Chapter 1

INTRODUCTION
Due to the nature of services, service providers face varied problems and challenges. In Marketing, one of the critical tasks of service organizations is service Quality Management. Consumers perceive the quality of service by experiencing the consumption process and by comparing the experience with their expectation. High service quality contributes significantly to both profitability and productivity. The emerging role for services in today’s economy is a key factor behind service quality’s rising prominence as an institutional and societal issue. The measure of performance is perceived service quality. There are two components of quality i.e. technical quality and functional quality. Technical quality is the outcome dimension of the service operation process. Functional quality is the process dimension in terms of interaction between the customer and the service provider. Quality occurs during service delivery, usually in an interaction between the customer and the contact personnel of the service firm. For this reason, service quality is highly dependent on the performance of the employees, an organizational resource that cannot be controlled to the degree that components of tangible goods can be engineered (Parasurman et al., 1988).
With better understanding of customer perception, companies can determine the actions required to meet the customer needs. They can identify their own strengths and weaknesses. Customer’s perception of service quality determines the success of the service in the market. Positive service quality perceptions are assumed to lead to increased satisfaction. Successful customer service focused companies’ measure their service to ascertain how well they are satisfying their customers. A service company should focus especially on customer service and keep customer service levels under constant review. Many service companies have recognized the importance of customer service as a competitive weapon. For example Disney Corporation recognized the importance of customer service from the very beginning of its theme park operations. Customers visiting theme parks are treated with care by all Disney personnel to ensure the best possible experience during their visit. All staff at Disney, from the highest executives to the street cleaners, is trained in dealing with customers. This ensures and instills a willingness to provide outstanding customer service at all levels.

A competitive environment and a deregulated market have made it imperative for banks to harness the best customer oriented practices and perceptions and to internalize them for providing added value to the customers through the employees. Managers should become more aware of their role and provide the staff with adequate training in order to offer a consistently high standard of customer service. The dominant question bothering the bank managements today is how to improve customer service and gain competitive advantage. Since the products in the banks are almost the same; therefore, it is the service that distinguishes one bank from the other. The real experiences of customers with banks in receiving various services vary greatly, because of the widening gap between what is supposed to be and what actually is. A customer mostly expects ability to provide what was promised dependably and accurately. A customer wants to be assured of the knowledge and courtesy of
employees and their ability to convey confidence. A customer also expects caring and individual concern. In today’s business environment, it is not enough to believe customer service is ‘just meeting the requirements of the customer.

In order to meet the growing demands of the customers, customer service need to be perceived as:

- A positive, polite, caring and friendly attitude.
- The knowledge and ability to provide quality Service by satisfying the customer’s needs
- The process of delivering first rate benefits and treating customers fairly and professionally
- Any communication that creates a good or bad impression.

In fact, customer Service as a firms logistic system must be able to satisfy the users in terms of time, dependability, communication, convenience. To meet this purpose customer Service as a Strategic tool must constitute three Ss,— service Strategy, System and Staff (Sahaf, 2000) Christian Gronross developed a strategic model for services marketing known as service Triangle. Gronross has identified three important groups that play critical roles for the overall development of overall marketing strategy i.e. Strategy, System and Staff.

Strategy

Staff

System
The model calls for a special marketing program between the company and its employees termed as internal marketing. The second marketing program is between the company and its customers termed as external marketing. The third marketing program is between employees and customers and is termed as interactive marketing.

The concept of internal marketing suggests that the philosophy of the management should be to satisfy its employees first. Employees should be viewed as the first market for the service organizations to serve. The goal of internal marketing is to prepare employees to serve the customers with motivation and commitment. The aim of external marketing is to prepare the customers to participate in the service production and consumption, simultaneously and effectively. The aim of interactive marketing is to facilitate efficient production and consumption process and to create positive and satisfactory experience for both customers and employees. Service employees have to face customers on the one end and the organization on the other. Customers demand attention and service quality while organization demands efficiency and productivity. Therefore service organizations should take into consideration the critical functionality and the work pressure involved for the employees in designing internal marketing processes. Service organizations should study employee expectations, because this will not only increase employee productivity but will also help in employee retention. The performance of satisfied employee results in customer satisfaction.

Researchers from the University of Michigan found that on average, every 1% increase in customer satisfaction is associated with a 2.37% increase in a firm’s return on investment. From a customer’s perspective, the encounter with service staff is probably the most important aspect of service. From the firm’s perspective, the service levels and the way service is delivered by the front line can be an important source of differentiation as well as competitive advantage. The strength of the customer front line staff relationship is often an
important driver of customer loyalty. (Liliana L. Bove and Lester W. Johnson (2001).

