CHAPTER III

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Introduction

Examining customer satisfaction has been a common practice among banking and finance researchers over the years. The main reason for continued interest in this area of research is the ever changing banking business environment across the world. In this chapter the researcher has made an attempt to review research studies pertaining to Service Quality in Banking Sector at the global level and then in India and then moves on to Service Quality in Retail operations of Banks. Literature Review of Service Quality relating to Employees also has been done.

3.1 Service Quality in Banks at the Global Level

A study of a Government-owned bank in Thailand by Kitti et al., (2012) revealed that the majority of the customer respondents were satisfied with the reliability of banks while they were neither satisfied nor dissatisfied with the tangible dimension of service quality. The tangible factor was identified as the most important service quality dimension to Government owned bank customers.

Abu Bakar et al., (2011) found that foreign banks provided marginally better services in most of the dimensions than did the domestic banks of Bangladesh. For domestic private banks reliability, communication, credibility, security, and tangibility were found to be significantly affecting the service quality and for foreign banks, reliability, credibility, and tangibility were the only significant factors affecting their service quality.

Lăcrămioara et al., (2011) examined the relationship between service quality dimensions and customer satisfaction of Romanian customers and found that human resources had the greatest impact on customers’ satisfaction and both “Convenience
and Efficiency” and “Bank personnel” were the dimensions that bank management should consider in their efforts to improve and maintain the service quality level.

The study by Vadivelu et al., (2011)\textsuperscript{4} explored the level of customer satisfaction in terms of physical evidence and employee interaction in the northern region of Batticaloa, Sri Lanka. Results indicated that all banks have high level attributes of customers for satisfaction with the bank service provided in terms of physical evidence and employee interaction and there was a difference in service as being provided and the layout of physical evidence between earlier established banks (before the year 2008) and newly established banks (after 2008) in achieving customer satisfaction.

An attempt was done to clarify the nature of the relationship between customer satisfaction and bank performance in the case of Vietnam by Tran et al. (2010)\textsuperscript{5}. With this objective, the study used cross-section of data from 152 Vietnamese banks. Results proved that customer satisfaction has a positive impact on the performance of banks in Vietnam.

A research to measure customer satisfaction through delivery of service quality in the banking sector in Malaysia was done by Jayaraman Munusamy et al., (2010)\textsuperscript{6}. It was concluded that Assurance, Reliability, Empathy and Responsiveness had no significant effect on Customer Satisfaction and only Tangibles had significant effect on Customer Satisfaction.

Nelson Lajuni et al., (2010)\textsuperscript{7} examined the bank selection criteria preferred by Labuanese. Seven parameters, viz., image, services offered, influences, incentives, security, conveniences, and the advancement of technology were chosen to investigate the customers’ attitude towards selecting banks. The study showed that Labuanese preferred banks that could offer and promise efficiency, and a wide range of services,
including Automated Teller Machines (ATMs). They also gave preference to banks that were strictly regulated by the central bank and financially stable with a strong brand name.

Sadek Daing Maruak et al., (2010)\(^8\) compared the Service Quality perceptions between cooperative banks (CB) and Islamic Banks in Britain (IBB) and found that Compliance issues were very significant for IBB customers, while the same cannot be said for CB customers, who gave more importance to Empathy and Responsiveness. The unique finding from this study was that Compliance dimensions were especially significant compared to other dimensions in banking perspective.

Ushad Subadar Agathee (2010)\(^9\) assessed customers’ general expectation and perception towards the current performance of bankers in terms of their services offered in the Mauritian Banking Sector. The result showed a huge gap for reliability and responsiveness, implying that the customers are not satisfied with the willingness or readiness of employees to provide service as well as with the banks’ ability to perform the promised service in a timely manner and with accuracy. The results of this study underscore the need for bankers to gear customer service and quality improvement efforts towards components of reliability and responsiveness.

Lo Liang Kheng et al., (2010)\(^10\) studied the impact of Service Quality on Customer Loyalty in Banks in Penang, Malaysia. The findings show that improvement in service quality can enhance customer loyalty. The service quality dimensions that play a significant role in this equation are reliability, empathy, and assurance. The findings indicate that the overall respondents evaluate the banks positively, but still there are rooms for improvement.

Kathleen Hartl Irida Ruci Umeå (2009)\(^11\) studied the tendency towards loosening the relationship with the main bank in Sweden and indicated that multiple
bank users exhibit a higher switching likeliness, putting pressure on the banks to maintain the relationship. Furthermore, the price factor can influence the relationship. If customers are unsatisfied with the fees charged by the bank and they can find a better deal at another bank, they become more likely to switch and loosen the relationship with their main bank. Influences from technology in weakening the relationship were not found. Banks should try to convince customers to use as many services as possible from the bank, emphasize on offering superior service quality and be aware of competitive pricing in order to strengthen relationships and prevent customers from switching.

Naeem Hummayoun et al., (2008)\textsuperscript{12} conducted a study on emotional intelligence of the employees and its impact on service quality in Pakistani banking sector and revealed that use of emotional intelligence skills is high in case of a foreign bank i.e. SCL (Standard Charted Limited). The research findings also indicated that emotional intelligence is a positive predictor of higher service quality in Pakistani private/ foreign banking sector. However in The Bank of Punjab, both the variables i.e. emotional intelligence and service quality were weakly associated and hence there was an absence of practice of emotional intelligence skills by the employees when delivering services to the customers.

R K Mohanty (2008)\textsuperscript{13} did a study on ‘Hunting Customer Satisfaction in Banks’ and found that there are wide gaps between the expectations and views of customers on one hand and products and service delivery by banks on the other. They also found that customer satisfaction is not only applicable to external customers; but also equally applicable to internal customers (i.e. employees).

