4.1 INTRODUCTION

Banking system occupies an important place in a nation’s economy. The banks have been rendering service and provide facilities to cater to the needs of the customers. A service is an activity that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Customer service implies the satisfaction of customers’ needs. Customer service is the backbone of every organization including banks and there is no exception to this.

As Mahatma Gandhi once said,

“Customer is the king

He is the most important visitor of our premises

He is not dependent on him

He is not an interruption on our work

He is the purpose of it

He is not outsider to the bank

He is part and parcel of the bank”

We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so.

From the above, it is clear that the banks must provide quality services to their customers.
Post-liberalization in 1990s has witnessed tremendous changes in the Indian banking sector as a part of financial sector reforms. Prior to economic liberalizations, public sector banks enjoyed a protected market. After liberalization, Indian banks were exposed to free market competition and consequently, the strategic need for customer retention. Banks tend to emphasise customer retention because the cost of acquisition of new customers is higher than their retention. Intense competition and continuously evolving customer demands have led Indian banks to identify drivers of customer satisfaction and loyalty. Customers are the major decision makers in any marketing effort. They select a service offering that adds value to them and optimizes their satisfaction. Therefore, bank managers are seeking out most influential determinants of customer satisfaction and loyalty. Customers’ satisfaction leads to their loyalty that helps in realizing economic success of the firm in terms of profitability, market share and return on investment (Reichheld, 1996; Scheuing, 1995)\(^1\). This study examines whether service quality influences customers satisfaction that furthers customers’ loyalty in Indian commercial banks. Customers’ expectations vary across cultures. Therefore, this study makes an attempt to identify the aspects of service quality of banks in determining customers’ satisfaction in the Indian context.

### 4.2 Recent Trends in Banking Sector

In the present competitive Indian banking context, characterized by rapid change and increasingly sophisticated customers, it has become very important that
banks in India determine the service quality factors, which are pertinent to the customer’s selection process. With the advent of international banking, the trend towards larger bank holding companies, and innovations in the market place, the customers have difficulty in selecting one institution from another. Therefore, the current problem for the banking industry in India is to determine the dimensionality of customer-perceived service quality. Moreover, investigating the influence of the dimensions of service quality on customers’ behavioral intentions should provide a better understanding of the customers’ satisfaction and also help to specify, measure, control and improve customers’ perceived service quality. Hence, to gain and sustain competitive advantages in the fast changing retail banking industry in India. It is crucial for banks to understand in depth what customers perceive to be the key dimensions of service quality and what impact the identified dimensions have on customers’ behavioural intentions.

Banking is a service industry. The survival of banking business is mainly dependent on customer services. The image and reputation for service depend on the factors like, reliability, responsiveness, competence of staff, courtesy, communication skills of personnel, credibility, security, customer satisfaction, quality achievement, quality maintenance and quality improvement. The secret is that the banks should do the right things for the right customers at the correct time.

After liberalization as a result of partial implementation of the Narsimhan Committee Report the nationalized banks and old generation private banks started
facing competition from the new private and foreign banks that had international banking standards. These new generation banks were characterized by the usage of modern information technology endorsed services like ATM, telebanking, online systems etc. Clients, for the first time in India, were able to choose from a number of banks offering a wide range of services and delivering quality service.

There is a need in the Indian banking sector is to build up competitiveness through enhanced service quality, thus making the banks more market oriented and customer friendly.

The banking industry is undergoing a revolution caused by deregulation and technological innovation. It necessitates the application of modern marketing principles to enhance the quality of service, increase the level of efficiency, establish leadership and finally maximize profits.

In the digital age, the rules and ‘mantras’ of old marketing concepts have been changed. The traditional 7Ps of marketing and services have been replaced by 7Cs namely;

- Customer
- Cost
- Convenience
- Communication
- Commitment
- Creditability
Creativity

The success of bank marketing lies in learning to manage and address multiplicities - different demographics, the urban, the rural, the different age groups and audience. Therefore, all bank marketing efforts are directed towards indentifying customers wish and delivering targeted customized marketing.

Service quality has become an increasingly important factor for success and survival in every service industry. Service quality is seen as a tool for increasing value for the consumer, as a mean of positioning in a competitive environment and for ensuring consumer satisfaction with greater choice and increasing awareness. Indian consumers are increasingly demanding better quality of service and players can no longer afford to neglect customer service issues (Kaul, 2007).4

Customer service is viewed as a part of marketing mix in services marketing. In recent years, thurst on efficient customer service has increased manifold in the services sector because of increased competition from private players, improved technologies, and growing customer sophistication (Sachdev and Verma, 2004).5 Thus in order to satisfy the customer, it is essential to set customer service objectives after taking into account the important service quality variables namely reliability, responsiveness, assurance, empathy, and tangibility.

