CHAPTER - I

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In the present competitive framework of the Indian banking industry (hasty changes and increasingly sophisticated customers), it has become very important that Indian banks determine various service quality factors which are relevant to the customers’ selection process. With the initiation of international banking and innovations in the marketplace, customers have a greater difficulty in choosing banks. Therefore, the current issue of the banking industry in India is to determine the dimensionality of customer perceived service quality. If service quality dimensions can be identified, service managers should be able to improve the delivery of customer-perceived quality during the service process, and have greater control on the overall outcome. Moreover, for investigating the influence of the dimensions of service quality on customers’ behavior, it will provide a better understanding of the drivers of customer satisfaction. To gain and sustain competitive advantages in the rapidly changing Indian retail banking industry, it is indispensable for banks to understand in-depth the key dimensions of service quality and the effects that the identified dimensions have on customers’ behavioral intentions.

Consumer confidence has been adversely affected as a result of the global economic slowdown and turbulence in the financial markets all across the world. In this current business scenario, the banking industry has become highly competitive. Information technology (IT) is extensively used in this competitive environment to deliver banking services to the consumers. In fact, rise of information technologies and the internet in particular, have changed the consumption process of retail banking as human-human interactions in service delivery is becoming increasingly redundant. Thus, traditional banking or branch banking is increasingly being replaced by the technology-based banking (e.g. usage of ATMs, internet and phone banking).
Hence human-human interactions or face-to-face interactions between customers and bank employees are being replaced by interaction of customers with technology. In fact a large number of IT tools are utilized to increase the efficiency and effectiveness of service delivery (Marshall, 2006). With the patterns of consumer behavior changing with the increasing use of technology in the delivery of banking services, there is a need to cultivate customers’ confidence in using the tech-based services. This is so because customers may not be ready to avail the tech-based service delivery and there is proof of growing customer frustration while interacting with the technology based service delivery interfaces (Parasuraman, 2000).

Since the products offered to the customers of a bank are more or less standardized in nature, banks are feeling an increasing need to differentiate themselves from the competitors on other criteria that can influence customer satisfaction and loyalty. This is so because customer satisfaction and loyalty has been shown to be of utmost importance for firm performance in the long run. In order to increase the customer confidence in the capabilities of a service provider customer satisfaction and customer loyalty are the key factors considered in the existing literature (Dick and Basu, 2008; Gerpott, 2007). In this context the importance of technology based service delivery is increasing. The developments in technology have provided the service companies with a weapon which helps them to design and deliver superior services to customers and thus in turn boost their confidence in the service provider. There are several other competitive advantages like entry barrier creation, productivity enhancement and revenue increase which are associated with technology adoption by service companies. As a result the perception of customers regarding service quality of technology banking has gained importance because service quality has been shown to be a strong predictor of customer satisfaction and loyalty.
1.1 THE INDIAN BANKING INDUSTRY

