CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

“A customer is the most important person who visits the premises of a bank. He is not dependent on the bank-rather the bank is dependent on him. He should not be considered as a rude interruption in work. Rather he is the purpose of the work. But for customers banks may not have any business or work. He is therefore, NOT an outsider but a part of the Bank and its business. Banks are certainly not doing him any favour, by serving him – rather he is doing a favour to the bank by giving it an opportunity to do so”.

Mahatma Gandhi.

1.1 INTRODUCTION

There has been a growing importance of service sector world wide. In the Indian context also, the introduction of New Economic Reforms in 1991 has made the service sector to gain momentum which was in line with the global trend. As a result, the share of service sector to GDP which constituted 45.35 per cent in 1991-92 has increased to reach 51.16 per cent in 1998-99 and further to 54.2 per cent in 2000-01. Between 2002-02 and 2003-04, the income from this sector has grown in real terms at the rate of 8.40 per cent\(^1\). These stand as ample testimonies to the increasing importance of this sector.

Of the various components of service sector activities, the income from finance sector that includes banking and insurance stood at Rs.13,107 crores in 1991-92 and this increased to reach Rs.78,562 crores in the year 2001-02, registering a growth rate of 45.40 per cent which is next only to hotel and restaurant\textsuperscript{2}. During 2003-04, the banking and insurance sector has grown at the rate of 6.40 per cent which is one among the highest growth rates registered among the service sector. This indicates the growing demand for the services of banking and insurance sectors.

However, the growing demand for services of the banking industry, together with the increasing number of institutions in this sector due to the liberalized policy of the government, has resulted in the increasing competition among the banks that include the traditional public sector banks, private sector banks and foreign banks. This, in turn, has necessitated the diversification of their activities synchronizing with the concept of modern banking. Above all, it has also been realized that the major strategy of withstanding the stiff competition is not only to retain the old customers but also to attract new customers through provision of better services.

Hence, in recent times, provision of better and quality services to customers has become one of the focal points in the service agenda of banks.

\textsuperscript{2} Reserve Bank of India Bulletin, Reserve Bank India Study Group, 2003, pp.47-59.
This is due to the realization that it is only the quality of the services provided that could help the banks to attract more and more of customers in a competitive banking environment.

1.2 THE BANKING INDUSTRY AND COMPETITION

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

In the field of banking it is very difficult to define the term “customer”. Different views have been expressed at different times. In the early periods, a man who held some sort of an account was considered to be a customer. However, there were differences of opinion prevalent saying, “it is not necessary to say that the keeping of an ordinary banking account is essential to constitute a person as a customer of a bank”\(^3\).

In the second stage, with some refinement, the definition of banking was, “to constitute a customer there must be some recognizable course or habit of dealing in the nature of regular banking business”\(^4\).

The modern view, as observed by Ladbroke Vs Todd Justice Bailhache\(^5\) is, “the relationship of banker and customer begins as soon as the first cheque is paid in and accepted for collection and not merely when it is paid”.

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4. Ibid., p.4.
5. Ibid., pp.3-4.
According to Perry⁶ “a customer is a person having current or deposit account or similar relationship”.

According to the observation of Kerala High Court Verdict⁷, “a customer is a person who has the habit of resorting to the same place or person, to do the business. So far as banking transactions are concerned he is a person, whose money has been accepted on the footing that, the banker will honour upto the amount standing to his credit, irrespective of his connections being of short or long standing”.

To sum up, the following are the prerequisites to constitute a person as a customer:

a) He must have some sort of an account.

b) Even a single transaction may constitute him as a customer.

c) Frequency of transactions is anticipated but not insisted upon.

d) The dealings must be of a banking nature.

The above definitions indicate that a customer in the banking parlance is simply a person who accepts the available services of his bank.

⁶ Perry, Dictionary of Banking, McDonald and Evans, 1992, pp.61-62.
However, in a modern competitive world, a customer is a potential user of the banking services. He is more than an account holder. This is because customers have identified the quality issue as one of the primary concerns.

Nowadays, banks are realizing that quality constitutes the basis of their business and it is a strategy with which they could effectively differentiate their superiority from those of their competitors and to hold on vis-à-vis expand customers’ base\(^8\).

At present the banks have to find out the needs of the customers and make them available at competitive prices without delay. The banks cannot continue with the old strategy of one cap for all.

In today’s competitive environment, it is not only winning the new customers, but also retaining the existing customers’ base assumes greater importance. Though in the eighties transaction banking was the order of the day, relationship banking has regained its importance once again, with many banks in the globe strengthening this concept. Studies indicate that it is much

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more profitable and cost effective for the banks to retain the existing customers rather than getting new customers. A successful bank of the future will be the one that excels in customer service and provides them a range of services and products and does a continuous exercise in improving its potential to serve better\(^9\).

**Elements of Customer Services in Banking Industry**

The Talwar committee deserved that the main purpose of banking is “to create and deliver customer – needed services in a customer satisfying manner”\(^{10}\).

This implies that there are two elements that are required for the banking services, viz., creating and delivering services. While creation indicates the creation/introduction of new technology in services, carrying out these services effectively constitutes the delivering of services. These two elements greatly determine the level of satisfaction of the customers.

In tune with this, to face the fierce competition and to stay back in the market, the banking institutions are concentrating on three core elements of the business that help to improve their businesses. Infact, the provision of

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quality and satisfactory services to customers depends on these major factors. These include the technological factors, diversification and innovation, office atmosphere and customers - employees relationship.

**Technological Factors**

The foreign banks and the private sector banks have a clear technological advantage and economies of scale right from the day one of their introduction. They are posing a formidable challenge to the public sector banks. These new banks are targeting the top layer of the business through sophisticated services and improved facilities.

