CHAPTER – I

INTRODUCTION

1.1 INTRODUCTION

In today’s scenario, the world has witnessed a multiplication of service industries in many countries. This growth in the service sector has persisted, to the extent that service industries now have a major impact on national economies. Service industries are expected to develop and grow at an accelerated pace in the future. As the service sector is making an increasingly significant contribution to the modern economy, customers reap the benefits of greater choice and easy availability. Due to this trend and the steady flow of newcomers into the industry, service firms operate in an increasingly complex, competitive business environment. The resultant fierce competition, together with the challenges posed by the ever-changing modern business world, is forcing service firms to review and often dramatically adapt their management styles and business practices. In the past, products were the determinants of business success.

The most successful firms were firms that were able to produce high quality products. Indeed, today quality products are still crucial in business success. However, the quality issues of the past are quite different from the quality issues of today. In the past, quality was defined and determined from the producers’ or service providers’ perspective with little or no consideration of the customer expectations and opinions. Customers were perceived not to know what they want and therefore accept what is available. In the present marketing environment, the customer has become the centre of all business decision right from the conception of a product to the delivery of the product. Customer-centric marketing policies and processes are important. The antecedents of the recent status of the customer in marketing and business operations are the intense global competition, emergence of service driven economies, increasing customer awareness and sophistication and advancement in information technology. It is now a common knowledge that the success of every
business organization hinges on how their customers are served and how the customers evaluate and perceive such services. The nature of the service may not matter but the value customers place on such service is of significant importance in customer’s acquisition and retention.

The ultimate aim of all marketing activities in today’s corporate world is to acquire and retain profitable customers. In practice, it is believed that it is six times cheaper to retain existing customers than to acquire new customers in today’s intensive competitive business environment (Reichheld, 1996). It is empirically indicated that customer retention is influenced by three interdependent factors: service quality and value influence customer satisfaction or dissatisfaction, this in turn influence customer loyalty. Customer retention is influenced or determined by the level of customer loyalty. Since retain existing customers is much cheaper than acquiring new once, perceived services quality, customer satisfaction and customer loyalty are crucial success factors for every business organization. That’s the reason why this study focus on the above said factors with certain influencing dimensions as yardsticks to measure the implications of it.

Banks are one of the service sectors that play a very important role in the economic development of every nation. They have control over a large part of the supply of money in circulation. Economic development is a dynamic and continuous process. Banks are the main stimulus of the economic progress of a country. The economic development highly depends upon the extent of mobilizations of resources, and investment and on the operational efficiency of the various segments of the economy. Banks have been consciously used as an engine of development. They help in increasing the nation’s savings channelizing it into productive avenues and economic utilization of these resources. A well-planned, organized and viable banking system is a necessary concomitant of economic and social infrastructure in any economy. The banking system provides a large portion of the medium of exchange of a given country, and is the primary instrument through which monetary policy is conducted,
through their deposit mobilization and lending operations. 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 worldwide and in the Indian context, 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 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 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.

1.2 BANKING SERVICES IN INDIA

The banking scenario in India is of a highly developed nature, even though it is still far from achieving world standards in terms of size, products and services. Indian banks have realized that along with organic growth there is a need to grow inorganically as well, in order to be competitive with other players in the market. In this scenario, banking has been the focus of attention for the banking industry. The emergence of new economies and their rapid growth have been the most important contributing factors in the resurgence of banking. Changing lifestyles, rapid improvements in information technology and other service sectors, as well as increasing levels of income, have contributed to the growth of banking services in
countries like India that are developing at a good pace. A decade ago, the banking sector was tough on a fingertip. But now it is possible. All the bank transactions with a connection to mobile handsets technology is the latest innovation means necessary to make.

In addition, SMS Banking, Mobile Banking in India, and all the modernization are the major steps taken by banks towards Internet banking and ATMs. With all these tools and systems, banking has become a complete freedom to experience. Accounting, fund transfer and payment for centuries, has been followed in physical bank check which is now modernized. But the standing for hours in front of the cash counter and time to withdraw your own money is in foundation. The Indian banks are vying with one another to grab a pie of the banking service sector which has tremendous potential over the GDP in India. It also has its share of challenges in retaining customers, introduction of tech-savvy facilities and investments in such facilities, security concerns, Know Your Customer (KYC) norms, credit evaluation norms, etc.

