CHAPTER I
INTRODUCTION AND DESIGN OF THE STUDY

INTRODUCTION

In the organized segment of Indian economy, an efficient financial sector is an engine for economic growth. As a part of financial sector, the banking sector occupies an important place in nation’s economy. It plays a pivotal role in the economic development of the country by mobilizing public savings and channelizing the flow of funds for productive purposes and keeps the process of economic growth of the country. Thus, it converts the fuel of savings into kinetic energy for the economy.

In India, several measures have been taken after the independence to put oil to the growth engine of Indian economy. One of the most momentous of such initiatives was the substitution of private ownership by public ownership, through the medium of an ordinance, of the 14 largest commercial banks in the private sector on 19 July 1969 and another 6 banks in 1980. This has popularly come to be known as nationalization of these banks. This bold step has enabled India to transform the class banking into mass banking and align bank credit to serve the planned priorities and social needs. Branch expansion programmes formulated by the Reserve Bank of India aimed at making available necessary banking facilities in all parts of the country specially the unbanked rural and semi-urban areas. This
is perceived as essential for implementation of project for rural development and up-liftment of economically weaker sections and also spreading the banking habit even in the remote areas of the country. Banks provided financial assistance in the rehabilitation of sick industrial units and in the prevention of unemployment, which would result from the closure of industrial units for want of credit. Measures thus mentioned substantially contributed to the channelization of the bank credit to the various sectors of the economy which involved inter alia, flow of credit to sectors, which were hitherto neglected or the so called ‘priority sectors’.

The reform process started in the 90’s has given the industry including the banking industry a great impetus to grow. But it poses a lot of challenges before the banking sector in India as never before. Among others, the matters relating to adoption of technology and handling difficult issues like credit proposals and personnel matters, the public sector banks face the thorny path. With the entry of new generation tech-savvy private banks, resulting in liberalization and the expansion of operations of foreign banks, the banking sector has become too competitive. To deal with the emerging situations, bankers have to shed a lot of old ideas, change in practices, develop customer loyalty programmes and adopt a distinct approach to meet the challenges ahead. In a fiercely competitive market, non-price factors like customer service become more important (Kotler, 2003). Hence, the banks are compelled to develop a customer-centric approach for future
survival and growth. The banks has also realized that prompt, efficient and speedy customer service alone will tempt the existing customers to continue and induce new customers to try the services offered by a bank. Indian banks have already taken lot of initiatives in this regard. Further, it has been apparent that Indian banks have miles to go to capture the recent trends and to be at par with the Western counterparts. As a result, many banks have introduced new customer friendly measures like 24-hour banking, 7-day and anywhere banking, internet banking, extended business hours, ATM network, core banking etc. It is important to continuously build on this goodwill in the days to come. In today’s competition in Indian banking industry, customers make a choice among various service providers by making a trade-off between relationships and economies, trust and products, or service and efficiency.

Customers are increasingly aware of the options on offer in relation to the rising standards of service. In this context, expectations rise and customers become more critical of the quality of service. Service quality, customer satisfaction, customer retention and delight are now the major challenges gripping the banking sector in India. Again, the deregulations in this sector creates a great change in present scenario. In addition to the service diversification, the idea of customer satisfaction and formulation of marketing strategies to drag the customer towards the banks are now the key issues taken in hand by the banks to survive. Level of customer satisfaction is becoming the major target of banks to increase
the market share. More specifically, the cost of retaining existing customers by enhancing the products and services that are perceived as being important is significantly lower than the cost of winning new customers.

Customer satisfaction is nothing but an outcome of purchase and use resulting from the comparison of the rewards and costs vis-à-vis customers’ expectations and actual performance of the product purchased in relation to the expected consequences. Customer satisfaction can be viewed as the future intentions of customers towards the service provider, which is more or less related to the attitude. Customer satisfaction is influenced by price, product quality, service quality and brand image. In the light of the existing research findings, interest in service quality is, thus, unarguably high. Poor quality places a firm at a competitive disadvantage. If customers perceive quality as unsatisfactory, they may be quick to take their businesses else-where.