The advent of cashless society has made it imperative on the part of the banks to introduce a host of information technology based products like, smart card, super smart cards, credit cards, debit cards, the electronic purse, hi-tech cash dispensers, shared network of ATMs, etc. These high-tech services have paved the way to usher in the concept of “Anywhere, Anytime” banking that has a clear cut customer focus associated with it.

**Diversification of Products and Innovation**

The increasing competition results in the need for specializing in the operations of banks so as to stay afloat in the competitive banking business
environment. This requires the introduction of new and innovative products and services that satisfies the customers much.

As viewed by the life cycle theory, many products which have become very popular abroad will make their presence felt in the Indian financial markets also. To specify a few, the concepts like Financial Derivatives, Asset Securitization, Futures, Options, Custodial Services, Bought out Deals etc. are sure to gain popularity. These could be the areas wherein banks will have to concentrate more to make up for the lost ground in the traditional business.

**Office Atmosphere, Customers and the Employees**

Physical evidences play a significant role in marketing the banking services. Hence, the space requirement and alignment of counters, the various departments etc. are greatly determined by the variety of services provided. Similarly, the future plan on the expansion of the services, the number of customers’ arrival, expected number of customers, the rural/urban nature of the bank’s location etc. greatly influence these factors.

**1.4 STATEMENT OF THE PROBLEM**

The economic performance of a country is measured in terms of its sectoral contribution. In recent times, there has been a growing importance
of services sector world wide and in the Indian context also this sector is gaining momentum. Of the various service industries that come under the ambit of service sector, the contribution of financial sector is one among the highest. This indicates the growing demand for the services of banking and insurance sectors. This is due to the effect of the Financial Sector Reforms which has resulted in the increased competition among the banks that include public sector, private sector and foreign banks.

In order to survive in the fierce competition faced by the domestic banks due to the entry of international players, rapid innovation and introduction of new financial instruments, understanding of changing customers’ needs and extensive use of information technology have all become essential. However, with the availability of similar technology among almost all the banks, it is felt that it is only through the provision of better services to its customers, a bank can survive in the market. Hence, there is an imperative need for identifying their ability and resources to satisfy the service quality requirements as per their customers’ expectations. Segmenting the industry into different strategic groups and positioning themselves according to the consumers’ mindset can help the banks to restructure their policy choices to compete in this dynamic business
environment. This necessitated the banks to utilize the existing resources, for delivering quality services to its customers and transforming their superior services to generate better financial performance.

However, the human perceptions change from time to time and from individual to individual. It is, therefore, necessary for banks to continuously assess and reassess how customers perceive the various services, what are the new and emerging customer expectations and how best they can be satisfied on an ongoing basis. This requires a continuous and consistent analysis and assessment of the customers’ preferences. The present study attempts to analyze the customers’ perceived and desired levels of service quality and the resultant service quality gap of the selected public and private sector banks in Dindigul District.

1.5 REVIEW OF LITERATURE

The primary objective of this study is to identify the customers’ perceived and desired levels of service quality on the selected public and private sector banks operating in Dindigul District.

The service quality of banks in developed countries like USA, UK and in other European countries is different from the service quality provisions
of the Indian banking sector due to the prevalence of dual ownership namely, public and private sector banks, the differences in the technology absorption in banks etc. Similarly, the standards of living and the socio economic background of the customers are also different. These differences naturally lead to differences in service provision and the desired and perceived service quality of the customers. Hence, the methodology of studying the banks’ service provision and customers’ expectations are also expected to be different. Therefore, an understanding of the differences in the methodology of the study, the variables influencing the level of satisfaction of the customers and the conclusions arrived at thereof becomes pertinent. In the present chapter, a review of the available foreign studies and the Indian studies is made separately hoping that this would help to make methodological improvement in the present study.

**Foreign Studies**

In the study made by Schoeffler, Buzzel, and Heany\(^{11}\), they attempted to identify the factors influencing the profits of the banks. In their study, they came out with the interesting conclusion that there is a strong relationship between the nature of service provided and the profits of banks.

In the Cambridge Seminar Series\textsuperscript{12}, a paper presented entitled “The banks and the Public” attempted to study the customer services in banks with special references to United Kingdom. The study emphasized the changing functions of English Commercial Banks.

One of the most systematic research programmes in service quality was conducted by Parasuraman, Berry and Zeithmal\textsuperscript{13}. They developed a conceptual model on the “Service Quality Gap” defined in terms of the measurement framework of “perception – minus-expectations”. They had noted that the service quality is a relative measure and depends directly on expectations and performance.

Based on the service quality model (SERVQUAL) Service Quality (SQ) perceptions were obtained, using an instrument designed by a multi-disciplinary team Parasuraman, Zeithaml, and Berry\textsuperscript{14} identified that the

\begin{itemize}
  \item \textsuperscript{13} Parasuraman, A, Berry, L. and Zeithmal, V.L., “A Conceptual Model of Service Quality and its Implications for Future Research”, \textit{Journal of Marketing}, Fall, 1985, pp.41-50.
\end{itemize}
efficient branch utilizes much less computer resources to provide similar levels of SQ as the target branch.

Gronross\textsuperscript{15} emphasized in his study that a service sector firm, to be profitable, must be attentive to those factors that affect satisfaction.

A maiden attempt made by Zeithamal, Parasuraman, and Berry\textsuperscript{16} could establish a positive linkage between Service Quality (SQ) and the performance of a service industry.

