CHAPTER I

INTRODUCTION AND DESIGN

OF THE STUDY
1.1 INTRODUCTION

1.2 COMMERCIAL BANKS AND SOCIO ECONOMIC DEVELOPMENT

1.3 THE CONCEPT OF SERVICE MARKETING AND DECISIONS IN BANKING SERVICES

1.4 STATEMENT OF THE PROBLEM

1.5 SIGNIFICANCE OF THE STUDY

1.6 OBJECTIVES

1.7 HYPOTHESES

1.8 SAMPLING DESIGN

1.9 PRE-TESTING

1.10 SOURCES OF DATA

1.11 DATA PROCESSING

1.12 FRAMEWORK OF ANALYSIS

1.13 LIMITATIONS

1.14 CHAPTER SCHEME
1.1 INTRODUCTION

The banking system provides a large portion of the medium of exchange of a given country and is the primary instrument through which the monetary policy is conducted through their deposit mobilization and lending operations. Commercial banks are the institutions specifically designed to further the capital formation process through the attraction of deposits and extension of credit. They act as a funding lifeline of an enterprise by providing the financial resources necessary for production of goods and services for the market. They make the productive utilization of idle funds and thus assist the society to produce wealth.

1.1.1 Evolution of Banking

Banking is as old as the authentic history. The banking has its origin as early as 2000 B.C., when Babylonians developed the system of banking using their temples as banks. There was a reference to the money changers in the New Testament. The ‘rudimentary bank practices’ were found in the Egyptian and Phoenician history. In ancient Rome also, banking was developed on the lines of Greek system. When Romans conquered they introduced the rules and regulations for the conduct of private banking. The growth of banking can be traced from the 12th Century A.D in Venice and Geneva. Some people also are of the opinion that the word ‘banking’ has originated from the German word which means ‘a mound or heap of money’. Some others stated that the word “bank” has derived from the French word ‘banque’ which means a ‘bench’
where business was transacted. Thus, it is observed that there is no unanimity among the economists about the origin of the word ‘banking’.

1.1.2 Evolution of Banking in India – In General

There are plenty of evidences to show that even prior to the advent of accidental ideas, the concept of banking was practiced in India and well understood in those days. Its origin can be traced to a time as early as 500 B.C., The Vedas, Manu Smriti and Kautilya’s Arthashastra bear testimony to the existence and efficient working of a banking system in India by a section of people early in the history.

Banking in India has also been referred by Manu, the great Hindu jurist and others in the early Vedic literature. The banking was carried on by the members of the Vaish community and Manu speaks of earning through interest as the business of Vaishyas. During the Buddhist period, business of banking was further refined and decentralized. Till the Buddhist period, banking was practiced only by ‘Vaishyas’. Then, Brahmmins and Kshatriyas entered in to the lucrative business of banking. Thus, the transition from money-lending to banking must have occurred before Manu developed a special section to the subject of deposits and pledges.

During Ramayana and Mahabharat eras, banking was a part-time business of people. Whereas, during the Vedic period it became a full-time business and banking remained in its crudest form. The banker in the Smriti period, performed most of the functions of the modern banker. During the early period of Muslim and Moghul rule, indigenous bankers known as ‘Seth were
prominent in performing a number of banking functions. During the Moghul period, in the reign of Jahangir and Shah Jahan hundies came into existence and large were established. The indigenous bankers had great opportunities for developing the very profitable business of money changing.

During the long reign of Aurangazeb, bankers received great set-backs due to unstable political situation and the Muslim rulers believed that charging interest on money was a great sin. By the arrival of Britishers in India, revolutionary changes took place in the Indian banking system. The first joint stock bank was established at Calcutta known as “the Bank in Hindustan” in 1770 under a European management promoted by an Agency House viz., M/S Alexander & Co. These agency houses were very much similar to the indigenous bankers and this combination of trading with banking proved fatal and collapsed in 1832. Non-existence of banking legislation resulted in speculation, fraud and mismanagement. The agency houses disappeared from the scene in the 18th Century due to the difficulties they had encountered. The Crown had established the East India Company which led to the downfall of Indian banking. In the meantime, Industrial Revolution in England took place which had placed the banking system in a precarious situation.

