2.1 IMPORTANCE OF SERVICE QUALITY

For the first time in the last five decades, quality has become the key slogan in Indian organizations as they strive for a competitive advantage in an atmosphere characterized by liberalization, globalization and knowledgeable customers. After almost a decade of liberalization, the Indian economy is exhibiting a far greater openness and less rigidity than ever before. An over-abundance of choices beckons the Indian customers today. The post-liberalized society is witnessing unprecedented competition among different organizations in India. Thanks to economic reforms and competition, organizations are undergoing a paradigm shift from an inward-production-led philosophy to an outward-customer-focused approach. Though this shift is in its infancy in India, when compared to other developed economies, it has nevertheless given the impetus to the concept of TQM (Vancheswar and Purnima, 1999).

The onset of economic reforms has opened up the Indian service industry to private sector players. Major service industries such as banking and airlines, which were largely government-owned until recently, are facing stiff competition from new private sector entrants. These private sector firms with their state-of-the-art service systems and high service quality pose a real threat to the government-owned public sector organizations. In such a scenario, organizations have to adopt a more pragmatic, market-oriented approach if they have to succeed in winning and retaining customers. The bottom line is that
service quality should form the basis on which all customer retention strategies are built (Nerurkar, 2000). So far, many Indian companies have heard the clarion call as far as quality is concerned. And on the positive side, further interest is definitely stirring as many more are beginning to get the message. They have started exploring what is required and how to embark on a TQM journey.

To sum up, the Indian service sector has become increasingly vibrant in the past few years. Heavy industrialization stemming from the government’s liberalization policies coupled with the process of globalization has resulted in the Indian market integrating with the global market. With the country’s best businesses locking horns with the world’s best, “quality” has probably become the hottest word in the country’s corporate lexicon today. Against this backdrop, with the service industry undergoing a metamorphosis at a rapid pace, identification and investigation of research issues with respect to service industry management assumes paramount importance.

Among the service organizations, the banking sector is perhaps the largest one that caters to the needs of people belonging to all sections of society. Moreover, perceived service quality tends to play a significant role in high involvement (high interaction between customers and service providers) industries like banks (Angur et al., 1999). Also, banks traditionally have long-term business relationships with customers. In addition, the banking sector is large enough to capture and represent almost all the critical features of customer-perceived service quality and the critical dimensions of Total Quality Service that the management may have to encounter in order to manage a service organization effectively.
Many leading business magazines like *Business Today* and *Business India* have, of late, started ranking the banks on several criteria such as operational ratios, profitability ratios, productivity ratios, financial parameters, net profits, total assets, advances and total deposits (*Business India*, 1995, 1996, 1998; *Business Today*, 1998a, b, 1999, 2002, 2005, 2006). These rankings were essentially based on financial aspects rather than on the nature and level of service quality delivered.

The service sector is expanding at an increasing rate and is becoming intensely competitive. As such, service quality has become a very important issue in marketing and has received much attention since the deregulation, and thus increased competition, of many service industries (e.g.: banking and telecommunications in the 1980's and utilities in the 1990's). Service quality has become so important that some businesses, not only need high levels of service quality for success, but in some cases, need it for survival.

Service quality is so important that companies have gone to great efforts to evaluate and keep records of service quality levels (Zeithaml, Parasuraman and Berry, 1990). It is essential to determine how to achieve high service quality and how to communicate the benefits of service quality.

Service quality is also important to businesses from a referral and repeat customers perspective. If service providers do not perform up to the expected level of the customer, this negatively affects service quality ratings. This can cause negative word-of-mouth communications to run rampant. Conversely, if service providers perform at or above the customer’s expectation, positive word-of-mouth is spread. Positive word-of-mouth, in
turn, leads to repeat customers and referrals. Service quality survey instruments identify
the level of services provided by a company, so that improvements can be made
according to the results. Thus, the better companies understand how their customers
evaluate their services, the better the company can provide what the customers want.

Upper management certainly recognizes the importance of service quality. Improving the
levels of product and service quality is the most crucial challenge being faced by firms
today.

The growing trend towards quality initiatives within financial services stems from the
competitive pressures which have swept through the sector during the 1980s and 1990s.
This has opened up the financial services marketplace allowing banks, building societies
and insurance companies to invade one another’s territory, encouraging new entrants and
stimulating mergers and acquisitions as a means of withstanding the increased
competition.

Whether or not there is some connection, these transformations have also been
accompanied by a growth in customer complaints according to both the Independent
Consumer Guide and industry ombudsmen. In 1987, total complaints to the Banking
Ombudsman were 1,748, while by 1993 there were 16,858 complaints, almost a nine fold
increase.

As competition intensifies, many businesses continue to seek profitable ways in which to
differentiate themselves from competitors. One way to ensure a firm’s success, or even
just survival, is to differentiate from the competition by delivering a high degree of service quality.

It is interesting to trace the development of the models in the literature. The growths of literature in the field of service quality seem to have developed sequentially, providing a continuous updating and learning from the finding or observations of predecessors. However it is interesting to note that all the models proposed were an adaptation of the Parsuraman et.al. (1985) model which identified service quality as a difference of the expectations against the perceptions along the five quality dimensions.