Considering the paramount importance of quality improvement and management of services, the present study has been undertaken to cover the specific objective of identification and evaluation of different dimensions of service quality.
Service organizations in India are facing tough competition in the global market because of liberalization and globalization of the Indian economy. Hence, it is helpful for service organizations to know the customer service quality perceptions in order to overcome the competitors and attract and retain the customers. Due to the globalization and liberalization, Indian service sector has been opened for Multi National Companies. In order to overcome the competition and to retain the world class service standards, Indian companies have been forced to adopt quality management programs.

In the late 1950s, a new concept arose in the marketing services with respect to banking profession. In the west, Deryk-Weyer, of Barclays bank came out with a comprehensive definition of bank marketing. According to him Bank marketing consists of identifying the most profitable markets now and in future, assessing the present and future needs of customers, setting business development goals, making plan to meet them and managing the various services and promoting them to achieve the plans – all in the context of the changing environment in the market. Thus, the idea of “customer satisfaction” arose in 1950s flourished in 1960s and became an integral part of banking services in 1970s.

In course of time, the concept of marketing widened further. From the stage of customer satisfaction, marketing became more concerned with the well-being of the “society” as a whole and resulted in coining the term ‘societal marketing’. Hartley would call it ‘Response marketing, attuning with or responding to the changing needs of customers’ society and environment. Gist also gives social dimensions to the bank
marketing, and according to him, marketing is unavoidably a social concern. Thus, the concept of bank marketing assumed new heights and dimensions attuned with the social needs and fulfilling them in the best possible manner by required services.

The various services offered by an organisation play an important role in its promotion and marketing. The product may be in the form of goods, services, ideas, etc., In banking, ‘products’ are ‘services’. For a common man the products offered by banks are general services, deposits, advances, international banking, consultancy and other miscellaneous services.

The marketing mix for service organization has taken a new shape in banking sector. The seven elements in marketing mix for banking services are as follows:

4.2.1 Product

The product for a banking industry predominantly consists of services like remittance, collection, deposits, letters of credit, foreign currency, consultancy, merchant banking, investment counselling, advances, loans, bill discounting, guarantees, credit cards, tursteeship and standing instructions.

4.2.2 Place

Place refers to location of branches at strategic points, off-site ATMs, on line banking, tele banking etc.

4.2.3 Price

The cost at which the services are offered to the public is the price for the product. It includes Interest, commission, dividends etc.,
4.2.4 Promotion

Generally promotion includes all tools used to promote a business. This may be Advertising, publicity, sales promotion, word-of-mouth promotion, personal selling, telemarketing, public relation, etc.

4.2.5 Physical Evidence

It includes Pass books, Cheque books, receipts, ATM counters, credit cards and record books.

4.2.6 People

This includes Front office staff, agents, auditors, Board of Directors, Banking Service Recruitment Board, Reserve Bank of India, Trade Unions.

4.2.7 Process

It includes Canvassing, application, verifications, sanctioning, delivering, inspection and documenting.

The present day banking services call for a dynamic marketing approach in tune with the changes in the life pattern of the public.

4.3 BANK MARKETING IN INDIAN ENVIRONMENT

In the past, the banks did not find any attraction in the Indian economy due to the low level of economic activities and meager business levels. Though the SBI was set up as early for extending credit facilities, backward regions remained neglected till independence.
However, with the dawn of independence, the developmental activities underwent for radical changes. Indian constitution assigned top most priority to social welfare and eradication of economical imbalance. The introduction of Five Year Plans was to promote the economy of the rural population and the country as a whole gave new dimension to the banking section. It paved the way for the emergence of commercial banks, co-operative banks and regional rural banks. But, when the private sector banks failed in delivering the goods to the society, it resulted in the nationalization of 14 commercial banks in the year 1969. With this, a radical change in the banking policy came into being. Entrepreneurs needed large-scale credit facilities at liberal terms and conditions. The rural population also had to depend on the banking sector to improve their economy. Hence, the bankers had to develop new strategies, keeping in view the commercial and the social goals. The policies adopted by the Governments now and then, also played a vital role in streaming the strategies of the banking profession. On the one hand, the bankers have to mobilise deposit for their existence and on the other hand, they have to be very liberal in providing credit facilities to the needed. It is really a challenging task for the bankers and so new strategies have to be evolved to maintain a balance.

