Chapter 2: Review of Related Literature

In the previous chapter, 1 attempt was made to describe broad concept related to management of financial services. This chapter relates to review of related literature. The research literature presented in this chapter will provide a background to understand the issues and problems of financial services on the basis of which the present study was conceived. This will enable the researcher to formulate the problem, set objectives and methodology for the study.

In fact there are a large number of studies on management of financial services. They are broadly grouped under two categories:

2.1 Studies Abroad, and
2.2 Studies in India

2.1 Studies Abroad

A large number of studies have been conducted aboard on varied aspects of management of financial services. Following are some important studies abroad:

2.1.1 Service Quality - Brown and Swartz (1989) in their study highlighted that service quality is used as a determinant by the financial institutions to position themselves in the market place. Accordingly in their view measurement of service quality has increasingly created an interest among service providers and scholars. Copper and Edgett (1996) in their study indicated that financial Institutions are offering varied services products by their interface with information technology. This is helping them to increase the size of the market According to Copper and Edgett, nature of financial services and increasing use of information technology has made measurement of service quality the most controversial and debatable topic.
There have been considerable researches on how to measure service quality. Babakus and Boller (1992), Goconroos (1982, 1984) Zeithmal, Parsuraman and Berry (1993), Brady and Cronin Jr. (2001) have studied service quality from the point of view of customer. Their study revealed that service product, service delivery and service environment are responsible for affecting the perception of the customer. Thus the financial institutions must improve the organizations technical as well as functional quality. They suggested that factors like reliability, responsiveness, empathy and tangibility must be continuously measured and improved. Frisk, Baron and Bitner (1993) provided a wider agreement that the five demands i.e. reliability, responsiveness, empathy, assurance and tangibles are important aspects of service quality.

Monfort et.al. (2000) viewed that consumers hardly get a grip on all facets of the service, and thus their experience may be less explicit and useful in the information of satisfaction. According to Zhou (2004), it is reasonable to conclude that context dependent performance is the only dimension of service quality which can adequately determine the overall satisfaction judgment. Lassar, Manolis and Winsol (2000) have empirically tested the association between service quality and customer satisfaction. Their findings indicated that functional and technical dimensions of service quality predict the levels of satisfaction.

Albrecht and Tmeke (1985) and Marshall (1985) have rightly provided the road map for success for financial institutions through their findings. It was found from their study that organizations which are becoming leaders in quality are characterized by the commitment of top management and corporate culture that encourages a consumer and quality focus throughout the company.
2.1.2 Factors Affecting Consumers Choice Behaviour of the Financial Institutions – The minds of the scholar and marketers of financial service has been intrigued with the understanding of factors affecting buying behaviour of financial services and the choice of retail financial institutions. Financial services offered by financial institution are not only intangible but many consumers perceive them as high risk purchase. Mckechnie (1992) argues that despite many attempts a generalizable conceptual framework which adequately captures the dynamics of consumers’ decision making for financial services and institutions, it is yet to be developed. Darby and Karni (1973) and Nelson (1970) proposed models that intend to reveal pattern of evaluation and choice criteria. Babakus, Eroglu and Yavas (2004) opined that bank choice behaviour is largely dependent on three attributes (i) Search (ii) Credence (iii) Experience.

Hawkin (2001) emphasized that financial products and services are high involvement products and services are high involvement products and services due to its inherent complexity and risk, thus they cannot be guided by very simple decision rules such as “buy the cheapest brand”. Srinivasan and Till (2002) have provided a hypothesis to study the insights of consumer choice decisions. Their study highlights that search attributes, credence attributes and experience attributes are three sets of attributes which guide the consumer buying behaviour. Search attributes are those that can be accurately evaluated prior to making a choice. Examples of search attributes in banking include interest rates; availability of ATM’s banking hours and so forth. Experience attributes are those that can be accurately assessed only after the services have been purchased and used. These include speed and efficiency of the services rendered, helpfulness and expertise of the staff and so forth. Further credence attributes may or may not be evaluated even after the purchase is made.
simply because the consumer may lack the necessary technical experience to make his assessment. For instance, the trustworthiness of the bank, integrity and expertise of the staff are credence attributes. In absence of tangible evaluation tools, consumers resort to assess these attributes. Service providers face a complex competitive environment. They not only have to compete with other service provider within the same service category, they often compete with service providers in related service categories.

Sheth (1991) reported that financial institution often waste resources as they fail to adequately comprehend what motivates consumer's choice. Howard and Woodside (1984) pointed out that progression of customer choice refers to a set of hierarchically arranged decision levels i.e. product class decision followed by brand choice decision. Howard's (1989) study reported that customer initial choice level is likely to depend on his/her familiarity with the product category and various brands within it.