2.2 SERVICE QUALITY IN RETAIL BANKING

Although service quality in banking has been considered markedly important over the years, the topic has recently been afforded even more attention. Such interest may be the result of a reduced customer base and decreased market share affecting a portion of the banking industry (Bowen, 2000). In fact, Bowen and Hedges believe that attention to service quality may contribute substantially to ameliorating the decrease in market share that banks might be experiencing. Hence, achieving superior levels of service quality is a principal objective for retail banking operations.

Jun et al. (1999) studied the service quality of delivering loan products. They found out that substantial differences existed between bankers and customers groups in the perceived importance of service quality dimensions. Blanchard and Galloway (1994) used the SERVQUAL technique in examining quality in retail banking. In order to provide useful insights into how service might be improved, the authors attempted to develop an
alternative model. They, however, adopted most of the items of the original SERVQUAL model in their survey. They claimed that their model was general enough to be very widely applicable, and specific enough to give actionable diagnostic information. Natarajan et al. (1999) examined the continuous improvement of service operations in which the actual service experience is assessed through a customer survey. Their study was conducted on the Ram Najar branch of the bank in Bangalore, India. The SERVQUAL instrument was not used, though most of its items were adopted.

Finally, Lassar et al. (2000) adopted two techniques in their study of service quality in private banking. The first technique was SERVQUAL and the second was a measure of technical/functional. Technical quality involves what service is provided while functional quality considers how it is provided. The two service quality measures were subsequently compared and contrasted as their ability to predict customer satisfaction. The study provides initial support in favor of the idea that SERVQUAL- and technical/functional-quality-based models may be unequally or asymmetrically applicable across differing settings and situations.

Service quality as perceived by the customer is the degree and direction of discrepancy between customer service perceptions and expectations (Parasuraman et al., 1985). It is this gap between perceptions and expectations that underpins the formulation of SERVQUAL, the service quality measuring instrument of Parasuraman et al. (1988) and its subsequent refinements (1990, 1993, 1994). Since its formulation, SERVQUAL has been used in a variety of service industries and countries. Several authors of SERVQUAL-based studies have questioned its psychometric soundness and its usefulness. Principal among these are criticisms of its reliance on two scales measuring
perceptions and expectations when one scale (that of perceptions or a simple performance measure) would be shorter, simpler and more easily understandable and ultimately more effective.

Academic criticism of the validity and feasibility of SERVQUAL as a measure of service quality has been accompanied by proposals for alternative service quality measures. Prominent among these are Cronin and Taylor's (1992) SERVPERF measure which has the claimed advantage of one scale designed to measure service quality performance using a seven-point semantic differential scale with answers ranging from very poor to excellent. It eliminates the expectations scale and has been tested in dentistry and telecommunications. BANKSERV (Avkiran, 1994) is a single scale measure of service quality designed to allow customers to reflect on their perceptions and expectations in a single statement. Another approach is the importance-performance measure of service attributes, which measures how well a service meets customer needs.

Since then the Banking Service Quality (BSQ) measure comprising 31 items for six dimensions (effectiveness and assurance, access, price, tangibles, services portfolio and reliability) has been constructed. This measurement tool, dedicated to measure service quality in banking, is essentially an adaptation of SERVQUAL.

The use of expectations is questioned by Babakus (1992) and Cronin and Taylor (1992), who in measuring service quality in banking conclude that the disconfirmation approach has little support either theoretically or empirically. Performance-only measurement of service quality (SERVPERF) as identified by Cronin and Taylor (1992) among others (Babakus and Boller, 1992), has received significant conceptual and empirical support in
services research (e.g. Boulding et al., 1993; Brown et al., 1993; Lee et al., 2000; Teas, 1993). In a more recent study, Brady et al. (2002) replicated and extended Cronin and Taylor's (1992) work and further confirmed the superiority of SERVPERF as a more appropriate method for measuring service quality. Brady et al. (2002) specifically maintained that SERVPERF outperforms SERVQUAL (a gap-based comparison of the expectations and performance perceptions of consumers) in terms of capturing the variance in consumers' overall perceptions of service quality and validating the conceptualization of service quality as an antecedent of consumer satisfaction. However, there are still two important issues that deserve further research.

First, in spite of the theoretical foundation and empirical support documented in the literature, the SERVPERF scale has only been operationalized as a summed index (derived by averaging the distinctive dimensions of service quality) with regard to its predictive value in relation to other outcome constructs such as satisfaction and behavioral intentions. Cronin and Taylor (1994) indicated that although the aggregation of the SERVPERF dimensions is useful for the purpose of comparative analysis across alternative models and service industries, “great care should be exercised by managers of service firms in attempts to derive more specific information from data derived using the SERVPERF scale for strategic decision-making”. We believe that the strategic value of using SERVPERF can be better addressed through a focus on specific dimensions of service quality, especially with respect to their relevance to satisfaction and outcome variables.
In the context of services research, a conceptualization of the direct link between specific service quality dimensions and satisfaction is a recent phenomenon (Oliver, 1993). However, in the product category, some researchers have noted that overall consumer satisfaction (i.e. post-consumption experience) is a function of attribute-level evaluations of product performance (LaTour and Peat, 1979; Mittal et al., 1999). The premise is that attribute-level evaluations can capture a significant amount of variation in overall satisfaction. Our research position is exemplified by the same conceptualization, and advocates the use of specific SERVQUAL dimensions as opposed to a summed index for the purpose of strategic significance for managing service quality.

