Chapter IV

SERVICE QUALITY AND CUSTOMER SATISFACTION

In this chapter theory related to service quality and customer satisfaction in general and service quality perception and customer satisfaction in retail banking in particular are discussed.

Quality drives the development of all marketing strategies. Thus the concept of quality is considered to be very important factor for the marketers. That is the major focus of all the marketing strategies.

The persons who first coined the buzz word “Quality” were Peters and Waterman in their work “In Search of Excellence”. When Philip Kotler visited India during 1991, in one of his interviews said that 80’s was the decade of quality and 90s would be the decade of customisation. Nevertheless, quality has become an issue of concern to most of the organisations in a country like India in the post liberalization period due to enlarged competition.

According to various definitions of quality, the core interpretation of quality is “Customer’s expressed and implied requirements are met fully”

According to ISO, 1994 Quality is “the totality of features and characteristics of a product or service that bears on its ability to meet a stated or implied need”.

The firms have the competitive advantage over their competitors due to the ability to define accurately the needs related to design, performance, price, safety, delivery and other business activities and processes.

Quality is defined differently by different experts based on various criterion

1. Customer based
2. Manufacturing and service based
3. Value based, etc.
Customer based definitions for Quality:
According to Edwards “Quality consists of the capacity to satisfy the wants….”192

Gilmore says that “Quality is the degree to which a specific product satisfies the wants of a specific customer”.193

Kuehn & Day opines “In final analysis of the market place the quality of a product depends on how well it fits patterns of consumer preferences.”194

Juran says “Quality is fitness for use”.195

Manufacturing and Service based definitions for Quality:
According to Crosby quality is defined as “Conformance to requirements”.196

Price (1985)opined quality as “Doing it right first time”

Value based definitions for Quality:
According to Broh, quality is the degree of excellence at an acceptable price and the control of variability at an acceptable cost197.

Kanji defined “Quality is to satisfy customers’ requirements continually”198.

Feigenbaum(1983) opined “Quality is the degree to which a specific product conforms to a design or specification”.

Newell & Dale(1991) says “Quality must be achieved in five basic areas: people, equipment, methods, materials and the environment to ensure customer’s need are met”.

**Approaches to Quality:**
Different definitions given by various experts have been categorised into five approaches to quality. They are:

1. **Transcendent approach**
   Innate excellence is the synonym for the Transcendent approach of quality which is considered as a mark of uncompromising standards and high accomplishment. This approach accedes to the problem of confusing quality with grade. Without having clear thought of what is that defines quality of products and services, people always uses the vocabulary good quality or bad quality. Consumers generally get confused with grade as whenever they speak about high quality they consider it as high grade or even just expensive. Most of the time people/consumers believe expensive product means high grade or high quality product or service.

2. **Product based approach:**
   Quality is a specific and measurable variable according to product based approach. Thus the difference in quality reveals the differences in the ingredients or attributes used for the product or service.

3. **Manufacturing based approach:**
   The focus in this approach is on the supply side and is basically apprehensive with engineering and manufacturing practices. This approach is summed up by a phrase-conference to design specifications. If a product is manufactured and delivered accurately to its design specifications, even if the product is not the best in the world, it is regarded as good quality product.

4. **Value based approach:**
   “Value is the quality you get for what you pay”. Thus the value based approach defines quality in terms of costs and prices of goods and services. If a consumer buys a product with lower specifications at lesser price, we can say that it is a quality product.
5. **User based approach:**

User based approach believes that quality is how best the products or service satisfy the customer preferences. Quality is compared with the maximum satisfaction in this approach. This approach is more of subjective and demand oriented nature. Different customers have different needs, wants and desires. Thus, this approach is useful to identify their satisfactory levels based on their requirements.

**Service Quality:**

Service Quality is considered to be an important and scorching topic in the present competitive business world. The organisations are trying to achieve customer satisfaction and customer loyalty through improved service quality.

Service quality refers to an approach shaped by an enduring overall assessment of a firm’s performance. Service quality can be a way of achieving success among competing services.