4.4 IMPACT OF MODERN TECHNOLOGY ON BANK MARKETING

The past decade of 20th Century saw much technological advancement in the fields of computerization and communication and had brought a significant change in the concept of bank marketing also. To name a few:

4.4.1 Creation of New or Improved Services
The advent of electronic fund transfer system made it possible to offer a variety of service facilities to improve the quality of service in banking. Some of these facilities are: (i) Automated Teller Machines (ATMs), (ii) Direct Deposit of Payroll, (iii) Pay by phone system, (iv) Debit and Credit Cards, (v) Pre-authorised funds transfer, (vi) Automated Clearing, (vii) RTGS (Real Time Gross Settlement)

4.5 SERVICE QUALITY

Service quality is a critical determinant of competitiveness for establishing and sustaining satisfying relationships with customers. Service marketers have realized that competition can be well managed by differentiating through quality.

Gronroos (1984) has defined the perceived service quality as “the outcome of an evaluation process, where the customers compare their expectations with the service they have received”

Parasuraman, Zeithamal and Berry (1985) defined service quality as the consumer’s comparison between service expectation and service performance. They argued that service quality is determined by the differences between customer’s expectation of the service and their perceptions of the service experience.

The competition between private and public sector banks has resulted in an increased need for service providers to identify the gaps in the market in order to improve service provisions to retain customers. The Indian banking sector has responded to these needs by paying more attention to enhancement of service quality
in order to retain its market position Therefore, service quality is becoming more

critical for banks to retain their customer base.

Service quality has become a competitive strategy in the Indian Banking sector.
Thus, it is important to explore the perception of service quality and its relationship
with customer satisfaction, loyalty and commitment in public and private sector banks.

Service quality can be concisely defined as the personal experience of the
customer with the service provider. Service quality is playing an increasingly important
role in the present environment where there is no further scope for the companies to
differentiate themselves other than the quality of the service provided by them.
Delivering superior service quality than the competitors is the key for the success of
any organization. But, the companies face difficulties in measuring the quality of
service offered to the customers. Because unlike measuring the quality of goods, the
measurement of the quality of service offered by the companies is difficult due to the
three unique features of service viz intangibility, heterogeneity, and inseparability.
Hence the only way of measuring the quality of service offered by the service provider
is the measurement of the customer’s perception of the quality of service they are
experiencing from their service providers.

Quality has been defined differently by various authors. Some prominent
definitions include ‘Conformance To Requirements’ (Crosby, 1990), ‘fitness for use’ or
‘one that satisfies the customer’. According to production philosophy of Japan, quality
has been defined as ‘Zero defects’ in the firm’s offerings.
According to these authors service quality means relating the superiority of the service with the global judgment of a person about it and explicated it as involving evaluations of the outcome (i.e., what the customer actually receives from service) and process of service act (i.e., the manner in which service is delivered).

### 4.6 MODEL OF SERVICE QUALITY PERCEPTION

The present study is based on the SERVQUAL / SERVPERF Model suggested by Parsuraman, Zeithaml, and Berry (1988), which explains the service quality on the basis of gap between perceived service quality and expected service quality.

This model is different from other models as it helps in finding out more than one aspect of service encounters. Rust and Oliver in 1994 in their research showed that overall service quality perceptions are based on various dimensions of service encounters.

\[\text{Figure - 4.1}\]

**Model of Service Quality perception**

![Model of Service Quality perception](image)
4.6.1 Involvement of Customers in Self-Service Operation

ATMs are the best examples of this kind of service offered by banks. The customers need not go to banks at the appointed hours and wait for the service by the employees in the banks. The ATM service is available 24 hours a day and hence the customer can do the banking at his convenience as a self-service.

4.6.2 Creation of Centralized Customer Service Backed by Computerised File System

Some of the banks have at present established a network among their branches so that an account-holder at one branch can do banking in any other branch of the same bank, irrespective of their location, whether in the same State or even outside. This saves the customer from the burden of carrying cash or bank credit or traveller cheque, etc., during travel.

4.6.3 Recording Customer Information in Easily Assessable Data Banks

Recording the customer information is another boon to the user. The customer can have access to all the information about his debt and credit position at any point of time. This will help him to plan his activities with respect to funds/facilities available.

