CHAPTER 1

INTRODUCTION

The financial crisis in 2008 brought about drastic changes in customer behavior all over the world and encouraged customers to take a shifted action towards their needs and wants (Mansoor and Jalal 2011). In the age of globalisation, as no nation can keep itself aloof from the world economic volatility, India too, was affected significantly in economical as well as social dimensions. The economic turmoil had a profound impact on consumers (Flatters and Willmott 2009) and most of the firms including ones in financial sector faced serious challenges in satisfying the customers as they have became more skeptic and cautious. Even though, the Indian banking sector has performed extremely well over the last few years and has shown substantial resilience during the global financial crisis (Das et al 2011), new challenges are seen emerging from customers. The challenges posed are mainly due to changes in customer demands and diffusion in loyalty intentions due to low switching costs. The parameters critical in the imparting customer satisfaction in the banking context, thus demands re-definition and analysis for formulating strategies aimed at competitive advantage. Empirical evidences from studies conducted in various contexts underlines the causal linkage among variables such as perceived service quality and customer satisfaction on loyalty intentions of the customer. However, consumer behavior being complex in nature influenced by environmental changes, throws an important question as whether, the previously identified linkages still remains valid. Also qualitative nature of variables in the framework needs to be measured after incorporating relevant indicators in the
contemporary scenario. Hence this research, in general, aims to explore the nomological network that decides various behavioral outcomes of the banking customer in India with critical view to propose strategic suggestions for customer retention. Before elucidating the wider context of this thesis, an attempt was made in the next three sections to explain in brief about banking services, Indian Banking sector and emerging trends in the Indian scenario.

1.1 BANKING SERVICES AND BANKING SERVICES MIX

The Banking sector was considered as a major constituent in the Service sector. The service sector in India contributed 56% of GDP in 2009-10 and provided employment to about 25% of the population. The Banks performs the business of taking deposits from investors at a lower interest rate and lending it out to borrowers at a higher rate. Banking is a system of trading money in which it provides a safe place to save excess cash, known as deposits, supplies liquidity to the economy by loaning this money out to help businesses to grow and to allow consumers to enhance their purchasing power. Banks play an important role in the economy of any country as they hold the saving of the public. Banks also perform services related to foreign exchange management, Insurance, investment services and intermediation or advisory services.

The 4P’s popularly known as marketing mix (McCarthy, 1964) represents Product, Process, Pricing and Promotion, that decides various initiatives of the firm to reach the target consumers. However, it was felt by researchers that, to accommodate the unique characteristics of services like intangibility, heterogeneity, inseparability and perishability, 3 more p’s such as participants, physical evidence and process (Booms and Bitner, 1980) are needed. Vignalis and Davis (1994) suggested inclusion of S (service) in the
marketing mix to capture the importance of quality of service in differentiating the offer. However, the 7P’s framework gathered high degree of acceptance as a generic marketing mix (Rafiq and Ahmed, 1995) in the marketing literature. An attempt was made to identify 7 P’s relevant to the banking sector assuming that such an effort may help in bringing clarity to the relevance of variables considered in the research. Also formulation of strategy aimed at customer satisfaction demands a proper marketing mix, and will involve decisions regarding product, place, price, promotion, process, physical evidence, and people.

1. **Product** - Product includes all necessary components and elements to do a service which generate value for customer. The products include various types of bank accounts, different types of loans, investment services, Credit cards, Demat accounts, online banking, mobile banking and many more.

2. **Promotion** - Promotion mix includes advertising, publicity, and sales promotion, word – of – mouth promotion, personal selling and telemarketing.

3. **Price** - The pricing decisions include the decisions related to interest and fee or commission charged by banks.

4. **People** - The people include all individuals who independently or collectively work in co-ordination to provide maximum service to customers. They may be staff, Agents, or management representatives. Quality of Human resource is considered as a point of differentiation among banks.

5. **Process** - All flow of activities developed to ensure uninterrupted service to customers are included in the process mix. It involves speedy delivery of services, reducing the paper work, standardization of procedures, customization as
per individual demand, simplicity etc. The process quality imparts overall quality perceptions in the minds of the
customer.

