Chapter – III

Conceptual Framework and Profile of Banking Industry
3.1 INTRODUCTION

Delighting the customer has become the core aim of the marketing function. This fact assumes greater significance in services marketing as the satisfaction or dissatisfaction can be felt at the instance and impacts the customer’s perception of the service provider’s capability. “Customer is the king” is the much accepted philosophy in every organization. The concept of service quality is gaining more importance in the service industry, especially in banking sector owing to tremendous increase in demand for banking services. Quality of services is acknowledged on a critical determinant for achieving a competitive edge over others.

In this chapter, the researcher attempted to brief the conceptual framework of the research work. It further offers the profile of the banking industry, the domain of the research.

3.2 MEANING AND DEFINITION OF SERVICES MARKETING

The service marketing literature elevated as an important research area in the early 1980s, and it progressed into new integrated services marketing approaches and concepts in the later period. Service marketing is the fundamental concepts of marketing. The development of service marketing concepts has evolved in accordance with the philosophy of customer orientation. The services sector plays an
important role in the progress and development of the Indian economy. In many organizations the philosophy is manifested in terms such as the ‘customer is king’ and everything the organization does is with the ‘customer in mind’. Service marketing encompasses the philosophy of marketing orientation by concentrating on customers and maximizing their satisfaction and remains profitable as an organization.

The unique qualities, intangibility and perishability, makes service marketing a special area of concern. It refers to the customer’s perception about the excellence in delivery of service. Since services cannot be stored and used later, even a negligible deficiency in deliver of service can impact the customer’s satisfaction.

The commercial aspect of services marketing has been highlighted correctly by American Marketing Association while defining services as ‘the activities, benefits, or satisfactions which are offered for sale are provided in connection with the sale of goods’.

Services can be defined as an action by organizations that maintain and improve the wellbeing and functioning of the people (Hassenfield and Richard 1974).

Blois (1974) “a service is an activity offered for sale, which yields benefits and satisfactions without leading to a physical change in the form of goods”.

Berry (1980) Services are invisible entities that cannot be touched or inspected and thus are more difficult to evaluate prior to purchase.

Germain (2000) the term ‘services marketing’ encompasses the concepts of the scientific study of it, as well as the practice of marketing by service firms.
Intangibility thus creates difficulties in evaluating new service concepts and is being appreciated by the customer for providing a highly innovative service (Easingwood, 1986), (Brentani, 1989).

3.3 MEANING AND DEFINITION OF SERVICE QUALITY

In service marketing, managing service quality is very important, customers service expectations for many services, such as past experience, word of mouth, and advertising. The service quality model developed by (Parasuraman, Zeithaml, and Berry 1985, 1988) highlights the important requirements for delivering high service quality.

The term service quality as seen from the service point of view is the term that has been often referred to as the measurement of the standards of services rendered to the customer by the service provider to the best satisfaction of the recipient.

Quality in service assures the success and survival of any service organisation (Samli and Fronhlich 1992). Service quality measures the ability of the organisation to meet customer’s expectation (Lewis 1993; Powel 1995; Munusamy et al. 2010).

Bank’s survival is greatly dependent on the quality of services provided by them (Portela & Thanassoulis 2006). The consistency and continuity in service quality imbibe an attitudinal loyalty in the consumer’s mind. Service quality can very well be considered as an antecedent of customer satisfaction and loyalty. Service quality is the conformance of services to the customer’s expectation.
(Howcraft 1997; Powell 1995; Lehtinen & Lehtinen 1982; Caruana 2002; Parasuraman et al. 1985). It means conformance of services to the customer expected of specification.

According to Lewis and Booms (1983) Service quality is a measure of how well the service level delivered matches customer expectations. Delivering quality service means conforming to customer expectations on a consistent basis.

Service quality is determined by the difference between customer’s expectations of the service provider’s performance and their evaluation of the service they received (Parasuraman et al. 1985, 1988).

Service quality can be defined as “the difference between customer’s expectations for service performance prior to the service encounter and their perceptions of the service received” (Asubonteng et al. 1996).

Zeithaml and Bitner (1996) defined perceived service quality as the judgement of a customer about the overall excellence or superiority of a product or service. They also define service quality as, “the delivery of excellent or superior service relative to customer expectations”.

Service quality is defined throughout the research as customer’s beliefs or attitudes about the degree of service excellence offered at the bank’s physical location. Service quality has become more important because of its relationship with the level of financial performance, customer satisfaction, and retention (Vander et al. 2002).
Fogli (2006) defines service quality as ‘a global judgment or attitude relating to a particular service; the customer’s overall impression of the relative inferiority or superiority of the organization and its services. Service quality is a cognitive judgment.