Mamoun N. Akroush (2008)\textsuperscript{14} examined the mediation effect of service quality implementation on the relationship between service quality and bank
performance in Jordan. The findings indicated that service quality dimensions (functional and technical) had a positive and significant effect on bank performance. They found that that marketing capabilities and corporate image exerted the strongest mediation effect on the relationships between functional quality and financial-based measures. Organisational factors and marketing capabilities exerted the strongest mediation effect on the relationships between functional quality and customer-based measures. Organisational factors and corporate image had fully mediated the relationship between functional quality and improving a bank's image.

The results of the longitudinal study of the relationship between customer satisfaction and the technical and functional aspects of service quality in a large UK Bank done by Maddern et al., (2007)\textsuperscript{15} confirm the significance of staff satisfaction and service quality. The results also indicate that technical service quality plays a critical role in determining customer satisfaction. Further analysis identifies Business Processes Management as a significant driver of technical service quality.

Okan Veli Safakli (2007)\textsuperscript{16} measured service quality of commercial banks towards SMEs in Northern Cyprus and pointed out that commercial banks service quality should be a functional rather than a technical issue and suggested that especially for reliability dimension commercial banks should be more female oriented than male. And that it can easily fill the gap and meet service expectations of SMEs by only increasing their customer orientation.

Yavas et al., (2007)\textsuperscript{17} did a Service quality assessment by comparing Turkish and German bank customers and found congruence between different cultural groups, suggesting that service quality measures developed in one culture may capture service quality sentiments in another culture.
Mohammed Al-Hawari (2006)\textsuperscript{18} conducted a study in Queensland, Australia to examine the impact of service quality on bank financial performance in the automated service context and investigate the mediating role of customer retention. This paper found a positive relationship between the quality of the automated service offered by a particular bank and the level of that bank’s customer retention. The findings also suggested that customer retention was also the mediating mechanism, through which automated service quality dimensions operate with respect to their impact on bank financial performance. One interesting finding in this research is the non-significant relationship between internet service quality and retention. A possible explanation of this finding was that internet banking provides a lot of information to bank customers about service fees and different financial products; therefore it becomes easier for customers to switch banks with minimal effort.

In Dhaka, Bangladesh (Islam, Nazrul et al., 2005)\textsuperscript{19} bank clients perceived that safe and error-free record is an important service quality factor. Bank clients in Bangladesh often feel that their transaction should be error-free and safe. This indicates that the perceived service quality factors are individually and significantly related to the overall quality of the bank. The change in perceived service quality factor such as, personal attention to the clients, error-free records and safety in transaction, and tangible bank facilities will lead to the change in overall service quality of the bank. The positive relations indicate that if there is a positive change in perceived service quality factors there will be a positive change in the overall quality of the bank. Hence, the perceived service quality factors are very much important for measuring the overall quality of the banks located in Dhaka City.

Using the SERVQUAL as a technique to measure service quality in a Saudi bank (SB), a typical service provider in Saudi Arabia a study was done by Al-Fawzan
The analysis of this study showed that assurance dimension constitutes the most important dimension as determined by SB customers. There was a service gap in the quality of services provided by SB. The most remarkable gap was in the accessibility dimension. They suggested SB management to look very closely to this service gap. Customers’ expectations of SB services were highest in reliability dimension.

The main conclusion of the study of the relationships among Service Quality, Customer Satisfaction and Profitability in the Taiwanese Banking Industry by Lee, Ming Chang et al., (2005) revealed that perception quality is an antecedent of attitude, service quality is an antecedent of customer satisfaction, customer satisfaction directly affects purchase intention, and customer satisfaction is an antecedent of profitability. Finally, the author finds gap between customers and service providers and thus demonstrates that profitability is positively affected by service quality improvement.

Consumers of services in different countries may have different perceptions of service quality due to cultural differences. In a study of banking services in the USA, India and the Philippines (Malhotra et al., 2005), it was found that there were systematic and significant differences in perception of service quality dimensions between developed and developing countries that could be predicted based on economic, cultural and social factors.

Spathis et al., (2004) studied the service quality of Greek banks on the basis of their customers’ perceptions, and analysed how gender differences affected customers’ perceptions of service quality dimensions such as effectiveness and assurance, access, price, tangibles, service portfolio, and reliability. The study
revealed that that gender affected service quality perceptions and the relative importance attached to various banking service quality dimensions.

According to a research by Petridou et al., (2003)\textsuperscript{24} in Greece, all the commercial banks adopt new dynamic marketing strategies and develop new innovative products placing greater emphasis on both the tangible and intangible aspects of their service.

In Singapore, the public quoted bank was perceived as having a significantly better ‘service portfolio’, specifically in regard to making customers aware of its services through its ATMs. The government bank was perceived as having ‘better staff who deliver the service’ specifically in the way the staff dressed and efficiency in the way they served the customers. (Phillip Gerard et al., 2001)\textsuperscript{25}

Kangis et al., (1997)\textsuperscript{26} who compared private and public banks in Greece say that perceived service quality in banks results from a comparison of consumer's expectation with their perceptions of the service actually delivered by the supplier. They studied Private and public banks in Greece by comparing the customer expectations and perception and found that quality expectations and evaluation of services received were marginally higher in the private than in the public sector in most of the dimensions measured.

Johnson et al., (1997)\textsuperscript{27} pointed out that expectations can vary according to culture, for example in their study they found that "security" was perceived as the highest expectation base in the UK, whilst "reliability" was the most important quality dimension to US consumers.