Moreover, a dimension-specific model of service quality and satisfaction is more likely to reflect consumers' mental representations of consumption experiences (Mittal et al., 1999; Oliver, 1993). Thus, managers would be most interested in linking those specific service dimensions to overall satisfaction (Griffin and Hauser, 1993). This kind of analysis can provide specific insights to enrich managers' understanding of diagnostic usefulness about antecedents of satisfaction, and to increase the specificity and actionability of satisfaction management (Mittal et al., 1999). In view of the two most prevalent and widely accepted perspectives on service quality evaluations (i.e. SERVPERF versus SERVQUAL), the conceptualization of dimension-specific elements of service quality as antecedents of consumer satisfaction should be compared empirically.

The second issue concerns the applicability of SERVQUAL in an international service setting. Because the superiority of SERVQUAL has primarily been validated in the
Western service context, and due to cultural differences, it is likely that the cultural orientation of consumers will influence its applicability. In fact, in a cross-cultural environment, it has been argued that the ways in which consumers evaluate service quality and its purported relationships with other constructs such as satisfaction and behavioral intention tend to differ considerably (Furrer et al., 2000). Thus, whether the performance-only model is an adequate basis for use in the measurement of service quality in international markets needs to be addressed. The growing trend towards internationalization of service industries requires such knowledge for service quality improvement worldwide. From a theoretical point of view, such an issue should not be underestimated because the SERVQUAL scale and its modified versions have been widely used for studying service quality across international markets (e.g. Gerrard and Cunningham, 2001; Sureshchandar et al., 2002; Zhao et al., 2002). This suggests that “a consensus has not been reached relative to the superiority of performance-only measures of service quality” (Brady et al., 2002, p. 18).

SERVQUAL, nevertheless, continues to be one of the most widely recognized methods of measuring service quality, withstanding the test of time. Also if one looks upon the lineage of service quality models, it is interesting to find that all of them are only a mere adaptation of SERVQUAL. Moreover the use of SERVQUAL enables the ease of comparability with other studies.

2.3 SERVICE QUALITY AND COMPETITIVE ADVANTAGE

The service marketing literature of the 1990s has advocated customer service excellence and prescriptions for improving service quality as a way to enhance customer satisfaction
and loyalty leading to increased competitiveness and profitability. Several studies have identified a significant relationship between service quality and performance. Findings demonstrate that firms offering superior service attained higher than normal market share (Buzzell and Gale, 1987), that service quality impacts on profits via enhanced market share as well as premium prices (Gummesson, 1993) and that, compared to competitors organisations in the top quintile of relative service quality on average achieve an 8 per cent higher price premium (Buzzell and Gale, 1987). Other consequences of superior service have been found including word of mouth recommendation (Parasuraman et al., 1991). Consequently service quality is accepted as a winning competitive strategy, good for service providers – and their customers.

Such findings are encapsulated in the service profit chain, a conceptual framework that postulates that in service firms profitability and growth are stimulated mainly by customer retention. Retention is a direct result of customer satisfaction and satisfaction is primarily influenced by the value of services provided to customers. Customer satisfaction is the result of the buyers' perception of service quality and satisfaction leads to customer retention, which leads to repeat purchase and increased scope for relationship building and word of mouth recommendation. The consequence, increased revenue, derives from reduced customer acquisition costs and lower costs of serving repeat purchasers leading to increased profitability (Heskett et al., 1994). A 5 per cent increase in customer retention can increase profitability by between 25 and 85 per cent (Reichheld and Sasser, 1990).
The antecedents to customer retention include service quality (Storbacka, 1994), customer satisfaction (Rust and Zahorik, 1993; Hallowell et al., 1996), relationship quality (Storbacka, 1994), service recovery (Hart and Bogan, 1992) and customer service (Berry et al., 1989). Companies that focus on customer service retain customers 50 per cent longer, increase profits by 7 to 17 per cent and reduce their marketing costs by between 20 to 40 per cent (Zemke, 1997).

Yet, despite this evidence in favour of the value of satisfaction and quality, in practice, customer satisfaction in itself may be insufficient, for between 65 and 85 per cent of customers who defect are satisfied customers (Reichheld, 1993).

2.4 EMPLOYEE PERCEPTIONS OF SERVICE AND CUSTOMER SATISFACTION

Customer service is a prerequisite for customer satisfaction. In service industries, employees play a key role in the provision of service (Albrecht and Zemke, 1985; Schneider and Bowen, 1995). Employees influence the quality of, and delivery of, products and services to external customers (Zeithaml et al., 1990; Schneider and Bowen, 1995). Evidence of a positive relationship between employee satisfaction and customer satisfaction has been documented by classic studies (Schlessinger and Zornitsky, 1991; Johnson, 1996; Rucci et al., 1998) and, as Hallowell et al. (1996) observed, “while job satisfaction may not lead to customer satisfaction directly, service organizations rarely have satisfied customers without having satisfied employees”. Of equal importance is that
employees’ perceptions of service and actual customer perceptions of service quality tend
to match (Naumann and Giel, 1995).

