Chapter I

INTRODUCTION

1.1 Introduction

Since the advent of 20th century, the most economically advanced societies have evolved from being predominantly manufacturing-based to being predominantly service-based. Service industries have become a major element in the economic growth of most countries across the world. As competition intensifies and governments continue to deregulate service industries (e.g., telecommunications, finance, airlines, postal and health services), many service providers seek to differentiate themselves by ensuring customer satisfaction and providing superior service quality.

Service quality and customer satisfaction are inarguably the two core concepts that are at the crux of the marketing theory and practice. In the world of intense competition, service excellence has become a key competitive advantage in virtually all industries that will in turn result in satisfied customers. The prominence of these two concepts is further manifested by the cornucopia of theoretical and empirical studies on the topic that have emanated

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over the past few decades. Therefore, there is not even an iota of doubt concerning the importance of service quality and customer satisfaction as the ultimate goals of service providers. Quality is sought by all organizations, especially in the service sector. This is particularly true in the banking sector.

India stands out for the size and dynamism of its services sector. As a backbone of social and economic development, the services sector has contributed manifold to the Indian economy. It is a large and most dynamic part of the Indian economy both in terms of employment potential and contribution to national income. Financial services being a sub-category of services sector contributed considerably for the 6% growth of gross domestic product.

Though, the banking and financial institutions across the world were plunging in recent years, India’s banking sector has been amongst the few to maintain resilience amidst all this chaos and recession.

A progressively growing balance sheet, higher pace of credit expansion, expanding profitability and productivity akin to banks in developed markets, lower incidence of nonperforming assets and focus on financial inclusion have contributed to making Indian banking vibrant and strong. A rigorous evaluation on the health of commercial banks was recently undertaken by the Committee on Financial Sector Assessment (CFSA) shows that the commercial banks are robust and versatile.
Change is the only constant feature in this dynamic world and banking is not an exception. The changes staring in the face of bankers relates to the fundamental way of banking, which is going through rapid transformation in the world of today. Adjust, adapt and change should be the key hymn. The Federation of Indian Chambers of Commerce and Industry (FICCI) in its annual survey on Indian banking system: the current state and road ahead emphasized the major challenge faced by banks today as in Figure 1.1 is the ever rising customer expectation as well as risk management and maintaining growth rate. The result of the survey on biggest challenge faced by the banking industry as declared by the respondents was illustrated on a mode scale of 1 to 7 with 1 being the biggest challenge as represented in Figure 1.1:

**Figure 1.1: Challenges Faced by Banking Industry**

![Bar Chart](source: Federation of Indian Chambers of Commerce and Industry (2010))
Over the last three decades, there has been a remarkable increase in the size, spread and scope of activities of banks in India. The business profile of banks has transformed dramatically to include non-traditional activities like merchant banking, mutual funds, new financial services and products and the human resource development.

Berry\(^1\) (1995) viewed that the success of a business largely depends on the quality of service provided to its customers. Today’s consumers are better educated, travel extensively and read widely. These attributes influence their buying behaviour in that they are becoming more sophisticated, more discerning and have high expectations. There is difficulty in keeping pace with the rising expectations of customers, which is an economic and social phenomenon, as well as political one. Baker and Fesenmaier\(^2\) (1997) noted that it is important to understand customers’ expectations in order to assess the organization’s ability to deliver services; any dissatisfaction is a result of service falling below customers’ expectations.

In banking organizations, the general offering in a particular industry is averagely similar, even though they may engage in different approaches to achieving a differentiation from the others, to be able to gain more market

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share and customers in the industry. According to Gronroos\(^1\) (2001), “that almost any retail bank can provide an individual with retailing services, but not every bank manages to treat customers in a way that they are pleased with.” Service providers therefore seek to differentiate themselves from their rivals by offering customers higher quality of services than their competitors’, which makes the basis of their competition to be defined by their services.

The nature of services as being intangible, heterogeneous, perishable, produced, and consumed at same time makes it peculiar to deliver, and challenging to organizations to achieve a differentiation from the others. A bank cannot inspect its services and products to weed out unsatisfactory ones before they are presented to the customer. Hence, apart from training the bank employees to know what to do and how to do in providing quality service, it is essential that they have the requisite authority to make decisions regarding customer satisfaction.