6. Physical Evidence - The physical evidences includes signage, reports, punch lines, other tangibles, employee’s dress code etc. All tangible components such as application forms, credit cards, ATMs, cheque books etc can be part of physical evidence.

7. Place - It refers to the establishment and functioning of a network of branches and other offices through which banking services are delivered. Extensive branch network that enable easy access to customers form a critical factor in customer satisfaction.

1.2 INDIAN BANKING SECTOR

Indian banking industry is considered as the strongest one in the world that could successfully withstand the impact of worldwide economic crisis in the recent past. The banking system in India is significantly different from that of other countries because of its unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income. The country has a huge reservoir of managerial and technologically advanced talents. It was widely recognized that the banking system in India is quite competitive with the presence of public, private and foreign banks. India ranks at sixth position in terms of efficiency, productivity and soundness as per latest ASSOCHAM Eco Pulse (AEP) Study. Within the BRIC countries, India is ranked at third position, behind China and Russia in the overall standing. However, with respect to the income ratios, Indian banking sector was best performing among the BRIC countries, it ranked second in terms of cost ratios and third in terms of
profitability ratios. The evolution of Indian Banking sector can be classified into four distinct phases (Figure 1.1)

- Phase I- Pre-Nationalisation Phase (prior to 1955)
- Phase II- Era of Nationalisation and Consolidation (1955-1990)
- Phase III- Introduction of Indian Financial and Banking Sector Reforms and Partial Liberalisation (1990-2004)
- Phase IV- Period of Increased Liberalisation (2004 onwards)

Current Situation: - The Indian financial system at present comprises the following institutions:

1. Commercial banks- which includes
   a. Public sector
   b. Private sector
   c. Foreign banks
   d. Cooperative institutions-which includes
      (i) Urban cooperative banks
      (ii) State cooperative banks
      (iii) Central cooperative banks

2. Financial institutions- which includes
   a. All-India financial institutions (AIFIs)
   b. State financial corporations (SFCs)
   c. State industrial development corporations (SIDCs)
3. Non-banking financial companies (NBFCs)

4. Capital market intermediaries

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**Figure 1.1 Evolution of Indian Banking Sector**

Source: D and B Industry Research Service
The Reserve Bank of India is constituted as an autonomous body, with minimal pressure from the government. As on December 2009; there were 169 ‘scheduled commercial banks’ (SCBs) in the country, with a network of 82,511 branches. This includes 27 public sector banks, 31 private sector banks and 34 foreign banks operating through branch route. 45 foreign banks are also operating in India through representative offices. Deposit of SCBs as of March 26, 2010 was Rs.4492825 Crore while Bank Credit stood at Rs.3244788 Crore. Indian banks have remained resilient even during the height of the subprime crisis and the consequent financial turmoil. The financial reform processes undertaken since 1991 has made the banking sector healthy, sound, well capitalized and competitive (Nair 2010).

There exist various indicators, which have positive impact on further growth of Indian banking sector. It was expected that around 70-75 million new middle income household may emerge by 2020 in India (Nair 2010). McKinsey study reported that by 2017, the average consumption in rural India will be equal to that of urban India in 2005. Consequently, India’s labour force will grow at a higher rate than population growth and hence the ratio of working age population to total population will be on the upswing. The population will be more urban, rich and educated. This will lead to increased flow of savings to the banking system and increased demand for retail and personal banking services like housing loans, wealth management, insurance, asset management etc. According to estimates put forth by Boston Consulting Group (BCG), India’s mortgage loan and wealth management business will grow 10 times by 2020.