2.5 CONSUMER PERCEPTIONS OF SERVICE AND BEHAVIOUR

There has been widespread support for the general proposition that customer satisfaction
is a significant variable for evaluation and control in bank marketing management
(Moutinho and Brownlie, 1989; Howcroft, 1991). Similarly the key role of service
quality in financial service delivery has been highlighted (Smith and Lewis, 1989;
Avkiran, 1994). Although the constructs service quality and satisfaction are sometimes
used interchangeably; a substantial amount of research has sought to establish the nature
of the relationship between them (see, for example, Bitner, 1990; Cronin and Taylor,
1992; Parasuraman et al., 1994). Oliver’s (1993) review of the issues suggests that
service quality is antecedent to satisfaction and is non-experiential in nature (i.e. similar
to attitude which can be formed from other sources such as word of mouth
communications). Although the multi-attribute nature of both constructs is well
recognised, more emphasis has, over recent years, concentrated on identifying the
attributes and broad dimensions of service quality. Early work in this area distinguished
between technical and functional quality (Grönroos, 1984) and emphasised the
importance of the functional, or service delivery, element in consumer evaluations. The
distinction has underpinned much later work, where many researchers (Parasuraman et
al., 1988, 1991, 1994; Babakus and Boller, 1992; Carman, 1990) have examined the
dimensionality of the service quality construct. Later work (Smith, 2000) suggests that, in
addition to outcome, three elements of service process:
1. access/convenience;
2. human elements (combining both instrumental and expressive qualities); and
3. tangibles affect consumers’ service evaluation.

Either implicit or explicit in both service quality and satisfaction, research is the linkage between these constructs and consumer behaviour. Researchers have sought to establish relationships between satisfaction and behavioural intentions (Oliver, 1980; Mittal et al., 1999) and between the latter and service quality (Parasuraman et al., 1994; Boulding et al., 1993).

Further research has focused on the relationships between customer satisfaction and loyalty (Hallowell, 1996). The latter construct itself is often defined as repeat purchase intention, attitudes or alternatively measures of actual behaviour, including repeat purchase, recommendation, etc. The often complex relationships between consumers exhibiting varying degrees or conditions of loyalty (Dick and Basu, 1994) and their switching or “exit” behaviour have also been examined (Stewart, 1998).

In 1960 Levitt made a major contribution to the academic marketing literature with his proposal that customer satisfaction should be the primary goal of any business (Levitt, 1960). In parallel with the marketing literature, customer satisfaction is also seen as a goal of the quality management literature. The gurus of manufacturing quality, acknowledge customer satisfaction as a goal of quality programmes. Similarly, the services marketing literature recognises the pivotal role of customer satisfaction and service quality. Customer satisfaction is the result of purchasers’ perceptions of service quality (Parasuraman et al., 1985; Rust and Zahorik, 1993; Storbacka, 1994). Customer
satisfaction is a direct antecedent of customer retention (Rust and Zahorik, Storbacka, 1994). Customer retention is the key to business performance: a consequence of high levels of customer retention are increased revenue, customer acquisition costs and lower costs of serving repeat purchasers. Enhanced profitability: a 5 per cent increase in customer retention can improve profitability by between 25-85 per cent (Reichheld and Sasser, 1990). But satisfaction per se is insufficient, for between 65 and 85 per cent of customers are satisfied customers (Reichheld, 1993). What is needed is “complete satisfaction” for it is this that “is the key to securing customer loyalty and superior long term financial performance” (Jones ad Sasser, 1995). Literature in competitive strategy literature suggests a link between excellent service and competitive strategy leading to a differential competitive advantage. Using the model of Buzzell and Gale (1987) have demonstrated that firms offering superior service quality on average achieve an 8 per cent higher price premium. Quality improvements are cited as leading to competitive advantage and the competitive advantage offered by service quality as a route to improved business performance. Widespread adoption of service quality initiatives in many service industries (e.g. and Oakland, 1989).
2.6 SERVICE QUALITY AND CUSTOMER RETENTION IN FINANCIAL SERVICES

Research into the importance of customer retention supports a link between service quality and customer retention in financial service companies. Customer retention has been found to be a major determinant of market share and profitability in banks (Roth and Vander Vanken, 2001; Rust and Zahorik, 1993). In the UK a recent survey of 121 banks and building societies observed “of particular note in this study is the overwhelming significance of quality of service as that factor which most clearly demonstrates the strongest indicator of a financial services firm actually retaining its customers” (Appiah-Adu et al., 1998). Additionally, and of major concern to UK financial services, which have traditionally enjoyed high rates of customer retention based on customer inertia, is the attraction of service quality as a competitive differentiator (McCabe et al., 1997; Porter, 1997) in an industry which has “suffered deregulation, competition and the erosion of technical product boundaries in markets which, in many senses may be seen as oversupplied” (Knights et al., 1994).

2.7 CUSTOMER RELATIONSHIP MANAGEMENT

In an increasingly competitive environment, companies must be customer oriented (Kotler, 1998). After all, the underpinning of the marketing concept is that identification and satisfaction of customer needs leads to improved customer retention (Day, 1994). It is thus not surprising that companies spend substantial resources to measure and manage customer satisfaction. Interest in customer relationship management (CRM) began to
grow in 1990s (Ling and Yen, 2001; Xu et al., 2002). Regardless of the size of an organization, businesses are still motivated to adopt CRM to create and manage the relationships with their customers more effectively. An enhanced relationship with one's customers can ultimately lead to greater customer loyalty and retention and, also, profitability. In addition, the rapid growth of the internet and its associated technologies has greatly increased the opportunities for marketing and has transformed the way relationships between companies and their customers are managed (Bauer et al., 2002).

