CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

There is a growing importance of services in the world economy. Services contributed a total of 66.3 per cent of world gross domestic product (GDP) in the year 2000. Services are difficult to manage due to certain inherited characteristics such as intangibility, heterogeneity, inseparability and perishability. The complex nature of services, coupled with the growing prominence of the services sector has also increased the need for better service quality.

Therefore, the topic of service quality is increasingly recognized as being one of the key strategic values of organizations in both the manufacturing and service sectors (Lewis, 1991). Service quality, allows the company to differentiate itself from its competitors by increasing sales and market shares, it results in the satisfaction and retention of customers and employees, thus reducing turnover rates, it leads to repeat purchase behavior and brand loyalty and furthermore, new customers are attracted through positive word-of-mouth, (Lewis, 1991; Newman, 2001; Caruana, 2002; Wang et al, 2003).

Banking and financial services are an important part of the services industry (Mishkin, 2001). In line with the trend towards a more integrated global banking environment, many regulatory, structural and technological
changes have taken place within the world banking industry (Angur et al, 1999). Banks are expanding across borders, offering a diverse portfolio of competitive services and restructuring their services in order to make use of rapid technology and to meet the changing needs of customers.

Financial liberalisation has led to intense competitive pressures and private banks dealing in retail banking are consequently directing their strategies towards increasing service quality level which fosters customer satisfaction and loyalty through improved service quality.

Technological advancement have witnessed the application of technology in increasing the number of banking channels namely ATM, Internet Banking, Tele Banking and branch banking. In retail banking scenario, it is also implicit that many banks are competing for the same customer segment and the combined resources being spent in terms of channel development and other efforts may exceed the profitability of the segment targeted at, by the banks put together. Typically, customers perceive very little difference in the banking products offered by private banks dealing in services as any new offering is quickly matched by competitors.

In the developed countries especially, the service sector has become the major growth industry during the latter part of the 20th century (Parasuraman et al., 1991; Cowling & Newman, 1995). With this ongoing growth, implementing quality management initiatives in service industries may not be a choice but a necessity when its appropriateness and effectiveness are fully validated both academically and empirically (Kanji, 1997).

Abundant research has been carried out on service quality and customer satisfaction (Cronin & Taylor, 1992; Rust, 1994; Fornell et al., 1994; Lassar et al., 2000). The difference between the two constructs has been described as: "service quality is a form of attitude and long-run overall evaluation, whereas
satisfaction is a transaction-specific measure’ (Bolton & Drew, 1991; Parasuraman, 1990).

According to Cronin & Taylor (1992) and Lassar et al. (2000), service quality is an „antecedent of satisfaction but not equivalent”. Although the relationship between two has been tested, the complexity of the relationship still remains in the forefront of marketing and quality management contexts.

Unlike the quality of goods, which may be tangible and measured objectively by using indicators such as performance, features, reliability etc, service quality, however, is not tangible and is thus defined in terms of ‘attitude’, „interaction“, and „perception“. Thus, service quality is judged by what a customer perceives rather than what a provider offers.

Services being a sector characterized by heterogeneity, intangibility and simultaneous production and consumption, it is very important to understand the service dimensions and the attributes which in turn go to define each of these service characteristics in a tangible measurable form. These service characteristics have created problems of definition and measurement of service quality for marketers. Quality is undeniably of paramount importance to service providers. Research has demonstrated the strategic benefits of quality in contributing to market share and ROI, as well as lowering manufacturing costs and improving productivity (Anderson and Zeithaml, 1984; Garvin, 1982.)

2.2 CUSTOMER SATISFACTION

Satisfaction is defined as an emotional state resulting from a customer’s interactions with a service provider over time. Crosby, L. A., Evans, K. R. and Cowles, D. (1990). Satisfaction is a multidimensional construct which has been conceptualised as a prerequisite for building relationships and is generally described as the full meeting of one’s expectations (Oliver, 1980) and is the
feeling or attitude of a customer towards a product or service after it has been used.

Customer satisfaction is the sum total of the customers expression of the service quality. The survival of business has direct correlation with the satisfaction of the customer. Customer satisfaction, which is attributed to the conduct of business, has certain specific dimensions.

Customer satisfaction is associated with an overall performance of the banking relationship that customers experience through repeated transactions with the bank. Customer satisfaction is determined by two indicators: expectations (comparison standards) and performance perception.