Since service is an intangible good, the only way to understand and administer service quality is by studying how a customer perceives it. The service quality is measured by measuring the expectations of the customer before the receipt of the service and his perception i.e. his experience after the receipt of the service. The difference between the expectations and experience or the gap between the two is the measure of the service quality. The narrow is the gap, the better is the service quality and the more the gap the worse is the service quality. Thus, a firm is successful if the gap is narrow as it is meeting the customer’s expectations to a larger extent.

**Measurement of Service Quality:**

According to Parasuraman, Zeithaml and Berry, service quality is equal to the difference between the perception and expectations. Service Quality = Perception minus Expectations.

They proposed that the customer while going into a service transaction he has certain specific expectations and this he compares it with the actual experience or perception after he receives

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the service. Based on the length of the gap, he is either satisfied or dissatisfied. If the experience is above the expectation then he is considered to be a satisfied customer contrary, if the perception is below the expectations, then he is assumed to be a dissatisfied one.

SERVQUAL\textsuperscript{200} is a scale used commonly to measure the service quality. It is a diagnostic tool and makes use of a 44 item scale based on the service quality dimensions. Originally it consisted of ten dimensions. Later they were polled into five dimensions

They are:

1. **Tangible dimension**: It refers to SERVQUAL measurement of a firm’s capability to administer its tangibles.
2. **Reliability dimension**: This refers to SERVQUAL assessment of a firm’s consistency and dependability in service performance.
3. **Responsiveness dimension**: It refers to the SERVQUAL assessment of a firm’s commitment to providing its service in a timely manner.
4. **Assurance dimension**: This refers to the SERVQUAL assessment of a firm’s competence, courtesy to its customer and security of its operations.
5. **Empathy dimension**: It refers to the SERVQUAL assessment of a firm’s ability to place itself in its customers’ place.

Later the model given by Parasuraman, Zeithaml and Berry have five dimensions (RATER) has the following features which are shown in the following table 4.1:

Table 4.1 showing Five Dimension Model given by Parasuraman et.al(RATER)

<table>
<thead>
<tr>
<th>Determinant</th>
<th>Core Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliability</td>
<td>capability to perform the assured service dependably and accurately</td>
</tr>
<tr>
<td>Assurance</td>
<td>The ability of the employees to express trust and confidence and their knowledge and accuracy.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tangibles</th>
<th>Appearance of physical facilities, equipment, personnel, and the communication materials etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Empathy</td>
<td>The individualised attention paid by the firm to its customers.</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>Willingness to provide rapid service and help the customer</td>
</tr>
</tbody>
</table>

**Service quality and customer satisfaction:**

Customer satisfaction is defined as "the number of customers or percentage of total customers, whose reported experience with a firm, its products, or its services (ratings) exceeds specified satisfaction goals."\(^{201}\)

Satisfaction is the customer’s fulfilment response. It is a judgement that a product or service feature, or the product or service itself, provides a pleasurable level of consumption-related fulfilment.\(^{202}\)

The above definition can be understood in a less technical way as satisfaction is the customer’s evaluation of a product or service in terms of whether the product or service reaches the needs and expectations of the customer.

In addition to a sense of fulfilment in the knowledge that one’s needs have been met, satisfaction can also be related to other type of feelings, depending on the particular context or type of service\(^{203}\).

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Table 4.2 showing Alternative definitions of Satisfaction:

<table>
<thead>
<tr>
<th>Definition</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normative Deficit Definition</td>
<td>Compares actual outcomes to those that are culturally acceptable</td>
</tr>
<tr>
<td>Equity Definition</td>
<td>Compares gains in a social exchange-if the gain is unequal, the loser is dissatisfied.</td>
</tr>
<tr>
<td>Normative Standard Definition</td>
<td>Expectations are based on what the customer believes he should receive. Dissatisfaction occurs when the actual outcome is different from the expected standard.</td>
</tr>
<tr>
<td>Procedural Fairness Definition</td>
<td>Satisfaction is a function of the consumer’s belief that he was treated fairly.</td>
</tr>
</tbody>
</table>


Customer satisfaction:

It is a vague and precise concept and the actual expression of the state of satisfaction varies from one person to another and from product/service to product/service. The status of satisfaction relies on many variables of psychological and physical aspects which correlate with satisfaction behaviour such as return and recommended rate. The level of satisfaction varies based on the customer’s option and other products against which the customer compares with the firm’s product.