In today’s competitive world, a marketer has to seek competitive advantage through a well integrated strategy of customer service tailored to the needs and wants of his potential customers. In fact there is a need to have a clear service strategy which is communicated throughout the organization so that everyone knows his role in providing service to customers and clients (Hooley et al., 1998). In today’s globalizing economy competition is getting more and more fierce. That means it becomes more difficult for products and services to differentiate themselves from other offerings than ever before. On the other hand, customer behavior becomes more hybrid. On one hand, customers are increasingly price sensitive. On the other hand they enjoy branded and luxury goods. One and the same person may plan a weekend trip with a no-frills airline and a stay at a five-star-hotel. In the result, customers have a wider choice of often less distinguishable products and they are much better informed. For many offerings the balance of power shifts towards the customer. Customers are widely aware of their greater power, which raises their expectations on how companies should care for them. Bringing it all together, it becomes ever more difficult to differentiate a product or service by traditional categories like price, quality, functionality etc. In this situation the development of a strong relationship between customers and a company could likely prove to be a significant opportunity for competitive advantage. This relationship is no longer based on features like price and quality alone. Today it is more the perceived experience a customer makes in his various interactions with a company (e.g. how fast, easy, efficient and reliable the process is) that can make or break the relationship. Problems during a single transaction can damage a so far favorable customer attitude.
The consequence for companies is that they have to adapt their ways of competing for customers. Traditionally, companies have focused their efforts of customer relationship marketing on issues like customer satisfaction and targeted marketing activities like event marketing, direct marketing or advertising. Although doubtless necessary and beneficial, these activities are not longer enough. They narrow the relationship between company and customer down to a particular set of contacts in which the company invests its efforts. Most likely this will produce not more than a satisfied customer who is well aware of the company’s offerings and has a positive attitude towards them. However, a satisfied customer is not necessarily a loyal one, if a customer is satisfied that means that a product of service has met his expectations and that he was not dissatisfied by it. Customer satisfaction is doubtlessly very important. It is the precondition for repeat purchases and it prevents the customer from telling others about his disappointing experiences.

Service quality creates an essential ingredient for establishing and maintaining loyal and profitable customer base (Rust et al., 1995; Zeithaml, 2000) and acts as the driving force for productivity and profitability (Edvardson et al., 1994). Achieving the right quality could be done through do-it-yourself production systems; customer education; and individual preferences and perceptions. Service quality data is very useful in attaining service improvement (Shaw and Haynes, 2004) and could be considered as the root of customer satisfaction (Yavas et al., 2004). Employees are internal customers of the organisation and they represent the internal market within the organisation. An internal customer is defined as any member (employee) of the organisation receiving service and product from other members of the organisation to carry out his or her job (Zeithaml and Bitner, 1996). Service providers could give good service through empowerment to the front-line staff to enhance service quality (Tschohl, 1998); and training, as inadequately trained front-line staff
would find it difficult to perform the task effectively (Gummersson, 1991). The potential employees are more demanding in the modern era especially in the banking sector to understand the requirements of changing needs of customers. The world realizes that employees are because of all development in the organizations and we must consider them the main pillars of outcomes and they should be properly placed in the organization along with conducive environment which enables them to come up with full invoke potentials to augment organizational performance in productive way. Competitions and technological development in the service delivery structure have resulted in a steady shift in the planned focus from price to service quality in the banking industry. Recent human resource professionals are formally engaged in strategic planning to get maximum outcome from the employees by recognizing their potentials and efforts. Stershic (1990) identified that the particular relevance in this regard was the contribution to the organizational performance. She claims that employees must be recognized as the critical link in delivering service quality and customer satisfaction. She further explained that obtaining and understanding the employee perspective is a critical tool in managing customer satisfaction. To her it enabled managers to exercise internal marketing meeting the needs of the employees so they could meet the needs of the customer.

The employee’s satisfaction and retention are critical to the conduct of business in the competitive marketplace and business environment today, and the banks enjoy no exception to it. The essential to employee retention is to presume the employees’ apprehensions and secure proper alignment of their needs with those of the organization. To deliver excellent quality services to the customer and strive for the business excellence, the employee satisfaction, productivity, and retention within the organization is of much importance. All these can be achieved if the top level management takes extra care while developing internal services quality bases starting from selection and
recruitment process to recognizing employees with their core expertise and setting up tremendous work design for the employees. It is important for the top management to develop strong relationship between the organization and employees to fulfill the continuous changing needs of both parties. Organizations expect employees to follow the rules and regulations, work according to the standards set for them, and the employees expect good working conditions, fair pay, fair treatment, secure career, power and involvement in decisions. These expectations of both parties vary from organization to organization. For organizations to address these expectations an understanding of employees’ motivation is required Beer, (1984). The most important thing in the delivery of quality service is the individual motivation of all employees.