Kruglanski and Klar (1985) argued that individual commit to memory established cognitive links between particular behaviour and accomplishment of desired goals. It highlights that an individual prior experience with a service category should directly influence one's interior to use a service provided by a particular financial institution. Hoch and Deighton (1989) highlighted the importance of communication on buying behaviour of customers. It was observed that customers acquire knowledge about service encounters indirectly or vicariously by observing the treatment of other customers, reading brouchers, repots and advertisement or through word of mouth publicity. Thus marketers can influence customer knowledge about service category by controlling the promotional message that describes the service category and its benefits.
Keaveney (1995) in his pioneering study indicated the factors affecting the customer choice regarding financial services are pricing, convincing, employee behaviour and competing products.

Stewart (1998) in her review mentioned factors indicating choice behaviour. They are (i) Charges and their implementation (ii) Facility and their availability (iii) Provision of information (iv) Confidentiality and services issues relating to how consumers are treated. Gerrad and Cunningham (2000) identified six factors that can be considered important in going and understanding consumer behaviour. They are (i) Convenience (ii) Service failure (iii) Pricing (iv) Unacceptable behaviour Attitude (v) knowledge of staff and (vi) Attraction by competitors. Thus an in-depth analysis of banker – customer Relationship is essential to study the factors affecting then consumer choice behaviour related to availing the financial services from a particular financial institution.

2.1.3 Consumers Attitude Towards Financial Services - Customers likely to pass through at least two decision levels while making a purchase decision. They are (i) Choice to delegate a task to a service category and (ii) Choice of a particular service provider to perform the task. Thus the choice is shaped by their attitude towards a service category and service provider. Darsch, Grove and Darden (2000) provided a framework to study the attitude of consumers. They highlighted the importance of prior experience, benefit expectations, usage intentions and importance of accomplishment in life on the attitude framing of customer. Customer intention to use a service category may be limited to the benefits they desire and/or expect from the service. Olson and Dover (1979) indicated that the customer expectations regarding a product are related with the beliefs about its performance.
Zeithaml (1993) opined that it is reasonable to use customer expectation as a basis for both formulating purchase intentions and establishing standards for judging service performance. To benefit the customer desire are considered to be the fundamental reason behind such anticipated buyer behaviour. Thus customer benefit expectation plays an important role in defining and shaping the attitude. Another issue to consider is the influence of prior experience on customer intention to use a service category.

Kruglanski and Klar (1985) argue that strong and positive experience tends to shape the positive attitude in form of automatic response behaviour. Biehal (1983) and Murray (1991) were of opinion that individuals prior experience with a service category should directly influence then to use a service. Further, earlier Howard and Seth (1969) highlighted that customer's financial status may be an inhibiting factor which promotes them to behave contrary to their attributes. Darden (1981) in his findings indicated that customers with higher financial status are more likely to demonstrate greater intentions of using a service category than customers with lower financial status.

Woodruff (1983) reported that the numbers of service related experience that a customer has a massed should influence the level of customer benefit expectation associated with a service category. Specifically, customer possessing more experience with a service category should anticipate receiving a greater level of benefit then customer with less experience. Gutman (1982) highlighted that enduring beliefs become a basis for the development and maintenance of attitude towards financial services. In fact several studies have also demonstrated the importance of terminal value in the formation of choice criteria at the product category.
choice level. For example, they have been related to difference in choice criteria for restaurant. Dorsch, Gove and Darden (2000) visualized that individual terminal values were found to affect the benefit of expectations of a service category. Customers who place greater importance on external accomplishments safety and salvation have high benefit expectation form a service category.

2.1.4 Reasons for providing varied range of services - Zenoff (1989) indicated that financial industry has become more competitive and the ability of the financial institution to compete on price has become increasingly difficult. Uewellyn and Drake (1997) emphasis that the main offering of financial institutions is the interest rate offered on savings and charged on loans.

Brown (1992) highlighting the changing scenario indicated that competition within the financial industry has forced many of the players in the market to offer similar prices and services. This competitive environment is likely to identify in future considering the trends of rapid technology change and globalization of financial markets. The references from these researches highlight that financial institutions must now place more importance on non price factors as means of differentiation to achieve more revenue and improve market share. Additionally it is becoming more and more difficult to sustain this level of competition for financial institution as they have an additional burden to cut cost by limiting the expenses related with branch, staff and overhead cost. It is therefore understandable that financial institutions are currently reviewing the way in which their customers are able to avail the services with lower costs. Furthermore, the needs of the customer are becoming diverse with advent of technology and new forms of delivery channels. Easingwood and Story
(1996) and Mautinho and Meidan (1989) indicated that financial institution are now realizing that they can no longer can afford to perform every operation and provide every service in every physical location.

