CHAPTER – II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

INTRODUCTION

Quality in service is very important especially for the growth and development of service sector business enterprises (Powell, 1995)\(^2\). It works, as an antecedent of customer satisfaction (Ruyter and Bloemer 1995)\(^3\). In the past, quality was measured only for the tangible products because of less dominance of service sector in the economy. Due to the increasing importance of service sector in the economy, the measurement of service quality became important. Banking is essentially a high contact service industry and there is close interaction between the service provided and the customers in the traditional banking scenario.

Service marketing is different from goods marketing because of the inherent difference in services as compared to goods. The service is intangible, heterogeneous, production and consumption takes place simultaneously and it is perishable. These results show the challenges based by the service business and has given rise to the need for new concepts and approaches for marketing and managing service businesses.

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QUALITY

ISO standards is one of the measurement tools of service quality, where quality is defined as the totality of features and characteristics of a product, process or service. Crossby (1979)\(^{24}\), a renowned researcher in service quality defined as the ‘conformance to requirements’.

The guru of quality movement Juran (1992)\(^{25}\) defined quality as ‘fitness for use’ while Lewis (2001)\(^{26}\) viewed quality as a process promising to result in products or services. Parasuraman et.al., (1994)\(^{27}\) explained quality as a gap between what customers feel should be offered and what is provided.

SERVICE QUALITY

Quality in services is an elusive concept because of the intangible nature of the service offering and the definition of quality may vary from person to person and from situation to situation. The definition produced by Lassar and Winsor (2000)\(^{28}\) that service quality in banking implies consistently anticipating and satisfying the needs and estimations of the customer.

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\(^{24}\) Juran, J., (1968), Juran on Planning for Quality, American Society for Quality Control, Milwankee, WI.

\(^{25}\) Juran, J., (1968), Juran on Planning for Quality, American Society for Quality Control, Milwankee, WI.


Ramasamy (1996)\textsuperscript{29} identified three different sets of measures for service quality that a company should be concerned with service performance measures, customer measures and financial measures.

In the present study, be the service quality is focused at two different dimensions namely service quality: The customer mind and service quality: Managerial Implementation.

**SERVICE QUALITY: THE CUSTOMERS MIND**

Service quality is by nature a subjective concept, which means that understanding how the customer thinks about service quality is essential to effective management. Cronin and Taylor (1992)\textsuperscript{30} and Oliver (1993)\textsuperscript{31} identified three related concepts to the understanding of service quality as customer perception service quality and customer value. An understanding of the concepts of perception, quality and value is necessary for managing service quality effectively.


CUSTOMER SATISFACTION

Customer satisfaction with a specific service encounter depends on pre-existing or contemporaneous attitudes about service quality. (Anderson and Sullivan, 1993) Customer satisfaction and perceived service quality are positively related to behavioural intentions (Narasimhan and Sen, 1992). Favourable disconfirmation (when performance exceeds estimations) can positively affect satisfaction (Oliver, 1981). Customer satisfaction was measured with the help of consumer comfort in service relationships Oliver (1980). It was measured with the help of comfortableness with the service provider, relationship with the service provider, trust on the service provider, commitment of the service provider and active vice of the service provider. In total, 24 variables related to the above said five aspects were included to measure the customer satisfaction towards the services Bendapudi and Berry (1997).

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FACTORS LEADING TO CHOOSE THE COMMERCIAL BANKS

Service quality is a customer determination based on customers’ actual experience with the service, measured against his or her requirement, stated or unstated, operational or subjective, conscious or merely sensed (Feignbourn, 1991). The more scientific and condition-oriented is the service mix, the more refined are the services. Because of the intangibility of services and the crucial role that front-line employees play in service delivery (Bowen and Schneider, 1998).