The seed of modern banking on British pattern was sown during the last decade of the 18th century. In the beginning of 19th century, special efforts were made to develop modern banking institutions. ‘The Bank of Calcutta’ the first presidency bank was established in 1806 marked the beginning of modern banking era in India and it was renamed as the ’The Bank of Bengal’ in 1809. Then two
more Presidency banks namely, ‘The Bank of Bombay’ in 1840 and ‘The Bank of Madras’ in 1843 came up through a Charter of East India Company with the financial participation of the government. To have a proper control over the banking industry, the joint stock banks forced to enact legislations. Accordingly, the joint stock companies Act was passed in 1850. The year 1860 was considered to be a ‘landmark’ in the banking history of India because of the acceptance of limited liability to a number of joint stock banks. During 1862-65, the Bank of Bombay was hard-pressed with a speculation crisis and was subsequently liquidated. Despite the setbacks, the need for such a bank continued to be felt. Then a new bank with the same name was established in 1868 without government’s participation.

Towards the end of 19th Century, during the early phase of 20th century, the ‘Swadeshi Movement’ (1906) gave a great fillip to the establishment of a number of banks with Indian management. The first wholly owned Indian bank that came up was “The Oudh Commercial Bank”, established in 1881, followed by ‘The Punjab National Bank’ in 1894, and ‘The People’s Bank of India’ in 1901. But these banks were started by Indians with a meager capital. Moreover they had no knowledge and experience relating to banking practices and principles. In 1899, ‘the Flower Currency Committee’ advocated for the establishment of a ‘Central Bank’. But Lord Curzon did not favour this scheme. However the public in India strongly clamored for the creation of a ‘Central bank’. The ‘Chamberlin Currency Commission’ in 1913 examined the whole issue. Consequently, the Presidency banks were amalgamated into a
single bank in January 1921 namely “The Imperial Bank of India”, and later came to be called the ‘State Bank of India’ to function as a Central bank of the country.

On the recommendations of ‘Central Banking Enquiry Committee’ in 1929-31 the Government of India decided to establish a separate central bank with the task of controlling the issue of money and regulating all other banks in the country. Prior to the First World war, the pace of growth of the banking sector was very low more particularly in 1930s due to the economic depression, the unhelpful internal as well as the external financial policies of the government and the depressing level of interest rates. The banking industry suffered many set-backs resulted in the failure of a large number of commercial banks as an impact of the First World War. The year 1935 heralded a new era in the history of Indian banking, when the Reserve Bank of India was established under the Reserve Bank of India Act, 1934 to act as a central bank of the country. It started functioning from 1st April, 1935.

Further during 1948-53, due to the partition of the country into India and Pakistan, the banking industry faced failures. But, the post-Independence era registered a tremendous advancement in the field of banking. It paved way to change the whole approach towards commercial banking and government came to recognize banking as a positive instrument to foster economic development. The Reserve Bank of India (transferred to public ownership) Act passed in 1948 led to the nationalization of Reserve Bank of India by the enactment of Banking Regulation Act, 1949. The Reserve Bank of India was a private share
holders’ institution till the enactment of Banking Regulation Act, 1949. This Act empowered the Central Government to issue directions to commercial and co-operative banks and even to the non-banking institutions who receive deposits from the public. In 1955, ‘The Imperial bank of India’ was nationalized and renamed as ‘State Bank of India’. In 1959, Subsidiary banks’ Act was passed for further extension of banking activities in rural and semi-urban areas.

Reserve Bank of India wanted the Agricultural Credit Department (ACD) to play an important role in the development at the national level augmenting the resources of long-term investment finance for agricultural industry. Then, the Central Government in consultation with the Reserve Bank of India decided to set-up the Agricultural Refinance Corporation on the basis of Gadget Committee’s (1945) recommendation. The bill to set-up the Agricultural Refinance Corporation was passed by both the Houses of Parliament on March 14, 1963. It started functioning from 1st July, 1963. Subsequently, with a view to enlarge the scope of its functioning and in order to emphasize the development as well as the promotional role, it was renamed as ‘Agricultural Refinance and Development Corporation’ (ARDC) by amending the original Act in 1975.