As satisfaction is a psychological state, proper care must be taken in the process of quantitative measurement, even though lot of research has been done on this topic, this is of very recent development. In the work done by Berry, Brodeur during 1990-98, defined customer satisfaction as ‘Quality Values’ that influence the behaviour of satisfaction and again in 2002 Berry expanded the research and named it as ten dimensions of satisfaction. The ten domains of satisfaction are:

1. Quality
2. Value
3. Timeliness
4. Efficiency
5. Ease of Access
6. Environment
7. Inter departmental work
8. Front line Service Behaviours
9. Commitment to the Customer and
10. Innovation.

The above factors emphasise on continuous improvement and organisational change measurement and are used for the development of the structure for satisfaction measurement as an integrated model. The contributions made by Pasaruraman, Zeithaml and Berry during 1985-88 provide the base for the measurement of customer satisfaction with a service using the gap model, i.e., the gap between the customer’s expectations and their perception or experience of the service. This helps the measurer with the gap in the satisfaction which is objective and quantitative in nature. Cronin and Taylor proposed the confirmation/disconfirmation theory of combining the gap as two different measures into one measure of performance. Grabrand described customer satisfaction as it is equal to perception of performance divided by expectation of performance.

**Developments in consumer satisfaction/dissatisfaction (CS/D) theory:**

The topic of CS/D has become one of the most studied issues in the field of consumer behaviour. In general, researchers agree that the concept of consumer satisfaction/dissatisfaction refers to an emotional response to an evaluation of a product, store, or service consumption experience, Day\textsuperscript{204}, Dube and Schmitt\textsuperscript{205}, Hunt\textsuperscript{206}, Hunt\textsuperscript{207}, Westbrook\textsuperscript{208}, Woodruff, Cadotte, and Jenkins\textsuperscript{209}. Satisfaction can be thought of as a feeling

\textsuperscript{204}Hunt, H. Keith (1977), "CS/D: Overview and Future Research Directions," in Conceptualization and Measurement of Consumer Satisfaction and Dissatisfaction, H. K.
\textsuperscript{205}Hunt, Shelby, (1983), Marketing Theory, (Chicago: Irwin Publications).
of "delight" and dissatisfaction as a feeling of "disappointment", Oliver and DeSarbo. Some Definitions of satisfaction and dissatisfaction are given below:

Business, government, and other non profit organizations need measures of how well products and services are meeting the needs and wants of their clients so that they can enhance their own and/or society's well being. The extent to which these needs and wants are met, has come to be called consumer satisfaction/dissatisfaction, a term preferable to alternatives such as happiness/ unhappiness, since it specifically implies the satisfaction of specific needs and wants, Andreasen.

Many researchers opined that customer satisfaction is an important issue both in theoretical and practical issues for the marketers as well as consumer researchers. As an important outcome of marketing activity the customer satisfaction links various stages of consumer buying behaviour. Customer satisfaction is identified as a key factor that influences the formation of consumer’s future purchase intentions. The satisfied customers are always engaged in the positive “word-of-mouth” advertising; tell others about their favourable experiences on the service. This “word-of-mouth” advertising is useful in collectivist cultures like India where social life is structured in a way to improve social relationships with others in the society. On the other hand, dissatisfied customer is likely to shift to other brands and engage in the negative “word-of-mouth” advertising. Thus the significance of customer satisfaction and customer retention cannot be underestimated by the firms in the process of developing the strategies for market-oriented and customer-focused services. As more and more companies strive for quality in their services, customer satisfaction is becoming a corporate goal. In the present competitive business world customer satisfaction is considered to be the essence of success. In this process, it has become an important job for the marketers to understand the determinants of customer satisfaction.