CUSTOMER LOYALTY

Customer Loyalty is purchase behaviour, unlike customer satisfaction, which is an attitude (Griffin, 1996). It is key mediating variable in explaining customer retention (Pritchard and Howard, 1997) is concerned with the likelihood of a customer retaining, making business referrals, providing strong word-of-mouth, as well as providing references and publicity (Bowen and Shoemaker, 1998). Loyal customers are less likely to switch to a competitor due to a given price inducement, and these customers make more purchases compared to less loyal customer (Baldinger and Rubinson, 1996). Zeithammal et al., (1996) purpose that


customer behavioural intention consists of five dimensions namely loyalty to company, propensity to switch, willingness to pay more, external response to problem and internal response to problem. The loyalty dimension is expected to be the best predictor of behavioural intentions (Wong, et al., 1999). De Ruyter et al., (1998) found the positive relationship between perceived service quality and source loyalty.

The service loyalty is conceptualized by Jacoby, and Chesnut (1978) Gremler and Brown (1996) referred to service loyalty as “the degree to which a customer exhibits repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises”. The service loyalties among the customers have been measured with the help of few related statements. (Oliver, 1999; Harris

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and Goode, 2004\textsuperscript{49}; Gustafsson et al., 2005\textsuperscript{50}). In the present study, the customer loyalty has been measured with the help of six related statements.

**SERVQUAL SCALE**

The foundation for the SERVQUAL scale is the gap model proposed by Parasuraman, Zeithammal\textsuperscript{51} and Berry\textsuperscript{52} (1985, 1988). As a gap or difference between customers estimations and perceptions, service quality is viewed as lying along a continuum ranging from ‘ideal quality’ to ‘totally unacceptable quality’, with some points along with continuum representing service quality. The SERVQUAL scale (SQ) is measured by

\[
SQ = \sum_{j=1}^{k} (P_{ij} - E_{ij})
\]

Whereas

- \(SQ_i\) – Perceived Service Quality of individual ‘i’
- \(K\) – Number of attributes / items
- \(P\) – Perception of individual ‘i’ with respect to performance of a service firm attribute ‘j’
- \(E\) – Service quality estimation for attribute ‘j’ that is the relevant norm for individual ‘i’


The application of the scale is evident in a number of empirical studies (Kassim and Bojei, 2002, Carman, 1990, 2000). 

In the present study, the SERVQUAL Score (SQS) is calculated by

\[
SQS = \sum_{j=1}^{k} (P_{ij} - E_{ij})
\]

Whereas

- SQS – SERVQUAL Score of service quality variables
- \( E_{ij} \) – Service Quality estimation for variable/factor
- \( P_{ij} \) – Service Quality perception for variable/factor
- \( j=1\ldots k \) – No. of variables/factors included in SERVQUAL analysis

The positive SQS indicates the excess of estimation over the perception on service quality of the banking variables whereas the negative SQS indicates the excess of perception over the estimation on service quality of the banking variables.

REVIEW OF PREVIOUS STUDIES

The review of previous studies related to service quality, service quality gap, service quality scale, customers’ loyalty comparative study in service quality are summarized below:

Zillur Rahman (2005) compared the estimations and perception on the services offered by the commercial banks. In all five aspects of the

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quality services, the mean of perception is lesser than the mean of estimation. The significant mean difference between the perception and estimation is also noticed. The largest discrepancies are found along the ‘reliability’ dimension. The Punjab National Bank is the highest performing bank since it holds an advantage over others in the area of perceived tangible, reliability, responsiveness and empathy dimension. In general, there are highly significant differences among the banks regarding different dimensions of service quality.

Sachder and Verma (2004)\textsuperscript{56} revealed that in case of banking the perceived performance is below ‘would be’ level of performance in four of five service dimensions. That is the banking services do not even perform at the adequate level in respect of reliability, responsiveness, assurance and empathy. The standardized Beta co-eficients have provided the following order of importance of service quality dimensions in banking industry as empathy, tangibility, reliability, assurance and responsiveness.

Sharma and Mehta (2005)\textsuperscript{57} compared the service quality perceptions in the State Bank of India, the Corporation Bank, the UTI Bank and J & K Bank. They identified that the UTI bank has the highest tangibility in terms of the employees, physical evidence and ambience. The analysis of reliability dimension places the public sector banks far ahead of the private sector banks. Regarding ‘responsiveness’ the corporation bank is the front-runner among the four banks. The analysis


also reveals that the J & K Bank has the lowest service quality perception value, whereas the corporation bank has the highest perception.