A benchmarking attempt that was made by Roth and Van der Velde\textsuperscript{17} on U.S. commercial banks could establish that it is only the operational efficiency and prescribed changes that could lead to improved operations. They concluded that a branch that is operating inefficiently will do well if it could focus first on the improvement of its operations.

According to the view of Cronin and Taylor\textsuperscript{18}, the output of the model is the level of service quality (SQ) achieved and it can be described in terms

\begin{itemize}
  \item Roth, V. and Van der Velde, M., “Customer-Perceived Quality Drives Retail Banking in 90s”, \textit{Bank Management}, November 1991, pp.29–35.
\end{itemize}
of objective and perceptual characteristics. While the objective characteristics include such things as service time, call wait time, credit application approval rates etc., the perceptual characteristics include dimensions of Service Reliability, Responsiveness and so on.

In a study by Heskett et al.\(^\text{19}\) on the service-profit chain, they could conclude that profit and growth are stimulated primarily by customer loyalty which can be created by satisfied, loyal and productive employees.

As viewed by Iyer\(^\text{20}\), the customer choice and awareness have increased tremendously due to open economy, advent of information technology and media revolution. This requires the front line staff of the banks to have a perfect knowledge about the products and services which requires proper and adequate training and motivation.

Velankar,\(^\text{21}\) in his paper, observed that the cost involved by a bank in retaining an existing customer is cheaper than the cost of acquiring new

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customers. Hence, the study suggested the banks to maintain appropriate customer profiles.

The service management strategy encapsulated in the triad, operational Capabilities-Service Quality-Performance (C-SQ-P), is dealt with by Roth and Jackson.\textsuperscript{22} They focused on the service-profit chain and came out with the significant influence of service quality to profit. It attempted to measure the service quality. In their model formulation, they considered the banks as a ‘factory’ delivering services and considered various types of costs as the inputs that determines the service quality. Zenios et al.\textsuperscript{23} have made further discussion of this model, its novelties and its applicability in practice.

Hooman Estelami and Peter De Maeyer\textsuperscript{24}, utilizing an experimental research design, demonstrated that consumers’ behaviour are moderated by

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the service providers at the organizational level as well as by the customers’ past purchase history.

Kirby Liza\textsuperscript{25} viewed that by conducting customer satisfaction surveys, bankers could come out with a variety of offers and other marketing efforts.

Lian Tanja,\textsuperscript{26} in his study, concluded that the selling experience should not only be inviting but also rewarding.

According to Sunoo,\textsuperscript{27} when banks establish a performance-driven culture by stepping up training and development, improving employee benefits and technology, then customers would expect sophisticated knowledge on banking transaction.

Andreas Soteriou & Stavros A. Zenios,\textsuperscript{28} in their empirical study indicated that superior insights can be obtained by analyzing operations,


\textsuperscript{28} Andreas Soteriou & Stavros A. Zenios, \textit{Efficiency, Profitability, and Quality in the Provision of Banking Services}, Working Paper, Department of Public and Business Administration, University of Cyprus, 1997.
service quality and profitability simultaneously than the information obtained from benchmarking studies of these three dimensions separately.

Athanassopoulos\textsuperscript{29} linked in his study the operational capabilities with quality of services and came out with the major conclusion that there is a close affinity between the two.

Athanassopoulos\textsuperscript{30} in his benchmarking method, demonstrated that enhanced improvements in efficiency of branches are obtained if potential improvements in service quality are accounted.

According to Bill Rossello\textsuperscript{31} high customer-care performers do several things which include dealing successfully with the common challenges to all customer service operations.


Carolyn Spicer, in his article on the impact of changes in technology on banks’ ability to offer customer services, concluded that customers would be more inclined to associate financial products with convenient access than with the locale of a particular financial institution.

According to Evan Mannakee, the challenge for the banking industry is to, more specifically, anticipate customer needs and to actively position the products and services that will meet growing customer needs.

The need for bank technologies is to give customer service representatives and other contract employees a single, integrated information access point to reduce customer response time, commented Ken Long.

According to Patrick the improved facilities made available to the customers also have made a vital contribution to better customer service.

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According to Paul Calendrillo\textsuperscript{36} retail banking industry faces the problem of maintaining customer loyalty and it could push the sales process forward by satisfying all its customers’ needs.

According to Rodney F.Ganey,\textsuperscript{37} there is a high correlation between the overall satisfaction of the customers and handling the problems efficiently by the management. This can be achieved by paying attention to questions of concern, and resolving problems on the phone.

Richord Koonce\textsuperscript{38} has stated that banks are guilty of treating customers like commodities and as the cost of acquiring new customer is high, all banks should try to retain the existing customers with proper service provision.

In another study, the author\textsuperscript{39} observed that frustration due to poor customer service has a direct impact on the account holding position of the customers.


\textsuperscript{39} Anonymous, “Know Me or Lose Me”, \textit{Community Banker}, Vol.9 (11), November 2000, p.58.
To Biff Motley,\(^{40}\) the outcome of spending money and time on customer oriented strategies would usually be successful because they are very well focused.

In the article on “Leveraging Customer Relationship”, the authors\(^{41}\) have emphasized the importance of data warehouse to support the delivery of personalized action tactics.

Banks today provide choices and options to meet the needs to customers and the community in the best way, by providing more services to enhance their reputation by means of personal touch, viewed Brian Nixon\(^{42}\).

Bryant Duhon\(^{43}\), in his study has highlighted the importance and advantages of electronic document management system to improve the customer service.

Caroline Wilson\textsuperscript{44} viewed that many banks have launched their ‘portals’ for consumers in the worldwide web and to enable this effectively, banks must leverage their customer databases to show what kinds of information their customers might want on their portal.