The definitions of customer satisfaction are presented in the following two approaches:

(1) transaction-specific; and
(2) cumulative satisfaction.

Oliver (1980) considers satisfaction to be a specific purchase occasion’s post-choice evaluative judgment, i.e. the consumer perceives that after the purchase there is the fulfillment of a need, a desire or an objective; this can be pleasant, thus characterizing the transaction-specific, which defines satisfaction as a consumer’s emotional answer to their most recent transactional experience (Oliver, 1993). Therefore, Oliver (1999, p. 34) defines satisfaction as “a consumer’s feeling that consumption provides results against a pattern of pleasure versus displeasure”. The associated response occurs some time after consumption, after the process of choice is completed. This way, the affective response varies in intensity, depending on the situational variables that are present (Yang and Peterson, 2004).
Cumulative/overall satisfaction reflects the accumulated impressions on the part of the customers regarding the product/service performance of a company, that is, the customers need to obtain experience with the product or service to determine the level of satisfaction, as it is based on current and past experiences (Anderson et al., 1994). The comparison between both dimensions demonstrates that overall (cumulative) satisfaction is the best predictor of loyalty (Anderson et al., 1994; Yang and Peterson, 2004).

Customer satisfaction is a post-choice evaluation of a specific transaction (Selnes, 1993). Early studies conceptualized customer satisfaction as customer perception of product performance (Cardozo, 1965; Anderson, 1973). Later studies showed that customer satisfaction is a function of customer perception of product performance compared to a set of standards (e.g. expectations, values and norms) = the confirmation/disconfirmation paradigm (Yi, 1990).

Besides the direct effect of confirmation/disconfirmation, both expectation (the comparison standard) and perception of brand performance are found to have direct effects on customer satisfaction with a brand (Churchill and Surpremanant, 1982; Yi, 1990). The studies by Parasuraman et al. (1985) and Zeithaml et al. (1990) noted that the key strategy for the success of any business institution is the deliverance of quality services to customers.

The quality of services offered will determine customer satisfaction and attitudinal loyalty. For this reason, research on customer satisfaction and attitudinal loyalty is often closely associated with measurement of service quality. As globalization and liberalization of financial institutions accelerate, competition among banks in offering products and services becomes more intense.
Organisations are operating in an intense competitive environment, thus, many firms are trying to increase their efforts to retain customers (Al-Hawari, 2006). The concept of relationship marketing has received much attention in recent years as more organisations focus their attention on how to maintain and enhance a relationship with existing customers rather than on how to attract new ones (Caruana, 2002).

The focus on customer retention is particularly true in financial sectors where deregulation has given customers more flexibility to select their financial services (Levesque and McDougall, 1996). Moreover, shareholder pressure to increase profitability has forced banks to move away from a transaction and quick sales approach to maintaining a good long-term relationship with their customers (Kandampully and Duddy, 1999). In general, a two percent enhancement of customer retention can lead to a ten percent reduction of overhead costs, which in turn improves the profitability (Jamieson, 1994).

### 2.3 SERVICE QUALITY

Zeithaml and Bitner (2003) defined perceived service quality as a global judgment or attitude relating to the superiority of a service. It is widely accepted today that service quality is a multi-dimensional concept. There have been a wide variety of service quality models in the literature. One of the most widely used models is the SERVQUAL developed by Parasuraman *et al.* (1988). The model proposed that service quality is measured by five dimensions: reliability, assurance, tangibles, empathy and responsiveness.

Different definitions of service quality have been put forth in management. The Total Quality Management attempts to define quality as zero defects. The Six Sigma attempts to reduce the chances of defects to the minimum in confirmation with the set standards. In services, the attempt is to look at service quality in terms of customers expectations and perceptions.
“Service quality is the degree and direction of discrepancy between consumers’ perception and expectations in terms of different but relatively important dimensions of the service quality which can affect their future behaviour (Parasuraman, Zeithaml and Berry, 1985).”

Service quality has received much attention because of its obvious relationship with costs, financial performance, customer satisfaction and customer retention (Ranaweera and Neely, 2003; Zeithaml, Berry and Parasuraman, 1996; Alexandris, Dimitriadis and Markata, 2002; Reichheld, 1993).