Although CRM has become widely recognized as an important business approach, there is no universally accepted definition of CRM. Swift (2001, p. 12) defined CRM as an “enterprise approach to understanding and influencing customer behaviour through meaningful communications in order to improve customer acquisition, customer retention, customer loyalty, and customer profitability”. Kincaid (2003, p. 41) viewed CRM as “the strategic use of information, processes, technology, and people to manage the customer's relationship with your company (Marketing, Sales, Services, and Support) across the whole customer life cycle”. Parvatiyar and Sheth (2001, p. 5) defined CRM as “a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value”. These definitions emphasize the importance of viewing CRM as a comprehensive set of strategies for managing those relationships with customers that relate to the overall process of marketing, sales, service, and support within the
organization. Moreover, information technology (IT) and information systems (IS) can be used to support and integrate the CRM process to satisfy the needs of the customer.

2.8 CUSTOMER LOYALTY AND RETENTION

It is commonly accepted in the marketing discipline that it is far cheaper to retain an existing customer than it is to attract a new customer (Reichheld, 1993; 1996) and that loyalty can be linked to company growth (Reichheld, 2003). Given the importance of loyalty to marketers there is a large body of literature concerned with loyalty, a concept, which has also been referred to as retention (Rust and Zahorik, 1993; Narayandas, 1996, 1999; Eriksson and Vaghult, 2000) and commitment (Beatty and Kahle, 1988; Ulrich, 1989; van Birgelen et al., 1997).

The marketing literature is concerned with both the conceptual definition and measurement of loyalty. The loyalty literature contains a multitude of measures. There have been few attempts to consolidate the plethora of survey based loyalty measures. In 2001, Rundle-Thiele and Maio Mackay analysed nine loyalty measures at the aggregate or brand level (Rundle-Thiele and Maio Mackay, 2001). There has been no attempt to analyse survey-based measures at the individual or customer level.

Since loyalty was first defined there has been a great deal of debate about the construct. The crux of these discussions largely centres on: identifying whether loyalty is a behavioural or attitudinal phenomenon; defining attitudinal and behavioural representations of loyalty; and discriminating between additional dimensions of loyalty.
and understanding the interrelationships between them. The views on loyalty have been classified into two sets, traditional and modern and are described separately below.

Traditional views

The evolution of the loyalty concept is illustrated in Figure 4. The concept of loyalty first appeared in the 1940s. In its earliest days loyalty was proposed as a uni-dimensional construct, which was related to the measurement perspective taken by the researcher. Two separate loyalty concepts evolved. Namely, "brand preference" (Guest, 1944, 1955) which was later referred to as attitudinal loyalty and "share of market" (Cunningham, 1956), which was later referred to as behavioural loyalty.

![Diagram of loyalty concept]

FIG. 4 - THE LOYALTY CONCEPT 1950 – 1990

Nearly 30 years after loyalty first appeared in the academic literature researchers (e.g. Day, 1969) proposed that loyalty may be more complex and that it may comprise both attitudinal and behavioural loyalty. This bi-dimensional concept has since been combined and referred to as composite loyalty. The composite definition of loyalty has become the
basis for much loyalty research that has since been undertaken (for examples see Jacoby and Kyner, 1973; Bloemer and Kasper, 1995; Bennett, 2001). The composite definition of loyalty considers that loyalty should always comprise favourable attitudes, intentions and repeat-purchase (see Jacoby and Chestnut, 1978). Oliver, 1999 has criticized much of the existing research on customer loyalty based on the failure to provide a unitary definition and reliance on two or three components, such as cognition, affect and behavioural intention and has suggested that loyalty evolves and that there are stages of loyalty. Building on the work of Dick and Basu (1994) he places greater emphasis on the notion of situational influences and by doing so distinguishes his philosophy, Customer loyalty is a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, thereby causing repetitive same brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour (Oliver 1999 p 34). He proposes that customer loyalty develops through four stages cognitive, affective, conative and action. Cognitive loyalty is based on performance, whether functional, aesthetic, or cost based and is thereby subject to failings on these dimensions. Cognitive loyalty is directed at costs and benefits, not the brand, and is therefore considered vulnerable. Oliver (1999) hypothesises that customer loyalty development is contingent upon a customer passing through each stage, thus failure to progress beyond the cognitive stage has negative consequences. The antecedents of the cognitive stage of customer loyalty development are accessibility, confidence, centrality and clarity (Oliver 1999). These are consistent with early customer loyalty research, which sought to understand why consumers repeatedly preferred certain brands of low priced retail goods and tangible goods (Karoutchi et al 1994). The
antecedents are sustained or made vulnerable by customer perceptions and experiences of
cost, benefits and quality.

In 1994, Dick and Basu subsequently identified the need to define the different
manifestations of composite loyalty as separate dimensions. Following Dick and Basu's
(1994) conceptual model multi-dimensional views of loyalty emerged in the literature
(for examples Zeithaml et al., 1996; Bloemer et al., 1999; Narayandas, 1999; Yu 2001).

Loyalty is a feeling or an attitude of devoted attachment and affection. This feeling of
loyalty tends to imply that a person feels an obligation to persevere with a personal
relationship through good and bad times. A commercial setting involves a subtle change
for the term “loyalty”. One of the main reasons for this change is customers can persevere
in a commercial relationship without a feeling or an attitude of devoted attachment. These
loyal behaviours demonstrate that the customer has faith in the brand. To put this in
context think about a consumable product that you commonly purchase such as bread or a
newspaper. Do you feel attached to a pack of bread or a newspaper? There would be few
who would agree that they are attached to a pack of bread or a newspaper. Yet, when
asked if you repeatedly purchase a particular brand of bread or a newspaper you may
answer yes. This loyal behaviour is also of interest for marketers. We can now
acknowledge that loyalty may be one or a combination of attitudinal and behavioural
loyalty. Yet this may still provide a limited view of loyalty.