Thus, it is clear that offering quality service paves a way of achieving success among competing services. This is particularly true in the case of firms that offer nearly identical services like banks. This service quality, has its own bearing on the satisfaction of the customers, may be the only way of differentiating oneself. Such differentiation can yield a higher proportion of consumers to choose the products and, hence, mean the difference between financial success and failure. Thus, understanding the satisfaction level towards various services is the need for the day to banks.
TRANSFORMATION IN THE BANKING INDUSTRY

With globalization and changes in technology, financial market, world over has become closely integrated. Deregulation and liberalization have opened up new opportunities for financial institutions including banks but at the same time the pressure of competition has led to narrowing spreads, shrinking margins, consolidation and restructuring. Competition is tough with financial liberalization and banks in India striving hard to benchmark themselves against the best in the world. If the quality of customer service is poor, the banks would surely not subsist in long run. The banks which are capable of providing quality service to their customers will acquire competitive advantage. Sustaining this advantage, banks took unrelenting efforts to upgrade the services continuously in the light of modern information technology from traditional banking into electronic banking. The development took place and its progress in the field of information technology has reduced the world to a global village and it has caused unprecedented change in the field of banking. Information technology is considered as a key driver for the changes taking place around the world. This development was stimulated by the technology of telecommunications and electronic data processing. It brought a new revolution in the field of financial and banking sectors globally. Electronic banking is the most inventive service offered by the banks.

The transformation from traditional banking to e-banking has been a dramatic change. Apart from branch banking in the brick and mortar mode, click
and order channels like core banking solution, internet banking, ATMs, tele-banking and mobile banking are now in vogue. Customers can view the accounts, get account statements, transfer funds, purchase drafts by just making a few key punches. Smart Cards with an embedded micro-processor chip have brought about revolutionary change. Electronic Data interchange (EDI) is another development that has made its impact felt in the banking arena.

There is a huge acceptance of these technological services and financial products gradually with growing awareness and education. A great many people are shifting to use these technological services and are readily accepting the usefulness of this option. It allows customers to manage their accounts from any place at any time for minimum cost with increased productivity levels and enables the customer to use new banking products and services in the market. It increases the efficiency of providing the services thereby enhancing the pace of delivery of banking services considerably.

Recently in India, the service of information technology is used in an effective way to highly satisfy the customers of the respective banks. As time factor is very much important for all the people in this modernized world, the customers wish to avoid waiting in a queue spending the precious time which will lead us to go backward. The electronic revolution has made it possible to provide ease and flexibility in banking operations which benefit the customers. Use of Information technology is rapidly transforming the world of commerce and
banking, making banks faster and more efficient and allowing them to provide more personalized services to the customer.

Thus, advances in technology are allowing for delivery of banking products and services more conveniently and effectively than ever before. Rapid access to critical information and the ability to act quickly and effectively distinguish the successful banks of the future. The bank gains a vital competitive advantage by having a direct marketing and accountable customer service environment and new, streamlined business processes. Consistent management and decision support systems provide the bank that competitive edge to forge ahead in the banking marketplace.

**Current Scenario and Different services Offered**

Currently, overall banking in India is considered as fairly mature in terms of supply, product range and reach. Almost 80% of the businesses are still controlled by Public Sector Banks (PSBs). PSBs are still dominating the commercial banking system. But the entry of foreign banks with latest technology provides convenience and more choices to the customers and brought about a tough time to the Indian banks. These foreign banks aim at a profitable and wealthy part of the market and, in contrast to the Indian nationalized banks, do not recognize any social responsibilities to small account holders or to a rural and semi urban clientele. Thus, the Indian bank system is facing the challenges and
stiff competition with advancement of technology. Efforts are being put to give a satisfactory service to customers through the introduction of new services like Automated Teller Machines (ATM), Electronic Clearing Service (ECS), Electronic Funds Transfer (EFT), tele-banking etc. Time is given more importance than money. The entire system has become more convenient and easy. The customers have more choices in choosing their banks for different services/products. Thus, new age IT (Information Technology) is bringing about sweeping changes in the banking industry and the entire system has become more convenient and easy.