1.3 **EMERGING TRENDS IN INDIAN BANKING SECTOR**

The contemporary Indian banking sector is subjected to tremendous pressure to perform as higher levels of competition was resulted due advent of
New Generation Private Sector Banks and Foreign Banks. Foreign Equity participation in New Generation Private Sector Banks was now allowed up to 74% and Foreign Banks are allowed to acquire up to 24% equity in Public Sector Banks. The market share of each type of banks clearly establishes the dominance of public sector banks (71%) compared to private sector (22%) and foreign banks (7%) (Sharma, 2013). However, Foreign Banks have been able to gain 7% of market share with a meager 0.50% of Branch Network (Sharma, 2013). It is believed that one critical reason that worked in favor of Foreign Banks was advanced technology (Sharma, 2013). The contemporary banking system depends on Information technology to ensure smooth passage of inter-related transactions over the electric medium and such trends are heading towards virtual banking. The trends are progressively culminating to a borderless entity permitting anytime, anywhere and anyhow banking. The network of branches with rapidly increasing connectivity infrastructure enables the customer to access banking services from anywhere at any time. The availability of multiple channels including the mobile phone has considerably increased the pace and quality of service delivery.

Today, almost every commercial bank branch is at some stage of technology adoption, be it Automated Ledger Posting Machines, Total Branch automation or Core Banking Solution (CBS). According to latest estimates, CBS covers around 40% of the bank branches accounting for nearly 70% of the business volume. ATMs (including shared ATMs aided further by the National financial Switch initiative of RBI), internet banking, any branch banking, credit cards, debit cards, etc., are being increasingly offered. There are over 11,000 ATMs across the country and 11 million net connections with around 23 million users (R&M study, 2012). Also, most of the banks in India provide various services such as net banking, ATMs, SMS banking and Mobile banking. Archana Sharma (2011) states that the rapid growth in users and wider coverage of mobile phone networks have made
mobile banking an important platform for extending banking services to customers. Mobile banking is now accepted as an important tool to cover the large unbanked population in the country (Jaideep Ghosh, 2011). Cloud computing is increasingly becoming accepted as a platform for delivery of services within the banking industry (Deloitte 2013)

Five major trends that will determine market success of banking industry in 2015 was identified in the study conducted by IBM (2005) are becoming more relevant in the backdrop of financial crisis in 2008. They are

- Customers take control: Customers will be smart, informed and savvy users of financial services. They will be interested only in service providers that can meet their very specific needs.

- Specialized niche competitors: Market consolidation will continue, making the mega banks even bigger. But they will face swarms of nimble competitors including community banks, industry specialists and non-banking bank that specialize in providing specific services.

- A new workforce: The need for productivity and efficiency will create new sources of labor and work practices. But there will also be intense competition to attract and retain talent.

- Regulated transparency: The need to comply with globally enforced standards of transparency and accountability will force the adoption by banks of integrated, enterprise-wide systems and processes.

- Sharply focused technology: The enabler of all this change will be technology that supports rapid, accurate decision making and greater operational flexibility and efficiency.
The emerging trends in customer expectations are going to pose serious impact on service quality dimensions. The quality of service offered by banks will be more predominantly viewed as an indicator of success in future banking. Customer service of high standard required to be implemented through use of tech-driven initiatives to sustain and promise growth of the sector in future. The Intuit 2020 report (2011) on future of financial services, forecasts a Banking Experience that will help Customers and Financial Institutions to thrive in a Connected World. The four broad trends identified are

- A New Playing Field for Financial Services: Regulatory pressures will increase and competition will grow from both traditional competitors and new entrants. These forces will create new business models, fuel industry collaboration and partnerships, and increase industry consolidation

- Shifting Segments, Changing Markets: Demand for financial services will increase across all age groups. The two largest contingents – aging baby boomers and GenYers – will demonstrate particularly acute shifts in their needs and types of products and services they purchase. Digital Generation or Gen Y customers with high service expectations and expect to interact with service provider “any place, anytime” quickly, easily through convenient and customized options especially via the Internet and mobile devices, are likely to pose difficulty to satisfy them.

- The New Customer Connection: With increased cost pressures and a growing demand for flexibility, accessibility and personalization, financial services organizations will accelerate their use of technology to meet customer needs. The Internet
and broadband wireless networks will continue to expand and grow. Cloud computing platforms and applications will combine with advanced analytical tools, ever-larger data sets, and social and mobile computing to reshape the way the financial services industry designs and delivers value-added products and services to customers.

- Reputation and Relationships Rule: The financial service industry will shift its focus from transactions to customized value-added services. Customers will rely on technology solutions via smart phones and the ATM for some transaction relationships. Through a combination of both virtual and brick-and-mortar branches, financial institutions will develop stronger, more personal relationships with businesses and consumers.