Service quality has been found to be an important component in establishing and retaining customers (Ranaweera and Neely, 2003). The relationship between service quality and retention has been investigated both theoretically and empirically over the past few years in the traditional service context where the interaction between the customer and the employee is face-to-face. In this context, the literature has sustained different views on the way that service quality could influence customer retention. Some authors have indicated that service quality influenced customer retention only through satisfaction (Caruana, 2002; Cronin and Taylor, 1992), while others argued for a direct effect (Ranaweera and Neely, 2003; Alexander et al., 2002).

Service quality has become a critical component in running a successful business in today’s economy (Blose et al., 2005). Provision of high quality services enhances customer retention rates, helps attract new customers through word-of-mouth advertising, increases productivity, leads to higher market share, lowers staff turnover and operating costs, and improves employees’ morale, and financial performance (Duncan and Elliot, 2004; Ranaweera and Neely, 2003; Jamal and Naser, 2003).
The literature review revealed that there has been an intensive investigation into service quality outcomes in the traditional banking context where face-to-face interaction between customer and employee was the primary focus. More recently, banks face a situation where employees and traditional delivery functions are no longer their first interest. Instead banks are increasingly depending on technology with their attendant quality issues.

A superior service quality can be a very beneficial strategy used for long-term business success (Cronin & Taylor, 1992; Brown & Swartz, 1989; Rudie & Wansley, 1985). The Service Quality Instrument (SERVQUAL), developed by Parasuraman et al. (1990) is based upon empirical findings that define service quality as composed of five dimensions, which include ‘tangibles’, ‘responsiveness’, ‘assurance’, ‘reliability’ and ‘empathy’. Its purpose was to measure the discrepancy between customers’ expectation and perception in service quality so that a firm can utilize it. Despite some criticisms of Carman (1990), Oliva et al. (1992), Rust et al. (1994), the validity of SERVQUAL was carried out and applied to several industries (Jiang, 2000; Pill, 1997).

The investigations of the relationship between retention and service quality is well established in the literature. Many studies have investigated this relationship within the traditional contexts where face to face is the only interaction method between banks and their customers. Other few studies have investigated this relationship within the banking automated contexts.

Unlike the quality of goods, which may be tangible and measured objectively by using indicators such as performance, features, reliability etc, service quality, however, is not tangible and is thus defined in terms of ‘attitude’, ‘interaction’, and ‘perception’. Thus, service quality is judged by what a customer perceives rather than what a provider offers.
2.4 SERVICE QUALITY, SATISFACTION AND LOYALTY

Kassim, N. M. (2001) found that both customer satisfaction and customer perceptions of service quality were important predictors of customer retention in telecommunication services. Bloemer, J., de Ruyter, K. and Peeters, P. (1998) have identified similar relationship, both customer satisfaction and customer perceptions of service quality were important predictors of loyalty in retail banking services. In the retail banking services area, most models of customer evaluations of services focus on the comparative judgment of expectations versus perceived performance resulting in the two major evaluative judgments of perceived service quality and customer satisfaction. (Bloemer, J., de Ruyter, K. and Peeters, P. (1998), Murphy, J. A. (1996), Smith, A. M. (1992)).

In a retail banking study, Hallowell, R (1996) found that customer satisfaction could explain 37 per cent of the difference in customer loyalty levels. In other words, satisfaction appears to be a useful predictor of loyalty not only in general, but also in banking.

In the banking field, Bloemer, J., de Ruyter, K. and Peeters, P. (1998) examined the relationship between service quality, satisfaction and loyalty and concluded that service quality has an indirect effect via satisfaction and that satisfaction has a direct effect on loyalty. They recommended that „further research is needed to gain additional insight into the explanation of bank loyalty”, indicating that loyalty in banking is especially difficult to define and measure. These results are consistent with Ennew, C. and Binks, M. (1996) finding that functional and technical service quality in banking has a positive impact on loyalty and retention among small business customers.
Satisfaction is considered to act as an antecedent of loyalty, arising out of direct prior experience (Dick and Basu, 1994). Several studies have found support for the positive relationship between customer satisfaction with a brand and their loyalty towards that brand (Fornell, 1992; Sandvik and Duhan, 1996; Samuelsen et al., 1997). ‘Loyal customers are not necessarily satisfied customers, but satisfied customers tend to be loyal customers’ (Fornell, 1992, p. 7). A satisfied customer has few incentives to change supplier or brand. Therefore, ‘Customer satisfaction makes it costly for a competitor to take away another firm’s customer’ (Fornell, 1992, p. 10).

Satisfying customers should therefore be of great importance to vendors in keeping their customers loyal. Customers who are satisfied with their bank probably develop a positive attitude towards the bank. As a result, their intention to stay with the bank in the future is likely to be high.