Debasish (2003)\textsuperscript{58} had used Rust and Oliver model to study the service quality in banks. The study revealed that the ICICI bank and State Bank of India provide better quality service. However, on the whole the public sector banks have failed to satisfy their customers in five dimensions namely tangibility, reliability, responsiveness, assurance and empathy.

Eminbabakus et al. (2003)\textsuperscript{59} examined the conceptualization of Management Commitment to Service Quality (MCSQ). The best indicator of MCSQ is empowerment, followed by rewards and training. The training, empowerment and rewards jointly affect the Service Recovery Performance through the mediating roles of employees' job satisfaction and affective organisation commitment. The MCSQ exerts a stronger influence on the Service Recovery Performance through affective organisation commitment than through employees’ satisfaction.

Upinder, et al. (2004)\textsuperscript{60} identified the most important service quality factors in private and public sector banks from the customers and employee’s point of view. Competence, tangibility and record maintenance seem to be typical factors of private sector banks, whereas the


tangibility, reliability and access seem to be typical factors of the public sector banks.

Israel et al. (2004)\(^{61}\) used the correspondence analysis to measure the service quality in the public and the private sector banks. They pointed out that the private sector banks need to focus more on reliability, credibility and security aspects in delivering service to their customers. The public sector banks need to improve on aspects such as tangibility, fairness and treatment and more importantly on accessibility and ‘courteous behaviour’ of employees towards the customers.

Nazrul Islam and Egaz Ahmed (2005)\(^{62}\) found that the first estimated service quality factor in banks is the performing promises by the employees followed by the personal attention and tangible physical facilities. There is a relationship between the perceived service quality factors and the overall quality of the bank. There are significant differences between the service quality of the public and the private banks. The differences are found in physical facilities, appearance of bank employees, services, willingness to help the clients, courteous to the clients and working hours of the bank.

Yogeshwari Phatak and Abidi (2000)\(^{63}\) revealed the client’s perception of quality in banking services as reliability, tangibility, responsiveness, assurance and empathy. The private sector banks are


definitely able to meet the estimations of their clients than the public sector banks. Especially on factors like reliability and empathy, the gap is almost negligible in case of private sector banks while it is significant in case of public sector banks. On factors like tangibility and assurance, the private sector banks are again out performing public sector banks.

Prithviraj Nath and Arinvandan Mukherjee (2000)\(^{64}\) identified the service quality in engineering education are competence of faculty, reliability, placement facilities, academic infrastructure, support facilities and campus facilities. The study is also differentiates the quality of service offered by the state-run and private engineering colleges. The private college authority properly utilizes its resources to improve their service quality in a consistent manner.

Oliver Nerurkar (2000)\(^{65}\) found that the consumers assigned lower weights to tangibles as compared to reliability, responsiveness and assurance. The weightage given on the service quality of the commercial banks is reliability. But in the case of insurance, consumers did not distinguish among the five service dimensions in terms of their importance. In the hotel industry, it was found that consumers assigned to reliability a significantly higher weight than assurance and empathy.

Navdeep Agarwal and Gupta (2003)\(^{66}\) identified that the important factors in banking service quality are service time, interaction with bank’s staff, ambience and infrastructure and services and banking channel. The


\(^{66}\) Navdeep Agarwal and Mohit Gupta (2003), “Multi level-Multi dimensional model of banking service quality”, Paradigm, 7 (2), July - December, pp. 91 - 104.
most important variables in the above said banking service quality factors are banking hours, availability of staff, pleasant atmosphere in the bank and network of banking services.

Mushtag A. Bhat (2005)\textsuperscript{67} identified that the poor service quality among the Indian banks is mostly because of deficiency in tangibility and responsiveness. The service quality of Indian banks are perceived different according to the income, age and region of the customers. The banks provide comparatively better service quality to business group customers in comparison to service group customers as they are comparatively small in number with comparatively high level of income as against to service group customers. Different education levels, however do not exhibit greater variation in service quality.

Victor Iglesias (2004)\textsuperscript{68} found the significant effect of preconceptions on perceptions during the service encounter. Preconceptions about the service category distort customer perceptions of the service encounter. The effect of preconceptions on the dimensions of tangibles and reliability are lower. The attribute based processes predominate in evaluating banking, insurance, and financial advisory services. The direct effect may become significant, whereas the mediating role of perceptions sense.