Research Gap

There are several researches conducted in the field of banking investigating the components of quality service metrics, which includes customer satisfaction, customer loyalty, performance and consumer behaviour, attitudes across a variety of service providers. There are some researchers who have conducted researches to identify the customer satisfaction, job satisfaction, employees’ satisfaction in the traditional banking services. Very few studies have so far been published on the diffusion of internet-based platforms for the banking (Alam et al 2010, Thulani et al, 2009). Most of them deal with the diffusion of ATMs in the financial sector (Corrocher, 2002). However, recent changes in the banking industry evidenced almost banks are changing themselves as e-bank and providing new and modern banking services through various e-channels, which are called as alternative
banking channels. Previous researches in banking industry realized that, there are a very few efforts made to identify the consumer satisfaction and problems for each attribute of services offered by the banks and the comparative customer satisfaction in alternative banking services (Yen and Gwinner, 2003; Bettencourt, 1997).

The previous research work conducted stressed the overall customer satisfaction in the banking industry rather than transaction specific satisfaction. Measurement of transaction-specific requires assessing each aspect of the banking services (Olorunniwo et al., 2006). It refers to a customer’s evaluation of an array of different attributes of the service after having an experience with it. However, empirical research makes no attempt to distinguish between the customers satisfaction in private and public sector banks in India

**STATEMENT OF THE PROBLEM**

The success of any field of service depends on the efficiency with which the services are offered to satisfy the needs and expectations of the customers. The banking industry is not an exception to this. Its efficiency in providing service refers to how best it delivers service to its customers. The process of globalization and subsequent changes in the field of banking like merger and acquisition and consolidation, invasion of private sector banks and foreign players has brought out hectic competition among them. In order to face such competition effectively, the banks strive themselves to be innovative and find out new services/products by
re-engineering or other processes and systems continuously to suit the expectations and requirements of the customers. The growth and development of information technology supports the efforts of the banking industry in designing and offering innovative products to attract the customers. It also facilitates improved communication facilities and opens up a flood of new opportunities which redefines the concept of traditional banking. Thus, the banks are forced to meet or exceed the customer satisfaction by providing quality service to meet the expectation with improved services/products and it provides an opportunity to meet the ever-growing expectations of the customers, who are demanding an individualistic attention without delay in getting the transaction.

While electronic banking does offer exciting possibilities for payment mechanisms and other types of services and products, there are many open questions that have still not been satisfactorily addressed and it has raised many issues before the service providers, the banking regulators and government agencies. Further, the current banking services using information technology are limited due to security concerns, complexity and technological problems. Moreover, reliable and systematic information on the scope of information technology in Indian context is still not sufficient.

There is a risk in the context of security concerns and risk of trust and frequent slow response time and delay of service delivery causes customers to be unsure that the transaction has been completed. The disruption of information
access is a common factor prevalent among the customers. Another problem facing e-banking industry is the quality of delivery of service, including both delivery speed and delivery reliability, which caused many e-business failures. Limited online payment options have resulted in many customers to drop out in the last stage of the purchasing process due to dissatisfaction and inconvenience, presence of bogus money etc. It makes the customers to think of using such services a question mark. The lack of financial resource and weak technical expertise have been two major obstacles in developing and maintaining e-banking services for many local banks in remote and rural cities or developing areas with good business potentials and opportunities. Customers fear that someone will have unlimited access to their personal financial information. Therefore, confidentiality of consumer data is another important concern in the adoption of online banking.

From this it is understood that, even-though alternative banking channels using Information and communication technology will enhance good performance of banking services and increases the level of customer satisfaction by providing anytime, anywhere and multi way banking services including varieties of services, convenience, speed, efficiency, security and cost effectiveness customers face the above said problems in using the different banking services offered by the banks.

Under this environment, it is the prime responsibility of banks to provide satisfaction to its customers using the services ensuring safety, security and convenience. The knowledge gained on such satisfaction or otherwise of the
customers helps the banks to focus its attention towards the area or attributes where the unsatisfaction lies and take necessary measures to overcome the limitations or difficulty causing unsatisfaction.

Moreover, private banks are operating under free environment and they are flexible in framing policies and strategies in providing services to the customers. But public sector banks are operating under restricted environment of the road mapped by the Reserve Bank of India and Government of India.