According to Zeithmal and Bitner (2003), “Satisfaction is the consumer fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provides a pleasurable level of consumption-related fulfillment”. An application of the SERVQUAL model suggests that satisfaction is a broader concept than service quality. It includes both cognitive and affective evaluations, while service quality evaluations are mainly a cognitive procedure (Oliver, 1997). A number of studies in the services marketing literature have reported that these two constructs are strongly related (e.g., Woodside et al., 1989; Cronin and Taylor, 1992; Anderson et al., 1994; Spreng and McKoy, 1996, and Caruana, 2002).
2.5 CUSTOMER RETENTION

Customer retention is the result of a decision that customers make on the basis of their previous experiences with a bank. Satisfaction and customer retention are significantly based on accumulated past experiences. Flanagan, P., Johnston, R. and Talbot, D. (2005) Thus, customer retention is more easily based on a previous satisfactory experience.

Service industries present a more difficult setting to understanding customer retention or loyalty than manufactured goods industries because the basis of consumer choice and continued patronage are less obvious. Mittal, B., and Lassar, W. M. (1998) Services are intangible and they cannot be completely standardised and they vary according to the mood of the service provider and service customer at the moment of service delivery.

Thus, in service businesses, what is given and received is relatively intangible, which will result in customer evaluation criteria being less well articulated, and the appraisal of the value received to be much more subjective. Keaveney, S.M. (1995), Lovelock, C. H. (1991), Zeithaml, V. A., Parasuraman, A. and Berry, L. L. (1993). Therefore, based on a review of the literature, we define customer retention as the future propensity of the customers to stay with their service provider.

Traditionally, customer satisfaction has been regarded as a fundamental determinant of long-term consumer behavior. (Oliver, R. L. (1980), Yi, Y. (1990)) that is, the more satisfied the customers, the greater is their retention. (Anderson, E. W. and Sullivan, M. W. (1993), Fornell, C. (1992)) Customer retention, however, can be achieved in two fundamental ways. First, according to Patterson, P. G. and Smith, T. (2003), true attitudinal and behavioral loyalty might have been established so customers have little interest in competitive
offerings. (Patterson, P. G. and Smith, T. (2003)) Loyalty and retention, however, do not always come from satisfaction.

Secondly is to erect switching barriers, such as the costs (financial, time and psychological) of changing to an alternative provider act, as disincentives or obstacles to defection. Thus, switching barriers are also important to customers’ retention. (Patterson, P. G. (2004)) Indeed, both service researchers and practitioners have realised that customer switching behaviour can have a negative effect on a firm’s market share and profit. (Ennew, C. and Binks, M. (1996), Ganesh, J., Arnolds, M. J and Reynolds, K. E. (2000), Keaveney, S. M. (1995), Reichheld, F. F. and Teal, T. (1996)).


In other words, a reduction in the rates of customer defections can lead to profit increase. For example, in the realm of retail banking, Rust, R. T. and Zahorik, A. (1993) identified the financial implications of customer retention. According to them, retention rate is seen to be the most important component of market share, and is driven by customer satisfaction.

In light of the above and in an environment of intense competition, what seems vital - in order to avoid the harmful effects of defection and foster long-term relationships with customers - is a deep understanding of the factors influencing customer retention. In fact, there are numerous studies on customer retention in a variety of contexts but the validity of these studies in Middle East markets is under researched.
Retained customers are profitable customers (Reichheld, 1996) and that customer retention rates can be connected to profitability (Payne and Frow, 1997). The driver of a higher rate of customer retention was found to be customer satisfaction (Berry and Parasuraman, 1991; Rust and Zahorik, 1993). In other studies, (Storbacka et al, 1994), found customer satisfaction drove longevity. Other authors (Oliver, 1980; Zeithaml et al, 1990; Storbacka et al, 1994, Rust et al, 1995, Hallowell, 1996, Heskett et al, 1997) found that satisfaction drove customer loyalty and also exerted influence on purchase intention (Cronin and Taylor, 1992).

The antecedent of customer satisfaction (Parasuraman et al, 1985 and Cronin and Taylor, 1992) is service quality. Perceived service quality caused bank customers to feel satisfied or dissatisfied (Storbacka et al, 1994) and service quality was also found to have a positive relationship with customer retention (Keaveney, 1995 and Hocutt, 1998).