The phrase Human Resource Management is not new; it was used as long as forty years ago. It did not emerge until the mid 1980s but its roots go back to 1960s and the usage of the term grew in1990s (Armstrong 1996). According to Armstrong (1996), People must be regarded not as variable costs but as valued assets in which to invest. Thus it envisages that human capital is capable of being further enhanced by developing competencies and managing them proactively. Moreover Human Resource is not a jargon but a real thing at the organizational level, ground level, everywhere only its reality took time to be recognized (Dey 1994). The importance of HR for business success has been aptly pointed out by Mortia (1987) when he says that your business and its future are in the hands of the people you hire. As our economy moves from a manufacturing base toward a service base, it is essential for firms to understand the new economics of service, such that frontline workers and customers need to be the center of management concern (Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994). Hesket et al. (1994) suggests that this new focus on the customer as a measure of the bottom line will alter management practice within organizations. Yet, little is known about the
influence of a manager’s behavior on employee outcomes and how those employee outcomes in turn influence customer perceptions of organizational performance in a service sector setting (Tellefsen & Nermin, 2002). Improving customer outcomes through improved management practice relies on this triadic link. Understanding this process of management behavior influencing employee perceptions, and employee perceptions influencing customer outcomes, is critical to improving management practice in the service sector (Pugh, Dietz, Wiley, & Brooks, 2002).

The concept of HRM emerged in the mid 1980s against the background of the works of famous writers on management, like Pascale and Athos (1981) and Peters and Waterman (1982), who produced lists of the attributes and they claimed characterized successful companies. Human Resource Management is a modern term for what has traditionally been referred to as Personnel administration or personnel management. Human resource management’s function is to assist the general manager or the top management in keeping the employees satisfied with their jobs. If employees are not satisfied, they will not perform to expected norms. Workplace dissatisfaction and poor performance may lead to high employee turnover in an organization particularly in less developed countries where little opportunities are available to people to join other organizations, but it may affect employee’s performance adversely. According to Deeprose (1994), effective reward system enhances employee motivation and increases employee productivity all of which contribute to improved organizational performance. Baron (1983) argues that there is a close relationship between motivation and job performance. Strategic success for the organization lies in focusing attention at all levels on key business activities, which can be achieved through effective performance management Nel, (2001).

The quality of staff and its impact on the quality of customer service are vital in gaining a competitive advantage. Thus, employees should be viewed as the organisation’s most valuable asset and treated as internal customers. Thus,
treating employees as customers could give the organisation a competitive edge. The quality of staff and its impact on the quality of customer service are vital (Papasolomou-Doukakis, 2002). Processes could be improved if each department treats the people who receive the outputs from their work as “customers” (Farner et al., 2001). Internal service processes include simplified standard operations, procedures and activities, that support the front-line business function and interact with customers (Voss et al., 2005). The basic principle of internal customer service stipulates that every department in an organisation exists to serve the external customer (or another department). Each department either receives work from, or processes work for another department (Zemke and Zemke, 1994). Thus, individual units or departments need to view themselves as both customers and suppliers as they receive inputs from another department (their supplier), add value, and send the output of their work to another department (their customer). The notion of internal customers creates a service quality in their internal service encounters (Papasolomou-Doukakis, 2002). Thus, the interactions between employees within a firm (internal service encounters) are described as a dyadic interaction between internal customers and internal service providers (Paraskevas, 2001). Organisations need to focus on employee satisfaction because qualified employees are becoming scarce and the turnover high among employees (Rust et al., 1996). The company’s health depends on employees’ common shared values and how well the employees are treated by the company’s activities to ensure loyalty, low employee turnover, and productivity gains (Dotchin and Oakland, 1994). Employees could be protected in order to retain customers in the increasingly competitive market through leadership development for guidance and support of strong leader, so as to be effective and motivated (Fletcher, 1999). Employee satisfaction is considered as the function of service quality by the management (Allred, 2001), as employees feel more respected, resulting in positive impact on the consumer confidence, and low hiring and
training costs (Cannon, 2002). To create service culture where employee satisfaction could strive, it is essential to develop managerial behaviour that rewards, supports, plans for, and expects service excellence; create systems support for service from marketing to human resource and operations functions; develop customer retention or attention programme that clearly demonstrate the importance of customers; and create logistics support for the tools, equipment, supplies, and facilities needed to deliver service (Bowen et al., 2001).