Customers of a bank rely on the services delivered to them by the bank whether they are saving, depositing, taking loans, cashing cheques or buying funds, they count on the employees responsible for handling issues relating to them, to deliver high service quality in order to increase their satisfaction. When service interactions are not properly controlled and handled, or not even handled at all, the outcome is poor perception of service quality and customer dissatisfaction.

Unlike their western counterparts, Indian banks had the opportunity to leapfrog through technological innovations as they started off with a comparatively clean slate. Core banking solutions (CBS) enables banks to consolidate their technology platforms across functions and geographies leveraging cost and at the same time acquiring flexibility and scalability to adapt to a fast changing and competitive environment. Integrating CBS with common inter-bank payment systems can benefit banks and financial institutions in terms of facilities such as CRM, customer profiling and differentiation for improved customer service.

In general, customers expect banks to provide the basic banking services. They also expect different levels of services to maximize the value they can obtain from banks. From Alvin’s\(^1\) (2003) point of view, eventually, customers want banks with whom they can get in touch by phone or in person in a timely manner. They want banks to open during hours that are convenient to the markets served. Usually they only have a moderate understanding of credit terms. They also want banks to keep them informed in a way that they understand. Communicating in this sense is to keep the customer informed, initiate communications and use the customers’ language. However, at some stage or another majority of customers will make direct contact with the frontline employees of the organization.

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Aldlaigan and Buttle\textsuperscript{1} (2002) found that customers’ evaluation of service quality can be clearly attributed to the service organization as a system rather than individuals within the system, as supported by Galloway and Blanchard’s\textsuperscript{2} (1996) findings; it is clear that customers of retail banking value the process elements when evaluating quality.

The SERVQUAL instrument is based on gap theory\textsuperscript{3} and suggests that a consumer’s perception of service quality is a function of the difference between his or her expectations about the performance of a general class of service providers and his or her assessment of the actual performance of a specific firm within that class.\textsuperscript{4}

Customer expectations and perceptions are not based on a single factor and will be the result of a combination of several factors that customers determine as appropriate in the creation of satisfaction.\textsuperscript{5} Each subject’s perceived expectations, performance evaluations, disconfirmation and satisfaction were subsequently measured by using multiple measures for each

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construct.\textsuperscript{1} There are many measurement and scaling issues to be addressed with respect to these constructs.\textsuperscript{2}

Though, there are doubts about whether customers routinely assess service quality in terms of expectations and perceptions. It is reasonable to expect that perceptions of quality are influenced by expectations.\textsuperscript{3} Boulding\textsuperscript{4} \textit{et al.} (1993) interpreted the results of their study as providing strong evidence that a person’s prior experience should shape expectations, and the delivered service influence a person’s perceptions of quality.

Actual service performance becomes difficult to assess either because of the time elapsed or the unique nature of the service experience.\textsuperscript{5} In addition, customers weight their perceptions of the performance levels of component services differently for service than value. The weight of evidence clearly supports the use of measures of service quality as performance-based.\textsuperscript{6}

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Many studies have related overall satisfaction with some product or service to satisfaction with specific aspects of the product or service. Customers may explain their satisfaction with a product or service in terms of specific aspects such as the product attributes, price, customer service, or a combination of these various features. But, the perception of the quality of banking services provided will differ from customer to customer and even for the same customer at different points of time, depending on the mood and mind-set of the same user at a particular point of time.

Customer satisfaction can result from any dimension (whether or not it is quality related) and its judgment may arise from non-quality issues and require experience with the service or provider.

Each customer may have different nature in responding to different situations, while availing services. Recognizing the type of customer is a part and parcel of handling complaints by the organizations. In general, the customers may be identified as one of the five types of complainers, of which, each type is motivated by different beliefs, attitudes, and needs. The types of

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customers are: 1) the meek customer are those who generally will not complain, 2) the aggressive customer is the one who readily complains, often loudly and at length, and these customers are opposite to that of meek customer, 3) the high-roller customer is the one who expects the absolute best and is willing to pay for it, and they are likely to complain in a reasonable manner, unless a hybrid of the aggressive customer, 4) the rip-off customer are those, whose intention is to get something they are not entitled to receive, and 5) the chronic complainer customer is the one who is never satisfied, yet these customers would prevail as an organizations customer.