4.7 FIVE STARS OF SERVICE QUALITY

A reputation of good quality is a major advantage perception of risk for many service consumers is very high. The good quality bridges the gap between pre-use perceptions and post – use experience of the service consumed. The perceived quality of service depends upon following factors termed as five stars of quality.
Five Stars of Service quality are:

- Reliability
- Assurance
- Tangibles
- Empathy
- Responsiveness

(To remember this, use word RATER which stands for Reliability, Assurance, Tangibles, Empathy, Responsiveness).

4.7.1 Reliability

Reliability refers to ability to perform the service dependably and accurately.

No doubt reliability is a critical factor but in some cases it becomes essential dimensions.

4.7.2 Assurance
Assurance is knowledge, courtesy of employees and their ability to convey trust and confidence. Trust and confidence building is an important consideration in positioning. Service providers have effectively used assurance for positioning the organization or its offering.

4.7.3 Tangibility

Tangibility relates to physical facilities, equipments, personnel and communication materials. Tangibility is used by hotels, restaurants, tourism, and retailers. As the tangibles of a service are highly visible elements, they must be designed such that they are consistent with positioning approach.

4.7.4 Empathy

Empathy relates to caring attitude, individualized attention the firm provides to its customers.

4.7.5 Responsiveness

Responsiveness relates to willingness to help customers provide prompt service.

4.8 THE THREE – COMPONENT SERVICE QUALITY MODEL:

According to Rust and Oliver, the perception of service quality is based on the following three dimensions of the service encounter: They are:

4.8.1 Functional Quality (FQ):
It is otherwise called as the customer employee interaction. This aspect refers to the service delivery of the staff to the bank customers.

4.8.2 Environment Quality (EQ):

- It is otherwise known as the service environment this refers to the tangible and intangible infra – structure that support better service delivery.

4.8.3 Technical Quality (TQ):

- It is also known as the outcome for service product. This measures the product offered and relates to the tangible benefits which directly effect the bank customers.

Figure 4.2, figure 4.3 and figure 4.4 exhibits the various models of service quality perceptions.

**Figure – 4.2**
The Three Component Model of Service Quality (Rust & Oliver 1994)

![Figure 4.2](image)

**Figure 4.3**
Gronroos Model of Service Quality

**Expected** ——— **Perceived**

Perceived Service Quality
4.9 NATURE OF SERVICE QUALITY

The traditional conceptualisations of service quality are based on the disconfirmation paradigm - perceived quality is viewed as the result of comparing particular performance with some kind of a standard. For example, Gronroos has defined the perceived service quality as the outcome of an evaluation process, where the customers compare their expectations with the service they have received (Gronroos 1984)\textsuperscript{11}.

Parasuraman, Zeithaml and Berry support the same view, defining the concept of service quality as a form of attitude, related, but not equivalent to satisfaction, that results from a comparison of expectations with perceptions of performance. Expectations are viewed as desires or wants of consumers, ie., what they feel a service provider should offer rather than would offer.

Cronin and Taylor (1992), however, argue that the conceptualisation of service quality as a gap between expectations and performance is inadequate. They point out
the confusion in pertaining literature over the relationship between service quality and consumer satisfaction. According to them, the concept of service quality should be customers’ attitude towards the service, since the concept of satisfaction is defined as a gap between expectations and performance or disconfirmation of expectations. As attitude-based conceptualisation would argue for either an importance-weighted evaluation of specific service attributes or even just an evaluation of performance of specific service attributes. Later, several authors have supported their view.

Teas (1993: 1994) also criticizes the conceptual foundation of the disconfirmation paradigm, citing the theoretical impossibility that those performance levels that exceed a consumer’s ideal standard should be evaluated higher than those that are ideal. Teas developed alternative models of perceived service quality based on evaluated performance and norm quality, concluding that the evaluated performance model could overcome some of the problems associated with the performance-expectancies gap in conceptualization of service quality.

4.10 WHY QUALITY IN SERVICE?

There can be no substitute for high-quality personal interaction between service employees and customers. Use quality practices:

- to understand and improve operational processes.
- to identify problems quickly and systematically.
- to establish valid and reliable service performance measures.
- to measure customer satisfaction and other performance outcomes.
4.11 MEASURING SERVICE QUALITY

Measuring Quality in the Services Sector and in particular in the Banking sector, is more difficult than measuring the quality of manufactured goods. This is mainly due to the following:

- The Services Sector as a whole is very heterogeneous and what is very heterogeneous and what may hold true for one service may not hold true for another service sector. For example, the nature of banking services is very different from, say, the nature of services provided by an airline or a hotel. Even within banking there are a variety of dissimilar services like retail banking, commercial banking, investment banking etc. This heterogeneity makes standardized service quality measurement very difficult. Most manufacturing companies, on the other hand, have been able to adopt standard measures to improve the quality of goods produced.