A critical analysis of the emerging trends, clearly indicates the importance of customer orientation expected in the banking sector. The above observations underlines the need to consider Customer satisfaction as a cardinal means in achieving customer loyalty and one of the crucial foci for sustainability. The next section introduces the concept of quality in banking services that is accepted beyond debate as the most important antecedent that develops customer satisfaction.

1.4 QUALITY IN BANKING SERVICES

Orison. S. Marden (1850-1924) stated that “Quality is the deciding factor on how much offerings are valued by the world”. Satisfaction is by and large dependent on the quality perceptions of the customer. Quality management initiatives of the firm have become an essential prerequisite (Chang et al 1993) in the current business environment. A major shift from
‘quality costs money’ to ‘quality makes money’ was visualized in banking operations (Harrington 1987). According to Juran institute (1994) “To survive in today’s environment of global competition, never-ending change and complexity, rising customer expectations and continuous cost pressures, focusing on quality is no longer a choice but it is mandatory”. The enhanced importance attached to the concept of quality reminded organizations about the significance of effective and efficient quality management. The essence of quality management begins with effectively measuring it (Drucker 1974). The importance of the term “quality” merits added consideration due to its ability to act as the driver of profitability (Schoeffler et al 1974, Roth and Van der Velde 1991 and Heskett et al 1994).

Quality is confirmed when the product has conformance to requirements of the customer (Crosby 1979), ability to motivate customer to pay for it (Ducker 1985) or when delvers an efficient production of the quality that the market expects (Deming 1986). The literature regarding quality of a product or service underlines the role of customer’s expectations as a major antecedent to quality perception. Also, quality management in relation to services demands a more sophisticated approach when compared to products. Gronroos (1990) has defined service as an “activity or series of activities of a more or less intangible nature that normally, but not necessarily, take place in the interaction between the customer and the service employees and/or physical recources or goods and/or systems of service provider which are provided as solution to customer problems”.

The concept of Quality, when extended to services created complexities in conceptualization and measurement. The challenges were mostly due to inherent nature of services such as intangibility, heterogeneity, inseparability and simultaneity. Unlike physical products, they cannot be seen, touched, felt or taken for a test drive. Normally, services cannot be
quality tested before they are used, or experienced by customers. Again services being performed in the presence of the customer, adds subjectivity in assessment. A clear quantifiable assessment of quality thus become impossible and qualitative evaluations influenced by various considerations dominates the customer perceptions. Edvardsson et al (2005) opined that the most common service characteristics –intangibility, heterogeneity, inseparability and perishability (IHIP) – have most often been discussed through the lens of the service provider, not through the lens of the customer. In simple words, Service Quality can be assessed only from the perspective of a customer. Service quality was defined by Gronroos (1984) as the fulfillment of customers’ expectations. Parasuraman et al (1985), defined service quality as the gap between customers’ expectations of service and their perception of the service experience (GAP Theory). Researchers have defined service quality in different ways.

- Bitner, Booms and Mohr (1994) defined service quality as ‘the consumer’s overall impression of the relative inferiority / superiority of the organization and its services’.

- Cronin and Taylor (1994) viewed service quality as a form of attitude representing a long-run overall evaluation.

- Ausbonteng (1996) defined service quality as difference in customer’s expectation of service performance prior to the service encounter and their perception of service received.

- Roest and Pieters’ (1997) defined that service quality as a relativistic and cognitive discrepancy between experience-based norms and performances concerning service benefits.
• Rust and Oliver, (1994) defined Perceived quality as total judgment of evaluation with respect to a product or a service bearing on the relative superiority of this product/service.

It was widely believed that service quality ensures customer satisfaction and profitability to the service firm. In financial services, the importance of service quality has become multifold due to three forces such as increasing competition from private players, pace of technology adoption and continuous shifts in the regulatory environment (Sachdev and Verma 2004). The trends after the financial crisis demands high degree of customization and customer orientation for survival and growth.