Hasanbanu (2004) revealed that the customers expect speed, courtesy and concern from bank. The system followed in banks needs a review for simplifying the various forms and proceeding for sanctioning loans. The important estimated services in the rural banks are courteous service, bank premises, prompt service, accuracy and introduction and payment on term deposits.

Sultan Singh (2004) identified that the level of customer service and satisfaction is determined by branch location and design, variety of services, rates and changes, systems and procedures, delegation and decentralization, mechanization and computerization, competitive efficiency, complaint redressal and very importantly staff skills, attitudes and responses.

Chinedu B Ezirim (2005) identified the key factors accounting for customer’s choice of retail banks in Nigeria are security of environment of banking operation: size and financial strength of the retail bank; speed of service delivery; liquidity and safety of deposits; and accuracy of any efficiency in customers accounts management. Others include convenience on the part of the customers in terms of case of transactions, availability of packing space, possibility of transactions during normal and past-normal banking hours.

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Prabhakaran and Satya (2003)\textsuperscript{72} identified that the important criterion to choose the final service provider is interest rate. There is a fair degree of association between reliability and responsiveness; reliability and tangibility; empathy and responsiveness; empathy and tangibility; and assurance and reliability.

Darsan Parikh (2002)\textsuperscript{73} analyzed the gaps between the perceptions and the estimations of the customers on retail service quality at five dimensions namely physical aspects, reliability, personal interaction, problem solving and policy. The highest average gap between the customers perceptions and estimations is identified in the problem solving dimension, followed by the area of interest shown in physical aspects dimension. The study also revealed that the customers have their own preferences and estimations different from what the service providers think.

Mushtag A Bhat (2005)\textsuperscript{74} revealed that the Indian banks fall much below the perceptions of their customers on all dimensions of service quality whereas foreign banks are exceeding the perceptions of their customers an tangibility and reliability dimension of service quality. These banks are closer as regards estimations of their customers not far away from the perceptions of their customers as far as other dimension of service quality are concerned. This observation revealed bleak reality, that Indian banks do not meet the estimation of their customers.


Clement (2005)\textsuperscript{75} found the service quality gaps in sixteen dimensions namely management perceptions, service quality strategy, service design and service quality specifications in terms of customers estimation, service gaps, quality supportive financial function, internal communication, co-ordination, organizations in the value system, service delivery, external communication, contact personnel’s perceptions of customer’s estimations, human element, consumer perceptions and service quality evaluation.

Sivaloganathan (2004)\textsuperscript{76} identified that the customer services should be personal and professional. To put it in a nut shell, the Indian banking has definitely come a long way in its ultimate mission of providing customer care. However, with a rapidly increasing customers population and the parallel growth of demand for qualitative, competitive services, a lot still remains to be desired. In fact, banking sector reforms will be meaningless if they do not improve customers perception of bank services.

Krishnaveni and Divya Prabha (2005)\textsuperscript{77} identified that the antecedents of service quality are dedicating resources, quality oriented vision, empowering employees, ascertaining customer needs, providing desired environment, monitoring customer estimations, recognition and service culture and job satisfaction. The consequences of service quality are customer satisfaction, customer loyalty, positive word of mouth


communication, customer trust and commitment, customer retention and business performance and profitability.

Olsen and Johnson (2003)\textsuperscript{78} explored the equity and customer satisfaction plan in explaining customer loyalty for banking services. Perceived equity as the psychological reaction to a firm’s value proposition, affects loyalty through satisfaction. Equity is a judgement that bridges the gap between satisfaction and behaviour intention. It was also found that the type of evaluations that customers make affect the impact that price and product have on loyalty vis-à-vis the pure service component of a service offering.

Sundar and Lakshmanan (2005)\textsuperscript{79} stressed the need for customer care management in banks to achieve customer satisfaction. The important ways to establish the customer care are the customer complaints management, knowledge update of bank staff, routine steps in complaint management, customer help desk, complaint audit, training of employees for attitudinal change, institution of award for zero grievance, customer meet, rewarding financial discipline, brainstorming session and computerization of banking operations.