Geofry\textsuperscript{45} Smith has opined that big banks take advantages of their market power at the customers’ expense characterized by hiked costs and lower quality services. Big banks being beneficiaries of the deregulated financial services, the banking industry fails to fulfill the promise of adopting a consumer friendly approach, which requires immediate remedy.

Janet Bigham Bernstel\textsuperscript{46} viewed that there is a need to develop a system of holistic banking with a customer focus, through customer centric relationship. The use of on-line banking for supporting customer service has been suggested as one of the methods of customer focus.

\textsuperscript{44} Caroline Wilson, “Competing for Your Bank’s Customers?”, \textit{Community Banker}, Vol.9, (12), December 2000, pp.16-21.


Sora Songs\textsuperscript{47} has stated that modern customers demand other products from their banks such as access to web-based banking, mutual funds, stock-trading and financial planning services instead of the traditional products and outdated banking practices.

The author\textsuperscript{48} has observed in his study that motivating the employees is the basis of customer satisfaction which many of the bank managements fail to do.

It can be observed from the study\textsuperscript{49} that a new-web-based Customer Relationship management (CRM) system could help in achieving the bank’s—“whenever wherever” banking philosophy.

Hille & Erik\textsuperscript{50} have observed as a prerequisite for banks to retain the present customers is to make them satisfied customers by establishing a

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long-term customer relationship and by offering the quality of service as perceived by the customers.

James R.Peterson\textsuperscript{51}, in his study, could identify that the impact of several services like free savings accounts, free checking and money orders, teller services, a round the clock call center service and free coin-counting machines is significant on the fast rate of growth of deposits of the banks.

Robert Hall\textsuperscript{52} stated that the workforce is the primary factor in influencing the customers’ behaviour. This trend is bound to be welcomed on one hand by the customers and to improve the efficiency of performances by bank employees on the other.

The authors\textsuperscript{53} surveyed customers of more than 160 bank branches in USA and found that although customers felt it easier to have all accounts at one place, more than one third claimed that their bankers were unaware of their needs before recommending/selling them a service.


\textsuperscript{53} Theresa Sweeney and Dane May Casperson, “Customers Demand More”, \textit{Credit Union Management}, Vol.24 (4), April 2001, p.4.
Tulley\textsuperscript{54} found that the bank clients really wanted a banking relationship in which they were well understood and their needs were anticipated no matter where, when or how they interacted with their financial institutions.

Diane Brady\textsuperscript{55}, in his study observed that as time goes on, the service gap between the top customers and the rest of the customers become wider due to increasingly rare customer service. He concluded by pointing out that technology is creating a radical new business model that alters the whole dynamics of customer service.

Hooman Estelami et al.\textsuperscript{56} in their article focused on service encounters characterized by service providers and concluded with a discussion on the implications of services marketing strategies.

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The article by Thorsten Hennig-Thurau et al.\textsuperscript{57} indicated that customer satisfaction, commitment by employees and social benefits significantly contribute to relationship marketing outcomes in services.

**Indian Studies**

Having reviewed the foreign studies it was felt imperative to review the studies carried out in the Indian context also as it would help to identify the differences in the methodology used from that of the foreign studies.

Shanthi Saravane\textsuperscript{58} examined the issues relating to delivery of customer services and found that lack of job motivation and lack of freedom at branch level, poor leadership qualities that prevailed among bank managers, job insecurity etc. have resulted in poor quality customer services in Indian banks.


Gadkari\textsuperscript{59} had reviewed the general problems faced by bank customers and concluded that lack of awareness about bank customer service centers had made them to under-utilize the services of the banks.

Madam et al.,\textsuperscript{60} have stressed the importance of leadership qualities of bank managers to provide quality services and recommended for appropriate training programmes to impart leadership qualities to work effectively.

Saxena\textsuperscript{61} in his study had indicated that ignorance, overpowering, neglecting colleagues by bank managers are the root causes for the low quality of bank services.

Prabhakar,\textsuperscript{62} in his study on customer services provided by Indian banks came out with the conclusion that a major portion of the complaints are from the depositors on the differential treatment.

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Raghvan,63 had pointed out that one of the reasons for delays in the delivery of customer services was due to lack of work experience. He had recommended five-day a week for customers and not to the bank staff.

Gupta64 expressed that the main purpose of customer service centers was to reduce delays in customer service delivery and improve administrative efficiency between banks.

Ram Kumar,65 in his research paper argued that the impersonal and indifferent attitude of the staff was responsible for the poor quality of bank services in India. He had also pointed out that customers are still ignorant of bank facilities which can indeed save time and effort.

Sushila Singhal,66 attempted to identify the customer services in Indian Banks and concluded that on an average, the services provided by

almost all the banks are very poor and are not upto the level of customers’ expectations.

George\textsuperscript{67}, in his study, viewed that customers are generally hesitant to register any complaint against any employee in whose hands one has suffered ill treatment or ill-response. He suggested for a changing attitude of bank managers towards their sub-ordinates and customers.

Banmali\textsuperscript{68} opined that old customer act as free of cost sales agent through word of mouth publicity. Hence, the banks must attempt to satisfy their old customer through provision of better services.

Govindarajalu,\textsuperscript{69} in his study, attempted to understand the antecedents and consequences of customer satisfaction/dissatisfaction with bank services. He concluded that every service in a bank is unique as it involves inter-personal relationship between the customer and the front-line staff.

\begin{itemize}
\item \textsuperscript{68} Banmali, O.P., “Customers Management-Old Versus New Customer”, \textit{Indian Banking Today and Tomorrow}, November, 1995, pp.6-8.
\end{itemize}
Puttaswamiah\textsuperscript{70} in his book evolved the indicators for measuring customer service on two broad categories namely macro indicators and micro indicators. He also made an attempt to evaluate to what extent the recommendation of Goiporia committee has been implemented in Canara bank.