The customer’s experience is the key issue in understanding service quality. Service managers should know which HRM practice yields the largest return on different dimensions of service quality. Employees and customers observe each other, and interact and hence employees experience in their work gets transmitted to customers. If employees rate their HRM practices favorably, they would behave towards customers in a way that would yield positive service experience. Thus service organizations need to create two climates, service climate and climate for employee well-being. Climate for employee well-being serves as foundation for a climate for service. Organizations should assess the effectiveness of their HRM practices against both employee outcomes whether these practices contribute to delighted customers. The resources of the company require to deliver service, combined with HRM practices that facilitate delivery must go together. Managing is not a series of mechanical tasks but asset of human interactions. Managing has become one of the world’s most common jobs. Managers have to be responsible for other people’s happiness. The workplace has to be a nursery school. Management is supremely a human activity. People would love and work hard for a manager who is a fine person but knows less about technology rather than one who is mean but with great technical abilities. Another characteristic of a manager is integrity. Integrity means a manager should be responsible, communicating clearly and consistently. He should also keep promises. A good manager serves
two things one organization and other moral. Great management has to involve
the kind of respect, peace showed for his subordinates and it must also involve
empowerment. A good manager also delegates their authority, make
subordinates feel powerful and capable and draw from them so much creativity
and such a feeling of responsibility that their behavior changes for ever.

The concept of HRM is rapidly gaining a ground as a popular method of
ensuring higher productivity. Human resource can be enabled for excellence in
performance by developing them. Human resource is the most important of all
the factors of production. Business performance of any organization lies in the
hands of its employees and in the organizations ability to utilize their talent.
Successful businesses have found nurturing their human and intellectual capital
can provide valuable source of competitive advantage in their economy. The
core concept of HR system is the development. This development constitutes
three variables i.e. general climate, HRD mechanisms and the OCTAPACE
culture. Organisation’s HRM practices have been found to have significant
impact on organizational performance. organisation’s success lies in how much
their human resources are motivated. In order to ensure employee motivation, it
should be aligned with organizations objectives. The link between motivation
and performance is commitment. The outcome of commitment is persistence,
citizenship and performance. Employee needs have to be satisfied to get him
motivated. Herzberg identified supervision, pay, working condition and job
security as hygiene factors. Thus improving organizations HRM practices
could increase its market value. Therefore HRM involves working with and
through people and seeing them as parteners. Concern for employees is an
important factor of increasing productivity. HR can be managed through proper
and sound HRD system. HRD optimizes the use of employees for the growth of
organization. It promotes collaboration and team work. It aims at achieving
good employer-employee relations through regards for basic human values.
Therefore organizations can progress only if they possess developed human resource.

Companies can boost their economic potential through human resource, because customers build trust with employees and not with the executives. Organizations can earn customer loyalty through motivated employees. When customer loyalty goes up, profit also goes up too. Those employees who deal with customers day after day have powerful effect on customer loyalty. Long term employees can serve customers better. If employees are expected to be long term, companies can justify investing more in them. Employees take pride in delivering value to a customer again and again. Increased salary packages boost employee morale and commitment, as employees stay longer, their productivity increases. Employees’ overall job satisfaction, combined with their knowledge and experience, leads to better service to customers and therefore, customers are then more inclined to stay loyal to the company. Hence loyal employees with loyal customers can help a company to survive in a competitive environment. Service organizations are striving to increase the quality of the services they offer. They are also using a wide variety of people management techniques.

Since the purpose of Human resource management practices is to more effectively manage people, it is intuitive that the impact of effective Human resource management would be felt first at the employee level. Human recourse practices should directly impact the employees of the firms where they are practiced and, if done effectively, will result in a number of positive employee outcome. These outcomes might include such things as: commitment to the company, trust in management, higher levels of cooperation, higher levels of effort and involvement, and a lower inclination for employees to leave the company. These positive outcomes for the employees in the company in turn should lead to higher levels of operational and financial performance. Operational performance is any kind of performance resulting from the
operations of the business and could include items such as high quality or improved customer satisfaction. Financial performance refers to performance measures taken directly from the company’s financial statement such as profit or revenue growth. Some of the positive employee outcomes could be:

1) Commitments to supervisor- Employees with high commitment to their supervisors are happy working with their current manager and feel that their manager is concerned about them and their problems.