- Services are intangible in nature and, unlike in the case of goods, there is no ‘real’ product that the customer takes home. This is true of banking services and most other financial services where the service offered is only what the customer experiences fleetingly. Some service sectors like the hotel industry, the tourism industry etc. provide services that may be considered somewhat more tangible.

- There is no scope for inspection before the service delivered. All services have a here-and-now attribute that makes standardised quality testing and control
procedures followed by manufacturing sector difficult to adopt. Unlike a good manufacturer, a bank cannot inspect its services and products to weed out unsatisfactory ones before they are presented to the customer.

- Unlike in the case of manufacturing companies where the goods are manufactured and then sold to customers, in the services sector, the customer is a part and parcel of the process that provides the service. The service is created with the involvement of the customer, if there is no customer there can be no service. In this sense, the customers is inseparable from the service. This is especially true of banking services, both retail and corporate. Customers are central to the banking service that is sought to be provided.

A bank must have the customers as the focal point and as such Customer Satisfaction is a good determinant of the Quality of Services provided by a bank. A customer could be an external customer such as an account holder at the bank, or an internal customer such as a colleague from another department who requests information. It is important to understand that both internal and external customers are important for long term quality development and improvement.

**4.12 BANKING SERVICES: TECHNICAL QUALITY AND FUNCTIONAL QUALITY**

Service Quality can be thought of as having two dimensions: Technical quality and Functional quality. Technical Quality refers to ‘what’ the bank gives the customer. Functional Quality refers to ‘How’ the bank’s services are provided to the customer.
4.12.1 Technical Quality

To ensure that it delivers technical quality, the bank must ensure that

- Its products and services are closely aligned with customer needs.
- Customers are adequately informed about the bank’s products and services.
- The bank’s staff, especially front-line staff, have thorough knowledge of the bank’s products and services.
- The bank’s branch has a suitable mix of people with experience in banking, finance, accounting and legal aspects, so as to ensure that the branch is adequately equipped to deliver technical quality.
- The bank’s staff has been adequately correspond with customer queries.
- The bank’s staff is able to effectively communicate with customers – staff should also be able to converse in the local language, if required.
- The bank’s staff is able to provide professional advice to its customers.
- The bank’s staff, especially front-line staff, has been adequately trained to deal with ‘difficult’ customers and with customer complaints.
- Handling of customer grievances is the overall responsibility of a senior official who is not directly involved with the routine branch banking operations.

4.12.2 Functional Quality
Functional quality is concerned with how the service is provided to the bank’s customer. A few elements that affect a banking service’s functional quality include:

- Attitude of the bank’s staff members
- Importance given to the bank’s customers over routine work.
- Perceived credibility of the bank’s officials to customer queries
- Ambience at the bank
- Ability to hold discussions with senior officials
- Image of the bank as a whole

A bank must be equipped to deliver both Technical and Functional quality thus ensuring that it provides its customers with total quality service. Relevant qualitative determinants could be set up for a few technical and functional quality parameters, but most of these remain difficult to quantify. A bank could set up appropriate policies and procedures, for example recruitment policies, to create enabling conditions for providing technical and functional quality to its customers. The ultimate focus should firmly be on providing quick and cost-effective quality banking services.

4.12.3 Ensuring Customer Satisfaction

How does the bank ensure the customer’s satisfaction? It does so by:

- Determining what satisfies the customer
- Devising suitable quantitative determinants
• Continually measuring and improving these parameters

• Seeking customer feedback from time to time to ensure alignment with customer needs

4.12.4 Branch premises and Customer Lounges

Is the branch easy to reach?

Are the branch premises pleasing and comfortable?

Are the customer lounges well maintained?

Are there sufficient sofas for waiting customers?

Is drinking water available to customers?

Is there adequate reading material?

Is the reading materials stock regularly updated?

Is there sufficient variety of reading matter available?

Does the reading matter conform to the reading tastes of the bank’s customers?

Are the customer lounges being adequately used to highlight the bank’s achievements etc?

Do customers look lost on entering the branch is help readily available?

Are the security personnel courteous and watchful?

4.12.5 ATM
Is the ATM conveniently located?

Is it easy to access?

Is there adequate parking space available?

Are the ATM premises well maintained?

