CHAPTER III

CUSTOMERS’ SERVICE – AN OVERVIEW
3.1 INTRODUCTION
3.2 CUSTOMER SERVICE DELIVERY PROCESS
3.3 CUSTOMER EXPECTATIONS TOWARDS SERVICES
3.4 ZONE OF TOLERANCE OF CUSTOMERS
3.5 MEASUREMENT CRITERIA
3.6 NATURE OF SERVICE
3.7 CUSTOMER SATISFACTION
3.8 SUMMARY
3.1 INTRODUCTION

The banking system in India has come a long way during the last two centuries. Its growth was faster and the coverage was wider since 1969. Over 36000 centers now appear on the banking map of the country with an extensive branch network which has a diversified credit pattern. Traditional banking has gradually yielded to sophistication in credit management. In other words, the banking and finance industry in India is experiencing a period of dramatic change with disintermediation and of interest rates. There is sudden flurry of ability especially in the private and the foreign banks in India.

The very nature of service marketing requires that the service organization should devote more attention on offering efficient services to the customers. As the services are invisible, they can gain confidence and good will through efficient and prompt customer services only. Among the service organizations banks play an important role in marketing various types of needs of the customers. Banks basically work on the goodwill of the customers. The best way of servicing and prospering in the competitive environment is through providing prompt, relevant and efficient customer service at a reasonable cost.

Economic liberalization, globalization, information technology revolution, changing customer requirements and increasing competition have posed a challenge to the existing Indian banking scenario. During the past few years, the banking sector had witnessed revolutionary changes. The entry of private and foreign banks has posed a challenge to the monopoly enjoyed by

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the nationalized banks. With increasing competition, the importance of quality services in banking has gained paramount importance. The banks will have to rethink their strategies in delivering quality services to attract and hold customers. The service challenge involves developing new services that will meet customers’ needs in a better manner improving the quality and the variety of existing services and finally, providing and distributing these economic services in a manner that best serves the customers.

The international economic environment is witnessing a number of changes. Trade negotiations among different countries have led to opening up of various sectors to foreign participation, which so far enjoyed government protection. The General Agreement on Tariff and Trade (GATT) which successfully launched seven rounds of negotiations has led to a reduction in tariffs from 5 per cent to less than 4 per cent as well as reductions in non tariff barriers. The latest Uruguay Round was most ambitious and took up areas of services, intellectual property rights and trade investments. Subsequent to this, many developing countries have moved towards liberalizing financial services, which has led to the growth of financial institutions, including banking.

Services in general are defined as an act of performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. Quality in services is an elusive concept. It is more difficult to evaluate services as compared to goods. Service quality depends heavily on the

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quality of the buyer-seller interaction. Service quality depends on both, the service deliverer and the quality of delivering. Service quality is measured not only on technical quality (performance of the service), but also on its functional quality (whether the service provider has shown concern and inspires confidence while performing the service\textsuperscript{104}). This, in turn, is influenced by various factors like responsiveness, empathy, tangibility, assurance and reliability.

Service quality is the conformance of services to the customer's specifications and expectation\textsuperscript{105}. The quality of service, therefore, depends on the ability of the server to meet the expectations of the customer. In the present scenario, internationalization of banking standards has become imperative. Not only is delivery of quality services essential for survival but also is imperative for growth and prosperity\textsuperscript{106}. As global competition in financial services intensifies, service quality is emerging as a new frontier of banking competition. One reason is the increasing difficulty of competing on the basis of products that are essentially commodities whose features can be easily copied and relevance on price competition is an initiation to steadily declining profit margin.

Customer satisfaction through face-to-face interactions and it looks for a way to make customers feel special. This special feeling is created through

pleasant surprises; unique actions or qualitative approach to service. The essence of service excellence is to delight the customer and exceed his/her expectation. Service excellence concentrates on listening, empowerment, and innovation and making customers and employees part of the action. Service excellence focuses on making the service, the products and the surroundings more convenient, easier, neater and unique. Service excellence builds on excitement, relationships and trust. While a quality service approach uses some of these elements they form the heart of service excellence.