Kim et al., (1996)\textsuperscript{28} conducted a study on three US banks and found the banks shared the common elements of service excellence-a clear banking culture provided by committed management, employee empowerment by enhancing knowledge and
skills, and improvement of operating processes with technological applications. The management recognized the definite needs to adapt itself to a changing environment and provide employees with vision for service quality.

Avkiran (1994) while developing an instrument to measure customer service in branch banking in Australian trading bank found elements of credibility and responsiveness to be the most important factors.

As a result of this heightened competition, bank service quality has become an increasingly important factor in determining market shares and profitability in the banking sector (Anderson et al., 1994; Spathis et al., 2002).

3.2 Service Quality in Indian Banking Sector

Kailash (2012) evaluated Customer Perception on Service Quality in Retail Banking and found that although the Public sector banks enjoyed the trust of the customers, Private sector banks seem to have satisfied its customers with good services and they had been successful in retaining its customers by providing better facilities than Public sector banks.

Vibhor Jain et al., (2012) studied the customer perception on service quality in banking sector, with special reference to Indian private banks in Moradabad region. The findings revealed that in private sector banks, Reliability and Responsiveness are the most relevant factor of quality perception. Empathy had scored the minimum value in the private sector, which certainly is a big factor contributing towards the lower quality perception of the private sector banks. They conclude that public sector banks enjoyed a better quality perception among their customers.

The results of the study by Singh et al., (2011) showed that customers’ perception for private banks in Hissar District was lower than their expectations. In attributes like “Bank staff keeping customers’ best interest at heart”, “Personal
attention given”, “Friendliness and courtesy of Bank staff”, “When my Bank promises to do something by a certain time, it will do so”, “Individual attention given by Bank staff”, the service quality gap was high. The study also found that male customers were dissatisfied with attributes like “Bank staff keeping customers’ best interest at heart”, on the other side females are dissatisfied with attributes like “Personal attention given by bank employees”. Regarding overall satisfaction with banks services, the male customers were a little more satisfied than female customers.

Rajyalakshmi Nittala et al., (2011)\(^{35}\) studied the Service Quality and Customer Satisfaction in State Bank of India. The perceptions of customers regarding the various services provided to them by the bank showed that the response given to variables like customer enquiries, patience of employees towards the customer, handling of complaints, training of employees, Parking facility, Guidance signs to various counters, Provision of locker facility, Relevance of information being provided, and Performance of banking services appear to be important constructs in the satisfaction context.

The study of the determinants of Customer Satisfaction in Indian (Universal) Banks (Jaspal Singh et al., 2011)\(^{36}\) revealed that customer satisfaction is influenced by nine factors, namely, responsiveness, tangibles like appearance of a bank's physical facilities, equipment and employees, services innovation, social responsibility, reliability and accessibility, assurance, pricing and other facilities, problem solving capability and convenient working hours of the bank.

Ananth et al., (2011)\(^{37}\) did Service Quality Gap analysis in Private Sector Banks with A customer perspective and reiterated that banks have to understand the changing needs of customers, their aspirations and expectations to create value. They also need to have a strong customer relationship management system that would
indicate the worth of the customer and be able to understand his needs, so as to cross sell their products. The employees need to upgrade their skills which will increase their comfort level while educating customers to use the same in their day to day dealings.

Vijay M. Kumbhar (2011)\textsuperscript{38} found that there was a significant difference in the customers’ perception in internet banking services provided by the public and privates sector banks. Private sector banks were providing better internet banking service than what was provided by the public sector banks. Hence according to him public sector banks should improve their internet banking services as per the expectations of their customers.

Reena Roy et al., (2011)\textsuperscript{39} studied service quality of foreign banks in India and found that foreign banks are lacking some features like ATM facility at convenient locations, courteous customer treatment, prompt service with quality information, safe online banking, as well as convenient timings. He suggested that they should concentrate on these areas to improve their existing account holders’ satisfaction level and to attract potential customers in future.

The study of Magesh (2010)\textsuperscript{40} revealed that the banks seemed to have performed better in case of ‘Responsiveness’ ‘Reliability’ and ‘Empathy’ than in other dimensions. Poor scores on tangibles and assurance clearly depict how unimportance had the bank attributed to the infrastructure of the bank and its department which requires improvement at vast level. The results concluded that the performance delivery with respect to the banks has to be enhanced to leverage and improvise the level of service quality dimensions.

In the study by Uma Sankar et al., (2010)\textsuperscript{41}, on service quality attributes affecting customer satisfaction in Banking Sector of India, it is observed that the
degree of customer satisfaction is best explained by Responsiveness / Empathy in public sector banks and in the case of private banks the degree of customer satisfaction is best explained by Assurance / Empathy. The respondents of the banks mostly focus on people (staff of the banks) factor for improving customer satisfaction; while the banks are focusing on tangible factors such as computerisation, ATMs, etc. to attract customers.

Padhy Prasant Kumar et al., (2009)\textsuperscript{42} examined the service-quality issues (from the perspective of customers) with respect to a developing economy - India. The three groups of banks in India (public sector, private sector and foreign banks) were compared with respect to each of the five factors of service quality. The study established that the technological factors seem to be the differentiating factor among the three groups of banks as far as customer perceptions of service quality were concerned.

Popli et al., (2009)\textsuperscript{43} studied the Customer Relationship Management in Indian Banks found that the Private Sector Banks had been able to implement the CRM practices more effectively as compared to their Public Sector counterparts. This was further corroborated by the findings of the service quality level being provided by these banks. Further, it was observed that both the public and private sector banks scored the least on responsiveness and empathy factors. Public Sector Banks had fared better in terms of reliability and assurance whereas the Private Sector Banks had fared better in terms of tangibility, reliability and assurance. The results also suggested that the banks (whether public or private) are equally affected by CRM initiatives they undertake to retain the customers.