The foreign banks and the private sector banks having a clear technological advantage and economies of scale right from the day one of introduction 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 raise the concept of “Anywhere, Anytime” banking that has a clear-cut customer focus associated with it. 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.
1.3 SERVICE QUALITY IN BANKING

Service quality is an imperative element impacting customers’ satisfaction level in the banking industry. In banking, quality is a multi-variable concept, which includes differing types of convenience, reliability, services portfolio, and critically, the staff delivering the service. The banks have realized that in order to become a market leader it is important to focus on superior service quality. A lot is yet to be achieved in urban and rural areas; so far mass banking is concerned in India. Customer satisfaction is linked to customer loyalty and retention. In order to build a service quality model, which would ensure customer satisfaction, it, is imperative to identify the problems of customers. The banks review the service delivery process to make it more customer-friendly. It is broadly defined as the number of customers, or total percentage of customers, whose reported experience with a firm, its products or its services exceeds specified satisfaction goals. This suggests that expectations are key factors behind satisfaction. While customer satisfaction is the key performance indicator/differentiator, tapping the same becomes an imperative task for the service provider.

Market starts and ends with discovering and understanding needs of customer and so is banking. Banking is now a habit of urban customers. With the advent of technology, though new age customers intend to go for online banking. Yet majority of the Indian consumers still prefer traditional banking methods. The banks identify the processes and design a service for customer convenience. The service consumption is preceded by service expectations. If the banks stand true to their expectations, the perceptions of the customer improve leading to higher levels of satisfaction. So the primary task of the banker is to gauge the expectations and then bridges the gap between expectations and perceptions. The gap needs to be addressed by toning down the expectations and enhancing the perceptions. Service excellence, meeting client needs, and providing innovative products are essential to succeed in the banking industry (David Cohen et al, 2006). Unless a bank can extend its product
quality beyond the core service with additional and potential service features and value, it is unlikely to gain a sustainable competitive advantage. Thus, the most likely way to both retain customers and improve profitability is by adding value via a strategy of differentiation while increasing margins through higher prices.

Indian public sector banks and the new age private sector banks exhibit vast differences in the style of operations. The bank premises, amenities, services, people, technology and operations are significantly different from the older counterparts. The marketing strategies are well designed to attract customers. Hence RBI has rapped the public sector banks for poor performance. In the year 2011, SBI spent about Rs. 400 Crores on technology upgrade and customer service (Business standard, January 2011).

Though customers evaluate the same based on the service encounter, a very important fact is that the design and the process flow always reflect the attitude of the management. If the management undertakes constant efforts to improve service quality, they redesign and redevelop the service space as well as also focus on upgrading the service encounter. This also adds to the image of the service provider in turn creating a positive image in the minds of the customers. Hence, it is important to understand that a service quality model should undoubtedly aim at higher customer satisfaction. It is broadly defined as the number of customers, or total percentage of customers, whose reported experience with a firm, its products or its services exceeds specified satisfaction goals. This suggests that expectations are key factors behind satisfaction. While customer satisfaction is the key performance indicator/differentiator, tapping the same becomes an imperative task for the service provider. Many studies indicate that customer retention is based on employee performance and professionalism, willingness to solve problems, friendliness, and level of knowledge, communication skills and selling skills. It is economical to reduce customer defection for retention rather than acquiring new customers. Such satisfied customers tend to bring referral business for the organization. Service
quality is the upshot of personnel quality in banking as on the counter customers perceive based on the front line behavior. Employees’ conduct goes a long way in instituting a positive image of the organization.