The sustainable competitive position in service industry emphasizes the importance of quality of customer service, which has the impact of the technology advancement and the LPG namely, Liberalization, Privatization and Globalization. Thus, assessing customer service quality in service industries such as banks, hospitals, libraries, telecommunications and insurance is very important in determining the standard expected from the industry. Zeithaml explains that the service quality as the judgment of the customers regarding the performance of an organization. It is measured by way of attitude of the customers, which is the difference between customer's expectations and perceptions of the service performance received. Lewis and Booms) describe service quality as a measure of matching the customer expectations with the degree of service delivery. Meeting the customers' expectations on a

continuous basis determines the degree of service delivery. Service quality is measured with customers' expectations and perceptions of the services extended by an organization\textsuperscript{111}. For this purpose, perceptions (P) are expressed as consumers' attitude about the service received and expectation (E) as consumers' requirements. The P-E service quality model is designed to measure perceived quality, which is corresponding to perceptions-minus-expectations (Teas). Customer expectations are attitudes about service delivery that is regarded as standards against which performance is decided, because customers compare their perceptions of performance with the standards while measuring service quality. Thus, knowledge about customer expectations is important to service marketers to attain sustainable competitive advantage by maintaining service quality.

The characteristics of services play a predominant role in determining the degree of service quality, which in turn makes the measurement of service quality difficult. Without prejudice, a service provider and a customer find it difficult to evaluate the service because of its intangibility. The services are considered to be intangible, as the customers perceive them instead of touching and seeing. It is very difficult for a service provider to arrange his service delivery systems to match the demand of the customer with the supply of services. This is so because the services are perishable in nature and the services cannot be made ready in advance and stored as that of materialistic items. The perishability of service also means that a service cannot be exactly

repeated and it may result in dissatisfaction of the customers if their expectations are not met. The inseparability of services and service provider determine the role of people in service delivery systems. The heterogeneous nature of service means that every service is considered as unique and at all times it differs from other services. Attaining sustainable competitive advantage is practically difficult because the services cannot be easily copied and patented\textsuperscript{112}.

Services are often produced and consumed simultaneously, indicating that the customer is intimately involved in the process of producing and delivering a service. The involvement of customers in the service delivery process decides the nature of the service delivery process and its effectiveness. In general, the customer's judgment of service quality can be regarded as an appraisal of the service delivery process and the service outcome, by comparing the expectations of the customers and desired benefits. This paves the way to assess quality from a services marketing point of view namely, perceived service quality\textsuperscript{113}.

3.2 CUSTOMER SERVICE DELIVERY PROCESS

Perceived service quality is the judgment of the customers of their overall experience of the service environment of an organization. The success in delivering quality service lays an understanding of how customers arrive at this judgment. When an organization fails to study and understand the process


of customer's judgment, it will lose a customer. Exactly, the competitive companies will target the lost customer. This will threaten the competitive position of the company in the market. Customer Service Process (AD AT) must be followed by the service organizations through the golden rules of service process namely, acknowledging (greeting the customer); determining (analyzing needs and wants), accommodating (satisfying the request quickly and efficiently) and thanking (Appreciating the customer, confirm satisfaction)\textsuperscript{114}.

**3.3 CUSTOMER EXPECTATIONS TOWARDS SERVICES**

Adequate service can be defined as the lowest level of service the customers will expect without being discontented. Sources of satisfactory service expectations are transitory service intensifiers, perceived service alternatives, self-perceived service role and situational factors. Transitory service intensifiers consist of short-term individual factors which make a customer conscious of the need for service. Perceived service alternatives are additional service providers from whom the customers can get a service. The customer's self-perceived service role is defined as customer perceptions of the degree to which customers exert an influence on the level of service they receive. Situational factors are defined as the service performance conditions that customers view as beyond the control of the service provider. Predicted service is the level of service the customers believe they are likely to get\textsuperscript{115}.