Implementation of ICT in banking industry provides customers a variety of service dimensions or attributes that are salient to the customer to infer in the service quality and perceived value (Toelle, 2006). These service quality dimensions play an important role in the customer satisfaction. There are various service quality dimensions which influence customer satisfaction and loyalty. Apart from this it is necessary to compare the services provided by the private and public sector banks in order to understand in which area or attribute or services either of the banks is lagging behind the other banks. Therefore, this research attempts to examine the effect of alternative banking service quality on customer satisfaction.

The researcher takes up the present study on the customers’ satisfaction level / agreeability level in terms of transactions based under each type of service or product and its attributes. Also, it is an attempt to identify the factors
influencing satisfaction and problems faced by them in using the technology service provided by the banks. It is based on the basic research questions mentioned below:

Research Questions

The present research work is carried out to answer the questions given below:

1. What is the level of customer satisfaction with the different types of services provided by public sector / private sector banks?
2. What are the major factors affecting customers’ satisfaction in using the quality of services?
3. What are the problems faced by the customers in using the different services provided by the banks?

OBJECTIVES

1. To assess the perception towards the technology services offered by the banking sector
2. To find out the level of customer satisfaction towards the technology services/products offered by the banking sector
3. To identify the level of acceptance of technology services/products
4. To know the influence of the use of the services/products on customer satisfaction
5. To determine the overall level of opinion on the technology services/products
6. To compare the services/products offered by the public and private sector banks
7. To offer suggestions for the provision of better services by the banking sector to the customers

SCOPE OF THE STUDY

The scope of the study covers the following:

The study is specific only to banking in India (Namakkal district of Tamil Nadu, Southern India). It revolves around customer satisfaction and its related factors for various information technology services/product offered by the banks. The factors studied are level of customer satisfaction towards the information technology services/products offered banks, the relationship between the customer satisfaction and demographic variables, overall satisfaction of the customers towards the service attributes, the factors influencing the customers to use information technology products, the determinants of satisfaction in using the services/products and the problems faced by the customers in using the services/products.
SIGNIFICANCE OF THE STUDY

Automation has become an inseparable part of the modern industrial society which displaces or replaces human skill and labour as ancillary to production. Today, with the aid of computers, production tasks earlier performed by human beings can be designed, constructed and redesigned with much ease and accuracy. As these products are new to the society, it is necessary to know what extent these services are useful to the customers and their level of satisfaction in using the services. Customers are viewed as a group whose satisfaction with the enterprise must be incorporated in strategic planning efforts. Forward-looking companies are finding value in directly measuring and tracking customer satisfaction as an important strategic success indicator. Evidence is mounting that placing a high priority on customer satisfaction is critical to improve organizational performance in a global market place. With better understanding of customers' perceptions, companies can determine the actions required to meet the customers' needs. They can identify their own strengths and weaknesses, where they stand in comparison to their competitors, chart out the path of future progress and improvement. Customer satisfaction measurement helps to promote an increased focus on customer outcomes and stimulate improvements in the work practices and processes used within the company.

For the purpose, the consumer satisfaction survey helps the bankers to understand the customers’ feeling towards the services they are used. A customer
satisfaction survey is a very important tool to check by the firms in understanding the fact that the products or services offered are acceptable to customers and the services or product fulfills the expectation of the users. It can assist business decision-makers in developing strategies to achieve the all-important goal of gaining and retaining customers. Further, it also identifies the areas of the business that require corrective action and improvement. This also motivates the banks to add their efforts in extending the services to the society by taking appropriate measures to allay the fears and myriad complaints of the users of services.

The study from the sociological perspective would enlighten the society or world of users of automated banking facilities and enhance the obviously narrow base of information on the rubrics of electronic banking and as well dangers to look out for while using electronic delivery channels like the ATM especially for those not already entangled in the web of problems associated with its use. On another scale, the result of this study would enable banks to understand the fact of the character and performance of the different attributes of services provided.

On the academic front, the findings of the study adds to the knowledge and provide insight into the character and workings of the different electronic delivery channels as there exist at the moment quite little information in regard to research on this area of study.
RESEARCH METHODOLOGY

The major aspiration of the study is to identify the level of customer satisfaction, factors that affect the levels of customer satisfaction, problems in affecting the use of services/products in banking industry. The measures used in the study are adopted based on the previous literature dealing with service quality and customer satisfaction and discussion from the experts in the field. The process of the present study has been described in the following paragraphs.