A Study Group of National Credit Council (1967) examined the spread of banking expansion programme viewed that banking was not developed in India judging from the criteria of population served per bank and suggested “Area Approach” which later came to be known as the “Lead Bank Scheme”.
The Government of India introduced a scheme of ‘social control of banks’ in 1967 and the Banking Law (Amendment) Act, 1968 came into effect from February 1, 1969. Accordingly, the major Indian banks were nationalized on July 19, 1969 by the enactment of an ordinance passed subsequently in 1970 namely ‘Acquisition and Transfer of Undertaking Act 1970’. Thus, further liberalization of Reserve bank of India’s licensing policy led to expand the banking activities in rural and semi-urban areas with a view to fulfill the requirements of a developing economy in conformity with the national priorities and objectives. Now, the banking system in India comprises of the commercial banks, the cooperatives banks, private banks and non-banking financial institutions.

A strong banking sector is therefore, vital for the growth, creation of jobs, and generation of wealth, eradication of poverty, entrepreneurial activity and for attaining a double digit gross domestic product growth (GDP), and all necessary factors for a country to emerge as a developed one.

1.1.3 The Banking Industry and Competition

The Indian banking sector has witnessed a paradigm shift after the financial sector reforms in 1991. The banks had realized that profit will be scarce after the introduction of prudential norms and asset classification. There was a clear shift to a clean, transparent and healthy balance sheet as opposed to the view of large sized balance sheets. As the foreign exchange and money markets were gradually deregulated, the competition among banks further intensified. The net result was that margins were under tremendous strain and
the banks were looking for new avenues to meet the challenges posed to them. They had realized that they had no other option than addressing the needs of the customers effectively if at all they want to survive in a highly competitive market. Hence, customer loyalty programmes were gradually inducted as an integral part of their service agenda to face new challenges.

The success of a service marketing business depends on the effectiveness of the services provided to the customers. The banking service marketing had become a complex affair because of the diversity of customers and the unpredictability in customer behaviour. The needs of the customers are varied though their basic characteristics may be similar. Many conceptual researches and surveys had been undertaken in the various areas of service marketing. The commercial banking is a customer-oriented service sector industry where the customer is in focus and the quality of customer service is the differentiating factor. Marketing of services by banks in the globalised economy requires special study because of the competition involved in this industry.

The provision of essential financial services is the prime activity of commercial banks. This is doubly essential in developing economies like India. The developing economy faces many peculiar problems like poverty, scarcity of capital, lack of entrepreneurship skills and unemployment. Another vital issue in these economies is that there is more dependence on agriculture and at the same time agriculture is not modernized. Means of transport and communications are underdeveloped.¹ There are inter-regional disparities in the
country and there is unequal distribution of wealth. The commercial banks can work as catalytic agents in growth by following appropriate policies in the designing and marketing of their services.²

The economic reforms initiated by the Government of India in the new industrial policy 1992 had brought about a sea change in the operational environment of the financial sector and the functioning of the commercial banks. The present trends of liberalization, privatization, globalization, deregulation and modernization, witnessed by the financial sector in the transition phase of reforms had attached prime importance to the quality of customer service in the commercial Banks.

A growing economy needs increasing supply of money but its supply should be elastic only to the extent that it is geared to the seasonal demands of business. Otherwise, it would have adverse effects on the general price line.³ Thus it has been observed that commercial banks may serve as shock absorbers and effective feelers on the one hand and circulators of funds in the arteries and veins of the money market on the other⁴. Incidentally, the commercial banks revitalize the economy by providing effective services through socio economic changes.

1.2 COMMERCIAL BANKS AND SOCIO ECONOMIC DEVELOPMENT

The aim of banking itself is to provide financial services to the customers in return for visible charges or fees. The banks should understand that the customers are not intruders and they are the very meaning and basis for
their services. The customer may be a borrower at one place and a depositor in another place. But in both these places, the customer observes the integrity of the bankers and the types of services provided. The customers show their appreciation by selecting a specific bank or branch for trusted transactions. The present day bankers are trying to identify themselves with the customers. This helps to develop trust in the minds of the customers.

Further the commercial banks can occupy a crucial role in bringing about planning the growth in underdeveloped economies. As these economies are usually short of capital, the task of mobilization of resources and their channelization to the priority sectors belong to such institutions. Broadly speaking, banks have been assigned the task of accelerating the economic growth and bringing about revolution in industrial and agricultural sectors of the economy for better redistribution of income and wealth, reducing unemployment and ameliorating the economic lot of the vast majority of the people living in substandard economic conditions.