2.6 SERVICE QUALITY AND CUSTOMER RETENTION

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### 2.7 CATEGORIES AND DIMENSIONS OF BOND BETWEEN RETAIL BANKING CUSTOMERS AND THEIR BANKS

**Table 2.1 Categories of bond between customers and their banks**

<table>
<thead>
<tr>
<th>Categories</th>
<th>Explanation</th>
<th>Dimensions</th>
</tr>
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<tbody>
<tr>
<td>Primary bond</td>
<td>It concerns the quality of the functional characteristics of product (the core or basic service)</td>
<td>1. Utility of the service</td>
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<tr>
<td></td>
<td>The minimum condition that initiated and connects a bank’s customer to his/ her banks</td>
<td>2. Reliability of the service</td>
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<td></td>
<td></td>
<td>3. Overall value of the service</td>
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<tr>
<td>Secondary bond</td>
<td>It concerns the quality of personnel and/or service infrastructure, comprising:</td>
<td>1. Trustworthiness of service representatives</td>
</tr>
<tr>
<td></td>
<td>• Quality of personal relationship (human aspects of service delivery)</td>
<td>2. Friendliness of service representatives</td>
</tr>
<tr>
<td></td>
<td>• Quality of service infrastructure (non-human aspects of service)</td>
<td>3. Empathy of service representatives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Helpfulness of service representatives</td>
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</table>
delivery)
Secondary bond cements and strengthens the primary bond. It protects and prolongs the relationship. As the term “secondary” suggests, it is irrelevant without the primary bond.

5. User-friendliness of banking infrastructure
6. Convenience of banking infrastructure
7. Reliability of banking infrastructure

Superlative bond
Superlative bond is the penultimate bond. It may include cultic and hedonic satisfaction, such as pleasure of being associated with the bank. It concerns the quality of bank’s reputation and its overall corporate image. Superlative bond creates enduring satisfaction, defensive barriers and strong affiliation.

1. Reputation/image of the bank


2.8 DELIVERY CHANNELS IN RETAIL BANKING

Figure 2.1 Shift in delivery channels usage in United States

A study of American Retail Banking conducted in 2008 confirms the increasing usage of remote channels such as Internet Banking, Call centre and ATM. Almost 70% of the customers prefer using remote channels than the branch. Technology development has changed retail banking most significantly by facilitating the creation of a new range of products and improving delivery channels (Thompson, 1996; Edey and Gray, 1996).

New service delivery channel options, such as automated teller machine (ATM), phone banking, mobile banking, and recently, internet banking, have resulted in new and additional ways for banks to provide delivery of their services to their customers. The literature asserted that relationships between banks and their customers may change through the introduction of new technologies (Barnes, 1997).

In the banking sector, customers choose different service delivery channels in a complementary way; consequently developing a relationship with the customer can be achieved through any combinations of these media (Al-Hawari and Ward, 2006). Very few studies have been revealed into the literature taking into the consideration the influence of the automated and traditional service quality factors on customer retention as in one model.

Furthermore, those models currently available to measure automated service quality are limited in their focus, encompassing only one electronic channel – the internet – thereby ignoring attributes of the other automated service channels, such as ATMs and telephone banking services. Accordingly, this research develops a comprehensive model of automated and traditional banking service quality taking into account the unique attributes of each delivery channel and other dimensions that have the potential to influence customer satisfaction.
2.9 TRADITIONAL SERVICE QUALITY

Traditional service quality is defined as customers’ beliefs or attitudes about the degree of service excellence offered in the bank’s physical location (Castleberry and Resurreccion, 1989). There were many examples of models which were developed to measure customer perceptions of service quality where face-to-face interaction between the customer and employee was the only focus.

As the literature showed that there were no absolute perfect measurement models of service quality, this research has restructured the service quality models to reflect the unique nature of Australian banking context. As a result, three factors were identified: the human element; the consistency of service delivery; and, tangibles of service. These factors were drawn mainly from Sureshchandar et al. (2002) who adapted their items from Parasuraman et al. (1988).

The human element of service quality referred to all aspects of staff/customer interaction in service delivery. Human elements play a vital role in shaping the overall customer perception of service quality (Mouawad and Kleiner, 1996; Yavas et al., 1997). Employees have an important effect on customer service as they are the key element that customers interact with during the service encounter stage (Mouawad and Kleiner, 1996). Well trained employees are able to achieve high levels of customer cognition as well as affection toward the organisation they are dealing with (Schneider and Bowen, 1995).