Doreswamy\textsuperscript{71}, viewed that globalization has paved the way for fierce competition and the feel of service of international standards with high expectations. He concluded that it is the primary responsibility of the front line staff who could meaningfully contribute to the basic satisfaction of the customer.

According to Rashid Jilani,\textsuperscript{72} in the service oriented industry like banking, the interface between the customers and the staff of the bank constitute the prerequisite for the success of the bank.

\begin{enumerate}
\item Doreswamy, “Chairman and Managing Director, Central Bank of India”, \textit{BA Bulletin}, March, 1997, pp.61-64.
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Sunderesan\textsuperscript{73} in his article viewed that nearly 15 per cent of the metropolitan customers are not satisfied with the services of their banks due to delay in the services and they do not voice their grievances when they are dissatisfied with the poor quality of services provided.

Deolakkar et.al.,\textsuperscript{74} viewed that with a wider consultation between the banking community and Ombudsmen, it is possible to build a customer-delighted banking system in the long run.

According to Shankar\textsuperscript{75}, customers need changes frequently due to competition. The customers’ universe is vast, diverse and complex as never fully comprehensible. He concluded that the ability of an organization is to transform itself into a fine Belgian mirror that reflects the customers’ every need, mood and emotion and translating that input into a distinct long term marketing advantage.


Bajaj,\textsuperscript{76} in his study, stated that the satisfied customers improve the business bottom line not only through continued relationship but also through referrals and positive Word of Mouth (WOM), feedback or WOM behaviour. He insisted on the effective use of communication channel for better and fast delivery of services and concluded by saying up-gradation of human resources is of utmost important.

All customers expect the bankers to be polite, courteous, helpful and understanding as explained by Gupta\textsuperscript{77}. He also viewed that the customers also expect to be treated as important individuals and would be satisfied if prompt, accurate, and speedy attention is given to their work and banking problems. He said that customer services are made up of several aspects like technical, efficiency, advisory and behavioural, after sale service and customer amenities.


According to Aravindhan et.al\textsuperscript{78}, “Customer Satisfaction” is the definition of Service Quality. To him, measuring customer satisfaction gives a strategic advance in knowing where an organization stands in the market in terms of service quality. It provides an impetus to the organization to act and to improve its position in the competitive environment.

According to Arvind Brahme,\textsuperscript{79} customer complaint is a universal phenomenon, with the banking industry being no exception. Handling of complaints is the core activity for successful development. The author found that 68 per cent of the customers are lost due to shortcomings in Customer Service. He concluded by stressing that there is a need for awareness and positive attitude and approach among the staff to win the customers and customers’ confidence to curb growing complaints.


Rohini Gupta Suri\textsuperscript{80}, in her study, concluded that the services available in Indian banking industry is being fully utilized by the customers as the available services are not supplied by the bank employees effectively. Hence, the study suggested for an effective service provision by the bank officials.

In the RBI report on ‘Trends and Progress of Banking in India’\textsuperscript{81}, it is clearly stated that “commercial Banks need to become conscious as they are entering a challenging environment and will have to redefine their position with the financial industry. New ways and methods will have to be determined in order to successfully respond to the new challenges, particularly when there is a growing demand from customers for high quality service”.

According to Shard Kumar\textsuperscript{82}, the success of the banking institutions lies in the innovative methods used and the customer-friendly approach. The establishment of ‘a 24 hour customer service centre’ helps to respond not

\begin{itemize}
  \item \textsuperscript{80} Rohin Gupta Suri, \textit{Services Marketing}, Ammal Publications Pvt., Ltd., New Delhi, 2002.
  \item \textsuperscript{81} The Hindu Editorial, “Trends and Progress of Banking in India–A Snapshot”, \textit{The Hindu}, November.29, 2003.
  \item \textsuperscript{82} Sharad Kumar, “Innovation in Customer Service in Banks”, \textit{Professional Banker}, Vol.V, No.8, September 2005, pp.31-35.
\end{itemize}
only to queries and complaints of the customers but also to promote and sell the bank’s products and services. Adoption of similar services by the Indian banks would go a long way in satisfying their customers.

According to Gopalakrishnan, in the modern competitive world, banks have to find out the needs of the customers and make them available at competitive price without delay. The needs of different segments are to be addressed separately and appropriate schemes are to be introduced to remain in the market. It is for the banks to change the mindset of customers and infuse confidence in them to regard the banks as reliable long term partners. Interaction with the customers at regular intervals to find out their requirements and make them available would go a long way in helping the organizations to survive in this fiercely competitive world. Telephone calls are required to be attended promptly and queries clarified on the spot as far as possible.

According to B.R.Parthasarathi, there is always a certain level of expectations by the customers from the bank’s services. Wider the gap

between the expected and actual service provided, the more is the customer dissatisfaction. If the gap is very narrow, the client feels satisfied or happy with the bank. Hence, it is always necessary for the bank to bridge the gap between what the customers expect and what the banks offer. In fact, what the customer needs and or gets is more important than what the bank thinks as the needs and offers.