2) Trust in management:-Employees with high levels of trust in company management feel that management has their best interests for employees at heart and are comfortable allowing management to make decisions that impact employees.

3) Cooperation- Employees exhibiting high levels of cooperation and supportive of one another in their roles and expect to cooperate with others and to receive cooperation from others in performing their responsibilities.

4) Effort and involvement- employees with high levels of effort and involvement are committed to and fully apply themselves to their work. They are willing to spend extra time to get the job done and do extra work that is not part of their own job.

5) Turnover intentions- Employees with low turnover intentions are not actively seeking new employment, do not expect to leave the company in the future and do not often think about leaving their job.

These results indicate that a higher use of HR practices leads to higher levels of each of the employee outcome. That means that employees of companies employing effective human resource practices are more likely to demonstrate: higher levels of commitment to the supervisor, higher levels of trust in management, higher levels of effort and involvement in the company, higher levels of cooperation, and a lower inclination to leave the company. It also indicates that positive employee outcome do indeed lead to higher levels of performance and customer satisfaction. Hence companies wishing to
improve customer satisfaction can focus on elevating commitment to supervisors, trust in management, and cooperation among their employees.

To achieve excellence in every field, an organization needs to be more advance not only in technology but also in handling and retaining customers. As Lovelock (1996) points out a service organization can only be as effective as the people who deliver the service. This is because the product of a service organization is only finally made when staff interact with the customer. The quality of the service and the customer’s reaction to it depend almost entirely on the skills, attitudes and behavior of the individual delivering it. The key to the success of any organization lies in how effectively the organization manages its human resource. Human resource is bundle of unfolded potentials, and if given the right opportunities and circumstances, people will excel in their level of performance resulting in best customer service. As organizations adapt into the service sector, a better understanding of how to manage employees who provide service directly to the customer will be increasingly important (Chu, 2002). In fact, as discussed above, in the service sector a customer’s perception of the organization can be a direct result of the customer’s perception of the employee (Beatty et al., 1996; Bitner et al., 1994; Griffith, 2001). A customer’s willingness to do business with the organization, his or her satisfaction with the business experience, as well as his or her willingness to speak highly of the firm to others can directly influence the firm’s ability to retain current and attract new customers (Curasi, & Norman, 2002; Johnson, Boles, & James, 2001). In a literal sense, customer perceptions of an organization may become a good measure of firm performance (Heskett et al., 1994; Heskett, Sasser, & Schlesinger, 1997, 2003). As we move toward a service economy, customer outcomes will become a good intermediate-level measure of the viability and success of an organization (Lee, Yoo, & Dongkeun, 2000). In a service setting the customer deals directly with a lower-level employee and the employee’s perceptions of the organization will
influence this relationship. Specific employee perceptions may influence how a customer perceives the transaction and the organization as a whole (Liu & Mark, 2001; Palmer & Martin, 2003). Services being a sector characterized by heterogeneity, intangibility and simultaneous production and consumption, it is very important to understand the service dimensions and the attributes.

Human Resource Management is the organizational function that deals with issues related to people such as compensation, hiring, performance management, organization development, safety, wellness, benefits, employee motivation, communication, administration, and training. Human Resource Management (HRM) is the function within an organization that focuses on recruitment of, management of, and providing direction for the people who work in the organization. Human Resource Management can also be performed by line managers. Human Resource Management is also a strategic and comprehensive approach to managing people and the workplace culture and environment. Effective HRM enables employees to contribute effectively and productively to the overall company direction and the accomplishment of the organization's goals and objectives. Human Resource Management is moving away from traditional personnel, administration, and transactional roles, which are increasingly outsourced. HRM is now expected to add value to the strategic utilization of employees and that employee programs impact the business in measurable ways. Human resource management (HRM) is concerned with the personnel policies and managerial practices and systems that influence the workforce. In broader terms, all decisions that affect the workforce of the organization concern the HRM function. HRM is involved in managing the human resources with a focus on expanding customer base that gives profit to the company. In a growing number of organizations human resources are now viewed as a source of competitive advantage. There is greater recognition that distinctive competencies are obtained through highly developed employee skills, distinctive organizational cultures, management processes and systems.
This is in contrast to the traditional emphasis on transferable resources such as equipment. Increasingly it is being recognized that competitive advantage can be obtained with a high quality workforce that enables organizations to compete on the basis of market responsiveness, product and service quality, differentiated products and technological innovation. Employee retention involves taking measures to encourage employees to remain in the organization for the maximum period of time. Corporate is facing a lot of problems in employee retention these days. Hiring knowledgeable people for the job is essential for an employer. But retention is more important than hiring. There is no dearth of opportunities for a talented person. There are many organizations which are looking for such employees. If a person is not satisfied by the job he is doing, he may switch over to some other more suitable job. In today’s environment it becomes very important for the organizations to retain their employees. Employee retention is also likely to be important for firm performance. If the company is not able to retain its employees, it will not be able to capitalize on human assets developed within the organization. Retention is considered as all-around module of an organization’s human resource strategies. It commences with the recruiting of right people and continues with practicing programs to keep them engaged and committed to the organization. One of the most important factors that have impact on retention is the relationship between a worker and a supervisor. Supervisors are the “human face” of an organization.