Banks are playing an important role in the process of socio-economic development. They are both the repositories of the community’s savings and purveyors of credit for economic activities. They provide the saver a convenient avenue for investment of surplus funds and to the investor a source of finance. Recently, the need for regulation of credit flows via the banking system has come into prominence and banks have been urged to devote more attention to the ‘purpose’ for which they provide loans rather than to ‘security’ in the customary sense, to view themselves as development agencies rather
than as mere disbursers of funds, to pick out promising new entrepreneurs and in general, to restructure both their organizational arrangements and their working rules of practices to the new requirements. For the socio economic development of the country, the commercial banks play a key role in the following areas:

1.2.1 Deposit Mobilisation

The mobilization of deposit by banks serves as the basis for capital formation and facilitates the process of economic development. Increased deposits mean enlarged resources for banks and the consequential expanded opportunities for employment of funds in the development of the economy in accordance with the priorities set out in the plans. In fact, the deposit mobilization role of banks is fundamental on their successful functioning as credit purveyors. The extent to which the former is weak and inadequate, the ability of banks to play their crucial role in development suffers. The increasing trend in deposits with banks helps to bring to the organized market the savings that may have remained idle or may be wasted or may be used in creating assets which are low in the scale of plan priorities. Deposit mobilization, as a source of raising funds, has twin benefits. Primarily, by tapping deposits, the bank can inculcate banking habit among the public. Secondly, by expanding its deposit base, the bank can expand its business base too, that is, it creates a possibility of a depositor becoming a prospective borrower or user of other fee based services.
1.2.2 Credit Deployment Service

Bank credit facilitates the promotion of agricultural, industrial and commercial activities. Hence bank loans are known as indirect agents of production. Banks are responsible for fostering all round economic growth of the country. They are required to play the role of a catalytic agent and for that purpose they are supposed to provide liberal credit facilities to the hitherto neglected sections and the people in unbanked centres. Under, Service Area Approach, each bank branch in the rural and semi-urban centre has been given the responsibility of surveying the socio-economic conditions of the people in the service area, identifying potentialities and preparing annual credit plans and bankable schemes for development.

1.2.3 Special Services to Society

Banks as trustees of community’s financial resources provide special services. They have a special responsibility to effectively respond to the emerging needs of the community in which they function and contribute to the welfare of the society. As community-based organizations, banks must take steps to expand their business goals with social obligations. Banks are breaking new ground through imaginative and innovative processes, in identifying and meeting the financial and counseling requirements of various weaker sections of the community like tribals, harijans, prisoners, ex-prisoners, physically handicapped, disabled, orphans and slum-dwellers. These and several other categories hitherto not so familiar to banks like vendors, middle class
householders, self-employed and under-employed, women and industrial workers have also become beneficiaries of banks’ services.

1.2.4 Development of Backward Region

The major objective of planned economic development is to bring about balanced regional development. To achieve this objective, the level of development of the backward regions of the country is to be raised to the level of the advanced regions. By allocating credit to the backward regions for agricultural and industrial development, the banking system contributes to the development of local resources, entrepreneurship and local talents, thus raising the level of development of the backward regions. Banks help in developing both the internal and external trade of a country. Banks provide loans to retailers and wholesalers for their inventory. Thus, banks help in establishing an egalitarian society.

1.2.5 Agriculture Credit

Banking service is necessary for agricultural sector in a number of ways, by opening branches in rural areas to provide agricultural credit. They provide finance directly to the farmers for raising crops, for marketing their produce, for the modernization and mechanization of their farms, for developing irrigation facilities and for reclamation of land. They also provide financial assistance for animal husbandry, dairy farming, sheep rearing, poultry farming and horticulture. The small and marginal farmers, landless laborers, artisans and petty shopkeepers in rural areas are financed by commercial banks and Regional Rural Banks (RRBs). Thus, banks meet the credit requirements of all
sections of rural people. A growing economy needs increasing supply of money but its supply should be elastic only to the extent that it is geared to the seasonal demands of business, otherwise, it would have adverse effects on the general price line.