Yorke (1994) further noted that organizations have to commit its limited resources more efficiently by catering to target markets. Delvin (1995) emphasized that value of segmentation for a financial institution is to determine which customers are currently using which distribution system. Bauer (1995) indicated that relative cost of serving each segment must also be identified. Thornton and White (2001) indicated that customer orientations shape the requirements of customers to choose a delivery channel. Self service distribution channels have higher usage rates amongst those customers who have favorable attitude towards convenience and human tellers are proffered by those who have favorable attitude towards service. The financial service industry is following the trend of consolidation that is expected to continue in future.

The categorization of service in three spheres i.e. (i) Banking (ii) insurance and (iii) Securities have diminished. Financial institutions are providing all the different categories of service under one roof. Thus, financial institutions are following the strategy of mergers to increase its scale of operation. Standard and Poor (1997) opined that merger of banks may be in a stronger position to deal with competition from other bank because mergers may result in consumers receiving more services. Turillo and Sullivan (1987) indicated that mergers can improve service delivery through technological enhancement. Totaro (1996) while analyzing the impact of the merger of Dime Bank and Anchor Bank in New York/ New Jersey highlighted that higher fees, longer lines, less attentive services were among the key customer concerns in regard to the merger.
Boyle (1996) in his study on expansion and diversification of financial institutions highlighted the importance of knowing the market image. In order to succeed the banks must emphasis on development of a local image and execution of superior local strategies. Morall (1996) summarized that in the changing environment, customers must be treated as an asset. Morall has listed several things that will cause the customers to leave a financial institution like perception of exorbitant fees and services, gaps in the menu of services and products, processing mistake, delays, inconvenience due to employee service, low income, gains etc. The financial institution must analyze the value of the customer and must improve the communication with them. Further more size does matter but use of cost cutting strategies due to more base of customer will affect the customer service adversely.

Stafford (1996) has demonstrated the effect of customer demographics needs have unique service needs and thus they deserve distinct promotional appeal. Kangis and Pasa (1997) examined the extent to which price awareness affects the perception of consumers. They concluded that price awareness has influence on the perception of the customer but it does not have a significant influence on expectation. Urban and Pratt (2000) highlighted that the efficiency of financial institution simply cannot improve with increase in market share. The survival in the long run will depend upon relationship marketing. Thus the change in focus of the company will necessitate tactics like changes in corporate culture, stressing personal service, incentive programs to reward employs for providing excellent services, greater use of customer database to discover new opportunities, reward programme for customer who are loyal to bank and cross selling in different segments. Han en al (1998) proposed that
A financial institution must be more market oriented. It will increase the market sensing of financial institution and they will be in a position to innovate in a manner that will provide superior value to target customers.

Naver and Slater (1990) further supported the issue by indicating that long run performance will be maximized when the business will develop a long run mutually beneficial relationship with its buyers. Haskett et al (1994) observe that profitability and revenue growth result from customer loyalty which in turn is created when highly satisfied employees deliver superior customer satisfaction.

Sanjeev, Tarramilli and Dev (2003) established that there is difference between selling and marketing of financial services. Selling is based on the idea that consumers do not buy enough of an organizations products and services on their own, so it must undertake an aggressive selling effort. Marketing in contrast assumes that consumers will buy products that will satisfy their needs. Thus the organization must attempt to understand consumer’s needs and try to create and deliver the desired products. Adu, Fyall and Singh (2001) indicated that marketing effectiveness of a financial service firm is positively measured related to measures like customer retention sales growth and profit margin.

2.2 Studies in India

Like their counterparts abroad, in India too, there are several studies on the management of financial services. Following are some important studies in this regard:

2.2.1 Service Efficiency - Kumar (2003) in his study has emphasized on the quality of after sale services. His study indicated that salesmanship
should not merely be a mechanical process rather it must be tailor-made according to customers need. Joshi (1997) observed in his study that out of 19 public sector banks excluding SBI and its subsidiaries, 13 public sector banks have incurred losses twice in the nineties. There was a steep rise in non performing assets of these companies which stood at Rs. 51710 crores which was 18% of the total advances as on Mar 1999. This scenario helped the public sector banks to realize their deficiencies. It is seen that public sector banks are plagued more by excessive overhead cost, technological, backwardness, sticky loans accounts, low productivity and surplus staff. Public sector banks strengthen their base in India by restructuring their operations and rethinking its strategy. The focus of today’s bank is on customer borrower and depositor. They have rewritten their promotional methodologies and have widened their customer base by introduction of existing features in products and services.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross NPA</th>
<th>% of Gross NPA to total advance</th>
<th>Net NPA</th>
<th>% of Net NPA to Net advance</th>
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</thead>
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<td>23.4</td>
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<td>NA</td>
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<td>41041</td>
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<td>NA</td>
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<td>17567</td>
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<td>15.89</td>
<td>24211</td>
<td>8.13</td>
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</tbody>
</table>