Are writing material, deposit envelopes, etc. easily available?

Is the security person polite and helpful?

Is the ATM frequently ‘not working’ on holidays etc?

Are the ATM premises being suitable used for the bank’s publicity?

Is the ATM easy to use?

Is there help available to customers who may need it?

Are the facilities offered at the ATM on par with the facilities offered by other banks?

4.12.6 Technology

Has the bank adopted relevant technology best suited to its customers’ needs?

Are the staff members adequately trained to use the bank’s technology systems to better serve customers?

How does the bank compare with others in the industry?

Does the bank continuously upgrade its IT systems?

Is training available to employees who may need them?
Is there a suitable Disaster Management system in place?

Is the troubleshooting team equipped to handle minor problems?

4.12.7 Publicity

Are the bank’s press advertisements aligned to the needs of the target customers?

Are the other publicity initiatives in keeping with the bank’s image and suited to the target client profile?

Is the bank featured regularly in articles relating to banking?

Does the bank take interest in sponsoring socially relevant causes?

Does the bank have an image of socially and environmentally conscious bank?

4.12.8 Bank’s Staff Members

Are senior officials available to customers who wish to meet them?

Are the branch staffs polite and courteous?

Are they able to provide accurate information to customers?

Do they have a strong customer focus?

Do they their regular customers or do they appear grumpy and pre-occupied?

By way of comparing the results of above questions with the actual work done by the bankers, the banker can improve their quality service to its customers.

4.13 SERVICE PERFORMANCE MEASURES
A SERVQUAL measure designated SERVQUAL was developed by Parasuraman et al., (1985, 1988 and 1991) This measure states that the customers assessment of overall SERVQUAL is established by the degree and direction of the gap between their perceptions and expectations of actual performance levels. The perceived SERVQUAL can be illustrated as:

Perceived SERVQUAL = Customer Perceptions – Customer Expectations

SERVQUAL has been used to measure SERVQUAL in various service settings Viz., banks, hotels, dental clinic, insurance, companies, health care organizations, Telecommunications, etc.

However, the SERVQUAL scale has been criticized for its validity and reliability. In the empirical work, Cronin and Taylor (1992 and 1994) demonstrated that the measures of SERVPERF perform better than SERVQUAL. Hence, this study used SERVPERF in measuring banking service$^{14}$.

Service Quality Management (SQM), which is about total customer service and continuous customer satisfaction, is applicable not only to the manufacturing industry but also the service sector, where the customer is just as important. Infact, customers in the service industry are more sensitive to service quality and service delivery than in manufacturing because they are always in contact with front-line service personnel. It is not the case with factory workers. These points-of-purchase contact or “moments of truth” decide whether the customer will come back or shift to the next door competitor.
The banking industry, often the biggest service industry in any country stands to benefit from service quality. For one basic reason banks depend on customer satisfaction and loyalty for their survival, very few really pay much attention to the plight of their clients – before, during, and after sales.

Customers’ assessment about the service quality of a firm depends on their service encounter. Service quality can be assessed in terms of interaction with service personnel, technology interface and physical evidence. Traditionally, service quality is the difference between customers’ expectation and performance of the service actually delivered. Parasuraman et al. (1988) suggest a measurement scheme using SERVQUAL that provides a 22-item scale to assess service quality on five-dimensions: reliability, responsiveness, assurance, empathy and tangibility. Reliability is the ability of employees to perform the promised service accurately. Responsiveness is the willingness of employees to provide prompt service. Assurance is the knowledge and courtesy of employees and their ability to instill trust and confidence in customers. Tangibility includes physical evidence of the service. These dimensions focus on human aspects of service delivery and tangible aspects of the firm. The SERVQUAL instrument has been subjected to criticism (Brown et al., 1993). It has not considered the technical aspect that is an important dimension in service delivery process. Organizations can create a niche in post-liberalized market by deploying the state-of-the-art technology. Moreover, the SERVQUAL instrument measures service quality of a firm on customers’ perception and expectation using separate scales. Therefore, an
assessment instrument is needed to capture both perception and expectation on human tangible and technical aspects of service quality\textsuperscript{15}.