Due to which, frontline employees factor is added as a main factor shaping customers overall perception of traditional service quality. Consistency of service delivery referred to the processes, procedures, and systems that would make service delivery a seamless experience (Sureshchandar et al.,
2002). In the literature, there were a few marketing scholars who have tried to focus on the importance of the structural content of service delivery in service quality evaluation (Sureshchandar et al., 2002; Danaher and Mattsson, 1998; Groenroos, 1990). Time considers a vital element in shaping customer perception of service quality; thus, designing a simple and seamless service delivery process helps banks to shorten the necessary time of delivering the service products.

Tangibles of service were one of the few dimensions that have been consistently used by different researchers (Bahia and Nantel, 2000). However, tangibles refer to physical facets of the service facility, equipment, machinery, signage, communication materials, etc. (Bahia and Nantel, 2000; Parasuraman et al., 1988). It includes the physical evidence of the service, except the personal appearance of staff which was included in the human element dimension.

### 2.10 AUTOMATED SERVICE QUALITY

After reviewing the literature intensively, it was observed that there existed no generally accepted model of automated service quality. There have been many studies identifying the key service quality factors in the traditional banking environment, where interaction between employees and customers is the main communication channel (Jun and Cai, 2001). However, there have been few studies that have investigated automated service quality attributes in banking (Joseph and Stone, 2003).

The automated service quality model presented in this research is designed to comprehensively include all the possible factors that may shape customer perceptions of automated service quality. The factors of the automated service quality model were drawn mainly from Al-Hawari and Ward (2006). Automated service quality is defined as the customer’s overall
evaluation of the excellence of services provided through electronic networks such as internet, ATM, and telephone banking developed from (Santos, 2003).

Customer evaluation of automated service options and their intention to use a particular option are directly affected by their perception of the attributes associated with that option (Dabholkar, 1996). That is, every service delivery channel owns its unique features which make it dissimilar to others, so it is essential to measure each channel quality separately rather than aggregating the channels' attributes (Al-hawari, 2006).

The overall customer perception of automated service quality can be established through the quality of every automated delivery channel (Al-Hawari et al., 2005). A number of marketing scholars have identified ATM, internet and telephone banking as the principal automated delivery channels for retail banking (Joseph and Stone, 2003). Accordingly, each delivery channel has been considered as a factor in the proposed automated service quality model. The literature has provided a rigorous investigation of traditional service quality outcomes in which face-to-face interaction between customers and employees was the primary focus.

Recently, however, technology has had a remarkable influence on the growth of service delivery options (Dabholkar and Bagozzi, 2002) and a profound effect on services marketing (Bitner, Brown and Meueter, 2000). Customer acceptance of the new automated channels of service delivery in banks brings a dramatic change in the way retail banks build and maintain a close relationship with their customers (Mols, 2000).
2.11 GAP MODEL – SERVQUAL

The measurement of perceptions versus expectations has been a disputable issue in the literature. While it seems logical that identifying the gaps is the best way to define quality, identify possible problems, and predict loyalty, there are some researchers (e.g., Cronin and Taylor, 1992; and Teas, 1993), who questioned the gap model, suggesting that measuring perceptions alone might be a better indicator of service quality, than measuring the differences between expectations and perceptions (Zeithaml et al., 1996).

From a methodological point of view, it is not always easy to adopt the gap approach, since in a real life setting it requires to collect data twice (before and after using the service) from the same customers, and compare their answers (Aldhaigan and Buttle, 2002). However, from a management point of view, identifying the gaps in customers’ evaluations is always a very useful task, since strategies can be designed in order to close these gaps.

The importance of measuring service quality evaluations has been well-justified in the literature. Studies have showed that service quality evaluations are closely related to positive behavioral intentions and customer loyalty (Zeithaml et al., 1996; Bloemer et al., 1998; and Baker and Crompton, 2000).