Therefore, it is suggested that loyalty should be defined as:
The state or quality of being loyal, where loyal is defined as a customer's allegiance or adherence towards an object or service.

Loyalty is the key to the longevity of any brand of product or service and one type of loyalty, namely word of mouth has recently been correlated with company growth (Reichheld, 2003). It is possible that each and every customer has loyalty qualities or states in varying degrees, and that customer's have a different mix of loyalty qualities or states. Marketers can activate different loyal states or qualities in different ways. For example, word of mouth behaviours may be encouraged through reward programs while attitudinal loyalty may be encouraged through emotive advertising. This research suggests that the dominant views on loyalty remain too narrow. Old views of loyalty need to be expanded to encompass a far broader range of loyal states and qualities to benefit both customers and marketing managers.

2.9 BENEFITS OF CUSTOMER LOYALTY

The benefits of loyalty include:

- **Cost savings.** Customers who are loyal are familiar with your brand. They know how to transact with you. The assistance they need is specific. They are more efficient in terms of the way they use your resources.

- **Referrals.** Customers who become familiar with your brand mention it to their friends and acquaintances. People like to feel smart and "in the know". They like to have an opinion. Loyal customers won't hesitate to make recommendations to
friends and neighbors. Jeff Bezos, founder and CEO of online bookseller Amazon.com said, “Word of mouth is very powerful”, after he decided to eliminate his $50 million television advertising budget and dismantle his advertising department.

- Complain rather than defect. Customers who are loyal feel like they are stakeholders in the retail brand. When they have a bad experience they complain. They make a phone call, they ask for the manager or they do something else to make sure their issue is addressed. They believe in the brand. They feel that it is their brand. They want to fix it. They complain rather than quietly defecting. This “second chance” opportunity is very important in today’s business environment in which customers are so fickle.

- Channel migration. Loyal customers are more likely to buy through alternative channels. I am talking principally about the Internet. Most companies today sell through traditional channels and online. Loyal customers who are familiar with your brand are much more likely to buy through multiple channels, increasing their total consumption and reducing your cost of doing business with them.

- Unaided awareness. Loyal customers are much more likely to have your brand top of mind in your category. This manifests itself in terms of an increase in share of customer and an improvement in retention. But it also helps with referrals and it helps with “bring alongs” in which loyal customers actually bring other customers (friends, relatives) to your brand.

2.10 CUSTOMER RETENTION AND SERVICE QUALITY LINK
During early stages of service quality research, it was common to measure perceptions of service quality as a proxy measure of customer satisfaction, implying a perfect correlation between the two constructs. Now, it is more common to posit service quality as an antecedent of customer satisfaction (e.g. Cronin et al., 2000). Early research had a simple premise – that satisfied customers continue service patronage, resulting in positive financial benefits to the service provider. However, it is now known that mere satisfaction does not ensure continued service patronage. Furthermore, there is also evidence to show that in addition to satisfaction, other emotional responses such as inertia and indifference may also have an impact on retention. Therefore, the focus in recent research has somewhat shifted from studying drivers of customer satisfaction to examining drivers of customer behaviours such as repurchase habits. Many studies have also found a direct positive link between service quality perceptions (arguably a cognitive evaluation) and customer behavioural intentions (e.g. Boulding et al., 1993; Zeithaml et al., 1996). Methodologically, a key advantage in this approach is the ability to separately manipulate the effect of price perceptions on retention. In a recent study, Cronin et al. (2000) conducted a large-scale survey of six industries and confirmed the direct linear effect of SQ perceptions, customer satisfaction, and value, on behavioural intentions. A surprising result in their study was that service quality perceptions had a much greater impact than price in determining value. Cronin and his colleagues concluded that service customers might place greater importance on the quality of service than on the cost of acquiring that service.

2.11 SERVICE QUALITY AND SERVICE LOYALTY
Research into customer loyalty has focused primarily on product-related or brand loyalty, whereas loyalty to service organisations has remained underexposed (Gremler and Brown, 1996). Frequently, a high positive correlation between the constructs of satisfaction and product loyalty is reported. With regards to service loyalty, perceived service quality is often viewed as a key antecedent. However, there are a number of reasons why findings in the field of product loyalty cannot be generalised to service loyalty (Gremler and Brown, 1996). Service loyalty is more dependent on the development of interpersonal relationships as opposed to loyalty with tangible products for person-to-person interactions form an essential element in the marketing of services. Furthermore, the influence of perceived risk is greater in the case of services, as customer loyalty may act as a barrier to customer switching behaviour. Indeed, it has been demonstrated that loyalty is more prevalent among service customers than among customers of tangible products. In the services context, intangible attributes such as reliability and confidence may play a major role in building or maintaining loyalty.