Customers perceive service on the basis of the attributes of service personnel and those of a service firm. Customer-oriented attributes of service personnel are reliability, responsiveness, assurance and empathy that reflects the soft quality attributes of service providers (Zeithaml & Bitner, 2000)\textsuperscript{16}. Favourable interpersonal interactions between customers and employees based on these attributes can improve customer satisfaction (Hartline et al., 2000; Parasuraman et al., 1985). Reliability helps employees to consistently respond to customer needs and meet deadlines. Employees with responsiveness and assurance have a greater knowledge about the company’s products, services and the needs of customers. Empathy helps in improving communication process between employees and customers. Due to the psychological and physical closeness that exists between employees and customers in service encounters, employees’ attitudes often have a ‘spill over’ effect on customer satisfaction. If employees experience favourable affective responses in their jobs, their customers are likely to receive positive service experiences.

Service organization in India are facing tough competition in the global market because of liberalization and globalization of the Indian economy. Hence, it is helpful for service organization to know the customer service quality perceptions in order to overcome the competitors and attract and retain the customers. Indian service sector has been opened for multinational companies. In order to overcome the competition
and to retain the world class service standards, Indian Companies have been forced to adopt quality management programs.

Nerurkar (2000) analyzed the SERVQUAL dimensions in India and concluded that service quality should form the basis for all customer retention strategies. Services are defined as: the activities, which are involved in producing intangible products as education, entertainment, food and lodging, transportation, insurance, government, financial, real estate, medical, consultancy, repair and maintenance like occupation. Quality has become a strategic tool for obtaining efficiency in operations and improved business performance. This is true for the services sector too.

Several authors have discussed the unique importance of quality to service firms and have demonstrated its positive relationship with profits, increased market share, return on investment, customer satisfaction, and future purchase intentions (Rust and Oliver, 1994).

Service quality can be concisely defined as the personal experience of the customer with the service provider. Service quality is playing an increasingly important role in the present environment where there is no further scope for the companies to differentiate themselves other than the quality of the service provided by them. Delivering superior service quality than the competitors is the key for the success of any organization. But, the companies face difficulties in measuring the quality of services offered to the customers. Unlike measuring the quality of goods, the measurement of the quality of services offered by the companies is difficult due to the
three unique features of services viz. intangibility, heterogeneity, and inseparability.

Hence the only way of measuring the quality of services offered by the service provider is the measurement of the customer’s perception of the quality of service they are experiencing from their service providers.

Quality has been defined differently by various authors. Some prominent definitions include ‘Conformance to requirements’ (Crosby, 1990), ‘fitness for use’ or ‘one that satisfies the customer’. According to production philosophy of Japan, quality has been defined as ‘zero defects’ in the firm’s offerings.

Quality of service is a broad term that is used in both customer care evaluations and in technological evaluations. In both applications, the quality of service has to do with measuring the incidence of errors within a process that result in the creation of issues for an end user. The goal of any quality of service evaluation is to minimize the incidence of transmission issues and the error rates that may result.

4.13.1 The Gaps in Service Quality

The following reasons can be attributed to this:

- Word of mouth, past experience and brand promise through communication lead to a certain level of service expectation among the customers.

- This expectation is continuously being benchmarked against what the customer gets in reality, during his interaction with the service provider.
• The gap between what was expected and what is perceived/experience in reality decides the satisfaction score that the customer finally gives to the brand/service.
4.14 GAP ANALYSIS

There is always bound to be a gap between the QOS which is expected and the QOS that is rendered. Customer service is based on perceptions. While one customer appreciates, the other may narrate it as harrowing experience. Parasuram and Berry have developed a service quality model to indicate consumer quality perceptions. Viewing services in a structured, integrated way is called the gap model of QOS. In other words, a gap arises where there is a shortfall between expectation of service level and perception of actual service delivery. This is called a customer gap.

4.14.1 Causes of customer gap

The central focus of the gap model is the customer gap. The customer gap represents the difference between customer expectations and perceptions. Organisations need to keep the customer gap as narrow as possible. This can be done by addressing some common questions (provider gaps) as shown in figure 4.5 and 4.6\textsuperscript{19}.
Figure - 4.5

Gaps model of service quality

Customer

- Expected

- Perceived

Company

- Service delivery
- Customer driven service
- Company perceptions of Consumer expectations

Gap 1

Gap 2

Gap 3

Gap 4

External communication to customers
The above figure, illustrates:

Gap 1: Not knowing what customers expect

Gap 2: Not selecting the right service designs and standards

Gap 3: Not delivering to service standards

Gap 4: Not matching performance to promises

Figure - 4.6

Key factors leading to the customer gap

Provider Gap 1: Not knowing what customers expect

Provider Gap 2: Not selecting the right service designs and standards.