The type of service that the consumers believe a company can deliver and a consumer hopes to receive is termed as desired service. Sources of desired and predicted service expectations include explicit service promises, implicit service promises, word-of-mouth communications and past experiences. Explicit service promises are personal and non-personal statements about the service made by an organization to customers and are completely in the control of the service provider. Implicit service promises are service related cues other than explicit promises that lead to inferences about what service should and will be like. Word-of-mouth communications are the personal and non-personal statements made by the parties (including consumer reports, friends and family) other than the organization convey to customers what service will be like and influence both predicted and desired service. Past experience, the customer's previous exposure to service is relevant to the focal service, in shaping predictions and desires^116.

### 3.4 ZONE OF TOLERANCE OF CUSTOMERS

The extent to which customers are willing to accept the variation between the adequate service and the desired service is called zone of tolerance. The performance that falls below the adequate service level will cause frustration and dissatisfaction, whereas one that exceeds the desired service level will please and surprise customers. The zone of tolerance can also be regarded as the range of services within which customers do not pay explicit attention to service performance. When service falls outside this range,

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customers will react positively or negatively. The zone of tolerance can increase or decrease for individual customers depending upon such factors as competition, price and other service attributes. Customers perceive services in terms of the quality of the service and how satisfied they are, with their experiences. Companies today recognize that they can compete more effectively by distinguishing themselves with respect to service quality and improved customer satisfaction. Satisfaction is generally viewed as a broader concept, whereas service quality assessment focuses specifically on dimensions of service. Based on this view, perceived service quality is a component of customer satisfaction.

Service quality is an evaluation that reflects the customer's perception of elements of service such as interaction quality, physical environment quality and outcome quality. These elements are in turn evaluated based on specific service quality dimensions: reliability, assurance, responsiveness, empathy and tangibles. Satisfaction, on the other hand, is influenced by perceptions of service quality, product quality and price as well as situational factors and personal factors. Satisfaction is the customer's fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provides a pleasurable level of consumption-related fulfillment.

The customer satisfaction is determined by features of product and service, emotions of the customer, attributes for service success or failure, perceptions of equity or fairness and opinions of other consumers, family

members and co-workers. Customers of services will make trade-offs among different service features depending on the type of service being evaluated and criticality of the service. Positive emotions such as happiness, pleasure, excitement and a sense of warm-heartedness will enhance consumer’s satisfaction. Negative emotions including anger, depression, guilt and humiliation have a strong effect on consumer's dissatisfaction. Attributions to the perceived events- influence perceptions of satisfaction as well. When they have been satisfied by an outcome, consumers are inclined to find out the reasons and their assessments of the reasons can influence the satisfaction. Customers should get better treatment, better prices and better quality service. Notions of fairness are central to consumer’s perceptions of satisfaction with products and services. In addition to product and service features and one's own individual feelings and beliefs, customer satisfaction is often influenced by other people also.

Banking system occupies an important place in the economy of a nation. It plays a pivotal role in the development of the economy of any nation. The liberalization and economic reforms in 1991 generated increased competition among banks. Increasing competition forced the banks to think of better ways and means of generating revenues from different sources other than the conventional borrowing and lending activities. A good banking sector with a good banking habit can accelerate the pace of development of a country.
Banking is a key industry in the service sector and it is indeed the financial nerve center of the economy\textsuperscript{118}.

Nowadays many banks started giving importance to customer relationship and hence they used all sorts of technologically advanced services and facilitated their customers to avail benefits like facility to pay electricity bill, telephone and the like in order to retain them. Right from the seventies, there was a clamor for improvement in customer services in banks. With the emergence of the new generation banks, introduction of technology, competition, deregulation and the similar new dimensions to customer service have been added. In the present scenario, “customers' delight” has been the buzzword in banking. Both the old generation and the new generation banks are working hard to improve customer loyalty and retention equity. Economic reforms and the entry of the private players saw nationalized banks revamp their services and product portfolio to incorporate new, innovative customer-centric schemes. The situation in the Indian banking system during pre and post liberalization period is shown (Paradigm Shift Scenario in India) in table 1.