As most research originated from the field of packaged consumer goods strong emphasis has been on behavioural measures. In a services context, loyalty is frequently defined as observed behaviour. For instance, a low degree of repeat purchasing of a particular service may very well be the result of situational factors such as non-availability, variety seeking and lack of provider preference. However, with regards to actual behavior, recent research in loyalty behavior has shown that loyalty is fairly consistent over time (DeKimpe et al., 1998). Therefore, the behavioural approach to loyalty may not yield a comprehensive insight into the underlying reasons for loyalty, instead it is a consumer's disposition in terms of preferences or intentions that plays an important role in
determining loyalty (Bloemer and Kasper, 1995). Furthermore, repeat purchasing behaviour may not even be based on a preferential disposition but on various bonds that act as switching barriers to consumers (Storbacka et al., 1994). During the past decades, therefore, customer loyalty has also been approached as an attitudinal construct (Biong, 1993; Hallowell, 1996). This is reflected, for instance, in the willingness to recommend a service provider to other consumers.

Finally, in addition to the behavioural and attitudinal approach to customer loyalty, it has been argued that there is also a cognitive side to customer loyalty. In this sense, customer loyalty is frequently operationalised as the product or service that first comes to mind when making a purchase decision, the product or service that is a customer's first choice among alternatives or price tolerance. Therefore, operationalisation of service loyalty would have to consider behavioural, attitudinal and cognitive aspects in the development of a composite index. These elements are present in the behavioural intentions battery that was developed by Zeithaml et al. (1996) with regards to services loyalty.

Little empirical research has focused explicitly on the relationship between service quality perceptions and customer loyalty. With regards to behavioural intentions in a services setting, Zeithaml et al. (1996) proposed a comprehensive, multi-dimensional framework of customer behavioural intentions in services. This framework was initially comprised of the following four main dimensions:

1. (1) word-of-mouth communications;
2. (2) purchase intention;
3. (3) price sensitivity; and
4. (4) complaining behaviour.

These dimensions are rendered in the table below.

On the basis of factor analysis on the 13-item scale, five dimensions were identified by Zeithaml et al. (1996):

1. loyalty to company;
2. propensity to switch;
3. willingness to pay more;
4. external response to problem; and
5. internal response to problem

2.12 PRICE PERCEPTIONS AND CUSTOMER LOYALTY

Empirical support for the price perceptions – customer retention link in the service sector is scant. Indeed, one of the few exceptions is the recent study by Varki and Colgate (2001). Their review illustrated that given the importance of price perceptions, surprisingly little work has been done on the impact of price in the service sector and they argued the need for future research to focus more on this link. Based on a survey of the banking sector, they found evidence to support a direct positive association between price perceptions and customer behavioural intentions. Based on in-depth interviews, Gremler and Brown (1996) suggested a model that included switching costs as an antecedent of customer loyalty. They defined switching costs as investment of time, money and effort perceived by customers as factors that make it difficult to switch companies and gave the
examples of habit, inertia, set up costs, search costs, learning costs, contractual costs, and continuity costs.

Gremler and Brown (1996) defined service loyalty as follows: “service loyalty is the degree to which a customer exhibits repeat purchase behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises”. Consistent with this definition, Zeithaml et al. (1996) operationalised customer loyalty to consist of repurchase intentions, positive and negative word of mouth, and price sensitivity. However, when it comes to scale development, two distinct approaches can be seen in the extant literature. Some built summated scales of customer retention based on the multiple dimensions (e.g. Zeithaml et al., 1996), whereas others looked at the individual dimensions separately (e.g. Singh, 1988). The second approach is superior because what drives repeat purchase can be fundamentally different from what drives the other dimensions of customer retention.

2.13 CUSTOMER SATISFACTION AND LOYALTY LINK

While both service quality and customer satisfaction have certain things in common, satisfaction is generally viewed as a broader concept than service quality assessment; thus, perceived service quality is a component of customer satisfaction (Zeithaml and Bitner, 1996). Attempts to understand customer satisfaction formation have yielded several important insights. For example, disconfirmation and perceived quality were found to affect customer satisfaction more than expectations (Churchill and Surprenant, 1982) and expectancy-disconfirmation (Oliver and DeSarbo, 1988; Yi, 1990). Anderson
and Sullivan (1993) also showed satisfaction to be a function of disconfirmation and perceived quality in an analysis of Swedish customer satisfaction survey data. Consequently, customer satisfaction programs were touted as important tools that can increase profits by preventing customers from defecting (Reichheld and Sasser, 1990). One of the principal behavioral objectives of customer satisfaction programs is to increase customer retention rates (Fornell, 1992). Reichheld (1996) demonstrated why customer retention is so important. For example, he estimated that, with an increase in customer retention rates of just 5 per cent, the average net present value of a customer increases by 35 per cent for software companies and 95 per cent for advertising agencies. In addition, a consistently high satisfaction level may generate a long-run reputation effect, thereby insulating firms by reducing customers' price sensitivity (Anderson and Sullivan, 1993).

Although it is assumed that a high level of satisfaction is strongly correlated with increased customer loyalty, researchers have tried to separately measure customer loyalty. Customer loyalty sometimes has been operationalized as a behavior (hard-core loyalty, repeat purchase probability, etc.) and at other times as an attitude (brand preference, commitment, intention-to-buy). As a behavior, customer loyalty has been measured as the long-term choice probability for a brand (Jeuland, 1979; Carpenter and Lehmann, 1985; Colombo and Morrison, 1989; Dekimpe et al., 1997), or as a minimum differential needed for switching (Raju et al., 1990). Attitudinal approaches focused mainly on brand recommendations (Boulding et al., 1993), resistance to superior products (Narayandas, 1996), repurchase intention (Cronin and Taylor, 1992; Anderson and Sullivan, 1993), and willingness to pay a price premium (Zeithaml et al., 1996;
Narayandas, 1996). Jones and Sasser (1995) present a very intuitive classification of an individual's link between satisfaction and loyalty. Customers were classified into four different groups: loyalist/apostle (high satisfaction – high loyalty), defector/terrorist (low satisfaction – low loyalty), mercenary (high satisfaction – low loyalty), and hostage (low satisfaction – high loyalty).