The increasing importance of service quality in financial services can be analyzed in the perspective radical changes posed to various cognitive beliefs including customer satisfaction due to changes in the external environment. It is widely accepted that satisfaction includes both cognitive and affective aspects (Edvardsson et al 2005; Gronroos 2001; Oliver 1993a; Wong 2004). A common view, that postulates satisfaction as a process subjective in expectations but objective in the perceptions about attributes, or outcome towards product/services (Pizam and Taylor 1999), was found satisfactory to most of the scholars. The service contexts that offers better room for intangible attributes provides more scope for subjective evaluations, based on relationship between the customer's perceptions and objective attributes related to service (Klaus 1985). The various intrinsic and extrinsic sources of information are likely to influence customer and modify subjective feelings that decides levels of satisfaction. The information overload, so received is likely to modify the subjective feelings more vehemently to pose critical threat to the objective evaluations of the customer and force financial institutions to divert more attention towards attributes that can develop service quality. In Indian banking context, a certified quality management
system is not in practice till date. The researcher attempted to explore the existing practices in customer service in Indian banking system.

The landmark developments related to customer service in Indian banking context can be summarized as follows:

- Talwar Committee (1975) - Studied the quality of customer service in banks
- Goiporia Committee (1990) – Focused in areas of improvement of customer service by banks
- Narsimhan Committee (1991) – ushered in the financial sector reforms which spurred competition in the banking sector through deregulation
- Tarapore Committee (2004) - Committee on Procedures and Performance Audit on Public Services (CPPAPS)
- Setting up of Banking Codes and Standards Board of India in 2005 (BCSBI) empowerment of customers for a higher level of satisfaction with regard to the services offered, through a significant and enduring improvement in customer services

The Tarapore committee recommendations were considered as most important initiatives to ensure fair treatment, adequate service quality, justifiable price and transparency of Banks’ service to customers. A combination of self-regulation and statutory regulation initiatives were considered essential in delivering desired standard in customer service by the committee. CPPAPS suggested setting up of Banking Codes and Standards Board of India (BCSBI) to ensure comprehensive code of conduct for fair treatment of customers. At present majority of banks in India are registered with the BCSBI, indicating their willingness to adopt the voluntary Code of
conduct for fair treatment of customers. BCSBI was placed to fill the institutional gap for measuring the performance of banks against a benchmark reflecting the best practices (Code and Standards). However, directives being more of voluntary in nature, imparts lack of adherence that in turn spoil the spirit behind such initiatives. Even though BCSBI functions as an independent and autonomous watchdog to monitor and to ensure that the Banking Codes and Standards adopted by the banks are adhered to in true spirit while delivering their services, lack of a certification procedure reduces the credibility of such standards. Hence the need of the hour is to develop a certified service quality management system similar to IS15700-2005 exclusively for financial services.

A significant contribution towards measurement of service quality was made by Parasuraman et al (1985, 1988) by way of developing a measuring instrument called SERVQUAL, where service quality was conceptualized as a function of gap between expectations and perceptions of the customer with regard to five dimensions such as

- **Tangibles**- appearance of physical facilities, equipment, personnel, and communication materials;

- **Reliability**- ability to perform the promised service dependably and accurately;

- **Responsiveness**- willingness to help customers and provide prompt service;

- **Assurance**- knowledge and courtesy of employees and their ability to convey trust and confidence;

- **Empathy**- the caring, individualized attention the firm provides its customers
A critical comparison of above service quality dimensions with five overall approaches proposed by Garvin (1988) in the context of a product was adopted to bring more clarity to the issues related to the measurement of service quality. According to Garvin (1988) there are five common definitions of, or approaches to, quality:

- Transcendent – quality is an un-analyzable property which is recognized through experience
- Product- (or attribute-) based - an inherent characteristic of the product determined by the presence or absence of measurable product attributes that mostly quantifiable
- Manufacturing- (or process-) based - quality is measured by the degree to which a product conforms to its intended design or specification
- Value-based - quality is defined by price. A quality product is one that provides desired performance at an acceptable cost.
- User- (or customer-) based - quality is the capacity to satisfy needs, wants and desires of the user(s).