**Uniqueness of the Present Study**

The studies reviewed above clearly indicate the importance of the customer service quality among the financial institutions. These studies have made use of various parameters to measure the service related variables. It can be noted that majority of these studies could establish their view on service quality in isolation. However, it can not be denied that the level of satisfaction are strongly influenced by the socio-economic background of the customers, and none of the studies has attempted to identify the extent of influence of these factors on the level of satisfaction on the service quality opinion. This study, apart from analyzing the service quality perception of the customers, would examine the extent of influence of socio-economic background on the satisfaction levels of the customers.
In this regard, this is a maiden attempt exploratory in character. Thus this study also contributes to the existing literature.

1.6 OBJECTIVES OF THE STUDY

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

1) To examine the extent of utilization of banks’ services by customers.
2) To analyze the customers’ perceived and desired levels of service quality of their banks.
3) To examine the service quality gap prevailing between the public and private sector banks.
4) To identify the relationship between the socio economic status and the perceived level of service quality of the customers.
5) To offer suitable suggestions on the basis of the findings of the study.

1.7 HYPOTHESES OF THE STUDY

Based on the above objectives, the null hypotheses (H₀) formulated for the study are:
1) There is no significant difference between the public and private sector banks in terms of service quality dimension.

2) The influence of Reliability on the total service quality dimension is higher and significant.

3) There is a significant relationship between the socio economic status and the perceived level of service quality.

1.8 METHODOLOGY

Since the present study constitutes an analytical research, the methodology adopted involves the measurement of a modified version of Service Quality (SERVQUAL).

Sources of Data

For the purpose of studying the objectives framed, the present study needs to depend on the primary data collected from the sample customer respondents.

The primary objective of the study is to analyze the customers’ perceived and desired levels of service quality. For this purpose, the study depends on the primary data for its analysis. However, to substantiate the views in course of the analysis and to provide the review, the secondary data
are also collected and used. These data and information are collected from different sources like, newspapers, journals, magazines, reports, books etc. for which the researcher has approached various institutions like Indian Institute of Management, Bangalore; Indian Bank Staff Training College, Chennai; Indian Overseas Bank Staff Training College, Chennai; State Bank of India Staff Training College, Chennai; Canara Bank Staff Training College, Chennai; Reserve Bank of India Staff Training College, Chennai; Institute for Financial Management and Research (IFMR), Chennai; University of Madras Library, Chennai; Connemara Library, Chennai; Madras Institute of Development Studies (MIDS), Chennai; Pondicherry University, Pondicherry and ICFAI, Hyderabad.

**Sample Design**

The primary objective of the study is to examine the customers’ perceived and desired levels of service quality of the public and private sector banks of Dindigul District. A study of this nature requires the selection of a suitable place. Dindigul District has been selected as it has a heavy concentration of both public and private sector banks due to the strong industrial base associated with, engineering and textiles. To fulfil this, collection of primary data from the customers of public and private sector
banks become pertinent. For this purpose, a list of public and private sector banks operating in the District has been obtained. To prepare this list, the unpublished records were referred, which were obtained from Canara Bank, the lead bank of Dindigul district.

Table 1.1 exhibits that there are totally 20 banks spread over in Dindigul District. Of these, 15 are public sector banks and 5 private sector banks. (The co-operative banks are excluded from the study as the study focuses on the customers’ service quality preference of the public and private sector banks only).

All the 15 public sector banks and seven private sector banks have been selected under census method. A List of public and private sector banks selected is shown in Table 1.2
### TABLE 1.1

**List of Bank Located in Dindigul District and its Deposit Position**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Sector Banks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Canara Bank</td>
<td>27383</td>
<td>29958</td>
<td>34061</td>
</tr>
<tr>
<td>2</td>
<td>State Bank of India</td>
<td>21576</td>
<td>24040</td>
<td>29306</td>
</tr>
<tr>
<td>3</td>
<td>State Bank of Travancore</td>
<td>680</td>
<td>764</td>
<td>975</td>
</tr>
<tr>
<td>4</td>
<td>Bank of India</td>
<td>4640</td>
<td>5466</td>
<td>5765</td>
</tr>
<tr>
<td>5</td>
<td>Dena Bank</td>
<td>2349</td>
<td>2632</td>
<td>2976</td>
</tr>
<tr>
<td>6</td>
<td>Corporation Bank</td>
<td>2371</td>
<td>2648</td>
<td>2948</td>
</tr>
<tr>
<td>7</td>
<td>Indian Bank</td>
<td>8611</td>
<td>9894</td>
<td>11547</td>
</tr>
<tr>
<td>8</td>
<td>Indian Overseas Bank</td>
<td>15855</td>
<td>16828</td>
<td>20160</td>
</tr>
<tr>
<td>9</td>
<td>Punjab National Bank</td>
<td>1846</td>
<td>1747</td>
<td>2400</td>
</tr>
<tr>
<td>10</td>
<td>Syndicate Bank</td>
<td>3334</td>
<td>3407</td>
<td>3397</td>
</tr>
<tr>
<td>11</td>
<td>UCO Bank</td>
<td>991</td>
<td>12'00</td>
<td>1372</td>
</tr>
<tr>
<td>12</td>
<td>Union Bank Of India</td>
<td>3862</td>
<td>3839</td>
<td>4266</td>
</tr>
<tr>
<td>13</td>
<td>Vijaya Bank</td>
<td>810</td>
<td>972</td>
<td>862</td>
</tr>
<tr>
<td>14</td>
<td>Bank of Baroda</td>
<td>855</td>
<td>822</td>
<td>982</td>
</tr>
<tr>
<td>15</td>
<td>Andra Bank</td>
<td>84</td>
<td>200</td>
<td>288</td>
</tr>
<tr>
<td><strong>Private Sector Banks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>ICICI Bank</td>
<td>3953</td>
<td>5481</td>
<td>6049</td>
</tr>
<tr>
<td>17</td>
<td>Karur Visya Bank Ltd</td>
<td>7089</td>
<td>8105</td>
<td>8375</td>
</tr>
<tr>
<td>18</td>
<td>City Union Bank Ltd</td>
<td>2705</td>
<td>2858</td>
<td>3105</td>
</tr>
<tr>
<td>19</td>
<td>Lakshmi Vilas Bank Ltd.</td>
<td>8071</td>
<td>7404</td>
<td>9439</td>
</tr>
<tr>
<td>20</td>
<td>Tamilnadu Mercantile Bank Ltd.</td>
<td>9710</td>
<td>10009</td>
<td>12221</td>
</tr>
<tr>
<td><strong>Co-Operative Banks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>DCC Bank Ltd</td>
<td>29403</td>
<td>23619</td>
<td>22742</td>
</tr>
<tr>
<td>22</td>
<td>SARD Bank Ltd</td>
<td>-</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>23</td>
<td>TIIC Ltd.</td>
<td>-</td>
<td>372</td>
<td>0</td>
</tr>
<tr>
<td>24</td>
<td>TAICO Bank Ltd.</td>
<td>353</td>
<td>392</td>
<td>385</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>154590</strong></td>
<td><strong>165640</strong></td>
<td><strong>186154</strong></td>
</tr>
</tbody>
</table>