Table 3.1
Paradigm Shift – Scenario in India

<table>
<thead>
<tr>
<th>Before 1991</th>
<th>After 1991</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sellers Market</td>
<td>Buyers Market</td>
</tr>
<tr>
<td>Protected Market</td>
<td>Open Market</td>
</tr>
<tr>
<td>Not Many Global Brands</td>
<td>Increase in Number of Global Brands</td>
</tr>
<tr>
<td>Friendly Competition</td>
<td>Cut Throat Competition</td>
</tr>
<tr>
<td>Patient Customers</td>
<td>Demanding Customers</td>
</tr>
<tr>
<td>Limited Choice For Customers</td>
<td>Increasing Choice for Customers</td>
</tr>
<tr>
<td>Limited TV Promotion</td>
<td>Extensive TV Promotion</td>
</tr>
<tr>
<td>Cost Plus Pricing</td>
<td>Competitive Price - Cutting</td>
</tr>
<tr>
<td>Limited Role of Service</td>
<td>Increase Role of Service</td>
</tr>
<tr>
<td>Slower Marketing Reflexes</td>
<td>Quicker Marketing Reflexes</td>
</tr>
<tr>
<td>Speed@will</td>
<td>Turbo Speed</td>
</tr>
<tr>
<td>Fundamental Stand Alone System</td>
<td>Enterprise System (ERPI CRM I SCM)</td>
</tr>
<tr>
<td>IT Competitive Advantage</td>
<td>IT Enabler</td>
</tr>
<tr>
<td>Gaining New Customer</td>
<td>Retaining Existing Customer</td>
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<tr>
<td>Monologue</td>
<td>Dialogue</td>
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<tr>
<td>Transaction</td>
<td>Relationship</td>
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<tr>
<td>Standard of Living</td>
<td>Quality of Life</td>
</tr>
</tbody>
</table>


3.5 MEASUREMENT CRITERIA

The criteria or variables identified as important to measure or assess the customer satisfaction regarding banking services are briefly explained in the following pages:

3.5.1 Automatic Teller Machine (ATM)

The ATM made its first appearance in the early part of 1990 in the City Bank, and later in the Hong Kong Bank. By the end of 1990, every Indian private banks and public sector banks came up with their own ATM networks under the initiative of the Indian Bank Association (IBA) in Mumbai. An ATM card is issued to the customer by the bank in order to make cash withdrawals at cash machines. It provides exchange services and helps the customer to
withdraw money even when the banks are closed. The business house, having an ATM on its premises, can reduce the number of bad cheques and cut credit card expenses because the customer can withdraw cash for payment on the purchase made. Since the services are available all the 24 hours, the customer is easily satisfied. The ATMs have brought about a great welcome change in the service to customers. It allows the customers to transfer money to and from his account, to scan account information and the like. Against this background, it is considered to be an important variable to study customer satisfaction towards services provided by the banks.

3.5.2 Attitude of the Employees

Every employee of a bank has a significant role to play in the success of the bank. The performance of any employee solely depends upon his/her attitude towards working in the bank and it is the basic tendency of every human being to be careless or show laziness in his job if he/she is kept in a secured environment. The attitude of the employee towards his/her bank becomes very essential to attract new consumers to the bank, to convert consumers into their regular customers, to create a goodwill about the bank in the minds of the consumers, to safeguard the interest of the bank and to enhance the performance of the bank. As the primary focus of recruiting the right employee aims at satisfying the expectations of the customers, the variable named attitude of the employees" has been given due importance in this study.
3.5.3 Cheque Processing Period

It refers to the span of time taken by the bank to clear the cheque submitted by a customer. The customer submits a cheque to clear specific obligation. The time lag in clearing the cheque prevents the customers from fulfilling their obligation within a time period. In other words, it affects the customer expectation. It is important to note here that bankers take relatively much time to clear the outside cheque, as they have to collect it from the paying bank. However, the customer expects quick clearance of cheque. It is learnt that the modern private sector banks clear the outside cheque within a day and as a result, customers are highly satisfied with them. Against this background, cheque processing period is considered to be an important variable to evaluate the customer satisfaction.