Thus, with the increased thrust and focus, the concept of service quality has become the preferred domain for academic investigation and researches.

3.4 MEANING AND DEFINITION OF CUSTOMER SATISFACTION

Customer satisfaction is the result of an organization for creating a benefit for the customer in order to ensure their support to the organization (Anderson & Jacobsen, 2000). Customer satisfaction and quality appear to be important for all firms, satisfaction is more important for loyalty in industries such as banks, insurance, mail order and automobiles (Fornell, 1992). The current competitive corporate culture drives every organization, especially in the service sector towards achieving customer satisfaction which has become a key operational goal for the organization. The relationship between service quality and customer satisfaction has gained increasing attention.

Customer satisfaction has been considered as the essence of success in today’s highly competitive banking industry. Quality customer service and satisfaction are recognized as the most important factors of bank customer acquisition and retention (Jamal, 2002; Armstrong and Seng; Lassar et al. 2000). Consequently, gaining a competitive advantage by offering high quality service is becoming increasingly important for survival in this sector.
In today’s corporate world of fierce competition, customer satisfaction occupies a vital role and is a vivid indicator of service quality. It creates a positive link to loyalty and profitability (Cronin & Taylor 1992; Oliver and Swan 1989; Anderson et al. 1994). It is the customer post purchase reaction and is the result of his/her comparison between expectation and performance received (Oliver 1980; Zeithaml et al. 1993; Nader 1995).

A rational customer compares his/her perception with expectations. A positive reaction indicates loyalty (Gustafson 2005; Parasuraman et al. 1989, 1990). Service quality and customer satisfaction are the buzz words in banking industry and are compelling the attention of banking institutions, academicians and practitioners (Lasser et al. 2000; Yavas and Yasin 2001; Bick et al. 2004; Andreassen and Olsen 2008).

3.5 MEANING AND DEFINITION OF CUSTOMER LOYALTY

In the present scenario, customers are switching over frequently to avail the better service facilities from other banks that are being introduced continuously in the market. Thus the banks have to improve customer service and create bonds of trusts through proper care of customer needs and regular communications. Consequently, creating and sustaining a loyal customer base is important and there is a need for financial institutions to determine the underpinning drivers of customer loyalty.

Customers are satisfied with their banking services as the most important reason for initiating and sustaining loyalty to their banks. Satisfaction is an overall evaluation of a customer’s experience with a service provider (Bitner and Hubbert, 1993).
Customer loyalty in banking has been a major concern to practitioners due to severe competition and higher customer expectations. Banks need to offer incentives that will push the customer to the services and at the same time will satisfy the customer’s expectations and strengthen customer loyalty. Banks need to provide a higher quality of service and not to compete entirely based on price and costs.

Customer loyalty is the long and uninterrupted retention of the relationship by offering services that meets and even goes beyond the customer needs (Acuner, 2001).

3.6 FACTORS OF SERVICE QUALITY DIMENSIONS

The researcher has identified 19 factors under the seven dimensions of SERVQUAL to be relevant for the study. The theoretical description of these factors and their relation to customer satisfaction and loyalty are discussed below.

3.6.1 Functional Quality

The way in which the required functions are delivered with excellence denotes the quality of functions. This functional quality refers to the efficient and effective delivery of service.

3.6.2 Service Technology

Advancements in technology have changed the face of banking services. Banks adoption of technology advancement can help the bank in cost reduction and mitigate the risks. It plays a crucial role in lifting bank's image among techno-centric customers.
3.6.3 Infrastructure

Infrastructure is the physical framework of facilities through which goods and services are provided to the public (Valan and Arasu, 2008). Provisions and maintenance of adequate infrastructure facilities fortify the survival of banks.

Infrastructure refers to the facilities that enable the smooth functioning of an organization or activity. In banking context, infrastructure refers to the facilities such as furniture, drinking water, parking area and tidy environment.

3.6.4 Security Technology

Electronic banking has enabled banks to ensure the customer service quality. Adoption of technology in service delivery impacts the overall customer satisfaction (Rajesh R and Sivagnanasithi T. 2009).

The banking industry around the world has undergone tremendous changes with the aid of technology. Technology is the key to competitiveness. But the risker’s aspects of usage of technology can never be ignored. It is the imperative duty of banks to ensure the security dimensions of the technology platform used by the customers.