Table 2.1: Gross and Net NPA of Public Sector Banks


RBI Bulletin (2003) in the survey conducted by RBI of selected 916 financial and investment companies for the period of 2001-02 showed that
these companies have improved their performance in terms of profits. Kholi (2000) opined that financial institutions must diversify their traditional portfolio & must enter into new areas of operations like Bank assurance commodity marketing & real estate investment. Josh et-al (1997) pointed out that the man power cost for Indian financial institution is frighteningly high. It is in the range of 65-70% Employee productivity of these banks is not comparable even with the moderates in the industry. The State Bank of India is the most efficiently managed bank among public sector whose business per employee is 6 lakhs in companies the private sector bank like Indus Ltd. has business per employee of Rs. 18 crore Butt (2003). Joo (2003) highlighted that high NPA ratio business volume of business must also be taken into account.

Khatik (2002) while doing a research an financial appraisal of IDBI Bank Ltd. highlighted that capital adequacy ratio, cash reserve ratio and credit deposit ratio are important indicators of efficiency of bank. Shirai (2002) highlighted of bank of Foreign Banks by indicating that they were gainers in terms of their market share in deposit mobilization and credit deployment and were saddled with relatively lower share of non performing assets. Qamar (2003) highlighted that public sector banks are better endowed in terms of their assets base, share capital and share holders equity where as foreign exchange banks with lower owners equity and high capitalization ratio pose higher risk for their depoisor and investors. Cheema and Monika (2002) in their study of analysis of productivity of commercial bank highlighted that wage bills must be reduced to improve their efficiency.

ICRA (2004) have highlighted the structural, operational and efficiency parameters to judge the performance of financial institutions. It
highlighted that Indian Banks are performing at par with the foreign banks working aboard as Net Interest margin has increased from 3.16% in FY 2002 to 3.92% in FY 2003.

2.2.2 Service Quality - Satya (2003) and Prabhakaran (2003) pointed out that the borrowers are not only satisfied with the money they get as loan rather they are also keen to know how they get it. Thus service quality can be a winning edge for financial institution in today's scenario. Bhat (2005) highlighted that financial institutions must invest in research to understand customer needs and expectations at all service encounters i.e. at all the stage in the service delivery process as it is helpful tool in understanding the key components the key components of service quality.

Vannirajan (2005) indicated that the impact of service quality namely reliability and non traditional services on the customer satisfaction are significant thus financial institutions must innovate and add the value added services in its portfolio. Krishnaveni and Divya Prabha (2005) in their study inferred that Indian financial institutions must improve its communication and ambience to attract more customers. Mehta (2005) opined that public sector financial institution must focus more on improving its infrastructure. The infrastructure not only involves the information technology input in branches but also physical evidence and internal environment.

Joshi, Awasthi and Jinnah (2004) highlighted that employment status plays an important role in the satisfaction of customers as expectation level changes with employment status. It was noted that professionals are more quality conscious.
2.2.3 Other Factors — In their study Verma and Israney (2001) found that market orientation is positively related to customer satisfaction and the relative competitive strength in the market. It was seen that market intelligence generation is highest in foreign banks whereas public sector banks have a poor intelligence generation system. Nagar (2003) found that critical leadership style is significant in foreign banks whereas Indian banks follow development style; so there is less stress amongst the employees of public sector bank.

Sharma Deshbandhu Kaur (2003) in their study have reported that few aspects of product mix like complicated formalities and all dimensions of promotion mix like employee cooperation and informative advertisement play an important role in framing the attitude of consumers. Mishra (2003) suggested that customers give due importance to size and longevity while choosing a financial institution. Finally Awasthi, Joshi and Jinnah (2004) reported that creation and retention of customer has become very difficult thus customer satisfaction and better services can help a financial institution in its survival.

2.3 Conclusion

On the basis of the above review of literature, the following conclusions can be drawn for the purpose of the present study:

1. Indian researchers are in the primary stages and concern for service quality, consumer attitude has been emphasized but not much has been said about how to achieve this objective, whereas their counterparts abroad researcher in this field have done sufficient work.
2. Foreign Researchers abroad have carried out more exploratory researches have more focus on the theoretical and conceptual matter.

3. In India not much research has been conducted in the field of consumer attitude, consumer choice behaviour or factors affecting the product or service portfolio of financial institutions.

4. In India there is less focus on marketing orientation of financial institutions. Our major research is related with customer satisfaction and risk management, other service efficiency parameters income recognition norms and capital norms have been given limited focus.

5. Indian researchers are silent about the impact of external factors which are bringing changes in the management of financial services. The foreign researchers have emphasized on the impact of structural and technical changes on the management of financial services.

Overall the Indian research literature suffers from a distinct and a big gap relating to in-depth studies on management of financial services, which necessitates the need to investigate the problem stated in the next chapter.