1.2.6 Facilitating Growth of Entrepreneurship

The banks serve the society, by encouraging entrepreneurial ability, help to generate more employment opportunities, ensure better and fuller utilization of productive resources of the community and help to improve the income levels of the people and their socio-economic well being. The availability of bank credit enables entrepreneurs to harness innovation by bringing about new combinations of productive resources, drawing resources away from their existing comparatively low yielding employment, and employing unemployed resources. This, in turn, helps the economic system to get on a higher plane of economic activity.

1.3 THE CONCEPT OF SERVICE MARKETING AND DECISIONS IN BANKING SERVICES

The concept of services marketing differs from other product marketing because of peculiar characteristic features associated with the services. The four characteristics most commonly associated with the services are:

i. Intangibility: Services are to a large extent abstract and intangible.

ii. Heterogeneity: Services are non standard and highly variable.
iii. Inseparability: Services are typically produced and consumed at the same time, with customer participation in the process.

iv. Perishability: It is not possible to store services in the inventory.¹³

These characteristic features will also hold good for banking services also. For the effective services of marketing by commercial banks appropriate strategies and evaluation of market position are necessary. In the course of evolving an appropriate strategy, the various elements involved in marketing of banking services have to be studied. They are both consumer behaviour study and selection of suitable service marketing mix.¹⁴

1.3.1 Behavioral Aspects of Bank Customers

The emerging trends in the level of satisfaction affect the formulation of marketing mix. As for instance, the customers did not demand high rate of interest and other incentives yester years as they had limited wants and limited avenues for channelizing their savings. But today, the customers prefer refined services and claim for an increased rate of interest as they have multi-various avenues for channelizing their savings.

The formulation of marketing mix is directly or indirectly influenced by changing behaviour of the users. A gradual change in the users’ behaviour is a natural phenomenon as multi-faceted developments in the socio-economic condition affect their mental condition. Neither the general users nor the industrial users can overlook the impact of socio-economic transformation on their needs and requirements.¹⁵ The growing rate of literacy, expanding avenues
for job creation, changing environmental conditions, governmental regulations, sophistication in communication, innovations in education and a number of allied factors govern the behaviour of users.

1.3.2 Reforms in Banking Sector and Their Impact on Their Services

The banking sector in India has undergone tremendous change during the past quarter of century. Gone are the days when commercial banks were only "purveyor of credit". Now they serve as catalytic agents in the economic progress of the nation. There was a period when only city dwellers alone were able to access and enjoy their services. Till the nationalization of 14 major commercial banks in 1969, the banks in India strictly adhered to traditional commercial banking principles. After the nationalization, banks have introduced innumerable diversifications and innovations in their services and business. Now banks extend their services even to common people and their activities have percolated even to unbanked areas.¹⁶

The Indian banking industry has undergone major changes after liberalization and globalization reforms in the 1990's. In order to improve the functioning of the financial sector, particularly the banking sector, Narashimham Committee (1991), Goiporia Committee (1990), Rangarajan Committee (1993) and Saraf Committee (1994) had proposed wide ranging measures. The Narashimham Committee (I & II) made several recommendations to improve the productivity, efficiency and profitability of the banking and the financial systems. In September 1990, the RBI setup another committee on customer services, under the chairmanship of Sri. M. N.
Goiporia, to examine the problems of customer services in banks and suggested measures to improve the situation. The Rangarajan Committee (1993) highlighted that computerization must be looked upon as a means to improve the quality of customer services and enhance its efficiency. The Saraf Committee (1994) emphasized on technology issues advocated the system of Electronic Fund Transfer. Accordingly, the RBI started the EFT system in 1996.¹⁷

In 1993 the RBI had approved the entry of foreign banks. The economic reforms envisaged by the Government of India allowed establishing of new private sector banks. The UTI Bank promoted by the UTI, LIC, GIC and its four associates was the first of the new generation banks to have begun operations in 1994. The Housing and Development Finance Corporation Ltd. was amongst the first to receive an approval from the RBI (1994) to set up a bank (HDFC Bank Ltd.) in the private sector. The ICICI bank, India's second largest private sector bank was formed in 1995 at the initiative of the World Bank and the Government of India. The Global Trust Bank, the Centurion Bank, the IDBI Bank and the Kotak Mahindra Bank also came into operation at that time. The ING Vysya Bank Limited is an entity formed with the merger of erstwhile Vysya Bank Limited with the ING of Dutch during 2002. The Oriental Bank of Commerce took over the Global Trust Bank in 2005 when it collapsed. In 2005 the IDBI Bank merged with the IDBI Limited with the sanction of the RBI. The Centurion Bank and the Bank of Punjab were merged and formed the Centurion Bank of Punjab in 2005. The new generation banks
rapidly expanded their network by way of opening branches in cities and towns. The policy makers are now striving hard to down size the public sector banks and to consolidate them into a few model and giant global corporate entities through mergers and amalgamations.