Kirti Dutta et al., (2009)\textsuperscript{44}, studied the expectations and perceptions of the customers across the three banking sectors in India. A study of the financial
performance of the banks was also done to see if the perception of service quality had an effect on financial performance. It was found that in the banking sector, foreign banks which were perceived to be offering better quality of services followed by private and then public banks. It was also found that these perceptions were reflected in the financial performance of the banks. The largest discrepancy between the customer expectations and perceptions was in terms of empathy which included Bank locations and ATM machines in convenient places and telebanking and internet banking facility. This is the major source of concern for Indian banking industry as a huge service quality gap exists for all the banks in this category.

The study by Nadiri et al., (2009)\textsuperscript{45} describes the zone of tolerance for young customers' service expectations and determines the customer satisfaction level for banks. The results demonstrate that evaluation of services can be scaled according to different types of expectations - 'desired' and 'adequate' - and that customers use these two types of expectations as a comparison standard in evaluating bank services. The findings reveal that young customers have a narrow zone of tolerance with regard to the services provided by banks. The results with respect to gap analysis reveal that there was a shortfall in the service quality provided by the banks in the sample, with the largest gap being found in tangibles and empathy of service quality dimensions.

Hugan et al., (2008)\textsuperscript{46}, studied the Customer Orientation of Indian Public Sector Banks” and found that that Indian public sector banks needed to equip themselves to face the competition squarely even with their social responsibilities. They go on to reiterate that in the competitive scenerio, among various other factors, customer orientation occupies the place of prominence for success.

Seema Girdhar (2008)\textsuperscript{47} in their study on “Banking on Relationships” related to service quality of three co-operative banks in Surat found that the perceived
performance of Prime Bank (one of the sample banks) is relatively close to expectations in comparison to other two banks.

Garima Malik and Ajay Prakash (2008)\textsuperscript{48} studied the impact of New Private Sector Banks on Old Private Sector Banks in India and found that the entry of new private players had affected the performance of the old private sector banks in India due to Customer Relationship Management strategies adopted by new private sector banks.

Ashutosh et al., (2007)\textsuperscript{49} studied the perceptual difference of Quality in Banking Services in Indian Private Sector Banks and found that the rating of executives and customers of the Private Bank differs with each other on dimensions like responsiveness, competence, product range and security and agree on dimensions like reliability, accessibility, courtesy and tangibles.

Dash and Kumar (2007)\textsuperscript{50} studied service quality and found that the customer’s expectations exceeded their perceptions with regard to various dimensions of service quality. They further claimed that perception of either positive or negative service quality was related to the customer’s future behavioral intentions. Therefore, if a positive quality gap exists, the customers would tend to comment positively about the service. On the contrary, a negative quality gap would result in customers complaining, switching to other service providers, commenting negatively about the provider or just decreasing the usage of the service. Hence they recommended that the banks should continuously monitor the service quality levels so as to avoid erosion of service quality and migration or switching by customers to another bank.

Purohit, H.C. & Pathardikar, Avinash, D. (2007)\textsuperscript{51}, studied the ‘Service Quality Measurement and Consumer Perception about the Services of Banking Institutions’ focusing on Nationalized Banks in India. They identified key elements of
strategies to be adopted by leading Indian banks which include building a strong presence in India and international markets, customer-focused product innovation, financial resilience and a strong operating environment. They concluded that the policy decision makers should make multi-cornered efforts to have a new perception of quality.

A study done on the impact of New Private Sector Banks on State Bank of India was done by Ramkrishna Vyas et al. (2007)

Commercial banks, especially the dominant public sector banks, had been exposed to competition from the new banks set up in the private sector with the latest technology. This has created a need for the public sector banks to improve their business efficiency and volume, which is a good sign of competitive effectiveness. The results indicated that the presence of new private sector banks do not pose any threat to State Bank of India at the moment; however, the same cannot be said in the future.

Nalini Prava Tripathy (2006)

in the study on a Service Quality Model for Customers in Public Sector Banks highlighted the facts of customer preferences towards banks. They concluded that Public Sector Banks had to inculcate marketing orientation in their work culture. The bankers should educate their front-end staff about the need for meeting customer expectations which alone can build the reputation and image of the bank.

The results of the study by Puja Khatri et al., (2006)

offer strong support for the intuitive notion that improving service quality can increase favourable behavioural intentions, namely, WOM (Word-of-Mouth) communications and purchase intentions and decrease unfavourable intentions, namely, complaining behavior. In this study the service quality factor of customer-orientedness was found to be the most important
factor for influencing WOM about the bank and customers’ complaining behaviour, followed by competence, tangibles and convenience.

Sungjoon et al., (2006)\textsuperscript{55} studied the effects of Service Quality and Word of Mouth on Customer Acquisition, Retention and Usage and found a direct effect of service quality on rental usage and termination behavior. Word of mouth affected about one-fifth of the subscribers with respect to their activation behavior and that the effect of negative word of mouth was twice as high as the effect of positive word of mouth for consumers influenced by word of mouth. So they concluded that service quality was important for new customer acquisition as heavy users tend to be acquired by word of mouth rather than advertising.

The results of the study by Mushtaq A. Bhat (2005)\textsuperscript{56} reveal that service quality of foreign banks was comparatively much better than that of Indian banks and there were service quality variations across demographic variables.