In the context of tangible products, Garvin (1991) listed eight criteria of quality - performance, features, reliability, conformance, durability, serviceability, aesthetics, and perceived quality. However, this is not sufficient for assessing quality of services for the simple reason that most of the criteria are objective in nature and easily quantifiable. Qualities of services are evaluated by the customer on a relatively higher concept that offers scope for more subjective feelings. The landmark dimensions proposed
by Parasuraman et al (1985, 1988) provided ample opportunity for customers to evaluate the quality of service on multiple ways. Also the most popular method to measure service quality was to obtain responses of the customers with regard to certain determinants or dimensions considered relevant to capture the domain of service quality (Parasuraman et al 1988; Cronin and Taylor 1992; Al-Hawari and Ward 2006; Gounaris 2005; Adlaigan and Buttle 2002; Mersha and Adlakha 1992; Bahia and Nantel 2000).

SERVQUAL instrument contained 22 pair items, to measure Customer’s expectations and perceptions of service quality. Service quality is determined by calculating the difference between expectations and perceptions. Despite its extensive application, the SERVQUAL scale has been criticized on various conceptual and operational grounds. Some major objections against the scale relate to use of (P-E) gap scores, length of the questionnaire, predictive power of the instrument, and validity of the five-dimension structure (Babakus and Boller 1992; Cronin and Taylor 1992; Dabholkar et al 2000; Teas 1994). Cronin and Taylor (1992) proposed a perceived quality model called SERVPERF. The perceived quality model postulated that an individual’s perception of the quality is only a function of performance with regard to 22 items used to capture the domain of service quality.

Empirical evidence show that for assessing the overall service quality of a firm or making quality comparisons across service industries, SERVPERF scale is superior because of its psychometric soundness and instrument parsimoniousness (Jain and Gupta 2004). The SERVPERF scale has been applied in many empirical studies on service quality. Published research adopting SERVPERF are found across many consumer, business, and non-profit service industries including retail (Mehta et al 2000), bank (Angur et al 1999; Bauman et al 2007), airline (Cunningham et al 2002),
higher education (Abdullah 2006), neighborhood shopping center (Marshall and Smith 2000), dental office (Paul 2003), air cargo (Hong and Jun 2006), hotels (Nadiri and Hussain 2005), public transportations (Perez et al 2007), business to business repair (Peterson et al 2005), tourism (Hudson et al 2004; Johns et al 2004). In general, those comparisons in previous studies are in favor of the SERVPERF perspective, contending that the performance-only approach yields more stable results than the disconfirmation approach in measuring service quality.

1.5 STATEMENT OF PROBLEM

Consumer behavior is a complex, dynamic, multidimensional process, and all marketing decisions are based on assumptions about consumer behavior (Khan 2007). Hence developing a theory that explains, the reason for a particular individual or group behaving in a particular manner is difficult. In the context of banking, customers have certain expectations or assumptions about the quality of service they will experience. The customers tend to expect outstanding service, customized product range, anytime-anywhere access to their money, real time updates and alerts of all their transactions (Dikesh Kumar 2009). Fulfillment of these expectations produces high level of satisfaction, loyalty and recommendation. Falling short of expectations could adversely affect the customer satisfaction, and ultimately customer retention and loyalty. Individual firms have discovered that increasing levels of customer satisfaction can be linked to customer loyalty and profits (Hekett et al 1997). The mission of the banks in the current scenario has become predominantly to offer quality service to its customers with value at the lowest cost in shortest span of time (Sweeney 1997). The banks should serve their customers efficiently and effectively for achieving customer loyalty. Environmental changes leading to increasing awareness, living standards and urbanization have led radical changes in customer
priorities forcing the service industries to change their service offerings to ensure high degree of satisfaction to their customers. The study of consumer behavior is compulsory to know about likes and dislikes of consumers from time to time so that the products and services can be offered accordingly. Thus it becomes an obligation from the part of the service provider to identify various indicators that forms measures of service quality.