Source: Annual Credit Plan 2007 – 08.
Canara Bank.
Lead Bank Office.
The next step in the sample process is the selection of sample respondents. For this purpose, the officials of each of the selected banks were met and a list of customers of each of these banks was obtained. From the list, by adopting the non-proportionate random sampling technique, 25 customers from each of the sample banks have been selected at random. Thus the study has a total sample size of 500 respondents selected by adopting the *Stratified Random Sampling Technique*. The following table shows the list of sample banks selected for the study.
TABLE 1.2
List of Banks Selected for the Study

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Name of the Bank</th>
<th>Type of Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Canara Bank</td>
<td>Public Sector</td>
</tr>
<tr>
<td>2.</td>
<td>State Bank of India</td>
<td>Public Sector</td>
</tr>
<tr>
<td>3.</td>
<td>State Bank of Travancore</td>
<td>Public Sector</td>
</tr>
<tr>
<td>4.</td>
<td>Bank of India</td>
<td>Public Sector</td>
</tr>
<tr>
<td>5.</td>
<td>Dena Bank</td>
<td>Public Sector</td>
</tr>
<tr>
<td>6.</td>
<td>Corporation Bank</td>
<td>Public Sector</td>
</tr>
<tr>
<td>7.</td>
<td>Indian Bank</td>
<td>Public Sector</td>
</tr>
<tr>
<td>8.</td>
<td>Indian Overseas Bank</td>
<td>Public Sector</td>
</tr>
<tr>
<td>9.</td>
<td>Punjab National Bank</td>
<td>Public Sector</td>
</tr>
<tr>
<td>10.</td>
<td>Syndicate Bank</td>
<td>Public Sector</td>
</tr>
<tr>
<td>11.</td>
<td>UCO Bank</td>
<td>Public Sector</td>
</tr>
<tr>
<td>12.</td>
<td>Union Bank of India</td>
<td>Public Sector</td>
</tr>
<tr>
<td>13.</td>
<td>Vijaya Bank</td>
<td>Public Sector</td>
</tr>
<tr>
<td>14.</td>
<td>Bank of Baroda</td>
<td>Public Sector</td>
</tr>
<tr>
<td>15.</td>
<td>Andra Bank</td>
<td>Public Sector</td>
</tr>
<tr>
<td>16.</td>
<td>ICICI Bank</td>
<td>Private Sector</td>
</tr>
<tr>
<td>17.</td>
<td>Karur Visya Bank Ltd</td>
<td>Private Sector</td>
</tr>
<tr>
<td>18.</td>
<td>City Union Bank Ltd</td>
<td>Private Sector</td>
</tr>
<tr>
<td>19.</td>
<td>Lakshmi Vilas Bank Ltd.</td>
<td>Private Sector</td>
</tr>
<tr>
<td>20.</td>
<td>Tamilnadu Mercantile Bank Ltd.</td>
<td>Private Sector</td>
</tr>
</tbody>
</table>

Framework of Analysis

To analyze the collected primary data, various statistical tools and techniques are used. The application of these tools and techniques are
identified on the basis of the objectives framed for the study. The tools and techniques applied are listed below:

**Simple Percentage Method**

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

**Standard Deviation**

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

**Co-efficient of Variation**

For the purpose of comparing the service quality variables considered, a relative measure of dispersion namely, the coefficient of variation has been used.

More specifically, to identify the extent of dispersion in each of the dimensions and individual service quality factor, the coefficient of variation is calculated. The Coefficient of Variation (CV) is a relative measure of Standard Deviation (SD).
**Chi-Square Test**

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

**Rank Correlation**

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

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

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

Multiple Correlation Analysis

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

SERVQUAL MODEL

To measure the quality of services of the banks, the ‘SERVQUAL’ model, as suggested by Parasuraman et al.\textsuperscript{85, 86} 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.

\begin{itemize}
\item \textsuperscript{85} Parasuraman., V. Zeithaml and L. Berry, “A Conceptual Model of Service Quality and its Implications for Future Research”, \textit{Journal of Marketing}, Vol.49 (Fall), 1985, pp.40-50.
\end{itemize}
The instruments used in the study to capture service quality contain 22 Likert type items. These instruments are categorized under five broad dimensions namely, (1) Tangibility, (2) Reliability, (3) Responsiveness, (4) Assurance and (5) Empathy. The 22 service quality items considered under the five broad dimensions can be given as below:
TABLE 1.3
Dimensions of Service Quality