3.6.5 Service Confidence

Confidentiality in maintenance of customer database and transactions are very much vital for the banking organization as a part of their business ethics. This aspect is sure to make a significant impact on the perception of customers about the service quality of the banks.
3.6.6 Security Confidence

A clear and emerging key challenge with gaining user adoption of banking is the confidence of security challenges of the services. Many of the new entrants are innovative and dynamic with minimal experience or attention to security as a discipline.

3.6.7 Preciseness

Precision is the important factor for all the transactions and bank provides an error free service by giving training to the employees to exceed the customer expectations.

3.6.8 Innovation

Today the competition in the banking sector is determining the success of a bank by its ability to deliver innovative products and services in a technologically advanced way that meets the changing needs of the customer.

The key survival of customer service is determined by convenient and innovative delivery of products and personalized services (Pande M.C and Subodh Kumar, 2005). Innovation in banking services can be in the form of offering new benefits, improvisation of existing services etc.

3.6.9 Convenience

Banks need to provide their customers with convenience by offering services through several distribution channels and more add on services. The customer experiences with banks need to be secure and convenient. All the banks are making
visible efforts to be more customers centric and offer convenience of anywhere banking. Quality of service and convenience to the customers will be the key differentials in the future.

The recent development of information technology has resulted in major changes in the way services are delivered to the customers. Present customers use more self-service options, which are more convenient. In addition, the advent and use of the internet have bought considerable changes in people, such as shopping and banking.

3.6.10 Trust and Confidence

Customers need to have trust and confidence in the services and way of delivery of such services of bankers. The positive perception of trust and confidence is a visible evidence for the quality of services rendered by the banks. Banks are striving to gain customer trust that is earned and retained by acting with integrity.

Chellapa and Ramnath K (2002) argue that trust would be favourably influenced by the increase in perceptions of security in transactions. Customer satisfaction with the bank will be directly related to the level of trust within the relationship.

3.6.11 Round the Clock

24*7 services by banks to enable the users of banks to get access to the services all the time. In today’s social environment has necessitated the availability of services at the reach of customers. This any time availability of services is a clear indicator of the bank's effort to retain its customers.
ATM can draw cash around the clock and no employee interface is required. It plays a vital role in the aspects of meeting the customer expectations and reduces the cost of transaction of banks.

### 3.6.12 Prompt Service

The modern technology provides as a part of improving systematic efficiency of the banking services and the customers transfer funds quickly, securely, conveniently and in cost-effective manner.

### 3.6.13 Employee Attitude

Employee behaviour is one of the very important factors for enhancing the service quality of the bank. In order to enhance the quality of the service of the banks and to personalize and transform the employee - customer relationship and this can help them to influence the goodwill of the customers.

This increases the need for organizations to adhere to a strong set of values to steer them through the minefield of ethical choices with which they are faced as they make business decisions. The key link between customer satisfactions is mediating variable employee attitudes and organizational performance.

### 3.6.14 Service Charges

RBI has enforced uniform interest rates and service charges among nationalized banks. Banks have the freedom to prescribe service charges with the approval of their boards and various service charges ensure that they are reasonable for an average cost of providing the services. Banks have to ensure that customers with low volume of activities are not penalized.
3.6.15 Ambience

The physical ambience in the bank plays a dominant role in converting the user into a customer. The attractive visual ambience is one of the important aspects to make banking experience, an enjoyable one. Pleasing ambience keeps a customer away from fatigue.

3.6.16 Service Efficiency

Efficiency of service plays an important role in banks, scoring high efficiency, profitability, overall performance, special attention to the customer handling problems and the bank personal approach that reflects the service quality. Customers are demanding better personal relationship with employees and training enhances the quality and attracts more customers.

3.6.17 Efficiency Satisfaction

This factor refers to the effectiveness of the efforts taken by the banks to satisfy the customer. Ample services, facilities and prompt delivery could influence the customers positively and offer them a great sense of satisfaction.

3.6.18 Staff relationship Satisfaction

Irrespective of the availability of the services, in congenial staff behaviour could hamper the customer satisfaction. Appropriate staff behaviour and attitude towards the customer would boost up the image of the banks in the minds of customers and the society in general.
3.6.19 Service Improvement Satisfaction

Bank needs a dynamic customer focus strategy and adoption of such strategy to satisfy the needs of the customer. They need to maintain and improve customer related strategies which is vital importance for the banks to retain the goodwill and favourable image among the existing customers and prospective customers.

3.7 SCENARIO OF INDIAN BANKING INDUSTRY

During the last decade, the banking industry in India has been a witness to several regulatory changes that have resulted in a heightened level of competition among the banks. The entries of private sector and foreign sector banks, subsequent to the recommendations of the Narasimhan committee, have increased the expectations of the customers in all areas relating to customer service (Thampy & Madanmohan, 1999).