Customer satisfaction provides a leading indicator of consumer purchase intentions and loyalty.¹ Notably, the quality and satisfaction concepts have been linked to customer behavioural intentions like purchase and loyalty intention, willingness to spread positive word of mouth, referral, and complaint intention by many researchers.²,³,⁴ The interest in studying satisfaction and service quality as the antecedents of customer behavioural intentions has been

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stimulated as satisfaction and quality are closely linked to customer retention.\textsuperscript{1,2,3}

\subsection*{1.2 Statement of the Problem}

This investigation seeks to establish a method to predict service quality in nationalised commercial banks in Madurai district. The motivation for this study was provided by the scarcity of useful tool to predict and evaluate service quality in nationalised commercial banks to streamline the customer perspective banking services towards enrichment of customer satisfaction. Further, it was noted that there is a lack of empirical studies relating specifically to discriminating customers based on their level of satisfaction with banking services.

The value of this study exists with substantial evidence reporting that service quality as an important antecedent of customer satisfaction. Competition among banks is unique in every nook and corner of the world, and it is particularly true in Madurai district, where 273 scheduled commercial bank branches are functioning. The importance of selecting a large sample from the district of Madurai is born out by the facts that while it is only one of the 32 districts in the state of Tamilnadu, it has over 10\% of all the nationalised commercial bank branches in Tamilnadu chartered in the nation. Furthermore,

the district of Madurai stands tall at fourth position next to Chennai, Coimbatore and Kancheepuram districts in the list of districts having most number of bank offices with 4.14% of all the scheduled commercial bank branches in Tamilnadu and it is also the business center for all the southern districts in Tamilnadu.

In general, banks don’t have a recognized standard scale to measure the perceived quality of banking services, as every case is unique due to specific groups of individual, organization or branch, culture, country and religion. Thus, every researcher has tried to propose the best model for service quality specifically in the banking sector. Available instruments include either scales contextually developed by specific banks to cope with occasional problems or instruments not especially designed for banking services but rather to measure perceived service quality across a broad range of services. There have been a number of empirical studies of retail bank service quality. Most of these have measured service quality by replicating or adapting the SERVQUAL model, while a smaller number of studies have incorporated Gronroos’s ideas on service quality.

Building upon these past studies, the academicians and researchers interest in the measurement and management of customer satisfaction and service quality has been high in recent years. Hence, the investigator makes an attempt to link customer satisfaction and service quality in the context of Indian banking services by examining the predominance of service quality dimensions
on customer satisfaction, and further the discrimination of customers’ perception based on the disconfirmation of expectation paradigm. The unique nature of the study revolves around customer expectations and perceptions of service quality in the delivery of financial services in nationalised commercial banks, and moreover it was meant to advance academic knowledge in an area that has had limited empirical study on customer expectations versus customer perceptions giving additional support to group discrimination.

1.3 Operational Definitions

1.3.1 Banking

A bank is a financial institution which deals with deposits and advances and other related services. It receives money from those who want to save in the form of deposits and it lends money to those who need it. Banking is one of the key drivers of the Indian economy. Banking provides a safe place to save excess cash, known as deposits. It also supplies liquidity to the economy by loaning this money out to help businesses grow and to allow consumers to purchase homes, cars and consumer products. Banks primarily make money by charging higher interest rates on their loans than they pay for deposits.

The Banking Regulations Act 1949 defined ‘Banking’ as accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and withdrawal by cheque, draft, and order or otherwise.
1.3.2 Service

According to Looy\textsuperscript{1} et al. (2003), service is “any activity that one party can offer to another that is essentially intangible and does not result in the ownership of anything”.

Zeithaml\textsuperscript{2} et al. (2006), puts it in most simple terms “services are deeds, processes, and performances.