Hess et al. (2003)\textsuperscript{80} identified that customer organisation relationships can help to shield a service organisation from the negative effects of failures on customer satisfaction. The first suffering effect, was


as predicted, a direct effect from customers’ estimation of relationships continuity to customers service recovery estimations whereas the second suffering effect is attributions of causality.

Aravindan and Punniyamoorthy (2000) found that the customer satisfaction in banking was achieved mainly by meeting the objective needs of the customers namely performance, reliability and serviceability, features and aesthetic played a supplementary role in bringing satisfaction to the customers.

Hasmukh (2000) in his study on delivering quality services at two commercial co-operative banks in Gujarat identified that the quality of services rendered to the customers, shareholders, employees and the community at large is the source of satisfaction to all concerned. As a result, there is considerable progress in terms of deposits, advances, loans and profits. All people connected prefer these banks due to their prompt, cheap, comfortable and personalized services and seem to be quite happy with their experience.

Sanjay and Garima Gupta (2004) found that while the SERVPERF scale is more convergent and discriminant valid explanation of the service construct, possesses greater power to explain variations in the overall service quality scores, and is also a more parsimonious data collection instrument. It is the SERVQUAL scale which entails superior diagnostic power to pinpoint areas for managerial intervention.

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Verma and Vohra (2000)\textsuperscript{84} revealed the significant pattern of the importance of banking service quality features as perceived by the customers. Out of the top five features as perceived by the respondents, three relate to the SERVQUAL dimension of reliability, and one each to responsiveness and empathy. Moreover, most of the customers do not pay much attention to the tangibles. The important perceived aspects by the customers are punctuality in opening of the bank, accurate record keeping and prompt services.

Sachdev and Verma (2002)\textsuperscript{85} indicated that customers do have two estimation levels namely desired and adequate and they differ significantly in banking. Customers ‘desired’ estimations are enduring in nature and ‘adequate’ estimations are much flexible and closer to the level of service performed. Customers consider all the stated dimensions of service quality namely tangibles, reliability, responsiveness, assurance and empathy important to them as both their ‘desired’ and ‘adequate’ estimation levels have been found greater. The comparison of performance mean scores with ‘would’ estimations in respect of the two services provide that bankers need to improve and manage the service quality on all of its stated aspects because customers’ even minimum acceptable level of performance is not being served.


Milind Sathye (2005)\(^86\) found that the partially privatized banks have continued to show improved performance and efficiency in the years after privatisation especially in the financial and the efficiency parameters. Partially privatized banks also seem to be catching up with the banks already in the private sector. No significant performance or efficiency difference was seen in these two cohorts of banks. It reveals that the Indian strategy of gradual privatization has succeeded.

Madhu Vij (2003)\(^87\) revealed that some of the banks suffered heavily due to the financial crisis in the Indian financial system after these banks came into being. Second, the indiscriminate lending to corporates by some of the banks along with bad corporate governance resulted in huge non-performing assets. A comparative analysis of the three private sector banks shows that the HDFC stands act as a clear winner with the ICICI at number two.

Bharati Pathak (2003)\(^88\) identified that Housing Development Finance Corporation emerged as a leader in the financial performance of the banks doing 1995-96 to 2000-01. Its closest competitor was the ICICI bank. The performance of the other three banks namely the Industrial Bank, the Centurion Bank and the UTI Bank, lagged behind them, but it was, by no means, depressing. These banks, obviously, have to focus more on improving parameters like credit quality and cost control for them to emerge as the top performers.

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Amit Mokerjee and G. Shainesh (2000) concluded that inclusion of additional variables measuring relationships strength in the service quality based customer satisfaction measurement, would enable managers to get a deeper insight into the status of customers loyalty and related behaviours. The satisfaction was an important factor determining loyalty. But the fact that satisfied customers switch, suggests that satisfaction is a condition that is necessary but not sufficient for loyalty.

Xavier and Shainesh (2000) revealed that the service plays a key role in determining behavioural intentions, like the intention to repurchase, and increase usage, the intention to use other offerings, and the intention to recommend the service. The study revealed a positive relationship between service quality and disconfirmation, satisfaction, service value, behavioural intentions and objective price.