Negative scores in the gap model are worrying signs for organizations, since they might mean that these customers will soon quit, if actions are not taken. As previously noted, increasing customers’ retention rates is an important task for service organizations, because it is usually associated with financial benefits for the organizations.
2.12 JUSTIFICATION FOR CONSIDERING COMMUNICATION AS AN ATTRIBUTE

SERVQUAL scale was developed by Parasuraman et al. (1985, 1988), their aim was to provide a generic instrument for measuring service quality across a broad range of service categories. Initially they came up with 10 dimensions of service quality namely:

1. Reliability: Ability to perform the promised service dependably and accurately.
2. Responsiveness: Willingness to help customers and provide prompt services.
3. Competence: Possession of the skills and knowledge required to perform the service.
4. Access: Approachability and ease of contact.
5. Courtesy: Politeness, respect, consideration and friendliness of contact person.
6. Communication: Listening to customers and keeping them informed in a language that they can understand.
7. Credibility: Trustworthiness, believability, honesty of the service provider.
9. Understanding: Making efforts to know customers and their needs.
10. Tangibles: Appearance of physical facilities, equipment, personnel and communication materials.

Later they adapted a five dimensional model based on the market condition that prevailed in the 1980s:

1. Tangibility
2. Reliability
3. Responsiveness  
4. Assurance  
5. Empathy  

While competence, access and security were taken care by the stringent measures of the governing body of banks, Courtesy and understanding were coiled as empathy. Even though communication was not considered as an important variable, the number of complaints filed against the banks have gone up ten times higher in seven years, the main reason for the same being that the retail banking sector still operates largely through personal selling by bank’s sales person, stockbrokers, insurance agents, tax advisers and other finance professionals.

Most of the private sector banks and even some public sector banks drive more on Target achievement and value generation due to which:

- Customers are **deceived** by the sales pitch and concealed by inappropriate material information.
- **Churning** customers accounts in order to generate higher fees and selecting unsuitable investment.
- **Twisting** Insurance agent persuades a policy holder to replace an older policy with a newer one for commission.
- **Flipping** Officer persuades a customer to repay an old loan with a new one.

Communication covers critical factors such as updating the customer on changes made in banks policy, changes in RBI policy, training customers on new developments, explaining the full features of the product being sold, sharing information, even though not related to their account but which will benefit the customer.
Figure 2.2 Number of complaints against banks 2003 to 2011

Source: www.rbi.org

Banks doing business in Asia face rapidly changing consumer behavior, with big consequences for both local and multinational institutions. Consumers increasingly prefer local banks over multinationals, they are less loyal to existing banking relationships, they are much more cautious about borrowing, and they are more open to Internet and mobile banking.

These shifts in the nature of banking relationships, product and service needs, and channels are reflected in a 2011 McKinsey survey of 20,000 consumers in 13 Asian markets.
### Table 2.2 Bank group-wise complaints received 2010-11

<table>
<thead>
<tr>
<th>Nature of Complaint</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
<th>Total Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit accounts</td>
<td>726</td>
<td>641</td>
<td>1727</td>
</tr>
<tr>
<td>Remittances</td>
<td>3019</td>
<td>816</td>
<td>4216</td>
</tr>
<tr>
<td>Credit/Debit/ATM cards</td>
<td>9217</td>
<td>4458</td>
<td>17116</td>
</tr>
<tr>
<td>Loans/advances</td>
<td>3262</td>
<td>832</td>
<td>4564</td>
</tr>
<tr>
<td>Pension</td>
<td>5746</td>
<td>43</td>
<td>5927</td>
</tr>
<tr>
<td>Notes and coins</td>
<td>86</td>
<td>25</td>
<td>146</td>
</tr>
<tr>
<td>Charges without prior notice</td>
<td>1700</td>
<td>1836</td>
<td>4149</td>
</tr>
<tr>
<td>Failure on commitments made</td>
<td>1971</td>
<td>747</td>
<td>2962</td>
</tr>
<tr>
<td>Direct Selling agents</td>
<td>120</td>
<td>928</td>
<td>1722</td>
</tr>
<tr>
<td>Unfair practices</td>
<td>8799</td>
<td>3378</td>
<td>14126</td>
</tr>
<tr>
<td>Others</td>
<td>8078</td>
<td>3418</td>
<td>14619</td>
</tr>
<tr>
<td>Total Complaints</td>
<td>42724</td>
<td>17122</td>
<td>71274</td>
</tr>
</tbody>
</table>

Source: [www.rbi.org](http://www.rbi.org)

32% of complaints files by the customers against their respective banks in the year 2010-11 are due to the issues related to communication.
2.13 RESEARCH MODEL OF SIMILAR STUDY

Figure 2.3 An examination of the relationship between service quality perception and customer satisfaction

The results showed that the standard model of Islamic banking service quality dimensions should consist of the six dimensions at the relationship between service quality and customer satisfaction was significant.