Joshua, A.J. and Koshi, Moli.P. (2005)\textsuperscript{57} studied the expectations and perceptions of service quality in old and new generation banks of South Canara region” and observed that recognition of service quality as a competitive weapon was relatively a recent phenomenon in the Indian Banking sector.

Mushtaq A Bhat, (2005)\textsuperscript{58} studied the service quality perceptions in respect of banks, with the perceptions of their respective customers regarding the quality of service offered by banks, and to offer suggestions to make the overall banking service more effective and efficient. The results of the study lead to the conclusion that customers perceive that service quality of all banks was below their expectations, and suggests heavy investment on tangibility and improvement in other dimensions of service quality.
Alka Sharma and Versha Mehta (2004)\textsuperscript{59} in their study found that public sector banks in India enjoyed a better quality perception among their customers. As for public sector banks, the scores of three out of five dimensions were higher than the mean. However, in the case of private banks, only the scores of two dimensions were higher than the mean.

Gani et al., (2003)\textsuperscript{60} studied service quality in commercial banks and concluded that the service quality of foreign banks were much better than that of Indian banks and suggested that Indian banks should invest in tangibility dimension to improve the quality of service.

Sureshchandar et al., (2003)\textsuperscript{61} critically examined the service-quality issues (from the perspective of customers) with respect to a developing economy-India and found that foreign banks seem to be performing well followed by private sector banks and public sector banks.

Biswa N Bhattacharyay (1990)\textsuperscript{62} conducted a study on customer service in the Indian Banking Industry and established that customer orientation of the banking industry had deteriorated in the post-nationalization era. The banking industry itself in response to rising customer aspirations had become increasingly aware of its own limitations and has taken several measures to become more customer-oriented.

### 3.3 Service Quality in Retail Operations of Banks at the Global Level

Kambiz et al., (2011)\textsuperscript{63} studied the perceived service quality measurement scale in Iran’s retail banking market and found that the notion of service quality was a multidimensional concept. Results also indicated that dimensions of service quality were not only relating to industry but also culture-specific.

Kazi Omar Siddiqi (2011)\textsuperscript{64} studied Interrelations between Service Quality Attributes, Customer Satisfaction and Customer Loyalty in the Retail Banking Sector.
in Bangladesh and found that all the service quality attributes were positively related to customer satisfaction and customer satisfaction was positively related to customer loyalty in the retail banking settings in Bangladesh. The service quality variable empathy had demonstrated the highest positive correlation with customer satisfaction and tangibility had the least positive correlation with customer satisfaction.

Andrea Ryan et al., (2010) examined consumer retail finance sector in the United States since World War II and identified four major themes that characterized the sector: (a) innovation that increased the choices available to consumer; (b) enhanced access in the form of broadening participation of consumers in financial activities, (c) do-it-yourself consumer finance, which allowed and forced consumers to take greater responsibility for their own financial lives, and (d) the resultant increase in household risk taking.

The results of the study by Bick et al., (2010) of the customer service expectations of clients in retail banking across 10 African countries had shown that customer service expectations differ significantly between countries in Africa. Overall in Africa the dimension ‘responsiveness’ was the most important service requirement for retail bank customers, followed by ‘reliability of service’.

The study (Mohammed Hossain et al., 2009) to evaluate the service quality in retail banking in the Middle East indicated that customers’ perception is highest in tangibles area and lowest in competence area. On the other hand, the lowest perceptions are in the competence area, such as the method of imposing service charges followed by reliability such as customers’ guidance and concluded that to be successful, retail banks must provide service to their customers that meets or exceeds their expectations.
Herington et al., (2009)\textsuperscript{68} explored the measurement of e-service quality for e-retail banking, the importance of e-service quality dimensions to e-retail bank customers, and the relationship between e-service quality and customer satisfaction in Australia. A four-factor solution (E-ServQual) represented by "personal needs", "site organisation", "user-friendliness" and "efficiency" was found, with all factors rated as important. E-ServQual is found to be a predictor of overall customer satisfaction with banking performance, but "efficiency" is not found to be predictive. Overall satisfaction was lower than overall e-service quality.

In the study undertaken by Jham et al., (2008)\textsuperscript{69} identification of customer satisfaction variables was reviewed and its importance reinforced. It further established that increase in customer satisfaction with respect to services provided by the banks result in better performance by the banks. The results in this research revealed that satisfaction of the customer varies from bank to bank and from customer to customer.

In a comparative study of Greek and Bulgarian bank service quality with regard to retail customers (developed versus developing countries) by Petridou et al., (2007)\textsuperscript{70} it was found that Greek customers perceived a higher quality of service than the perceptions of their Bulgarian counterparts, due to different political, economic and socio-cultural environment.

A study of the Retail Banking Competition in Hungary (József Molnár et al., 2007)\textsuperscript{71} indicated that the high margins and banks’ competition behavior is due to switching costs, habit formation, marketing activity and competition in credit standards and conditions.

In a research on Customer Service Quality in Retail banking in the Greek Cypriot banking industry by Arasli et al., (2005)\textsuperscript{72} it was found that reliability
attributes had highest influence to customer satisfaction in the Greek Cypriot banking industry.

In a study by Osman M. Karatepea et al., (2005) they developed a four-dimensional construct consisting of service environment, interaction quality, empathy, and reliability. Interaction quality was the most important dimension of service quality followed by empathy, reliability, and service environment in retail operations of banks.