Theories on satisfaction
1. The expectation theory
The expectation-based approach says that satisfaction judgments are a positive function of consumer pre-purchase beliefs about the overall performance or attribute levels of a product,

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La Tour and Peat\textsuperscript{212}. Expectations provide a standard or frame of reference against which satisfaction judgments are made. If expectations are met, it leads to satisfaction. Dissatisfaction results if expectations are not met and complaining behaviour follows. Expectations have been defined as the consumer’s pre-purchase predictions, of what the product performance will be, Day\textsuperscript{213}.

Miller\textsuperscript{214} has suggested that four types of expectations could form the basis for comparison. They are:

1. The ideal/desirable performance
2. The Equitable or deserved performance
3. The minimum tolerable performance and
4. The expected performance.

Many researchers support the expectation theory, for they feel that consumer choice is guided either explicitly or implicitly towards choice of objects on the basis of anticipated performance or expectations.

1. **Ideal/desirable performance** (what the product or service can be): This standard represents the optimal service performance a consumer would hope for.
2. **Equitable or deserved** performance (what the product or service should be): This standard represents the level of performance the consumer ought to receive, given a perceived return of costs.
3. **Minimum tolerable performance** (what the product must be): The service should at least meet a certain minimal tolerable performance guidelines, La Tour and Peat\textsuperscript{215}.
4. **Expected performance** (what the product or service will be): A service’s most likely performance is presented by this standard. It is the most used pre-consumption


\textsuperscript{214} Miller, John A. (1977), Ibid…

\textsuperscript{215} Latour, Stephen and Nancy Peat (1979), Ibid…
Disconfirmation theory:

This approach to consumer satisfaction argues that satisfaction formation is a function of the size and direction of disconfirmation, Cardozo. According to this theory, consumers are believed to form expectations about a product prior to purchasing the product. Expectations are defined as “a consumer’s beliefs that a product has certain desired attributes”. Subsequent post-purchase usage afterwards reveals to the consumer the actual performance of the product. The consumer then compares this post-purchase evaluation with the expectations held prior to purchase. If the product performs better than expected, ‘positive disconfirmation’ is expected to occur. This leads to consumer satisfaction and strengthens consumers’ beliefs, attitudes and future purchase intentions. If however in the consumers’ evaluation, the product performs worse than expected, ‘negative disconfirmation’ occurs. If the product performs as expected, the judgement of the consumer is labelled ‘simple confirmation’, Oliver and Desarbo.

Simple confirmation and positive disconfirmation are considered to bring about states of satisfaction, while negative disconfirmation leads to dissatisfaction, Swan and Combs. This dissatisfaction may be manifested through different forms of consumer complaint behaviour. Positive disconfirmation could give rise to a situation of surprise and delight to some consumers while negative disconfirmation could be the cause of complaining.

2. The Perceived performance theory

While dealing with expectations disconfirmation theory has been used widely in satisfaction/dissatisfaction research. There may be certain conditions when this construct

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216 Oliver, Richard L. (1980), Ibid…
219 Oliver, Richard L. (1980), Ibid…
alone may fail to fully explain the consumer satisfaction/dissatisfaction formation process, LaTour and Peat\textsuperscript{222}; Tse and Wilton\textsuperscript{223}; Churchill and Suprenant\textsuperscript{224} argued that under certain conditions, it might not be necessary to include disconfirmation as an intervening variable affecting satisfaction. Their very interesting results indicate that the process, consumers use to reach satisfaction judgments, may differ for durable and non-durable products. In the case of a non-durable product, the traditional expectation and disconfirmation relationship holds good. For a durable product, however, consumer satisfaction judgments were solely determined by the performance of the product and were totally independent of their initial expectations.

3. Equity theory

The fundamental idea behind Equity theory is that in a social exchange situation consisting of two persons or parties, each is presumed to compare his relative gains to the perceived relative gains of the other. Equity exists when the perceived net gains of each one is equal to the other. Equity theory was first stated by Adams\textsuperscript{225} and is based on the relationship between the cost an individual expends in the transaction and the anticipated rewards. Whether a person feels equitably treated or not may depend on various factors including the price paid, the benefits received, the time and effort expended in the transaction and experiences with previous transactions, Woodruff et al\textsuperscript{226}; Tse and Wilton\textsuperscript{227}.