The Indian banking has seen momentous changes in the post independence era. It has witnessed a remarkable shift in its operating environment during the last decade. Various reform measures, both qualitative and quantitative, were introduced with an objective to revitalize Indian banking sector and to meet the future challenges. Every aspect of the functioning of the Indian banking industry, be it a customer service, resource mobilization, credit management, asset-liability management, investments, human resource development, and forex management are undergoing dramatic changes with the reforms gathering the momentum and speed. Several innovative IT-based services such as Automated Teller Machines (ATMs), electronic fund transfer (EFT), anywhere-anytime banking, smart cards, internet and mobile banking etc. are no longer alien concepts to Indian banking customers (Rawani and Gupta, 2000). The market has changed drastically and has become largely customer centric. From sellers market the banks have been forced to operate in the buyer's market. The change has made the customer a king. The customer, in future, will continue to demand new and better products, will switch to new providers quickly, will find information easily, and may even do more and more of ‘legwork’ personally. All of these factors mean more buying power for the consumer. The key to success in the changed environment will be one's ability to reach the client at his doorsteps, and providing products and services in a customized manner. Thus, with these changes customers' expectations and perceptions of service quality are bound to change. Today's customer is not going to settle on anything less than his/her expectations. To compete, successfully, with each other, banks are using different marketing strategies to live up to the customers’ expectations and stay ahead in the league. Banks have focused to develop strategies to differentiate themselves from their competitors and providing their customers with high quality banking services and highly technology innovative
products. It is within this rapidly changing environment that service quality and customer satisfaction is compelling the attention of all banking institutions (Angur et al., 1991). Banking institutions are acknowledging that unless customer needs are taken into account in designing and delivering services, technical superiority will not bring success (Zeithaml and Bitner, 1996). New marketing concepts and strategies (Ennew, 1993), are paying greater attention to identifying customer needs and expectations (Morgan, 1989), and offering high service quality to customers (Thwaites and Vere, 1995; Lewis, 1993). As argued in literature (Lewis, 1994; Gronroos, 1990; Zeithaml, 1990; Brown and Swartz, 1989), it is probably the effective measurement, management and improvement of service quality which will enable banking institutions to achieve a differential advantage over their competitors (Lewis, 1991). Service quality, therefore, has become a critical prerequisite for satisfying and retaining valued customers in banks (Taylor and Baker, 1994; Cronin and Taylor, 1992). The interest is largely driven by the realization that high service quality results in customer satisfaction and loyalty with the product or service, greater willingness to recommend someone else, reduction in complaints and improved customer retention (Danaher, 1997; Levesque and McDougall, 1996; Magi and Julander, 1996; Zeithaml, 1996). Further, a satisfied customer is likely to be a loyal customer who will give repeating business to the bank (Heskett, 1997). More importantly, the cost of retaining existing customers by improving product and services is perceived to be significantly lower than the cost of winning new customers. Because of the importance of the service quality and customer satisfaction as a route to competitive advantage and corporate profitability in banking, it has become difficult to identify a single bank which has not initiated some kind of service quality improvement drive (Newmann, 2001; Soteriou and Stavrinides, 2000). Also, a clear and detailed understanding of the demands of the various market segments is essential to successfully target new markets and to
maintain a repeat customer base (Yoon and Yuksel, 2003). Undoubtedly, owing to the belief that delivery of high service quality is a must for attaining customer satisfaction and a number of other desirable behavioral outcomes, recent years have witnessed a flurry of research exploring interrelationships between service quality and customer satisfaction. This study expands the research stream in Indian banking sector. Specifically, the study used a survey of Indian bank customers to develop theoretically and empirically the understanding of the relationship between Service Quality, Customer Satisfaction and behavioral responses. This study seeks to evaluate empirically the degree of effect on customer satisfaction of various service quality dimensions as perceived by customers. Deriving factors influencing customer satisfaction, it attempts to clarify the relationship between customer satisfaction and customer behavioral intention in Indian public and private sector banks.

Indian banking environment, where Indian bankers consider delivery of excellent service quality to customers a key to success and survival, the findings from the study can provide them with valuable insights in ways of enhancing service quality so as to induce greater customer satisfaction and positive behavioral outcomes.

According to the Reserve Bank of India (RBI), the banking sector in India is sound, adequately capitalized and well-regulated. Indian financial and economic conditions are much better than in many other countries of the world. Credit, market and liquidity risk studies show that Indian banks are generally resilient and have withstood the global downturn well.

With a sense of optimism slowly creeping in, the banking industry expects that 2015 will bring better growth prospects. This optimism stems from factors such as the Government working hard to revitalize the industrial growth in the country and the RBI initiating a number of measures that would go a long way in helping the banks to
restructure. The recent announcements of RBI, it is felt, are a clear pointer to the future of the restructured domestic banking industry.

The Indian banking sector is fragmented, with 46 commercial banks jostling for business with dozens of foreign banks as well as rural and co-operative lenders. State banks control 80 percent of the market, leaving relatively small shares for private rivals. At the end of February, 13.7 crore accounts had been opened under Pradhanmantri Jan Dhan Yojna (PMJDY) and 12.2 crore RuPay debit cards were issued. These new accounts have mobilized deposits of Rs 12,694 crore (US$ 2.01 billion). Standard & Poor’s estimates that credit growth in India’s banking sector would improve to 12-13 per cent in FY16 from less than 10% in the second half of CY14.