3.5.4 Credit Card Facility

A credit card is nothing but a very small card containing a means of identification through stored computer data, a signature and a small photo. It authorizes the holder to charge goods or services to his account on which he is billed. The bank receives the bill from the merchants and pays on behalf of the card holder. These bills are assembled in the bank and the amount is paid to the bank by the cardholder either totally or by installments. The bank charges the customer a small amount for this service. The cardholder need not carry money with him when he travels or goes for purchasing. The different kinds of credit cards available to the public are bank card, travel and entertainment cards (t&e) like American Express and Diner club, house cards for use at stores and the
like. Sears is the biggest one of this type. According to the customer preferences, the card can be classified as credit card, charge card, in store card, corporate credit card, business card, smart card, and debit card. Credit cards have found widespread acceptance in the 'metros' and big cities. Credit cards are gaining popularity for online payments. Credit cards result in immediate overnight payments to the merchants. It helps the growth of commercial establishments, multipurpose departmental stores and supermarkets. In view of the above facts, credit cards facility is considered to be an important variable.

3.5.5 Customer Convenience Facility

The bank is the place where different kinds of people come together to avail different banking services. In addition to banking services, the customer needs some convenience facilities at the bank premises. These facilities help them to avail banking services with comfort. They need facilities like stationery items (pins, pens and the like) drinking water, furniture, telephone, convenience facilities and the like, so that the customers can transact their business without any discomfort. Therefore, customer convenience facility is considered to be an important variable for assessing customer satisfaction towards services provided by the banks. The views of customers on different facilities are studied below.

3.5.6 Grievances Redressal Mechanism

It is nothing but the complaint box facility adopted by the banks. Receiving customer complaints, listening to the grievances patiently and solving the problems are important areas of customer service. The banks
through “customer grievance cells” in individual bank and “ombudsman” at each state provide a redressal mechanism. Customers are free to contact the grievance cells in banks to make complaints about the banking services, problems etc. Banks will immediately attend to such grievances and settle the issues. The Government appoints the “ombudsman” at the state level and the official would receive the grievance from the customers of all banks and provide solutions to the issues. It is the duty of the “ombudsman” to solve the issues within a stipulated time frame. If required, an enquiry is made by the “ombudsman” into each case and advise the banks for further proceedings. This is one of the important aspects of customer service. Today customers are more discerning and have a very low tolerance regarding poor service. Customers have a greater propensity to switch over to another service provider. That is why they should be satisfied to the maximum possible extent to be retained by the bankers. Hence it is considered an important variable to assess the customer satisfaction towards the banking service.

3.5.7 Loan Processing Period

Loan processing period refers to the period taken by a bank for sanctioning loans. Every bank fixes a set of norms to process the loan application and to test the credit worthiness and the like. Generally the loan sanctioning procedure differs from bank to bank. The period taken by banks depends on factors like document required for loan sanction, approach of the bank officials, loan application format and its content and the like. It is expected that banks do not take long period for sanctioning the loan as it leads
to dissatisfaction among the borrowers. The borrowers may feel embarrassed for approaching the officials frequently for loan. Hence, it is considered an important variable for measuring the customer satisfaction regarding services provided by the banks.

3.5.8 One Window Service

In a competitive era, one window service in banks is a novel technique adopted by banks to attract customers. It is true that there is a separate counter for each and every service, for example, separate counter for demand draft, withdrawal and the like. The customer who needs two banking services at a time has to stand in a queue before each counter (before DD counter and withdrawal counter). Under one window services, the bank performs all possible banking services through a special counter. These services include issuing demand draft, cash deposits and withdrawals, cheque deposited and the like. This is considered as an important variable because nowadays banks are becoming more customers centered. It is the duty of the banker to provide valuable services to their customers without delay and error to retain and attract their customers.