Recent research has briefly considered such situations but the scope for future research and extension of this model is considerable. Special notable studies in this area have been done by Fisk and Coney\textsuperscript{228}; Goodwin and Ross\textsuperscript{229}; Mowen and Grove\textsuperscript{230}; Fisk and Young\textsuperscript{231}; Oliver

\textsuperscript{222} LaTour, Stephen and Nancy Peat (1979), Ibid…
\textsuperscript{226} Woodruff, Robert B., Ernest R. Cadotte and Roger L. Jenkins (1983), Ibid…
\textsuperscript{227} Tse, David K. and Peter C. Wilton (1988), Ibid…
and Swan\textsuperscript{232}, Oliver and Desarbo\textsuperscript{233} and Fisk and Coney\textsuperscript{234} who have found that consumers were less satisfied and had less positive attitude towards a company when they heard that other consumers received a better price deal and better service.

4. Assimilation theory

This theory initially put forward by Sherif and Hovland\textsuperscript{235} was used by Andreasen\textsuperscript{236} to explain how consumers report satisfaction even when proper expectations are not met. Under Assimilation theory, consumers’ satisfaction judgments will tend to assimilate or move toward the original expectations level if the discrepancy between expectations and product performance is not extreme. If there is a large discrepancy, it may result in complaining behaviour.

5. Attribution theory

The Attribution theory was put forward by Krishnan and Valle\textsuperscript{237} and finds support in the works of Valle and Wallendorf\textsuperscript{238}, Richins\textsuperscript{239}, Folkes\textsuperscript{240} and Fransken\textsuperscript{241}. This theory suggests that people are rational information processors whose actions are influenced by causal inferences,\textsuperscript{242}. In other words when people are dissatisfied with a product, they try to determine the cause of dissatisfaction and assign responsibility for it. If blame is attributed to

\begin{flushleft}
\textsuperscript{233} Oliver, Richard L. and Wayne S. DeSarbo (1988), Ibid… \\
\textsuperscript{234} Fisk, Raymond P. and Kenneth A. Coney (1982), Ibid… \\
\textsuperscript{236} Andreasen, Alan R. (1977), Ibid… \\
\textsuperscript{238} Valle, V. A. and Wallendorf, (1977), M., "Consumer's Attributions of the Cause of Their Product Satisfaction and Dissatisfaction," CS/D and CCB Proc., \\
\textsuperscript{242} Folkes, Valerie S. (1984), Ibid…
\end{flushleft}
the marketer, the consumer will engage in consumer complaint behaviour, and does not complain if he/she attributes blame to himself/herself.

Findings indicate that the more external the more stable and the more controllable the attribution, the greater is the likelihood of engaging in complaining behaviour. Folkes\textsuperscript{243} shows that consumers who attribute blame to product factors or to the manufacturer or store tend to engage more in seeking refunds than to take no action. Some aspects of this theory are:

1. **Locus of causality (internal or external):** the purchase outcomes can be attributed with the consumer (internal) or to the marketer or something in the environment or situation (external). Complaints will arise if the locus of control is external.

2. **Stability (Stable/permanent or unstable/temporary):** stable causes are thought not to vary over time, while unstable causes are thought to fluctuate and vary over time. The stability of the situation would give rise to complaints from customers.

3. **Controllability (volitional/controllable or non volitional constrained):** both consumer and firms can either have volitional control over an outcome or be under uncontrollable constraints. If an event were controllable, it would impact the propensity of a customer to complain.

These dimensions are generally thought to be dichotomous\textsuperscript{244} although there has been some discussion of them being perceived on a continuum\textsuperscript{245}. A consumer response to a situation depends on the attribution he/she makes. Complaints arise when the failure is attributed externally, when the cause of the failure are stable and when they are controllable.

**Measurement of Customer Satisfaction:**

Generally the customer satisfaction is measured based on the changes in sales, profits and number of complaints registered by the customers, etc. The other method used to measure customer satisfaction is through the service offered. A five or seven point Likert scale is used to measure the customer satisfaction.

