sixth chapter briefly discusses the finding of customer satisfaction and loyalty towards banking services. It also discusses the impact of customers’ demographic profile on customers’ satisfaction and their loyalty towards the banking service providers. The result of structural equation model that elaborates
the path among marketing mix, service quality, customer satisfaction and customer loyalty is also discussed in this chapter.

The seventh chapter presents summary of findings, suggestions, policy implications and direction for future research. Based on the analysis and interpretation, the researcher provides various suggestions to the banking service provider that facilitates the development of unique marketing offerings, and superior customer service in three groups of commercial banks.