Supervisors interact as a link to practice applications among stated goals and expectations. By harmonizing the competing demands, they support in managing both inside and outside the work environment. If the relationship does not exceed then employee will seek to any other opportunity for new employment and vice versa. The supervisor support is so essential to retention that it can be said that employees leave bosses, not jobs. If the supervisor focuses towards the employee’s progress, other than the formal evaluation
process; this improves the employee’s retention and commitment towards the organization. It’s very important to recognize the emerging needs of individuals to keep them committed and provide the work environment as necessitate. People enjoy working, and strive to work in those organizations that provide positive work environment where they feel they are making difference and where most people in the organization are proficient and pulling together to move the organization forward. One way to retain customers is the reward system. A reward can be extrinsic or intrinsic it can be a cash reward such as bonus or it can be recognition such as naming a worker employee of the month, and at other times a reward refers to a tangible incentive, reward is the thing that an organization gives to the employee in response of their contribution or performance so that the employees become motivated for future positive behavior. In a corporate environment rewards can take several forms. It includes, cash bonus, recognition awards, free merchandise and free trips. It is very important that the rewards have a lasting impression on the employee and it will continue to substantiate the employee’s perception that they are valued. Each organization has a reward system in place to motivate their employees. This reward system is based on incentives like an increase in the salary, cash, gift or a holiday. Compensation is offered to each employee based on his or her performance on the job. Incentives are usually seen as short term motivators for employees. Hence, incentives are used a lot to motivate sales employees so that they achieve their targets. The role of incentives is not to overload the employees with excess work but to realize their accomplishments and make them feel an important part of the business. Incentives allow the employees to take on responsibilities and in turn increase their job satisfaction. However, along with incentives, appreciation, positive feedback and praises are also important to motivate employees.

Numerous empirical studies show a strong positive relationship between employee satisfaction and customer satisfaction (e.g., Band, 1988; George,
1990; Reynierse & Harker, 1992; Schmitt & Allscheid, 1995; Schneider & Bowen, 1985; Schneider, White, & Paul, 1998; Schneider, Ashworth, Higgs, & Carr, 1996; Johnson, 1996; Ulrich, Halbrook, Meder, Stuchlik, & Thorpe, 1991; Wiley, 1991). As suggested by this wealth of findings, positive changes in employee attitudes lead to positive changes in customer satisfaction. Some investigations have provided explicit measures of this relationship. For example, a study at Sears Roebuck & Co. showed that a five-point improvement in employee attitudes led to a 1.3 rise in customer satisfaction which, in turn, generated a 0.5 increase in revenues. Brooks (2000) reviewed the relationship between financial success and customer and employee variables (e.g., customer satisfaction, employee satisfaction, etc.) and found that, depending on market segment and industry, between 40 and 80 percent of customer satisfaction and customer loyalty was accounted for by the relationship between employee attitudes and customer-related variables. Massad, Heckman, and Crowston (2004) also recognize that service provided by employees help to build a good relationship with customers and in some cases, increases their loyalty. When individuals purchase a particular service, the employee directly influences the customer’s perception of the quality of the transaction. Employee satisfaction is impacted by employees’ perception of their job and the organization for which they work (Eskildsen & Nussler, 2000). The big challenge for today’s service relays on the excellent service quality and a high customer satisfaction (Hung, Huang & Chen, 2003). Employee retention involves a simple process that encourages and uplifts individuals or teams within an organization to remain engaged with the Company in the long term. It is beneficial for both the employee and the employer. However, retaining employees depends on four major factors on which employee motivation is based:
Remuneration and Rewards

Remuneration plays the biggest role in the process of motivating staff, which in turn, leads to retention. It takes a clever hand to compose a compensation package.