The growth in the Indian banking industry has been more qualitative than quantitative and it is expected to remain the same in the coming years. “India Vision 2020” prepared by the planning commission sets the pace of expansion for banks. The banking industry is challenged by competitive pressures, changes in customer loyalty, stringent regulatory environment and entry of new players, all of which are pressuring the organizations to adopt new business models, streamline operations and improve processes.

The banks are underlining the importance of technology infrastructure, in order to improve customer experience and gain a competitive edge. Information technology has also improved the efficiency and robustness of business processes across the banking sector. India’s banking sector has made rapid strides in reforming
itself to the new competitive business environment. Indian banking industry is in the midst of an IT revolution. Technological infrastructure has become an indispensable part of the reform process in the banking system, with the gradual development of sophisticated instruments and innovations in market practices.

3.8 BANKING INDUSTRY IN TAMILNADU

The rise in the standard of living and growth in consumerism among the emerging ‘middle class’ India and the higher purchasing power in rural Tamil Nadu on account of enhanced employment provides opportunities for banks in Tamil Nadu to look beyond the traditional customer services and adopt newer strategies. According to a report by Tamil Nadu government, Tamil Nadu is one of the leading States in the financial service sector. Tamil Nadu banking statistics are on par with the RBI’s expectation and the overall Indian banking industry’s achievement. Tamil Nadu is way ahead in its financial achievements. The group wise spread of bank branches in Tamil Nadu as of March 2014 is given below:

Table 3.1 Number of Banks in Tamil Nadu in 2014

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Bank</th>
<th>Number of Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Rural</td>
</tr>
<tr>
<td>1</td>
<td>State Bank Group</td>
<td>308</td>
</tr>
<tr>
<td>2</td>
<td>Nationalized Banks</td>
<td>1554</td>
</tr>
<tr>
<td>3</td>
<td>Other Public Sector Banks</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>Private Sector Banks</td>
<td>626</td>
</tr>
<tr>
<td>5</td>
<td>Regional Rural Banks</td>
<td>230</td>
</tr>
<tr>
<td>6</td>
<td>Foreign Banks</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>2718</td>
</tr>
</tbody>
</table>

Source: State level bankers committee
3.9 ROLE OF BANKS IN CHENNAI

Chennai, the banking hub of Tamil Nadu, has a very vibrant banking culture. More than 900 million across the world avail the banking services in Chennai. Prominent financial institution and banks are located in Chennai catering to the needs of lakhs of citizens in Chennai. The operation of various Multinational Companies in Chennai has fuelled the growth of the banking sector in Chennai city.

3.10 CHALLENGES IN BANKING INDUSTRY

In a hyper-competitive market all commercial banks are faced with challenges of retaining the existing and attracting new customers. Maintaining bank’s existing customer base is even more important than the ability to capture new clients. One of the reasons is that the cost of attracting a new customer is much higher than the cost of keeping existing one. Thus, customer satisfaction and loyalty are essential to a bank’s success. Customer loyalty is a major contribution to sustainable profit growth. The service sector is the most important sector, which contributes largely to the national economy. In India, the banking service is an important component of the services sector.

The service sector plays an increasingly important role in the modern economy. In India, the service sector has emerged as the dominant component of the economy. Services are economic activities that create value and provide benefits to customers at specific times and places, as a result of bringing about a desired change in the recipient of service (Lovelock, 2001).
The banking sector is the backbone of any financial system and economy. Commercial banks play an important role in the development of underdeveloped and developing economies by mobilization of resources and their better allocation. The Indian banking system has changed a lot over the last five decades especially after taking to the path of free market economy and globalization.

The liberalization of the banking sector since 1991 has been a key contributory factor in the improved efficiency and competitiveness of the Indian banking sector. One of the key developments in the banking sector is the increased adoption of technology to meet customer requirements, improve efficiencies, reduce costs and ensure customer delight. Though it was the private sector and foreign banks are pioneered in the technological revolution in Indian banking. The public sector banks have also begun to implement technological solutions in a rapid scale in order to attract and retain customers.

3.11 SUMMARY

Service quality concept revolves around quenching the needs and expectations of service receivers ie., customers through quality in services offered, any firm can nurture satisfaction from customer’s perspective. It is of vital importance to understand the dimensions underlying the concepts of “Service Quality”, “Customer Satisfaction”, and “Customer loyalty”. This chapter intended to offer the same and has provided the meaning of the said terms and the conceptual framework of the factors undertaken for the study. The banking industry profile and picture of competitiveness in the industry signifies the importance of the research work undertaken.