The Indian economy is now on the threshold of a major transformation, with expectations of policy initiatives being implemented. Positive business sentiments, improved consumer confidence and more controlled inflation should help boost the economic growth. Higher spending on infrastructure, speedy implementation of projects and continuation of reforms will provide further impetus to growth. All this translates into a strong growth for the banking sector too, as rapidly growing business turn to banks for their credit needs, thus helping them grow.

Also, with the advancements in technology, mobile and internet banking services have come to the fore. Banks in India are focusing more and more to provide better services to their clients and have also started upgrading their technology infrastructure, which can help improve customer experience as well as give banks a competitive edge. Many banks, including HDFC, ICICI and AXIS are exploring the option to launch contact-less credit and debit cards in the market soon. The cards, which use near field communication (NFC) mechanism, will allow customers to transact without having to insert or swipe.
The significant growth of banks has caused the appearance what is called "buyer’s market" in which the supply exceeds the demand. In this condition, the customers are in strong bargaining position and therefore the banks have to be more effective in providing services because customers now have many choices in determining the bank they want. The customers’ need for excellent service keeps changing. The level of service quality varies from time to time. There is no guarantee that what is excellent service today is also applicable for tomorrow. There is also the rapid change of the retail-banking sector in the last 15 years with the increased application of the technology in the service delivery. To win the battle of global competition in the service industries and be able to survive, banks will need to use new strategies in providing service that will satisfy their customers. This is the reason why service marketing and bank marketing in particular keeps developing and it is gaining the prominence in the marketing literature.

The interest in service marketing research on service quality and customer satisfaction has grown recently. Hundred of studies have been conducted by applying related theories and methods in the service industry, especially in retail banking industry.

1.2 BRIEF HISTORY ABOUT SERVICE QUALITY

Service quality began in the early 1920’s as a movement of inspection on products to ensure work completed by a worker deemed to be acceptable for the customer. In 1924 the movement of quality moved up into managerial thinking as Walter Shewhart designed the first control chart which involved a statistical processes control and a quality improvement program. (Best & Neuhauser, 2006, 142)

Although this type of quality was still focused around the end product, commonly known as product quality control and involved examining the end product as well as testing the product.
During the World War II, the military regime adopted standard into military strategic thinking as well, this then referred to as the American War Standards, deemed partially by William Deming, whose work proved important to the quality movement. In the late 1940’s Mr. Deming worked in Japan where he applied his techniques in the improvement of Japan’s Census which lead to the implementation of his techniques in many of the manufacturing factory’s and resulted in high levels of quality and productivity. This result proved that having focusing on managing quality not only improves quality itself but also productivity.

In 1986 followed the introduction of what seems to be the initial true movement of TQM or Total Quality Management. Important names such as Juran, Roming and Deming where amongst the few names that pushed quality management towards what it is today. This change on emphasis lead to changes such as job specialization focused on inspecting products and services during product intervals, change of emphasis from end-product to minimizing or preventing problems from occurring by detecting any problems early up the production line.

The concept of TQM was for management to streamline business effectiveness through a continuous process on assessing and improving quality and productivity. The latter would have been done by the restructuring of management practices, participation of all staff members with the use of knowledge and experience to realize strategic objectives and goals without neglecting the customer’s perceived satisfaction. Nevertheless, TQM has different approaches but focusses on business ethics and purpose of the organization.

Today TQM is still an important element in an organizations business model. With the introduction of many models such as Six Sigma, EFQM Excellence model, or the ISO 9001 quality management standard, has made quality management much easier.
All of these models follow the same principle of enabling management to manage quality through process improvement tools and techniques such as Juran’s trilogy of quality management; Quality Planning, Quality Control and Quality Improvement. (Juran, 1988).

A question still lingers, how this all relates to managerial issues regarding the service industry. In the service industry, here mainly focusing on the hospitality industry, everything revolves around the customer. When it comes down to providing customer service, it is not what the service provider think service is, it is the customer ultimately who experiences the service. Customers all have different expectations about a location or hotel they are visiting, however, they all ultimately want the best possible service they can obtain at a hotel.