To-day, the new generation and foreign banks are operating in a highly sophisticated environment by offering up-to-date products and services. Improved customer service has become very important for public sector and old private banks to survive and to grow in the emerging deregulated financial markets. Consequently, banks are under increasing pressure to offer what customers would expect tomorrow. The banks now compete with one another to offer value-added services to customers to widen their client bases. Up-to-date products and services are offered to the customers by Indian banks viz. ATM, Any Where Banking, International Debit cum ATM Card, home banking, mobile banking, internet banking, travel currency card, credit card, one window service, mobile phone recharge facility, priority banking, insurance products, investment and financial advisory services, demat account, 24 hour tele-banking, at par cheque facility, electronic fund transfer, electronic clearing service, MICR cheque processing, banking ombudsmen scheme, computerized statements, payment of insurance premium, utility bills and the like.\(^\text{18}\)

**1.3.3 Definition of Service Quality**

Lewis and Booms (1983)\(^\text{19}\) had suggested that service quality results from a comparison of what customers expect from a service-provider with the
provider’s actual performance. According to them, “service quality is a measure of how well the service level delivered matches customer expectations. Delivering quality service means conforming to customers expectations on a consistent basis.”

1.3.4 Dimensions of Service Quality

While evaluating service quality, consumers examine the following aspects: tangibility, reliability, responsiveness, assurance and empathy. Tangibility includes the service-provider’s physical facilities, its equipment and appearance of the employees. Reliability is the ability of the firm to perform the service promised dependably and accurately. Responsiveness is the willingness of the firm’s staff to help customer and to provide him with prompt service. Assurance refers to the knowledge and courtesy of the company’s employees and their ability to inspire confidence in the customer. Empathy is caring and the individualized attention that the service firm provides to each customer.

1.3.5 Managing Service Quality

Gronross, a service marketing expert, proposed (refer Figure) that a service firm, in order to simultaneously attain success, must develop its service quality. Firstly, it must define how the consumers perceive service quality and secondly, determine in what way service quality is influenced. He also suggested that the functional quality is an important dimension of perceived service than the technical quality. Therefore, the essence of effectiveness in managing services lies in improving the functional quality of a firm’s service
by managing the buyer-seller interaction as compared to traditional marketing activities.

**Gronross Service Quality Model**

1.3.6 Need for Service Quality in Banks

The competitive climate in the Indian financial market has changed dramatically over the last few years. Business houses have entered into financial service activities. Public sector banks have started mutual fund trusts and other financial service subsidiaries. These subsidiaries have introduced new products in the market, which have competitive edge over products of the other banks. Even private sector and foreign banks have introduced innovative services. Almost all Indian banks have started experimenting with new services.
by offering the Automatic Teller Machine (ATM) that provides 24 hours services.

The expectations of the customers have also changed nowadays. Many consumers expect a variety of services from the banks. Many household consumers, now, prefer to take consumer durable loans or buy an instant credit rather than save for a few years to buy the intended consumer durable.

1.4 STATEMENT OF THE PROBLEM

The recent state of banking legislation and the increased awareness of customers in the field of financial services have made service marketing in banks a very complex issue. Three forces are directly at work in the marketing environment of banking services. They are the customer, the banker and the environment of rules and regulations stipulated in state legislation and banking procedure. Broadly speaking, customers are varied with different expectations and tasks. Their attitude and their perceptions differ widely due to their economic and social background. Countries like India have large populations and banks have to provide maximum acceptable services to the people in urban, semi urban and rural areas.