\textsuperscript{243} Folkes, Valerie S. (1984), Ibid…


\textsuperscript{245} Folkes, Valerie S. (1984), Ibid…
In some organisations, they use 100-point scale approach to measure the satisfaction level of the customer where the customers rate the organisations performance on scale of 100 points. But this approach is not appropriate as the customer perception varies from customer to customer, i.e., if the organisation is rated as 70% it means that the organisation is good for some customers and for some others it may be above average. And this system does not tell how to improve the rating. Thus, a combined approach consisting of quantitative scores given by Likert approach and qualitative analysis from the response of the respondents can be adopted which helps to take the suggestions from the customers who are highly dissatisfied or somewhat dissatisfied. These suggestions may be categorised and prioritised and adopted such that the firm can perform better in future.

Customer satisfaction is influenced by many factors and perfect measures cannot be acquired very easily. The factors that influence the customer satisfaction are as follows:

1. Response bias: The response bias in the survey results because of the responses received from a limited group of respondents from the total population of the survey.
2. Data collection method: The techniques followed to collect the information such as personal interviews, questionnaires, surveys etc.
3. Question form: The way the question is posed to the respondent. i.e. whether the question is asked positively or negatively.
4. Question contest: Placement and modulation of the questions relative to the other questions asked.
5. Timing of the question: The time gap between the purchase of the product by the customer and they are interviewed for their response.
6. Social desirability bias: The biased information provided by the customer assuming that their answer is socially appropriate.
7. Mood: Based on the mood of the customer the responses vary i.e. Positive mood of the customer draws positive responses.

**Service Quality and Customer Satisfaction in Retail Banking:**

Globally, the topic of service quality in the service industry remains a critical aspect as businesses strive to maintain competitive advantage in the market place. In the financial markets, the financial services especially the banks compete with each other with undifferentiated products and service quality is considered as a weapon to every one of them to compete with others. The structural changes in the banks gave a greater range of activities
and enabled them to become more competitive with other banks and non-bank financial institutions. At present, due to the technological advancement banks began to rethink their strategies for the services offered to both commercial and individual customers. Moreover banks that have distinct marketing edge and improved service quality will have increased cross-selling, improvement in the higher revenues and expanded markets share and customer retention. Furthermore, the banks have realised that customer will be loyal if they provide greater value than their competitors. In addition, if the banks position themselves in a better way compared to that of competitors they will earn higher profits. Thus it becomes necessary for the banks to focus on service quality as a core competitive strategy. With this background service quality and customer satisfaction are forcing the attention of the banking institutions across the world and India is not an exception.

The firms get the opportunity to differentiate themselves from others in the competitive market when they deliver high service quality to the customers. And the high service quality leads to customer satisfaction and loyalty and also shows the greater willingness to recommend to others, reduction in customer complaints and customer retention rate also increases. In order to identify the banking institutions strengths and weaknesses customer perception of service quality is used as basic instrument. However the service quality is an abstract and obscure and lacks objective measures.

**Factors Related to Service Quality and Customer Satisfaction:**

The main factors which influence the service quality and customer satisfaction are convenience and competitiveness of the bank. These factors influence the overall satisfaction levels of a customer. Many researchers have studied how the customers make the decisions of choosing a bank for his operations. Along with these factors, there are five dimension of service quality which determine the customer satisfaction of any customer of a bank. They are:

1. **Providing a Reliable Service:**

The banks should stick to their promises. Reliability is the most important dimension of service quality that results in customer satisfaction. This involves consistency in quality and dependability.
2. **Instilling Confidence in the Customer:**

It is the responsibility of the bank employees to create trust and confidence in the customer. Thus the employees must be knowledgeable, courteous and competent. They must be trained to meet the contingencies. They should also be selected and groomed to ensure a pleasant encounter to the customer without hurting them.

3. **Providing Physical Cues (Intangibles):**

Although "service" is, by nature, intangible, there can be tangible cues as to what the customer can expect from her encounter. Appearance of the premises, employees and the equipment are important. For example, at a car dealer the signage, parking and the layout can be deciding factors.

4. **Empathize with the Customer:**

Give personalized attention to the customer. Customers should feel that their needs are important to the organization. The service provided to each customer should be customized to his/her specific needs. This requires employee empowerment and leeway.