3.5.9 Online Banking Facility

It refers to banking services provided through internet. For customers, internet banking greatly increases convenience since they can conduct many banking transactions 24 hours a day. Customization of services to suit the user's needs is also possible. Private domestic and foreign banks are eager to expand their retail banking businesses as personal banking is more profitable than
corporate banking. Since the interest rates of the banks are less attractive than other investments, they have to lure customers by highlighting the conveniences and value-added services they offer. In the promotion of convenience and wider reach, internet banking is an excellent selling point. Internet banking makes it possible for clients to perform most of the mundane banking functions online. They can access account statements, order draft and cheque books, transfer funds between accounts, book deposits, stop payment instructions and communicate with the bank, among other things. The electronic banking has made the customer to say good-bye to the huge account registers and the large paper bank accounts. It is against this background that online banking facility is taken as an important variable for accessing the satisfaction level of services provided by the banks.

3.5.10 May I Help You Counter

“May I Help You Counter” represents a special counter provided by the bank to assist people who come into a bank. The officials sitting at this counter first welcome the people who enter the bank. They clarify doubts of customers and provide all help to the customers. Their help normally includes filling up of applications, challans, answering queries and the like. It helps customers to feel free to visit banks without any hesitation. It also protects officials from disturbance by the public during working hours.

3.5.11 Reforms and Their Impact on Banking Services

The Banking Sector in India has undergone tremendous change during the past quarter 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 the traditional commercial banking principles. After nationalization, banks have introduced umpteen diversifications and innovations in their services and business. Now banks extend their services even to common people and their activities touch even unbanked areas\textsuperscript{119}.

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 had setup another committee on customer services, under the chairmanship of Sri. M. N. Goiporia, Chairman, the State Bank of India 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) on technology issues advo-

icated the system of Electronic Fund Transfer. Accordingly, the RBI started the EFT system in 1996\textsuperscript{120}.

In 1993 the RBI through its announcement 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 ICICI bank, India's second largest 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. The ING Vysya Bank Limited is an entity formed with the merger of erstwhile the 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.

New generation and foreign banks are operating in a highly sophisticated environment by offering up-to-date products and services. Improved customer services. It 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 today what customers would expect tomorrow. Up-to-date products and services are offered to the customers by Indian banks viz. ATM, anywhere 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.\textsuperscript{121}

3.6 NATURE OF SERVICE

Consequent to the implementation of government policies on globalization and liberalization, the consumers have become more critical of the quality of service. Consumers are now aware of the alternatives available in relation to the service and the provider organization. Consumer expectations are rising and the provider organization must be aware of them. According to Philip Kotler, Professor of International Marketing, “A service is any act or performance that one party can offer to another that is essentially intangible and doesn’t result in the ownership of anything. Its production may or may not be tied to a physical product”.

“There are no such things as service industries. There are only industries whose service components are greater or less than those of other industries. Everybody is in service,” said Thedore Levitt, legendary figure in the field of marketing.

3.6.1 DEFINITION OF SERVICE QUALITY

Lewis and Booms\(^\text{122}\) suggested that service quality results from a comparison of what customers feel a service-provider should offer 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.”

3.6.2 Dimensions of Service Quality

While evaluating service quality, consumers examine the following: tangibles, reliability, responsiveness, assurance and empathy. Tangibles include 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 each customer.

3.6.3 Managing Service Quality

Gronross, a service marketing expert, proposed 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.

3.6.4 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 advantage over products of the banks. Even private sector and foreign banks have introduced innovative services. A few 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 on instant credit rather than save for a few years to buy the consumer durable.
As a result of this growing level of competition, service quality is emerging as an important element in bank’s activities. There is a need for the Indian banks to keep pace with their competitors by using service quality techniques for business growth.