The study of perceptions of Malaysian Islamic bank’s retail customers found that Compliance, Assurance and Reliability as most important, while Responsiveness, Empathy and Tangible were the least important. Of the three dimensions deemed to be important, emphasis was placed on Compliance. (Shahril Shafiem et al., 2004)

Bick et al., (2004) studied Customer Perceptions of the Value Delivered by Retail Banks in South Africa and concluded that the management needs to have a deep understanding of their customers in order to be able to provide excellent quality service and the support required to attain maximum value from the services delivered.

Yavas et al., (2004) studied the nature of relationships between service quality, background characteristics, and satisfaction and selected behavioural outcomes in retail banking in Germany. The study revealed that service quality was the basis of customer satisfaction and was linked to behavioral outcomes like word of mouth, complaint, recommending and switching. The results indicated females were more closely associated with positive word of mouth and commitment. Timeliness of service delivery had an impact on customer satisfaction, and complaint and switching behaviors.

Mohammad Shamsuddoha et al., (2004) studied Loyalty and Satisfaction Construct in Retail Banking and concluded that satisfaction was the most important...
factor influencing customer loyalty in banks. The results also showed that overall satisfaction with the bank had a significant relationship with recommending the bank to other people. Furthermore, the study revealed that the level of satisfaction depended largely on service quality.

The study by Asuncion Berlin et al., (2004)\(^78\) carried out in the retail banking market concludes that satisfaction together with personal switching costs are antecedents leading directly to customer loyalty, with the former exerting the greatest influence; and perceived quality is a consequence of satisfaction. At the same time, the study shows that the degree of elaboration in the bank selection process does not have a moderating influence on the causal relationships between satisfaction/switching costs and customer loyalty.

An analysis of a SERVQUAL implementation in a large UK Bank reinforces the idea that ‘delivering the promise’ is critical to service quality (Newman, 2001)\(^79\), whilst the SERVQUAL focus on ‘soft’ issues such as empathy and assurance resonate strongly with the Service marketing community. His findings suggest that effective delivery on hard factors is a necessary pre-condition for overall service quality. According to him customer satisfaction is seen as an important strategic differentiator.

The results of the study conducted by John P. Bonin et al. (2000)\(^80\), in Hungary indicated that domestically controlled banks with local expertise may have a significant role to play in retail banking in small, open transition (or emerging) economies.

The study on employee satisfaction, customer loyalty, and financial performance: An empirical examination of the service profit chain in retail banking by Loveman (1998)\(^81\) supported the perspective of the service profit chain, in which...
service quality drives customer satisfaction, which in turn creates customer loyalty leading to growth and profit in retail banking operations.

Johnston (1997)\textsuperscript{82} confirmed this while identifying responsiveness to be the most important service dimension in the UK retail banking sector.

Levesque and McDougall (1996)\textsuperscript{83} found that higher customer loyalty will lower servicing costs, reduce marketing expenses, and increase business from the current customers which is particularly true in the retail banking. They further note that, in retail banking, increasing customer satisfaction and loyalty will result in reducing banks’ servicing cost and gaining knowledge of the financial relationship and customers’ needs, thereby allowing banks to effectively and efficiently cross-sell existing and new products or services to their customers.

According to a study on quality in retail banking in UK by Galloway and Blanchard (1994)\textsuperscript{84}, the breakdown of the SERVQUAL dimensions also show responsiveness as the most important service quality dimension, followed by assurance, empathy, tangibles and reliability.

Newman et al., (1996)\textsuperscript{85} in their study on service quality in retail banking in two British clearing banks found that providing excellent service quality in retail banking operations is ‘not just a corporate offering, but a competitive weapon’ which is ‘essential to corporate profitability and survival’.

The Zeithaml, Parasuraman and Berry (1990)\textsuperscript{86} study asked users of credit cards and retail banking services, amongst users of other products/ services, to rate the importance of each service dimension. The results indicated that reliability of service was the most important requirement of these financial service customers. The second most important requirement for credit card customers was responsiveness and bank customers’ empathy.
3.4 Service Quality in Retail Banking Operations in India

Revathy, B. (2012)\(^87\) studied the Indian Retail Banking Industry and found that the most important pre-requisite for the efficient management of a large and diverse retail portfolio is skilled and well-versed employees. There is a need for constant innovation in retail banking. In bracing for the future, a paradigm shift in bank financing through innovative products and mechanisms involving constant upgradation and revalidation of the banks’ internal systems and processes is called for. Banks now need to use retail banking as a growth trigger.

Parmita Mehta (2012)\(^88\) did a study on measuring Service Quality in Retail Banking Sector in Gujarat and found that responsiveness (promptness and helpfulness) dimension has the highest relative importance. This indicated that employees’ willingness to help customers and giving prompt service to customers were most important in influencing overall service quality perception, customer satisfaction, their likelihood for recommendation and loyalty intention. Tangible dimension (appearance of physical elements) was the next most important dimension in influencing the above variables in the given context.

The study by Satyanarayana (2011)\(^89\), revealed that the level of satisfaction of customers product wise in retail banking industry. There was no significant difference between satisfaction level of home loan customers and of consumer durable loan customers only in reliability dimension. Between satisfaction level of customers of home loan and of personal loan, there was no significant difference in creditability, accessibility and responsiveness. Whereas, significant variation was found in terms of level of satisfaction between customers of consumer durable and personal loans with tangible, credibility, reliability and accessibility. In the case of courtesy and security, on an average, all customers had scored same level of satisfaction.
A study was done to evaluate the service quality in retail banking in Vijayawada city using SERVQUAL by Kailash (2011)\textsuperscript{90}. The result indicates that customers’ perception is maximum in the tangibles area and minimum in the Responsiveness area. It is top in the point of ‘error free records’ of the bank followed by ‘making customers feel safe in their transactions’ while customers have least ranked ‘giving customers individual attention’ and ‘employees who have a neat, professional appearance’.