The standard of living, economic conditions, social and cultural background of people in India is varied and there is differentiation in relation to their place of living also. The needs of the customers residing in urban, semi urban or rural areas may not be alike. Though the needs of the customers may be analyzed in their totality, many environmental factors also play a vital role in deciding the types of service required by each group of customers. The gap
between customer expectations and the functions of banks should not be allowed to become wide. The differences in opinion are to be narrowed down. To achieve this situation, there should be an effective monitoring mechanism and constant vigil over the services provided to the customers. Further, continuous research and extension activities are to be carried out by the bankers to identify customer needs and expectations.

The problems in marketing of bank services in urban and semi-urban areas are different. The type of services required differs in urban and rural areas and stratified services are needed in the banking industry. People have a wide choice of services and a multiplicity of product needs. But they are always conscious of convenience, cost, safety, speed, respect, quality, courtesy and elegance. The present day bankers have to respond to the needs of the customers in this intensely competitive and rapidly changing environment. Any additional change or even change in the work situation may be opposed by the personnel, but to make the customers feel that they are unique, the personnel are to be trained properly so that they can provide reasonably cautious, friendly and intimate services to the customers. It is not always easy to measure satisfaction of the customers as the term itself is highly subjective. Various services are to be identified and measured in the order of importance and the availability of such services to the customers is to be measured.

In the light of the problems listed above, the present study attempts a micro level analysis of marketing of banking services in Madurai City.
1.5 SIGNIFICANCE OF THE STUDY

There are studies which have examined the level of customer satisfaction in public and private sector banks. However, these studies have ignored the service quality of the public sector banks. The present study bridges this research gap by estimating the customers’ perceived and desired levels of service quality and the difference between the two namely, the service quality gap. This is a maiden attempt hither to unexplored. Similarly, the studies carried out in the Indian context which attempted to identify the service quality failed to consider the socio-economic background of the customers which plays a major role in determining customers’ levels of satisfaction. The present study fills this research gap also by examining the relationship between the socio economic status and the customer perceived level of service quality.

In order to examine the customers’ perceived and desired levels of service quality in public sector banks comprehensively, the following major aspects have been considered:

1) Which service quality factor is more effective to measure the level of satisfaction in public sector banks?

2) What are the service quality variables that are highly discriminating in the public sector banks to measure customer satisfaction?

3) What is the relative influence of each of the service quality dimensions on the total service quality?
4) Is there any significant association between the socio economic status of the customers’ and their perceived level of service quality?

1.6 OBJECTIVES

Based on the above mentioned issues, the following objectives were framed for the present study:

1. To examine the extent of utilization of banks’ services by customers.
2. To study the background of the customers and their personality traits.
3. To analyze the attitude of the customers of the public sector banks
4. To analyze the customers’ perceived and desired levels of service quality of their banks.
5. To unravel the service quality gap prevailing in the public sector banks.
6. To offer suitable suggestions on the basis of the findings of the study.

1.7 HYPOTHESES

The following hypotheses have been formulated for the purpose of the study.

a) The public sector banks do not differ significantly in adopting marketing strategies and in performance achievement.

b) The perceptions of customers on banking services do not differ with reference to the area of residence.

c) There is no significant difference between the expectation and perception of customers of public sector banks.
1.8 SAMPLING DESIGN

The study is entitled service qualities of public sector banks in Madurai City. The primary objective of the study is to examine the customers’ perceived and desired levels of service quality of the public sector banks in Madurai City.

There are twenty four public sector banks are functioning in Madurai district. Out of which ten public sector banks were selected on the basis of large number of branches in Madurai City namely State Bank of India, Indian Bank, Indian Overseas bank, Corporation Bank, Syndicate Bank, Allahabad Bank, Andhra Bank, Dena Bank, IDBI Bank and Punjab National Bank. Then two branches were chosen from each selected bank based on the stratified random sampling method. On the whole twenty branches were selected from these public sector banks. Twenty six respondents were selected from each branch on the convenient sampling method. The researcher had collected data from 520 respondents of selected public sector bank branches with help of questionnaire for the study.

1.9 PRE-TESTING

Before the field survey was conducted, the consistency of the information obtained, had to be tested. For this purpose, a pilot survey was conducted. A questionnaire prepared already was administered to some of the respondents from the universe of the study and the questions which were redundant were omitted. The questions for which it was felt that answers could not be obtained were put indirectly. This helped greatly to reframe the questionnaire so as to obtain the reliable information.
1.10 SOURCES OF DATA

The present study is based on both primary and secondary data. To elicit information from the customers, a questionnaire was designed and administered. After having an in-depth review of previous studies and literature, information were gathered for constructing the questionnaire. The questionnaire (vide Appendix-I) was pre-tested and suitable modifications were carried out. The questionnaire had been used for collecting information relating to the personal data of the customers and also contained questions relating to the perception and expectation of the customers on the various services of public sector banks. The filled-up questionnaire was thoroughly checked to ensure accuracy, consistency and completeness.