3.7 CUSTOMER SATISFACTION

Customer satisfaction is an elusive area especially in the service sector since offerings are intangible. In fact, it has been said that intangibility is the key to determining whether or not an offering is a service or a product. Customer satisfaction is the sum total of the customers expression of the service quality. What goes into making of service quality is important for the survival of the business itself and this can be identified only by diligent research backing. The survival of business has direct correlation with the satisfaction of the customer. Customer satisfaction, which is attributed to the conduct of business, has certain specific dimensions. Quantification and measurement of these dimensions is an area not sufficiently researched.

3.7.1 SERVQUAL MODEL

To measure the quality of services of the banks, the ‘SERVQUAL’ model, as suggested by Parasuraman et al. has been used. The variables included in the model are functional quality dimensions, outcome quality dimensions and the perception of overall service quality. These variables can broadly be categorized under five broad dimensions.

The instruments used in the study to capture service quality contain 21Likert type items. These instruments are categorized under five broad
dimensions namely, (1) Tangibility, (2) Reliability, (3) Responsiveness, (4) Assurance and (5) Empathy. The 21 service quality items considered under the five broad dimensions can be given as below:

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<table>
<thead>
<tr>
<th>Table 3.2</th>
<th>Dimensions of Service Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I</strong></td>
<td>Tangibility</td>
</tr>
<tr>
<td>1.</td>
<td>Bank’s cleanliness and hygiene should be excellent</td>
</tr>
<tr>
<td>2.</td>
<td>Bank’s personnel should appear neat</td>
</tr>
<tr>
<td>3.</td>
<td>Bank’s staff should be pleasant to deal with</td>
</tr>
<tr>
<td>4.</td>
<td>Bank should have modern equipment</td>
</tr>
<tr>
<td>5.</td>
<td>Informative brochures should be available</td>
</tr>
<tr>
<td><strong>II</strong></td>
<td>Reliability</td>
</tr>
<tr>
<td>1.</td>
<td>Bank services should be prompt service every time</td>
</tr>
<tr>
<td>2.</td>
<td>Bank’s reports should be accurate</td>
</tr>
<tr>
<td>3.</td>
<td>Bank’s expertise reports should be accurate</td>
</tr>
<tr>
<td>4.</td>
<td>Customers should receive adequate information about their condition</td>
</tr>
<tr>
<td>5.</td>
<td>Customers should feel confident when receiving service at Bank</td>
</tr>
<tr>
<td><strong>III</strong></td>
<td>Responsiveness</td>
</tr>
<tr>
<td>1.</td>
<td>Bank’s administration staff should be efficient in dealing with the queries</td>
</tr>
<tr>
<td>2.</td>
<td>Bank employees should inform exactly when services could be performed</td>
</tr>
<tr>
<td>3.</td>
<td>Bank should have convenient times to use their bank services</td>
</tr>
<tr>
<td>4.</td>
<td>Bank must have experienced personnel on duty</td>
</tr>
<tr>
<td>5.</td>
<td>Bank reception should answer phone calls promptly</td>
</tr>
<tr>
<td><strong>IV</strong></td>
<td>Assurance</td>
</tr>
<tr>
<td>1.</td>
<td>Bank employees should always respect customer’s privacy</td>
</tr>
<tr>
<td>2.</td>
<td>Bank employees should care about their customers</td>
</tr>
<tr>
<td>3.</td>
<td>Banks should always provide proficient staff</td>
</tr>
<tr>
<td>----</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>V</td>
<td><strong>Empathy</strong></td>
</tr>
<tr>
<td>1.</td>
<td>Bank employees should provide individualized attention</td>
</tr>
<tr>
<td>2.</td>
<td>Bank employees should always show understanding towards customer’s feelings of discomfort</td>
</tr>
<tr>
<td>3.</td>
<td>Customers should be treated with a warm and caring attitude in Bank</td>
</tr>
</tbody>
</table>

To measure the service quality under these instruments, a nine point scale has been developed with the level of services scaled from 1 to 7 where, 1 means *low* and 7 means *high*. The scores, thus obtained, are used to calculate the total and mean scores of each of the items and the dimensions.