1.4 SCOPE OF THE STUDY

Consumers all over the world have become more quality conscious; hence there has been an increased customer demand for higher quality service. Service operations worldwide are affected by this new wave of quality awareness and emphasis (Lee 2004). Therefore, service-based companies like the banks are compelled to provide excellent services to their customers in order to have sustainable competitive advantage, especially in the current trend of trade liberalization and globalization. Customer’s choice of a bank over another is based on several factors such as the location, interest rates, quality of service delivery and the bank’s reputation. However, service quality is seen as one of the key factor and thus has received considerable attention by organizations. Stafford (1996) opines that the financial services, particularly banks, compete in the marketplace with generally undifferentiated products, therefore service quality becomes a primary competitive weapon. The banking industry is highly competitive; banks do not only compete among each other; but also with non-banks and other financial institutions both local and foreign (Kaynak and Kucukemiroglu, 1992; Hull, 2002).

In the quest to improve its services, retain and attract customers, banking organizations has introduced innovative measures like extended business hours, ATM network, internet banking, improved banking hall facilities among others, etc., all in the interest of enhancing customers’ comfort. These efforts which aim at bringing satisfaction to the customers seem to be futile. Customers’ preferences and expectations seem not to match up with the bank’s initiatives. There is incessant complaint of long waiting at the banking hall, failure of network system and Automatic Teller Machines; and defection to other banks. This study will provide the bankers with empirical information on what customers expect in terms of service
quality from the banks as well as customers assessment of the quality of service they provide. It will also provide empirical information on the heterogeneity of customers perceived service quality in terms of their background. Thus, management will be guided in their strategic decisions on customer satisfaction management and customer retention.

1.5 NEED FOR THE STUDY
Service organizations have to take responsibility of quality performance through effective strategic framework. Quality of service is becoming an increasingly important differentiator between competing businesses in the Banking sector. Delivering quality to customers is paramount to a company's wellbeing because it results in more new customers, more business with existing customers, fewer lost customers, more protection from price competition, and fewer mistakes requiring the company to redo its goods/services. Customer acquisition and retention has become a matter of concern in the banking industry of India and service quality has been identified empirically as the driver of them. But, there are discrepancies between what the banks think is quality service and what the customer expect from the banks is still unclear. The main purpose of this study is to examine customers’ expectation and perception of service quality in the banking industry, and subsequently identifying the dimensions of service quality that drives customer satisfaction and retention in the banking industry in the selected research area.

1.6 STATEMENT OF THE PROBLEM
The statement of problem enumerates the aspect of the current situation that the study is performed for. It insists the need to verify a theory or a need to address problems and challenges of policies and decision making in practice. The trade liberalization and globalization have resulted in keen competition among firms and industries. The Indian banking industry is not exempted especially with the proliferation of banking and financial institutions in the country. With the availability of goods and services, organizations need proactive strategies, the absence of which can lead to a steady
decline of market share. Consequently, competition in the industry is increased and banks are competing based on their perceived service quality. Researchers recommend making service quality a cornerstone of an organization's marketing strategy in order to ensure successful business. Service quality has various dimensions and each customer places different levels of importance on each dimension of service quality.

Each bank has identified themselves with at least one of the dimensions of service quality that they think will drive customers’ perceived service quality satisfaction, loyalty, and retention. The service providers’ perception of service quality may be quite different from what customers perceive as service quality. Customers’ choice of a bank over another is based on several factors such as the location, interest rates, quality of service delivery, and the bank’s reputation. However, service quality is seen as one of the key factors and thus has received considerable attention by organizations.

In order to survive in the fierce competition faced by the domestic banks due to the entry of international players, it becomes essential for rapid innovation and introduction of new financial instruments, understanding of changing customer needs, and extensive use of information technology. However, with the availability of similar technology among almost all the banks, it is felt that a bank can survive in the market by only through the provision of better services to its customers; hence there is an imperative need for identifying their ability 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, process of delivering quality services to its customers and transforming the superior service to generate better financial
performance. The emerging situation calls for the assessment of service quality in relation to customer expectation and service performance to help the Banks to improve its service quality and enhance satisfaction so as to ensure customer retention.

1.7 IMPORTANCE OF THE STUDY

This study identifies quality dimensions significant to enable the banks to develop the strategies improving the quality of service delivery. This will enhance the Bank’s competitive position in the banking industry and ensure survival of the bank, especially in this era of keen competition. By measuring the satisfaction level of customers, financial institutions can develop customer-centric service approach to deal with customers in order to avoid the tendency of existing customers switching to a competing bank.