Provider Gap 3: Not delivering to service standards

Provider Gap 4: Not matching performance to promises
4.14.1.1 Provider Gap 1: Not knowing what customers expect

Provider gap 1 shows the difference between customer expectations of service and the company’s understanding of those expectations. Decisions are bound to be taken without properly understanding the customer expectations and will ultimately result in decreased QoS\(^2\).

Figure 4.7 shows the key factors responsible for provider gap 1.

*Figure 4.7*

**Key factors leading to gap 1**

- **Customer expectations**

  - Inadequate marketing research orientation
    - Insufficient marketing research
    - Research not focused on service quality
    - Inadequate use of marketing research

  - **Lack of upward communication**
    - Lack of interaction between management and customers
    - Insufficient communication between contact employees and managers
    - Too many layers between contact personnel and top management

  - **Insufficient relationship focus**
    - Lack of market segmentation
Focus on transactions rather than relationships

Focus on new customers rather than relationship customers

Inadequate service recovery

Service companies experience considerable difficulties in translating customers’ expectations into QOS specifications. Gap 2 represents the difference between company understanding of customer expectations and development of customer-driven service designs and standards\(^{21}\).

Figure 4.8 shows the key factors leading to this gap.

**Figure – 4.8**

Key factors leading to provider gap 2

- Customer driven service designs and standards
  - Poor service design
    - Unsystematic new service development process
      - Vague, undefined service designs
    - Failure to connect service design to service positioning
      - Absence of customer defined standards
Lack of customer-defined standards

Absence of process management to focus on customer requirements

Absence of formal process for setting goals

Inappropriate physical evidence and scope for services

Management perceptions of customer expectations
4.14.1.3 Provider gap 3: Not delivering to service standards

Provider gap 3 represents the difference between development of customer-driven service standards and actual service performance by company employees. Generally, service standards should be supported by appropriate resources such as people, systems and technology. Sometimes, the company may have appropriate standards accurately reflecting customers' expectations. If the company fails to support the standards, the QOS delivered will fail to meet the expectations of customers. When the level of service delivery performance fails short of the standards, gap 3 arises.

Figure 4.9 shows the key reasons leading to provider gap 3.
Key factors resulting in provider gap 3.

**Deficiencies in human resource policies**

- Ineffective recruitment
- Role ambiguity and role conflict
- Poor employee-technology job fit
- Inappropriate evaluation and compensations systems
- Lack of empowerment, perceived control and team work

**Failure to match supply and demand**

- Failure to align peaks and valleys of demand
- Inappropriate customer mix
- Over reliance on price to smoothen demand

**Customer’s unfulfilling roles**

- Customer ignorance of roles and responsibilities
- Customers negatively affecting each other

**Problems with service intermediaries**

- Channel conflict over objectives and performance
Channel conflict over costs and rewards

Difficulty in controlling quality and consistency

Tension between empowerment and control

Customer-driven service designs and standards


Provider gap 4 shows the difference between service delivery and the service provider’s external communication. A service company makes promises through its advertising, sales force and other external modes of communication. They may potentially raise customer expectations and in turn, serve as the standard against which customers will assess service quality. Promises are often not kept up (i) due to over-promise while advertising or personal selling, (ii) inadequate coordination between operations and marketing; and (iii) difference in policies and procedures across service outlets.

Figure 4.10 shows the key factors causing provider gap 4.
Figure – 4.10

Key factors resulting in provider gap 4

Lack of integrated services marketing communication

Tendency to view each external communication as being independent

Not including interactive marketing in communication plans

Absence of strong internal marketing programme

Ineffective management of customer expectations

Not managing customer expectations through all forms of communication

Not adequately educating customers

Over promising

Over-promising in advertising

Over-promising in personal selling

Over-promising through physical evidence cues

Inadequate horizontal communication

Insufficient communication between sales and operations

Insufficient communication between advertising and operations

Difference in policies and procedures across branches or units

External communication to customers
REFERENCES


9. Ibid.,


5.1 INTRODUCTION

Banks have by and large reported that SQM lead to improvement in service quality. In service sectors like banks, SQM is linked to customer satisfaction in the matter of service quality. Service Quality is all about meeting customers’ needs and requirements, and finding out how well the service level is commensurate with customer expectations. Service quality in banking implies anticipating and consistently satisfying the needs and expectations of customers.

In this chapter, an attempt has been made to do a comparative study of the service quality perceptions of the customers of selected public sector bank namely State Bank of India (SBI) and private sector bank, Tamilnad Mercantile Bank (TMB) For