Work Atmosphere

It is not always about retaining an employee but about managing one’s surroundings at work. It is about offering appropriate facilities and services to staff. A Company should serve as a second home, as most of the employees spend a maximum of their time at work place. The following features play a major role in making the employee feel connected to the corporation:

Growth Opportunities

Growth is an integral element of an individual’s career graph. If there is no scope of growth within a Company, the employee seeks external opportunities. The essential aspects that an individual looks to grow in are:

Bonding and Timely Support

Providing a personal or professional supportive work culture is sometimes overlooked by Management. This results in demonization due to the decrease in interest in work in a particular team or a Company as a whole. To craft a good, reliable, long lasting bond between the management and an employee, it is important to motivate employees at the workplace in order to retain them. Empowering employees, making them realize their importance and value to the organization, appreciating their efforts and appraising them for their performances will induce self-motivation and help reduce employee turnover.

The literature offers several explanations as to why employee satisfaction affects customer satisfaction:

1. Employees that interact with customers are in a position to develop awareness of and respond to customer goals and needs.
2. Satisfied employees are motivated employees; that is, they have the motivational resources to deliver adequate effort and care.

3. Satisfied employees are empowered employees; in other words, they have the resources, training, and responsibilities to understand and serve customer needs and demands.

4. Satisfied employees have high energy and willingness to give good service: at a very minimum, they can deliver a more positive perception of the service/product provided.

5. Satisfied employees can provide customers with interpersonal sensibility and social account (i.e., adequate explanations for undesirable outcomes).

It has been suggested that these components of interactional justice (i.e., quality of interpersonal treatment provided in a negotiation/exchange) have a significant impact on customer satisfaction. According to this view, satisfied employees experience interactional justice, they can deliver it; that is, satisfied employees have enough emotional resources to show empathy, understanding, respect, and concern. Employees can strongly contribute to an organization’s success by having a customer-centric approach in their work and in their work-related interactions.

Today, banking sector is seen as a catalyst in economic growth of a country and, lot is expected from the banking fraternity. The recognition of banking, as a tool for all inclusive growth by economists, financial planners, reformist etc has made it an important sector in the Government’s planning of economic growth. The banking sector in India is therefore witnessing tremendous changes because of political, social and economic changes that are taking place domestically and internationally. The concept of banking, which was earlier restricted to accepting of deposits from public for the purpose of, has also undergone sea change. Today the banking sector is seen as a vehicle for all inclusive economic growth, social responsibility and equiv-distribution
of national resources. Because of the changed roles envisaged for the banking sector, the ownership structure of banks in India is also changing. During the social sector reforms undertaken by Government, private sector banks were nationalized to support the Government’s social objectives to uplift underprivileged, backward and neglected sectors of society. However with changes in Government policies and Liberalization, Government plans to reform and restructure the banking sector again through mergers/takeovers/privatizations etc to make them strong and vibrant in international financial sector.

To keep pace with international developments in financial sectors, the banking activities in India are also changing. It is now universal banking with twin objective to meet social goals of the Government as well as to ensure commercial viability independently as envisaged by the Government. Banks are now entering into new fields apart from the business of core banking of deposits and lending. Government also wants domestic banks to become stronger to face challenges from foreign banks as and when they enter in to Indian financial sector post 2009-2010. These changes have brought in immense competition among banks. Each bank now wants to grow vertically as well as horizontally so as to save its identity in the market post 2009-2010 liberalized scenarios. These changes have made the customers central point for banks. Today banks are wooing existing customers, prospective customers by offering new facilities, products, and services in order to retain/increase their base in market. The way the banking has changed, so has the customer changed. The customer of today is not what he was yesterday.

Today the customer is more knowledgeable, demanding, analytical and aware of his rights. It is therefore a challenging task before the banking sector, specially the Public Sector banks to revisit their entire working modules, up gradation of skills, technology, and policies so that they are competent to withstand the international competitive environment in future. In service
industries, globally, the subject of service quality remains a critical one as businesses strive to maintain a comparative advantage in the marketplace. Since Financial services, particularly banks compete in the marketplace with generally undifferentiated products, and service quality becomes a primary competitive weapon (Stafford, 1996). It is true that structural changes have resulted in banks being allowed a greater range of activities, enabling them to become more competitive with non-bank financial institutions (Angur et al., 1999). Currently, technological changes are causing banks to rethink their strategies for services offered to both commercial and individual customers. Moreover, banks that excel in quality service can have a distinct marketing edge since improved levels of service quality are related to higher revenues, increased cross-sell ratios and higher customer retention (Bennett and Higgins, 1993), and expanded market share (Bowen and Hedges, 1993).