Research Design

Empirical research design is considered to be the suitable method to find out the satisfaction level of the customers using the different types of services/products provided by the banks selected for the study as it studied the level of satisfaction perceived by the customers using IT services/products in banks. The research process for the study is described below.

Source of Data

The data for this study consisted of both primary and secondary data. The primary data have been collected from the customers using the Information technology services/products offered by the banks in Namakkal district.

The secondary data used have been collected from the sources like Published reports of the Reserve Bank of India, government, etc., relevant books and Journals, Magazines and websites of banks.
Selection of Tools for Data Collection

Selection of appropriate instrument or technique is an important criterion in research methodology. The tool for the research comprised the interview schedule consisting of different aspects of services under various types of IT technological services provided by the banks. The questionnaire covers the personal details of the customers selected for the study and their behavior towards the use of the technological services used by them, their perception towards the satisfaction level of each aspect of different services used by the banks, the factors influencing the use of such services by the customers and the problems faced by the customers in using the services.

Area of the Study

Namakkal District is selected as the area of the study by the researcher. It is an administrative district of Tamil Nadu State, India. The district was bifurcated from Salem District with Namakkal town as Headquarters on 25-07-1996 and started to function independently from 01-01-1997. The district has 4 taluks (subdivisions); Tiruchengode, Rasipuram, Velur and Kolli Hills. The main occupation in the district is agriculture. Nearly 90 percent of the cultivated area is under food crops. Namakkal district is noted for Truck and Lorry external body building which dates back to 1956. Throughout India Tiruchengode is known for its Body Building industry for Trucks, Trailers, Tankers and Rig Unit. Finished trucks and Rig Units are even exported to foreign countries from Namakkal.
Nearly 25,000 people are employed either directly or indirectly in truck body building activity and about 300 units in Namakkal and 100 Units in Tiruchengode are engaged in this activity. Poultry development has been rather phenomenal in the district of Namakkal accounting for a bulk of supply of poultry products to neighbouring industries. In fact, Namakkal produces about 65% of the egg output of Tamil Nadu. Transport is also the major field of work in Namakkal; Large number of bulk carriers and Lorries run through all over India from Namakkal.

The district has 15 public sector banks including State Bank of India with 77 and 8 branches respectively and 14 private sector banks with 47 branches. These banks meet the service requirements of the public, industrialists and others. There is wide scope for using the bank products and services widely. Hence, the researcher has selected Namakkal district for the study. (Source: Wikipedia)

**UNIVERSE OF THE STUDY**

The proposed study is to find out the customer satisfaction towards Information technology services rendered by the Public and Private Sector Banks to their Customers. The population is the customers of public and private sector banks in Namakkal district. As it is infinite, a sample of respondents is selected from among the customers of the banks in Namakkal district.
SAMPLE AND SAMPLE SIZE

The selected respondents have represented a balanced mix of various demographic factors (age, gender, marital status, education levels, employment status and income groups). Also, it has been suggested that a study designed to reveal factor structure should have more observations than variables and the minimum absolute sample size should be 50 observations. For this study, a total of 500 respondents are randomly provided the questionnaire from among those visiting the bank branches. The questionnaire is self-administered by the researcher.

The sampling procedure used for the study is stratified random sampling. The stratification has been done based on the type of bank (e.g. public sector, private sector). From each group of bank, the target of customers is about 250 customers. The customers of the bank are approached after they have completed their work for which they are visiting. The sample of the study consists of the customers who are willing to participate in the study. Data are collected using the “personal-contact” approach, i.e. the respondents are approached personally and explained in detail about the survey (including its purpose, the meaning of the items and what is expected of the respondents). Questionnaires are distributed to the customers and they are asked to give their perception towards the services/products delivered by the bank, the factors that influence them to use the technology service and the problems they faced while using the services. Out of
the 500 questionnaires, 394 found to be in completed form and usable for the present research purpose. Hence, the sample for the study consists of 394 respondents. The high response rate is due to the usage of personal-contact approach used.