Service quality perceptions in India were not explored extensively (Jain and Gupta 2004) because research focus was primarily been on developed countries (Herbig and Genestre 1996). The service quality scales validated for developed countries are unlikely to be applicable to India without modification. Angur et al (1999) examined the SERVQUAL in the retail banking industry and reported a poor fit of the scale to the empirical data. The classic dimensions adopted in the SERVQUAL model to measure service quality need to be modified to incorporate current trends in customer perceptions about banking services. Similarly, customer based studies are mostly influenced by the culture and hence should be done in local settings to identify the perceptions of customers in a more precise manner. Therefore, this study has attempted to develop an instrument to measure service quality specifically for retail banking in India. Such a comprehensive effort to develop a new scale to measure service quality in the localised setting was also encouraged by a number of bank managers in Kerala, the southern state of India, when contacted during the initial phases of the current study. After examining the copies of existing instruments provided to them, the managers clearly indicated the need for a modified instrument capable of capturing prevailing trends in the context.

The literature also supports the need to develop service quality measures that are country/culture specific. Quality constructs and measures in general (Yavas and Konyar 2002), and service quality constructs and
measures in particular (Mattila 1999) that are developed in one culture may not be applicable in a different cultural setting. Drawing attention to this limitation, Mattila (1999) argued that the definition of service quality depends on consumers’ cultural heritage, particularly on variations along power distance and communication context. Malhotra et al (1994), observed that the cultural differences (e.g., individualism/collectivism, power distance) between countries bound to influence service quality perceptions. Research conducted by Winsted (1997) among Japanese and US consumers using service provider behavior as indicators of service encounter quality, identified that the number and meanings of service quality dimensions varied between US and Japanese consumers. For instance, the “authenticity” dimension, which refers to genuineness of service provider’s behaviors, was an important component of service quality for Japanese consumers while this dimension did not surface in the case of the US consumers. Despite some cross-cultural commonalities (Espinoza 1999), evidence from a study conducted by Kettinger et al (1995) suggested that culture plays a significant role on the definition of the service quality construct. Imrie et al (2002) stated that managers should avoid employing the SERVQUAL scale globally and instead they should develop “a new, culturally bounded measure of service quality”. A recent study conducted in using SERVPERF in the Vietnamese Banking Industry have identified three main dimensions such as ambience, responsiveness, and empathy (Nguyen et al 2011) to influence quality perceptions. Malik et. al (2011) identified that all SERVQUAL dimensions doesn’t have their role in boosting the satisfaction level of the banking clients in Pakistani context and that assurance dimensions posted relatively higher contribution in satisfying the clients than did reliability. A recent study in the Indian context (Raghavan and Magesh 2013) reveal that the service quality dimensions of tangibles, responsiveness, reliability and assurance are positively and significantly influencing the customers overall satisfaction, while the empathy is negatively and significantly influencing the customers
overall satisfaction. Al-Hawari and Ward (2006) noted that there was a set of dimensions that influenced customers' satisfaction such as care, credibility, assurance and security. Keeping above observations in the backdrop, this study attempted to identify more relevant dimensions to measure service quality for Indian settings.

Fishbein and Ajzen (1975) suggested that behavioral intentions of the customer when properly measured are capable of predicting actual behavior. Parasuraman et al (1988) and Zeithaml et al (1996) concluded that there existed positive relationship between perceived service quality and behavioral intentions. Behavioral intention of customers can be either favorable or unfavorable (Zeithmal et al 1996; Ladhari 2009). Favorable behavioral intention ends with loyalty resulting in increased volume of business, expressing positive publicity for the service provider. On the contrary, unfavorable behavioral intention leads customers to display higher probability of switching, engage in negative word of mouth which ultimately affect the profitability of the firm (Zeithmal et al 1996). Researchers observed that financial success of organizations are depended largely on favorable behavioral intentions of the customer (Dabholkar et al 2000).