For management it is of utmost importance to provide services of the quality expected continuously to the customer’s. Honestly this doesn’t sound very simplistic. Within a hotel, there are different departments, different facilities offering different product sustained by a variety of services. In this case strategic management is required to devise strategies that may involve alternative processes, services, activities utilized to sustain the continuous delivery of customer service the expected level of quality. (McCabe, 2000, 326)

However important it may be to have strategies with tactics to support the delivery of quality customer service, it is the actual delivery of service that brings forth the opportunity to create the most impact on the customer. One characteristic that is sure about hotels is that there is a high interaction with customers. And it is within these interactions, or moments of truth, where service delivery happens between customer and staff.

More importantly, because of the high levels of interaction between customer and staff, there is a vulnerability or possible weakness that something going wrong.
Therefore, operation management must manage and be aware of most customer interactions to ensure that each moment of truth which occurs enhances the customer’s perception of service instead of reducing it. Following departmental objectives to increase internal communication and cooperation between staff-staff and management-staff to sustain that high customer service is given. (McCabe, 2000, 326)

In addition to this, Fitzsimmons & Fitzsimmons (1994, 23) indicates that because of the nature of the hospitality industry, namely; High labour and high interaction including customization, the main challenges for operational management include:

- Fighting cost increases
- Maintaining quality
- Reacting to customer processes
- Managing advancement of people delivering service
- Managing flat hierarchy with loose subordinate superior relationships
- Gaining employee loyalty

The main issues for management are then indicated as the actual development of a quality management strategy where for strategic management it includes ensuring that these strategies are implemented and evaluated on a long term scope whereas for operational management the main issues relate to the management of moment’s of truth as well the management of internal cooperation, internal advancement of employee skills and knowledge and the internal communication.

1.3 STATEMENT OF PROBLEM

Undoubtedly, in the generation of tech-savvy, electronic banking (New Technology) has experienced explosive growth and has transformed traditional practices in banking. The implementation of e-banking, such as internet banking and the use of computer-based office banking software hold several obvious advantages for banks. It
improves the bank’s profit levels through the reduction of both variable and infrastructure costs, provides a source of differentiation and competitive advantage, New Technologies provides global reach, adds another communication and feedback channel, increases customer satisfaction through the reduction of waiting times and thus improving service performance. The role of human interactions within the bank branch will be even more critical in the future, despite the increasing popularity and acceptance of new banking technologies. Customers generally prefer personalized human interactions with their bank as a means of communication. These issues encountered in electronic service delivery have thus prompted an increase of research into how service quality may be measured and managed for electronic service deliveries in this generation of Tech Savvy Customers. This research makes an attempt to measure the traditional service quality in Banks that whether the priority of core service quality dimensions changed as per Indian condition or the priority of dimensions remain the same? Next to measure customer value and trust based on Traditional Service Quality dimensions and Technology based service quality dimensions and to identify which service quality dimensions (Traditional or Technology) contribute the maximum. Finally Customer satisfaction will be measured based on the antecedents Traditional Service Quality dimension, Technology based service quality dimensions, Customer Trust and Customer Value. The consequences, Customer Loyalty reduced Customer Switching intention and Positive word of Mouth of customer satisfaction also measured.

1.4 OBJECTIVES OF THE STUDY

1. To Re-examine and Prioritize the traditional service quality dimensions of the Select Banks.

2. To study the personal profiles of the respondents and their association with overall service quality in Bank.
3. To explore the technology based service quality dimensions of the Select Banks.

4. To investigate the impact of traditional and technology based service quality on Customer Trust and Value, and its effect on Customer Satisfaction.

5. To examine the consequences of customer satisfaction towards Post Purchase Behavior Intention.

6. To develop and validate a model for Post behaviour purchase Intention Based on Traditional and Technology Based Service Quality Dimensions.

1.5 **HYPOTHESES**

1. There is no significant association between selected personal profiles of the respondents and its impact with overall Service Quality

2. Tangibles, Reliability, Responsiveness, Assurance and Empathy create significant and positive impact on Traditional Service Quality Dimension.

3. Technology Usage Easiness and Reliability, Technology Security and Information Quality, Technology Convenience and Customer Service create positive and significant impact on Technology based service quality dimension.