The definition that fits more in describing service in the retail-banking sector is given by Looy\textsuperscript{3} et al. (2003), as “all those economic activities that are intangible and imply an interaction to be realized between service provider and consumer.

1.3.3 Service Encounter

According to Shostack\textsuperscript{4} (1985) “A service encounter is a period of time during which a consumer directly interacts with a service”.

1.3.4 Service Quality

Looy\textsuperscript{5} et al. (2003) defines service quality as a form of attitude representing a long run, overall evaluation of the service received. Arising from the perspective that the service quality perceived by the customer maybe


\textsuperscript{3} Looy et al., \textit{Services management}.


\textsuperscript{5} Looy et al., \textit{Services management}. 
different from the quality of service actually delivered by the service provider as studies have shown is always the case.

Sureshchandar\(^1\) \textit{et al.} (2002) describe service quality as the degree of discrepancy between the customers’ normative expectations of the service and their perceptions of the service performance.

Zeithaml\(^2\) \textit{et al.} (2006) defines service quality as the customers’ perception of the service component of a product, and a critical determinant of customer satisfaction.

\textbf{1.3.5 Expectations}

Customer expectations are beliefs about service delivery that serve as standards or reference points against which performance is judged.

\textbf{1.3.6 Perception}

Perception is a cognitive process wherein an individual collects, organizes, and interprets data from the environment to obtain a meaning from it.

\textbf{1.3.7 Perceived Service Quality}

Perceived service quality is viewed as the degree and direction of discrepancy between consumers’ perceptions and expectations.\(^3\)

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1.3.8 Service Quality Dimensions

Tangibles: Looy\textsuperscript{1} et al. (2003) described tangibles as the tools or equipment used to provide the service and communication material.

Reliability: According to Zeithaml\textsuperscript{2} et al. (2006), “it is the ability to perform the promised service dependably and accurately”.

Responsiveness: Looy et al. (2003) describes this as the willingness on the part of the service supplier (employee) to assist the customer and provide prompt service.

Assurance: Looy et al. (2003) describes this as the knowledge-ability and courtesy of employees towards the customers, their ability to inspire trust and confidence in handling the customers.

Empathy: According to Zeithaml et al. (2006), “it means treating customers as individuals, giving them customized service”.

1.3.9 Customer Satisfaction

According to Zeithaml et al. (2006), “Customer satisfaction is when the outcome of the service matches the expectations”.

1.3.10 Behavioral Intention

Behavioral intention refers to “instructions that people give to themselves to behave in certain way.”\textsuperscript{3}

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\textsuperscript{1} Looy et al., Services management.
\textsuperscript{2} Zeithaml et al., Services marketing
1.4 Significance of the Study

1. The findings of the study helps in identifying potential difference among sample banks confined to this research on the basis of service capabilities, and the corresponding perceived quality and satisfaction of customers on the services offered by the respective banks.

2. Further, the results would reveal the existence of differences on the perceived service quality and customer satisfaction among age, gender, household monthly income, education level, frequency in use of bank, ways service is accessed, and reasons for selecting the bank.

3. It can also help in pinpointing areas requiring managerial attention and action to improve service quality.

4. The focal point of this study is to prescribe a simplified SERVQUAL scale for measuring perceived quality in banks, and a means to discriminate the customers as dissatisfied and satisfied.

1.5 Outline of Thesis

This work examines the perceived quality of service and satisfaction of customers on banking services with respect to chosen nationalised commercial banks in the geographical area pertaining to Madurai district in the state of Tamilnadu, India, and the consequent behavioural intention among dissatisfied and satisfied customers were studied. Further, the existence of differences on the perceived service quality and customer satisfaction among age, gender,
monthly income, education level, frequency in use of bank, ways service is accessed, and reasons for selecting the bank.

The following chapters outline the steps taken to structuralize the framework of the study and answer the research objectives. The second chapter summarizes the review of related literature; the third chapter outlines the study design of the study, and the materials and methods used; the fourth chapter confers about the development of banking in India, and the profiles of the banks selected for this study; the fifth chapter reports the data analysis results and their implications; and the sixth chapter includes the brief summary, findings, suggestions and conclusions of the study, and suggestions for the further outlook.