Moreover, the banks understand that customers will be loyal if they can produce greater value than competitors (Dawes and Swailes, 1999). In addition, higher profits will be earned by the banks if they can position themselves better than their competitors within a specific market (Davies et al., 1995). Therefore, banks should focus on service quality as a core competitive strategy (Chaoprasert and Elsey, 2004). It is indeed true that delivery of high-service quality to customers offers firms an opportunity to differentiate themselves in competitive markets (Karatepe et al., 2005). In contrast, high quality of service leads to customer satisfaction and loyalty and Greater willingness to suggest and or recommend to someone else, reduction in customer complaints, and improved customer retention rates to a great extent (Bitner, 1990; Headley and Miller, 1993; Zeithaml et al., 1996; Danaher, 1997). Indeed, in today’s intensely competitive economy, providing excellent customer service plays a vital role in a company’s success and failure (Mouawad and Kleiner, 1996). Internal customer service quality is expected to help the industry improve the service quality level, through its association with the employee satisfaction.
Internal customers (employees) of the organization receive service and product from other members of the organization to carry out their jobs.

Employees are internal customers of the organization because they receive services and products from other members of the organization to carry out their jobs (Zemke, 2002; Zeithaml and Bitner, 1996). Thus, individual units or department need to view themselves as customers and suppliers (Farner et al., 2001). Customer orientation of the frontline employees is crucial for business success as the behaviour of the employees affects the customer perception of the service (Kelly, 1992). Service quality is defined as the result of comparison between customers’ expectation about the service and their perception of the way the service has been performed (Grönroos, 1984; Parasuraman et al., 1985, 1988, 1991, 1994); described as the “delivery of excellent or superior service relative to the customer expectation” (Zeithaml and Bitner, 1996); as well as the customers’ interpretation of their experience (Garavan, 1997). It is viewed as a multidimensional construct (Johnston et al., 1995); and as overall assessment (Wang and Lo, 2003). Banking sector is one of the most competitive sectors as far as customer service is concerned. Competitiveness in this sector is contingent on turnaround times to serve the customer, which in turn depends on the productivity of the employees and speed of process execution. Dealing effectively with customers especially in a bank requires many principles, methods and skills which need to be recognized, learned and practiced. It is primarily the combination of positive and proactive attitude and professionalized approach blended with skill that determines the kind and quality of customer service that is provided by the bank to its customers. Banks sell services through their employees and therefore the dealing of the bank employees with their customers is of capital importance. In Indian banking sector, human aspects are more important than technical tangible aspects of service quality that influence customer satisfaction. Service climate is crucial in service organizations. In many
services e.g. banking, customers have some exposure to the organizations climate. Internal organizational climate visible to employees becomes visible to external customers because of the closeness that exists between them in service encounters.

The primary apprehension of the bank should be to bring in proper integration of human resource management strategies with the business strategies. It should faster cohesive team work and create commitment to improve the efficiency of its human capital. More than operational skills today, banking Sector call for these ‘soft skills’ to attend the needs and requirement of the customers at the counter. Banks have to understand that the capital and technology-considered to be the most important pillars of banking are replicable, but not human capital, which needs to be viewed as a valuable resource for the achievement of competitive advantage.

The long-term vision for India’s banking system is to transform itself from being a domestic one to the global level may sound far-fetched at present. To take up this industry to the heights of international excellence requires combination of new technologies, better processes of credit and risk appraisal, treasury management, product diversification, internal control, external regulations and human resources at the most. The main challenges faced by Banks in our country are the role played by financial instrumentation in different phases of business cycle, the emerging compulsions of the new prudential norms and bench marking the Indian financial system against international standards and best practices. There is a need for introduction of new technology, skill building and intellectual capital formation. The most important need in this service industry is naturally the HRD. During the early phase of banking development in India after independence, opportunities for employment of the educated man-power were relatively limited. This sector was the preferred employer for the educated persons in the country in addition
to civil services. In recent years, this position has changed dramatically. Certain rigidities have also developed in HRD within the banking system. Its hierarchical structure gives preference to seniority over performance, and it is not the best environment for attracting the best talent from among the young. How well Challenges are met will mainly depend on the extent to which the bank’s leverage their primary assets i.e., HR in the context of the changing economic & business environment.