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Dimensions of Service Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>Tangibility</td>
</tr>
<tr>
<td>1.</td>
<td>Modern-looking equipments</td>
</tr>
<tr>
<td>2.</td>
<td>Visually appealing physical facilities</td>
</tr>
<tr>
<td>3.</td>
<td>Usage of Modern technology in services</td>
</tr>
<tr>
<td>4.</td>
<td>Employees are neatly appearing</td>
</tr>
<tr>
<td>II</td>
<td>Reliability</td>
</tr>
<tr>
<td>5.</td>
<td>Employees keep their promises</td>
</tr>
<tr>
<td>6.</td>
<td>Employees show sincere interest in solving customer problems</td>
</tr>
<tr>
<td>7.</td>
<td>Employees perform the service right at the first time</td>
</tr>
<tr>
<td>8.</td>
<td>Employees provide their services as promised</td>
</tr>
<tr>
<td>9.</td>
<td>Insist on error-free records</td>
</tr>
<tr>
<td>III.</td>
<td>Responsiveness</td>
</tr>
<tr>
<td>10.</td>
<td>Employees inform exactly when services will be performed</td>
</tr>
<tr>
<td>11.</td>
<td>Employees give prompt service</td>
</tr>
<tr>
<td>12.</td>
<td>Employees are always willing to help</td>
</tr>
<tr>
<td>13.</td>
<td>Employees are never too busy to respond to requests of the customers.</td>
</tr>
<tr>
<td>IV.</td>
<td>Assurance</td>
</tr>
<tr>
<td>14.</td>
<td>Employee behaviour instill customer confidence</td>
</tr>
<tr>
<td>15.</td>
<td>Customers feel safe in their transactions</td>
</tr>
<tr>
<td>16.</td>
<td>Employees are consistently courteous</td>
</tr>
<tr>
<td>17.</td>
<td>Employees have knowledge to answer questions</td>
</tr>
<tr>
<td>V.</td>
<td>Empathy</td>
</tr>
<tr>
<td>18.</td>
<td>Employees give customers individual attention</td>
</tr>
<tr>
<td>19.</td>
<td>Operating hours are convenient to all customers</td>
</tr>
<tr>
<td>20.</td>
<td>Employees give customers personal attention</td>
</tr>
<tr>
<td>21.</td>
<td>Customers’ best interests are at the heart of employees</td>
</tr>
<tr>
<td>22.</td>
<td>Employees understand the specific needs of customers</td>
</tr>
</tbody>
</table>
To measure the service quality under these instruments, a nine point scale has been developed based on the level of services scaled from 1 to 9 where, 1 means low and 9 means high. The scores, thus obtained, are used to calculate the total and mean scores of each of the items and the dimensions.

**t-test**

To identify the significant difference between the various items and dimensions of the public and private sector banks, the ‘t’ test is applied.

**1.9 SIGNIFICANCE OF THE STUDY**

There are studies which have examined the level of customer satisfaction in public and private sector banks. However, since these studies have ignored the comparison of the service quality of the public sector banks with the private sector banks they could not identify the relative service quality performance of these banks. The present study bridges this research gap by estimating the customers’ perceived and desired levels of service quality and the difference between the two namely, the service quality gap. The study has also estimated the differences in the service quality between the public and private sector banks. This is a maiden attempt indeed.
Similarly, the studies carried out in the Indian context that attempted to identify the service quality failed to consider the socio economic background of the customers which plays a major role in determining customers’ levels of satisfaction. The present study fills this research gap also by examining the relationship between the socio economic status and the customers’ perceived level of service quality.

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

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

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

3) What is the relative influence of each of the service quality dimensions on the total service quality?

4) Is there a significant difference between the public and private sector banks in terms of customers’ perceived and desired levels of service quality?
5) Is there any significant association between the socio economic status of the customers’ and their perceived level of service quality?

1.10 PRE-TESTING

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

1.11 PERIOD OF STUDY

The required primary data were collected through personal interview method, carried out for a period of one year from June, 2007 to May 2008.

1.12 SCOPE OF THE STUDY

The study is limited only to the Dindigul District. Rural folks are excluded on the assumption that they may not be well informed of the banking services and above all the usage of the services is also limited due to its poor supply.
1.13 LIMITATIONS OF THE STUDY

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

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

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

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

1.14 SCHEME OF REPORT

The present study consists of Six Chapters.

The First Chapter gives a brief description of the entire study. It discusses in detail the statement of the problem. A detailed review of the earlier studies carried out in the area of service quality has been made. From
the problem identified, the objectives are drawn in a logical sequence. From the objectives, the hypotheses which are germane to the study are drawn. To study the objectives formulated, a discussion on the source of data, the pretesting of questionnaire, the tools and techniques used are also made. This chapter also provides the period of study and the limitations of the study.

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

The Third Chapter focuses on the extent of utilization of the services by the sample customers of the public and private sector banks.

The Fourth Chapter pin points the customers’ preference perceived and desired levels of service quality and the resultant service quality gap for all the sample bank groups. The service quality gap for the public and private sector banks in isolation have also been dealt with.

The Fifth Chapter reveals the significance of the difference between the services of the public and private sector banks measured in terms of the customers’ perceived and desired levels of satisfaction. The impact of individual dimension scores on total service quality scores and the
relationship between the selected socio-economic status of the customers’ and the perceived level of service quality have also been estimated and analyzed.

The Sixth Chapter contains the Summary of findings, suggestions, emerging conclusions and the scope for future research.