**3.7.2 Gaps in Service Quality**

The central focus of the gaps model is the customer gap, i.e. the difference between customer expectations and perceptions. Expectations are the reference points that customers have come in to a service experience; perceptions reflect the service as actually received. The idea is that businesses will want to close this gap - between what is expected and what is received to satisfy their customers and build long-term relationships with them. The consumer evaluations of service quality center on the balance of their expectations and perceptions of a service. Expectations that are met or exceed in a service encounter, or series of service encounters, will result in adequate or ideal service quality evaluations. Alternatively, expectations that are not met will result in negative service quality evaluations. The service quality gap model provides a framework for financial institutions seeking to systematically improve consumer perceptions of service quality. Out of the five gaps
mentioned below, Gap-5 the difference between consumer expectations and perceptions is a direct reflection of Gap 1-4. This means that the smaller the discrepancy observed in Gaps 1-4, the more likely consumers will favorably evaluate service quality.

GAP 1: The Knowledge GAP is the difference between customer’s expectation and management’s perceptions of those expectations, i.e. not knowing what customers expect.

GAP 2: The Standards GAP is the difference between management’s perceptions of customer’s expectations and service quality specifications, i.e., improper service-quality standards

GAP 3: The Delivery GAP is the difference between service quality specifications and service actually delivered i.e. the service performance gap

GAP 4: The Communication GAP is the difference between service delivery and the communications to customers about service delivery i.e. whether promised match delivery?

GAP 5: The Overall GAP is the difference between customer’s expectation and perceived service. This gap depends on size and direction of the four previous mentioned gaps associated with the delivery on the marketer’s side.

The perceived service is the degree and direction of discrepancy between customer’s perceptions and expectations. A primary cause in many firms for not meeting customers' expectations is that the firm lacks accurate
understanding of exactly what those expectations are. Understanding customer expectations is a prerequisite for delivering superior service; customers compare perceptions with expectations when judging a firm's service. Customers assess service performance based on two standards: what they desire and what they deem acceptable and zone of tolerance separates desired service from adequate service.

The customer gap (GAP 5) is the focal point of the present study. Empirical data obtained from consumers' results of SERVQUAL, is used to look at the relationship between the five dimensions that customers' use to form their expectations and perceptions of the service and to identify the key areas of strength and weakness in the service quality delivery process of private sector banks. Using the statistical data and customer feedback obtained from the surveys for the different dimensions of service quality, the zone of tolerance for each of the five dimensions is determined.

3.8 SUMMARY

Customer satisfaction is an elusive area especially in service sector since offerings are intangible. In fact, it has been said that intangibility is the key to determining whether or not an offering is a service or a product. Customer satisfaction is the sum total of the customers expression of the service quality. What goes into making of service quality is important for the survival of the business itself and this can be identified only by diligent research backing. The survival of business has direct correlation with the satisfaction of the customer. Customer satisfaction, which is attributed to the conduct of business, has
certain specific dimensions. Quantification and measurement of these dimensions is an area not sufficiently researched.

To measure the quality of services of the banks, the ‘SERVQUAL’ model, as suggested by Parasuraman has been used. The variables included in the model are functional quality dimensions, outcome quality dimensions and the perception of overall service quality.

The instruments used in the study to capture service quality contain 21 Likert type items. These instruments are categorized under five broad dimensions namely, (1) Tangibility, (2) Reliability, (3) Responsiveness, (4) Assurance and (5) Empathy.

The perceived service is the degree and direction of discrepancy between customers perceptions and expectations. A primary cause in many firms for not meeting customers' expectations is that the firm lacks accurate understanding of exactly what those expectations are. Understanding customer expectations is a prerequisite for delivering superior service; customers compare perceptions with expectations when judging a firm's service. Customers assess service performance based on two standards: what they desire and what they deem acceptable and zone of tolerance separates desired service from adequate service.

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