Cronin and Taylor (1992) examined the causal relationships among service quality, customer satisfaction and found out that perceived service quality was an antecedent of consumer satisfaction. Dabholkar et al (2000) also found that customer satisfaction strongly mediated the effect of service quality on behavioral intentions. Various Researchers empirically established that service quality is one of the antecedents of satisfaction (Anderson and Sullivan 1993; Reidenbach and Sandifer-Smallwood 1990; Spreng and Mackoy 1996; Woodside et al 1989).
Expectations are considered as desires or wants of the customer that they wish to accomplish through the service encounter (Parasuraman et al 1988). Customer expectation can be defined as the invisible thing, the customer expect to acquire from the service provider and hence understanding customer expectation plays a vital role in delivering superior service. The expectations of a customer are dependent on various factors such as demographic, psychographic, cultural value system of the customer, past experiences, explicit and implicit service promises and so on. Customer based dimensions such as psychographic as well as cultural value system generates various personality traits which in turn give rise to different behavioral intentions such as Loyalty, switchover, positive word of mouth, internal response or an external response (Parasuraman et al 1991, 1996).

The authors of GAP model suggested in 1991 in their article "The Nature and Determinants of Customer Expectations of Service." that customer’s service expectations have two levels: desired and adequate. The desired service level is the service the customer hopes to receive. It is a blend of what the customer believes “can be” and “should be.” The adequate service level is that which the customer finds acceptable. Zone of tolerance explains the GAP between desired and adequate level of service. The zone of tolerance expands and contracts like an accordion. It can vary from customer to customer and, potentially, from one situation to the next for the same customer (Parasuraman et al 1996). A customer with varied exposure and experiences may expect more from a service when compared with a customer of limited exposure. Similarly level of expectation about a service may be different in respect of an urban customer from a rural customer.

Summing up, it was found out from literature that the variables which were having critical impact on Behavioral Intentions of the customer in the banking context include Customer Expectations, Perceived Service
Quality and Satisfaction. Hence these variables have to be measured and analyzed in the settings decided for the study for identifying existence of mutual relationships. This study thus attempted to evaluate the linkage among these variables in the retail banking context in Kerala state, India. The objectives of the study were finalized at this stage.

1.6 OBJECTIVES OF RESEARCH

The overall objective of this thesis was to develop a theoretical framework to explain the linkage between customer expectations, service quality, customer satisfaction and resultant behavioral intentions in the banking sector. To achieve the above overall objective, it was necessary to:

- To Understand the structure of Service quality and to develop a valid scale for its measurement
- Identify the underlying key dimensions of banking service quality as perceived by banking customers
- To examine the linkage among perceived service quality with other variables such as Customer expectations, Customer satisfaction and behavioral intentions in banking context

The banking context was considered as the appropriate sector to study the various dimensions of service quality in the financial sector due to considerations such as

- The banking sector of the country caters to the requirements of a large volume of customers with varied characteristics.
- Availability of alternate service providers who offer similar services enhances the relevance of service quality
considerations in the case of banking sector better than any other field.

- Banking service forms a service setting that most consumers are likely to use on a relatively frequent basis.

- Banking Customers are in a better position to evaluate service quality both in terms of expectations and perceptions as they get opportunity for prolonged interaction as compared to other service offers

- The emerging trends in the financial sector are readily adopted by various banks in the country and hence dimensions that contribute quality perceptions are constantly changing

- The external changes drastically influence customer expectations and the sector demand frequent enquiries to identify and fill the GAP’s formed in customer service area.

1.7 SCOPE OF THE RESEARCH

This thesis was intended to target basic objective of determining the relationship between customer expectations, service quality, customer satisfaction and resultant behavioral intentions in Indian setting. The aspect that was of particular interest to the researcher was the ‘voice of the customer’ alone and his views are analyzed irrespective of considering the view of the service provider. No respondent who is an employee of a banking organization was considered for the final study to avoid the possible bias that in turn can affect the results adversely. As retail banking has developed into a mature and rather homogenous industry - with similar product and service offerings, distribution channel layouts, and with similarities in the execution of sales and marketing tactics - differentiation becomes a matter of paramount
importance. The prevailing skepticism among customers due to financial crisis develop new challenges to banks. This thesis will present areas, where banks can attempt to improve its service quality and win customer loyalty.

Although the two phases of research for this thesis were carried out among customers of banks in Ernakulam district, Kerala, the researcher believe that the same methodology can be extended and a comprehensive analysis suited to all customers in India can be initiated and such an effort will be relatively easy considering the similarities in products and services offered by various banks within the country.