By identifying what customers expect and experience what the quality is. Banks can revise, redesign or repackage its service operations and tailor them to meet the expectations of the customers. By this the services delivered will bring satisfaction to the customers and make them stay while attracting new ones. Customers have become quality conscious, so they compare service offering of companies and will opt for superior quality services. The study will serve as a guide for the Banks to develop policies which will improve its overall service delivery, especially in areas where gaps between expectations are so wide to enhance customer satisfaction. By virtue of improved services, banks and companies alike can benchmark the policies and strategies for their quality improvement programmes leading to overall improvement in the banking sector.

1.8 RESEARCH QUESTIONS

Following research questions arise in the present research study:

1. Why do the demographic factors affect the Customer satisfaction towards banking services?
2. What are the Customer expectations towards the quality of services rendered by the Banks?
3. What are the factors that influence service quality leading to Customer satisfaction?
4. What extent the service quality performance of the banks satisfies customer expectation?
5. How do the service quality dimensions make impact on Customer satisfaction?
6. What is the contribution of service quality dimensions towards the customer satisfaction and retention?

1.9 RESEARCH OBJECTIVES

1. To examine the profile of the Customers utilizing the financial services rendered by banks.
2. To measure level of Expectation of the Customers towards the Banking services.
3. To analyze the service quality dimension to determine the technical and functional quality of the services provided by the banks.
4. To evaluate the association between customer expectation, service quality and customer satisfaction directing towards customer retention.
5. To measure level of satisfaction of the customers towards the banking services
6. To render suitable suggestions to refine the quality of banking services provided by the banks.

1.10 PROPOSED CONCEPTUALIZED RESEARCH MODEL

The research takes the demographic factors of the customers of the banks considered for the study, customer expectation, service quality for Technical and functional aspect of services such as tangibility, reliability, responsiveness, assurance, empathy and convenience as the major variables taken as independent variables for analysis. Customer satisfaction and Customer retention are the dependent variables. It is
studied how and to what extent the independent variables make changes in the dependent variable. The proposed conceptual research model shows the process of research as follows:

**Figure – 1.1**

**Proposed research model**

1.11 LIMITATIONS OF THE STUDY

The following are the limitations of the present study

1. The expectation of the customers towards the banking services is based on their opinion after their personal experiencing of the services. There is a possibility to change their outlook on the services in future. So the findings of the present study may not be applicable in future period.

2. The study covers the customers who have experienced the services of the banks only for a limited period.

3. The investigation is not confined to one particular service, instead it is generalized.

4. The fare delivery of services may change in to a prospective one with the change in technology.
1.12 ORGANISATION OF THESIS

Chapter I: This chapter deals with a general introduction and background of the study enumerating the services rendered by the banks to its customers, the quality of service provided and the performance of the banking sector in India. It also presents the significance of the study, statement of problem, limitations of the present study, and finally outlines of the structure of the study.

Chapter II: This is the Review of literature with respect to the dimensions considered for the empirical studies on Demographic aspects of the customers, their expectations, the service quality measures for the services rendered, the satisfaction of the customers and customer retention. It outlines the objectives of the study, briefing out the empirical analysis and the respective findings.

Chapter III: This chapter presents a detailed discussion of research design, the research hypotheses to be tested, and the methodology used to test the critical factors affecting performance and its hypotheses present a simple conceptual model for testing the critical dimensions.

Chapter IV: It summarizes the outcomes of the statistical and econometrical analysis that are used to test the hypotheses.

Chapter V: It identifies the findings of the study pertaining to the hypothesis, the implications, drawn from the findings of the research, recommendations for future research and conclusions of the study.

1.13 CONCLUSION

This chapter acquaints knowledge on Banking services, service quality in banking services and its importance in retaining customers. It elucidates the substantial worthiness of to evaluate the efficiency of the employees and its impacts on the performance of the employees in Indian banking sector. The chapter points out the research problems and raises questions to be answered. Based on the problems and questions, the objectives have been framed. The chapter ends with limitations of the study and organization of thesis.