Aparna Mishra et al., (2011)\textsuperscript{91} studied the Customer Centric Approach towards Retail Banking Services and reiterated the fact that service quality of retail banking is a critical factor to customer satisfaction and these various dimensions of service quality are an integral component of customer retention strategy implemented by banks as a part of their retail marketing programmes.

Ravichandran et al., (2010)\textsuperscript{92} studied the influence of Service Quality on Customer Satisfaction in retail banking industry in India. The findings also showed that only responsiveness was found to be significant in predicting overall satisfaction with the banking service. Though prompt service was both an objective and subjective component for both the service provider and consumer, the results in this study suggest that recognizing responsiveness as another form of responsibility is essential to increase customers’ overall satisfaction with banking service.

Kumar (2010)\textsuperscript{93} did an empirical study on the influence of Service Quality on attitudinal loyalty in Private Retail Banking and found that responsiveness and reliability of service quality dimensions determine customer satisfaction more than the assurance, empathy and tangible aspects. Overall perceived service quality fosters customer's attitudinal loyalty through latent customer satisfaction. Increase in service
quality of the banks can satisfy and develop attitudinal loyalty which ultimately retains valued customers.

Dhandabani (2010)\textsuperscript{94} studied nature of linkage between service quality and customer loyalty in Indian retail banking. The results indicated that service quality has a significant indirect impact on customer’s loyalty especially through customer’s satisfaction. The study indicates that the bank managers need to develop a systematic assessment programs to monitor service quality and customers satisfaction over time. Once the service culture is established, it will lead to customer satisfaction and customer satisfaction result in customer’s loyalty.

The study of Manabendra N. Pal et al., (2009)\textsuperscript{95} suggests that customers distinguish four dimensions of service quality in the case of the retail banking industry in India, namely, customer-orientedness, competence, tangibles and convenience. The study has shown that the customer-orientedness and competence of employees are the two most important service quality factors, in the context of the Indian retail banking sector and that what is more important is the provision of competent service, caring, individualised attention to the customers, employees’ knowledge and courtesy, and the ability of the firm and its employees to inspire trust and confidence.

Private sector banks and public sector banks were compared in terms of user perception of their retail banking services by Ravi (2008)\textsuperscript{96}. Both public and private sector banks are strong in confidentiality of account transactions and goodwill. The public sector banks are also stronger in safety of investments and their areas of concern are mobile banking, e-banking, internet banking and use of latest technologies, infrastructure facilities like ATMs, handling of customer grievances and ambience and décor. The private sector banks on the other hand are also strong in
politeness and hospitality, speed, accuracy and promptness, variety of services offered and communication and prompt information. The areas that need to be addressed by private banks are imposing of service charges and infrastructure facilities like parking, etc.

Prasanta Kumar et al., (2009)\textsuperscript{97} critically examined the service-quality issues (from the perspective of customers) with respect to a developing economy - India. The three groups of banks in India (public sector, private sector and foreign banks) have been compared with respect to each of the five factors of service quality. The three groups of banks in India seem to vary significantly in terms of the delivery of the five service quality factors. From the customer perceptions of service quality, the technological factors (core service and systematization of the service delivery) appear to contribute more in differentiating the three sectors while the people-oriented factor (human element of service delivery) appears to contribute less to the discrimination.

Vimi Jham et al., (2008)\textsuperscript{98} studied customer satisfaction in the Indian Banking Sector and identified three relationship dimensions, namely, traditional services, multi-channel banking and internal marketing, which lead to customer satisfaction. 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 banks are older and more satisfied with the traditional facilities.

Koushiki Choudhury (2007)\textsuperscript{99}, studied the dimensions of customer perceived service quality in the context of the Indian retail banking industry. The study suggests that customers distinguish four dimensions of service quality in the case of the retail banking industry in India, namely, attitude, competence, tangibles and convenience. Identifying the underlying dimensions of the service quality construct in the Indian
retail banking industry is the first step in the definition and hence provision of quality service.

Studying the Critical Determinants of Customer Satisfaction in Retail Banking in India, Vijayakumar et al., (2007) found that in retail banking, core and relational features ought to be equally weighted when managers are interested in improving customer satisfaction. In contrast, when the focus is on reducing switching intentions, considerable emphasis should fall on core items ensuring successful problem recovery.

Venkata Sesaiah et al., (2007) studied the factors affecting customers choice of Retail Banking and tried to identify various factors and also analyzed as to which of these factors exert the greatest, moderate and relatively lower influence as choice criteria. The 15 different factors that could be identified, approximately in the order of their importance, are (1) Safety of Deposits, (2) Size and Strength, (3) Accuracy, (4) General Service Quality, (5) Speed of Delivery, (6) Proximity, (7) Security of Environment, (8) Cordiality of Staff, (9) Price and Service Charges, (10) Product Packaging, (11) General Public Impression, (12) Peer Group Impression, (13) Face Lift (Structural), (14) Friendship with Staff and (15) Advertisement and Publicity. According to the findings, based on the empirical study, the first six factors exert the greatest influence, the next four have moderate importance, and the rest five have relatively lower influence.

The study by Vanniarajan et al., (2007) identifies four dimensions – reliability, responsiveness, assurance and tangibles – which form the domain of customer’s evaluation of search quality in the financial services industry. The results indicate that the customers’ perception on the service quality factors in private sector banks are higher than in the public sector and co-operative banks. The significantly
influencing service quality factors on the overall attitude towards retail banking are the reliability and assurance. The most important discriminating service quality factor among private and public sector bank is ‘responsiveness’ whereas among the public sector and cooperative banks, it is ‘tangibles’. In the case of private and co-operative banks, the important discriminating service quality factors are reliability and responsiveness.