5. **Responsiveness and Promptness:**

The nature of "service" precludes serving it off-the-shelf. Most types of services are produced and delivered “there and then” in the presence of the customer. It is important to deliver the service when the customer requires it. For example, providing car services at a weekend is convenient for a working customer.

The relationship between the variables can be understood with the conceptual model. As the model is a simplified description of the actual problem in service quality, these models can be used to predict and manage the quality problems and also used in planning for the launch of quality improvement program, thus improving the efficiency, profitability and overall performance.

In order to enhance the service quality, the organizations should gain competitive advantage may be in the form of use of technology to gather information on market demand and exchange it between the organizations. Even the researchers and managers are rewarded for their learning details regarding the components/variables of service quality in the banks for the only reason that improved service quality results in customer satisfaction which ultimately leads to increased profitability. Thus, models gain specific importance as they
provide directions for improvement for the practicing managers and also help to the academician and researchers in learning variables.

Basically service quality in banking can be viewed from two perspectives. They are:

1. Customer perspective
2. Banks perspective.

**Customer perspective:** From the view point of the customer, the service quality is the difference between the expected quality and experienced quality. The expected quality is the level of quality customer explicitly or implicitly demand and expect from the service provider. The expected quality is shaped out from various factors like:

1. From the previous experiences of the customer with the service.
2. Customer influence by the experiences of the other users.
3. By the reputation of the bank/organization.

Experienced quality means the overall opinion of a customer and his experiences about the level of quality after utilizing the service from the service provider. The probable difference between the expected quality and experienced quality gives the provider an opportunity to measure the customer satisfaction based on criteria according to which customers are assessing the service.

**Bank / Service provider perspective:** From the provider’s point of view, there are planned quality and real quality. Service quality management system of an organization is responsible for achieving the quality conformance between the target quality and delivered quality to the customer.

**Customer expectations form the Retail banking services:**

There are three types of customer expectations\(^{246}\). This can be understood from the Figure:1 which gives the comparison between customer evaluation of service quality of the retail banking activities and the customer satisfaction.

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Figure 1 Showing Comparison between Customer Evaluation of Service Quality and Customer Satisfaction.

Source: Valerie A. Zeithaml, Leonard L. Berry and A. Parasuraman, The Nature and Determinants of Customer Expectations of Service
Figure no. 4.1 gives the comparison between the desired service expectations and perceived service which results in customer satisfaction. The predicted service implies the service quality level which any customer expects to occur. For example: A bank customer who does the business in a particular branch on a regular basis and thus accustomed to the bank personnel expects some performance levels. The service quality which a customer actually desires is termed as Desired Service. It is also referred as the ideal expectations which are over and above the perceived service.

The level of service quality a customer is ready to accept is called Adequate Service. The measure of perceived service adequacy is the comparison between adequate service and the perceived service. The expectation based on the absolute minimum acceptable outcome is the minimum tolerable expectation. The quality level ranging from low to high is called the Zone of Tolerance and this reflects the difference between the desired service and the adequate service, which expands and contracts across customers and within the same customer depending on the service and the provided conditions.

**Factors Influencing Expected Service in the Retail Banking Industry:**

The sources of desired service expectations are as follows:

1. Enduring service intensifiers
2. Personal needs
3. Transitory service intensifiers
4. Perceived service alternatives
5. Self-perceived service role

These factors are shown in figure 4.2.

In figure no. 2, the first part shows the sources of desired service expectations. The third part of the figure shows how precise service promises, implied service process, word-of-mouth, and past experience influence service expectations between desired service and predicted service.
Figure 2 Showing Factors Influencing Expected Service

Enduring Service Intensifiers
- Derived Expectations
- Personal Service Philosophies
- Personal Needs

Transitory Service Intensifiers
- Emergencies
- Service Problems

Perceived Service Alternatives

Self-perceived Service Role

Situational Factors
- Bad weather
- Catastrophe
- Random Over demand

Expected Service

Desired Service

Adequate Service

Perceived Service

Explicit Service Promises
- Advertising
- Personal selling
- Contracts
- Other Communications

Implicit Service Provider
- Tangibles
- Price

Word-of-mouth
- Personal
- Expert (consumer reports, publicity, consultants, surrogates)

Past Experience

Predicted Service

1. **Enduring Service Intensifier**: These are the personal factors which are stable for a long period of time and increase the sensitivity of the customer as to how a service should be provided. The internal views of the meaning of service and the manner in which service providers should conduct themselves are the personal service philosophies.