The secondary data was collected from leading journals, magazines, newspapers, reports etc. A good number of standard text books were referred to obtain pertinent literature on the subject. The secondary data was also collected from the annual and audited reports of the banks.

1.11 DATA PROCESSING

After the completion of collection of data, the filled up questionnaire were edited properly. A master table was prepared to sum up all the information. With the help of the master table, classifications of tables were prepared and the later was taken directly for analysis.
1.12 FRAMEWORK OF ANALYSIS

The general plan of analysis ranged from simple descriptive statistics to multiple regression models. The performance of the bank was evaluated with the help of growth rate and trend analysis, trend ratio, growth rate percentage and ratios. The profitability ratios were calculated to assess the financial performance of the banks and measured through trend analysis, compound growth rate and correlation analysis. In addition to this, simple percentage, correlation, z-test, chi-square test, and factor analysis were also applied.

The application of these tools and techniques were identified on the basis of the objectives framed for the study. The tools and techniques applied are listed below.

1.12.1 Simple Percentage Method

The relative share of each of the service quality dimensions to total scores and the individual items were calculated by using the simple percentage method.

1.12.2 Standard Deviation

To identify the extent of dispersion of each of the dimension scores and individual scores, the standard deviation was calculated.

1.12.3 Co-efficient of Variation

For the purpose of comparing the service quality variables considered, a relative measure of dispersion namely, the coefficient of variation had been used.
More specifically, to identify the extent of dispersion in each of the dimensions and individual service quality factor, the coefficient of variation was calculated. The Coefficient of Variation (CV) is a relative measure of Standard Deviation (SD).

1.12.4 Chi Square Test

To identify the significance of the difference between the selected socio-economic variables and the perceived level of service quality variables, the chi-square test was applied.

1.12.5 Rank Correlation

To estimate the relationship between the perceived and desired level of customers’ service quality, the rank correlation method had been used. The logic behind using this technique was that it attempts to estimate whether there is a relationship between the perceived and desired level of service quality. The reason behind the use of this technique is that it is assumed that an individual customer, who receives a higher perceived level of service quality, after enjoying it, expects a higher level of service quality. This is the psychology of any customer. This assumption was being tested with the help of rank correlation coefficient.

To calculate the rank correlation co-efficient, the individual scores of each of the perceived level of service quality factor is correlated with the corresponding desired level of service quality scores.
1.12.6 Multiple Regression Techniques

To estimate the impact of the individual dimension scores on total dimension scores, a full log multiple regression model had been used.

1.12.7 Multiple Correlation Analysis

In the process of applying the multiple regression models, the square root of $R^2$ was calculated to arrive at the multiple correlation coefficients which help to understand the correlation among the multiple variables considered.

1.13 LIMITATIONS

In spite of its strengths and uniqueness, the study hedges with the following limitations:

1. The study pertains only to Madurai City and hence, generalization of the conclusions may be limited.

2. Any study on customer service quality cannot provide enduring findings over time as the expectations of the customers as well as the type of services provided by banks change from time to time. Therefore, the findings of the study indicate only contemporary views of the customers and may not hold good for all times to come.

3. Since the study attempts to compare the customers’ perceived and desired levels of service quality in the public sector banks, the private and foreign banks were excluded.
1.14 CHAPTER SCHEME

The first chapter after giving a brief introduction to the subject deals with the design and execution of the study.

The second chapter deals with review of related studies.

Third chapter had been devoted to discuss the importance of customer service in Indian commercial banks. In this chapter, the need for the customer services in banking industry and the measurement of service quality are discussed.

In the fourth chapter, background of the customers and their personality traits had been examined.

The fifth chapter dealt with the attitude of the customers of the public sector banks

The sixth chapter examined the perception and expectation of customers on the various elements of banking services.

The final chapter contains the summary, conclusion and suggestions.