Findings of the study on customer satisfaction and retail banking by Ahmad Jamal et al., (2002)\textsuperscript{103} indicate that both core and relational dimensions of service quality appear to be linked to customer satisfaction. Findings also indicate that expertise is negatively related to satisfaction.

### 3.5 Service Quality and Bank Personnel

Pinar et al., (2010)\textsuperscript{104} examined the perceptions of bank personnel regarding bank services offered to customers by the banks in Turkey. The study found significant perceived differences of bank services by personnel position, gender, and age, but not education level. The study presents a framework showing the potential impact of bank personnel characteristics on bank service quality.

Syed Muhammad Irfan (2009)\textsuperscript{105} did an empirical study on achieving service quality through valuable human resources in banking sector of Pakistan. They concluded that quality in service sectors strongly depends on employees’ commitment with the organization for providing superior services to the customers to enhance customers’ satisfaction based on training and development to enhance employees’ skills and leaning abilities to perform their tasks efficiently and effectively.

The results of the research by Manju Puri et al., (2008)\textsuperscript{106} on the importance of Retail Banking Relationships supported the importance of retail banking relationships
and suggested reasons to consider retail investors seriously as yet another favoured clientele who are important to the bank.

The necessity of human touch gains with the clients by the bank becomes more pivotal at a time when introduction of technology is rapid (Kamakodi et al., 2008). Banks are exceeding the expectations in technology based services; but their perceived service level on branch network is below the expected levels of respondents. This again emphasizes the fact that technology alone cannot give a sustainable competitive advantage for the banks. When all banks introduce IT, it will lose its position as a differentiator. Beyond a point, IT along with ‘personal touch’ will be necessary for banks to retain existing clients and to attract new ones. Banks have to incorporate this in their operational strategy.

Prasanta Kumar et al., (2006) analyzed the perception of bank staff and found that the staff perceived ‘communication’ and ‘accessibility’ of banks to be poor in quality. The only dimension in which the staff perceived superior quality of service in the bank was ‘feeling secure’.

Shaines G. and Tanuja Sharma, (2003) explored the linkages between the employees’ perceptions of service climate and the customers’ perceptions of service quality in the banking industry in India. The results of the analysis establish a strong linkage between elements of service climate and service quality. There were reduced gaps between foreign banks and private banks, which is contrary to the conventional wisdom that we need to ape the West to be competitive. The progress of the new private banks indicates that good system designs, progressive review practices, teamwork and customer orientation are important in the way forward.

Sureshchandar et al., (2002) studied that Management’s perception of total quality service in the banking sector and concluded that there was much scope for
improvement when compared to the level of Total Quality Service implementation practised by the best banks of the developed countries of the world.

In a study by Jodi (2002)\textsuperscript{111}, it was found that strong service provider-user relationship directly increased customer satisfaction and loyalty because the overall service experience was more effectively coordinated. Moreover this relationship helped service providers to develop more effective relationships with their customers, which further increases customer satisfaction and loyalty. Managers should therefore select, train, and reward service providers in a way that supports the formation of strong working relationships between them.

The results of the study on Customer-Employee Rapport in Service Relationships by Gremler et al., (2000)\textsuperscript{112} indicated that both rapport components were significantly related to customer satisfaction, customer loyalty intent, and the likelihood of positive customer communication about the firm in the bank context.

Inseparability of production and consumption of services leads to the service encounter (or moments of truth) when the customer interacts with the service provider. Anderson and Mittal (2000)\textsuperscript{113} claim that these service encounters (or moments of truth) are where promises are kept or broken and where the proverbial rubber meets the road - sometimes called the "realtime marketing." Thus, it is in these service encounters that customers receive a snapshot of the organization's service quality, and each encounter contributes to the customer's overall satisfaction and willingness to do business with the organization again.

Holstius et al., (1995)\textsuperscript{114} cited efficiency and courtesy of bank staff as the most important attribute in determining overall customer satisfaction in the retail banking area, while other important attributes are convenience of location, range of services,
reputation and availability of innovations. This study was done on retail banking in Nordic countries with special reference to Finland.

Prior research emphasizes the critical importance of personnel for service qualify during the service encounters (Bitner 1995). However, these studies did not investigate if personnel characteristics could have any impact on the quality of service delivered to customers. Bank personnel make a significant contribution to the perception of overall service quality through interactive marketing and a creation of the service brand.

Bitner et al. (1990) studied the favourable and unfavourable incidents in the service encounter and identified employees’ willingness to respond to a problem and their employees’ responsiveness to customer needs as key factors in service quality.

Schneider and Bowen (1985) did research on the relationships between employees and customers and found significant relationships between branch employees' perceptions of organizational human resources practices and branch customers' attitudes about service. Employee attitudes and customer attitudes were related to their own and one another's turnover intentions.

Schneider et al. (1980) on Employee and Customer Perceptions of Service in Banks, results revealed some strong relationships between employee perceptions of branch practices and procedures in relation to service and customer perceptions of service practices and quality.

3.6 Research Gap

The review of literature has revealed that most of the studies relating to Service Quality in the Banking Industry have been done either in the banking as a whole or the entire retail banking operations of banks. But the present study is confined only to retail lending operations of commercial banks as it is a grey area.
The study is confined to a single state viz., Karnataka to facilitate micro level analysis. In addition to the customer based analysis, the researcher also elicited the opinion of bank managers about customer expectations. Hence on these three grounds, the present study is different from earlier studies.
References