2. **Personal needs**: The personal needs of the customer are the physical, social and psychological needs.

3. **Transitory Services**: The personal, short term factors which amplify the customer’s sensitivity to service such as emergencies, service problems etc.

4. **Perceived Service alternatives**: these are the comparable service customers. They have an opinion that they can obtain elsewhere and/or produce themselves.

5. **Self-perceived Service role**: This refers to the input a customer believes he is required to present in order to produce a satisfactory service encounter.

6. **Situational Factors**: The circumstances that lower the service quality but are beyond the control of the service provider such as bad weather, catastrophe, over demand etc.

On the other side of the figure 4.2

Predicted Service is the level of service that is likely to occur which influences adequate service expected. This is the function of the firm’s explicit and implicit service promises, word-of-mouth communication and customer’s past experiences.

A bank can make its services tangible to the extent possible by the explicit service promises. Through implicit service promises and commitment to a price for the service a bank can provide service to its customers. Along with a good word-of-mouth of customers, friends, family and consultants past experiences also contribute to customer expectations with respect to desired and perceived service. While evaluating the service expectations, three types of expectations is compared They are:

1. Predicted service
2. Adequate service and
3. Desired service.

Customer satisfaction is measured by comparing adequate service and perceived service with perceived service superiority. This comparison of desired service and perceived service is itself the measure of service quality. Thus service quality and customer satisfaction are closely related with each other.
The customer satisfaction assists the customer in formulating a revised opinion about their service quality perception. The reasons for this may be as follows:

1. Consumer perception of the service quality of a bank with which he has no past experience is purely based on the consumer’s expectations.
2. Successive encounters with the banks lead the customer through the disconfirmation process and revised perception of service quality.
3. The revised service quality perception modifies consumer purchase intentions towards the bank. Each and every encounter with the bank revises or reinforces the service quality perception.

To have high quality service the banks should understand the needs of the customer and the operational constraints. This helps the service provider to concentrate on quality and the process should be designed to support the system by proper control and delivery. Service quality can be a way of achieving success among competing services. This can be so when the competing banks provide identical service and are located in a small geographical area. In these circumstances service quality happens to be the way of differentiating the service providers.

**Failure Gaps in Service Quality:**

The service quality process can be envisaged by a conceptual model as shown in the figure 4.3:

From figure 4.3, it is evident that the entire process can be examined in terms of gaps between the perceptions and exceptions on the part of management, employees and customers. The most important gap is the service gap, which is the difference between the customer expectations and his/her perception of the service delivered. The service provider has to close this gap. Before closing this gap the other gaps should be closed. They are:

1. Knowledge Gap: The difference between the expectations of the management regarding what the customer perceives about the service and what a customer expects of a service.
2. Standards Gap: The difference between the quality specifications set for service delivery and what management perceives consumer to expect.

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3. Delivery Gap: The difference between the actual quality of delivered service and the quality standards set for the service delivery.

4. Communication Gap: The difference between the quality of service described in the bank’s external communication and the actual quality of service delivered.

The above narration clearly indicates that service quality and customer satisfaction will continues to be the core business vision for any type of organization. There are varieties of expectations from the consumer dimension and various approaches in delivering the service from the service provider dimension. These two issues evolved over a period of time although initially in west peculated down to developing countries. Similarly measuring the service quality and customer satisfaction also got attention of the scholars across the practitioners and academicians. After economic liberalization India not only embarked the general liberalization policies but this also reflected in the banking sector significantly. This resulted in better customer expectations and innovative delivery practices in banking sector. Further the focus is slowly shifted on retail banking practices. Therefore there is a need understand, evaluate and implement various innovative and creative practices in delivering better satisfactions through service quality. These study precisely, leading to attempt to asses service quality expectations and service quality perceptions and to develop better insights into the banking practices.