**Period of the Study**

As an essential part of the study, the primary data are collected by the researcher during the period from January 2012 to June 2012.

**Pilot study**

Before fielding the survey with a larger sample of customers, a pilot study is carried out with the help of the survey instrument with 40 customers from public sector and private sector banks to make sure that questions are relevant and provide useful information. These customers are contacted at the banks prior to the main data collection i.e. in the month of December, 2011. The customers are explained about the purpose of the research and are requested to fill the questionnaire. The suggestions stemmed out of this pilot study are incorporated and final collection is initiated.

**Data Collection Procedures**

The questionnaire as modified based on the pilot study is used to collect the data. Permission to collect the data is obtained from the branch manager. The data
is collected during the working time of the bank i.e from 10 a.m. to 1 p.m. during the week days. Approximately 25 to 30 questionnaires are collected per week. Questionnaires are distributed to the customers and they are asked to give their perception towards the services/products delivered by the bank, the factors that influence them to use the technology service and the problems they faced while using the services. Out of the 500 questionnaires, 394 found to be in completed and usable for the present research purpose. Hence, the sample for the study consists of 394 respondents. The high response rate is due to the usage of personal-contact approach used. The respondents are assured of confidentiality; they were not required to fill in their names on the questionnaire. The researcher also understood that honesty and accuracy in answering the questionnaire is of utmost importance therefore the respondents were urged to be as honest as possible because no one would victimize them since their identities were withheld.

**Framework of Analysis**

The ultimate object of the study is to examine the level of satisfaction of the customers towards IT based services of the commercial banks in Namakkal district. The data collected for the purpose of the study are quantified, categorized and tabulated. It is represented in the following figure.
The collected data are processed using SPSS 17.0 software, applying the following procedures: (a) descriptive statistics (average and standard deviation) of the marks given to satisfaction, (b) test to compare satisfaction levels between two groups created for each hypothesis, as described above. This test is used to check whether two independent samples are taken from populations with equal averages. This is an interesting alternative to the parametric test for average equality, for the Mann-Whitney test does not require considerations on population distribution. The only requirement of this test is that the observations be measured in numerical or ordinal scale.
In order to study the perception of the customers, factor analysis, multiple regression analysis and percentage analysis have been employed. Chi-square test has been employed to measure the relationship among the demographic profile of the respondents and their perception towards satisfaction of the services/products e-banking. Factor analysis technique is applied to find out the underlying dimensions in the set of services relating to the satisfaction of the customers towards e-banking services of the commercial banks. Multiple regression analysis is used to measure the effect of selected independent variables on the impact of e-banking of select commercial banks. Comprehensive descriptive and percentage analyses, standard deviation are also employed to examine the perception of the customers. Levene’s test is used to study how the customers of public sector banks differ from those who are customers of private sector banks in terms of their level of perception towards various attributes of e-banking, satisfaction score on payment services, satisfaction score on requests services and impact score on e-banking.

**MANAGERIAL IMPLICATION**

The data provided could be useful to improve the use of information technology in the banking service. Results through this study will help to understand customer’s perception towards customer satisfaction and activities can be initiated to improve the usage of the financial products and understand the state of affairs of the customers and it will motivate the bankers to further improve the
efficiency of the services, making changes in the services as expected by the customers and able to increase the number of users. The increased use of services results in reduction in cost of providing services by banks.

LIMITATIONS

People who participated in this study represent Namakkal district and it is concluded that they are using the financial services and products offered by the banks and their banking behavior cannot represent the people’s behavior throughout the country though they belong to the same country.

Moreover, as it involves the assessment of technology service, it would not have been possible to gather all the necessary facts in the process of the study. Information gathered is limited to those accesses and made available by the respondents and also those gathered from end users. However, the impacts of this limitation will be reduced to the barest minimum.

CHAPTER SCHEME

The present study is coordinated into the following five chapters

The first chapter deals with the introduction and research design. The review of related study is presented in the second chapter. The third chapter covers the overview of the developments and the usage of e-commerce products in the banking industry and the fourth chapter deals with the analysis and interpretation of data. The fifth chapter presents the summary of findings, suggestions and conclusion of the study.