4. Traditional and Technology based service quality dimensions create positive and significant impact on customer trust and value.

5. Customer trust and customer value create positive and significant impact on customer satisfaction.

6. Customer satisfaction creates positive and significant impact on Post purchase behaviour intention (Customer Loyalty, Reducing Switching Intention, and Positive word of Mouth)

1.6 **SIGNIFICANCE OF THE STUDY**

The Indian financial sector has been transformed from a relatively closed system in the 1950s and 1960s based on traditional bank activities to a more open, effective and
competitive system which is able to offer a wide range of products and services. Technological developments and financial liberalization (deregulation) are viewed as the main forces influencing the financial sector’s development.

In today’s intensely competitive economy, providing excellent customer service plays a vital role in a company’s success and failure. An increasing number of banks are using technology to deliver their regular service to the consumer. Investigations of quality issues of banks’ Technology based services and traditional based service quality dimensions are necessary because of their potential influence on attractiveness, customer retention, positive word-of-mouth, and maximizing competitive advantages. To embrace this new technology–oriented context, and Indianising the traditional service quality is necessary for banks to realize how quality issues of automated and traditional services distinguish their customer services from others and influences customer satisfaction.

For the past 25 years the significant dimensions of service quality was not modified, as the bank service delivery changed radically and shifted rapidly. Banks are reengineered from traditional Banking to virtual banking. This study re-examine the customer perception towards service quality significant dimensions, how it vary from traditional to present digital era in measuring customer trust and customer Value. Finally as per the latest mantra in Marketing “Think Global and Act local” this study will prioritize the dimensions of Traditional Service quality as per the Indian perception.

1.7 METHODOLOGY

The study is descriptive, Correlational and Quantitative in Nature. In this study three public sector Banks and Three New Private Sector Banks were considered. The Banks of Public sector are State bank of India, Canara Bank, and Punjab National Bank. The New private sector Banks are HDFC Bank, ICICI Bank, and Axis Bank. The banks were identified based on their excellence in Banking Technology. By adopting purposive
sampling technique, 600 potentials Tech Savvy respondents were identified, based on their utilization of technology facilities available in their respective Banks. The Survey instrument, questionnaire consists of dimensions like Traditional Service quality dimensions, Technology based service quality dimensions, Customer Trust, Customer Value, Customer Satisfaction, Customer Loyalty, Switching, and Positive word of Mouth. In the chapter IV, rationale of the research methodology was discussed separately.

1.8 SCOPE AND LIMITATION OF THE STUDY

The study considered Traditional five core Service quality dimensions and four technology based service quality dimensions as exogenous variables to measure the customer value and customer trust. The resultant dimension customer satisfaction considered Traditional and Technology Based service quality, Customer Value and Customer Trust as antecedents. In this study three behavioral intention dimensions like Customer loyalty, reduced Switching Intention and Positive word of mouth are considered as the output dimensions based on the resultant dimension customer satisfaction. The dimension reduced switching intention in this study is considered as positive affirmation rather than negative affirmation.

The customers who utilize the Bank Technology effectively form their Bank are considered as the Tech Savvy customers. Only the Tech Savvy customers are considered as the population of the study. The banks which won award for excellence in Technology only considered in this study. Due to security and customer data base reason, probability sampling technique could not adopted, also scientific way determining sample size could be done in this study. But care is take on rule of thumb, above 400 respondent samples is enough for structural equitation modeling. In few cases normality is assumed in the study.
1.9 CHAPTER SCHEME

Chapter I of this study presents an introduction that includes background of the study, statement of the problem, Objectives of the study, Significance of the Study, scope and Limitations. Chapter II provides a comprehensive literature review of relevant concepts and theories used to support this study. Chapter III of this study presents overview about Bank Service Quality and Profile of the study unit. Chapter IV provides Aim of the Study, Need for the study, Rationale of the study, Conceptual and Hypotheses, Research Model, Research Design, Questionnaire development, validity and reliability issues, data collection procedures, and data analyses methods used. Chapter V will analyze and Interpret Traditional and Technology Based Service Quality attributes. Chapter VI provides findings, offers suggestions and Managerial implications, Conclusion and Future research.