Rawani and Gupta (2000) found that the customers in banks expect faster turn around times for banking and demand better services than ever before. Due to difference in market segments covered by public and private sector banks, estimations of their customers are also different. The private sector banks focus on innovation and customer service whereas the public sector banks work on social commitment. Banks expect customers to be punctual and customers find it convenient.


Gani and Bhat (2003)\textsuperscript{92} found that service quality of foreign banks is comparatively better than that of Indian banks. The important reasons for such poor service quality in Indian banks are lagging behind on the front of physical facilities, up-to-date equipments, communication material, neatness of employees, employees providing prompt service to customers, willingness of employees to help customers convenient operating hours, banks’ having customer interest at heart and employees who give personal attention.

Joshuva and Koshi (2005)\textsuperscript{93} found that the ICICI has out performed the other three selected banks namely the UTI bank, the Corporation bank and the Karnataka bank in providing quality service. It is seen that the performance of the new generation banks across all the service quality dimensions are better than those of old generation banks in the region. The total average gap score of the new generation banks is comparatively lesser than, the score seen in the old generation banks.

Verma and Hema (2001)\textsuperscript{94} revealed that the selected commercial banks are considerably market-oriented. The public, private and foreign sector banks are significantly differ in its market orientation. The public sector banks are the least market oriented whereas the foreign banks are the most market-oriented. There is a positive and significant relationship between the market orientation of commercial banks and the customer


satisfaction. Comparatively, the public sector banks are slow to respond to changes in the customers tastes and preferences.

Dong Kyoon Yoo and Jeong Ah Park (2007)\(^9\) found that employee training has an influence on perceived service quality. A shared understanding among employees plays a critical role in enhancing perceived service quality. In addition, customer satisfaction mediates between perceived service quality and financial performance.

Peterson et al., (2005)\(^9\) showed that employees, customers, perceived service quality, and financial performance are critical determinants that lead to the success of service organization.

Dalholkar et al., (2000)\(^9\) viewed service quality as a set of subdimensions such as reliability and responsiveness percale customer satisfaction. The study defined perceived service quality as the extent to which a firm successfully serves the purpose of customers.

Douglas and Fredendall (2004)\(^9\) revealed that service quality and customer satisfaction do no always lead to better financial performance and in some cases even results in a negative impact.

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Liao and Chuang (2004)\textsuperscript{99} identified that perceived service quality and customer satisfaction are critical indicators of a firm’s effectiveness because they are closely related to financial performance.

Lytle and Timmerman (2006)\textsuperscript{100} indicated that organizational service orientation in banking is positively correlated with employee commitment, longevity and spirit decors, consumer products performance, service quality image and banking profitability.

Hollis et al., (2008)\textsuperscript{101} revealed that the development of a new instrument to more effectively measure information service quality and information service success. The service quality has significant and positive impacts on customer loyalty, satisfaction and business performance.

Goode et al., (1996)\textsuperscript{102} verified the structural links within the model generated by structural equation modeling of overall satisfaction and full use of services for the ATMs. They suggested that if banks wish to increase customers’ overall satisfaction and the usage of available services they must target factors which directly affect the customers’ expectation and perceived risk.


Robert Johnson (1995)\textsuperscript{103} identified important determinants of service quality in commercial banks. These are integrity, commitment, aesthetics and cleanliness. For the personal customers of bank, the main sources of satisfaction are attentiveness, responsiveness, care and friendliness whereas the sources of dissatisfaction are integrity, reliability, responsiveness, availability and functionality.

**RESEARCH GAP**

The above said review of literature shows the important service quality factors in the commercial banks, service quality gap in the commercial banks, comparative study on the public and the private sector banks regarding their service quality. But only a few studies explained the linkage between service quality and customers’ satisfaction and customers’ loyalty. The research gap left out by the previous researchers lead to focus on this aspect in the present study. Based on the fulfillment of the research gap, a proposed research model has been generated. It is given in Figure – 2.1.

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Based on the proposed research model, the objectives of the study have been designed.