2.14 SATISFACTION-LOYALTY AND SWITCHING COSTS

Fornell (1992) has noted that industries vary in how customer satisfaction affects repeat business and customer loyalty. He noted that the connection between customer satisfaction and loyalty depends on factors such as market regulation, switching costs, brand equity, existence of loyalty programs, proprietary technology, and product differentiation at the industry level. Hauser et al. (1994) also pointed out that consumers become less sensitive to satisfaction level as switching costs increase. Switching costs play a crucial role by making it costly for customers to change service providers (Fornell, 1992). The results of Anderson and Sullivan (1993) similarly support the role of switching costs by observing the average satisfaction and retention elasticities for selected firms in 1989. They argue that quality elasticity should increase as average satisfaction decreases. They found empirical support for this relationship in airlines and the banking industry, but not for supermarkets. One explanation is that in airlines and banking there are high switching costs but in supermarkets switching costs are very low. The result supports the importance of switching costs on customers' quality elasticity.

The impact of switching costs on the relationship between satisfaction and loyalty is affected by market structure. If the market has a single or overwhelmingly large share
provider (for example, a monopoly provider of local telephone service), there should be little effect of switching costs on the relationship between satisfaction and brand loyalty. That is, a dissatisfied customer with high switching costs will not switch; nor, however, will a dissatisfied customer with low switching costs, since there is no alternative. Switching costs become important when there are at least a few viable alternative providers in a market. If this criterion is met, switching costs will affect the existence of the off-diagonal groups in the Jones and Sasser (1995) matrix. Thus, if switching costs are low, we should find very few false loyals (hostages), since dissatisfaction should result in changing providers. But we are likely to find many mercenary customers who are satisfied but disloyal because low switching costs make change so easy. In contrast, if switching costs are high, we are likely to see many false loyal customers; even though they are dissatisfied, switching costs make them less likely to change. But we are unlikely to see mercenaries, since the high switching costs make them less likely to change providers when they are satisfied. Figure 5 illustrates the relationship between satisfaction and loyalty linkage adapted from Jones and Sasser (1995) with the inclusion of switching costs.
2.15 JOB SATISFACTION

An approximation of the definition of job satisfaction first requires a general definition of the concept of satisfaction. Numerous attempts have been made by researchers to define the concept of satisfaction, and they all acknowledge that satisfaction is the final state of a psychological process. In accordance with this review, satisfaction could be defined as "a summary and affective response of variable intensity that is centred on the specific aspects of the acquisition and/or the consumption and that takes place at the exact moment when an individual evaluates the object".
Employees tend to prefer jobs that give them opportunities to use their skills and abilities and offer a variety of tasks, freedom, and feedback on how well they are doing. Jobs that have too little challenge create boredom, but too much challenge creates frustration and a feeling of failure. Under conditions of moderate challenge, most employees will experience pleasure and satisfaction (Katzell, Thompson, and Guzzo, 1992).

Employees want a fair, unambiguous pay system and promotion policies. Satisfaction is not linked to the absolute amount one is paid; rather, it is the perception of fairness. Similarly, employees seek fair promotion policies and practices. Promotion provides opportunities for personal growth, more responsibilities, and increased social status. Individuals who perceive that promotion decisions are made in a fair and just manner are likely to experience satisfaction from their jobs (Witt and Nye, 1992).

The matching of job requirements with personality characteristics is best articulated in Holland's (1985) personality-fit theory. Holland presents six personality types. These are realistic, investigative, social, conventional, enterprising, and artistic. He proposes that satisfaction and the propensity to leave a job depends on the degree to which individuals successfully match their personalities to an occupational environment. Studies to replicate Holland's conclusions have been supported by many researchers (for example, Feldman and Arnold, 1985).

Increasing employee satisfaction and thereby reducing employee turnover is critical. Estimates suggest that separation, replacement, and training costs are 1.5 to 2.5 times the annual salary for each person who quits (Solomon, 1988), which means that the departure of a middle manager usually costs an organization around $75,000 (Dalton et al., 1993). These figures, however, only begin to illustrate the value of retaining loyal employees.
Long-tenured employees develop personal relationships with customers. These relationships are the foundation for a reinforcing cycle of positive interactions between employees and customers (Reichheld, 1993; Reichheld and Sasser, 1990). Employees who perceive relationships with customers provide better service. Customers who receive better service express fewer complaints and thereby create fewer problems for employees. Employees in turn react more favourably to encounters with customers. These reactions result in better service which again leads to higher customer satisfaction.

For many decades now, the view that job satisfaction affects employee performance has received much attention in the literature. The general consensus from numerous studies was that employee satisfaction is only mildly, but positively, linked to general measures of performance. Some scholars even downplayed the link between employee satisfaction and general measures of performance (Brayfield and Crockett, 1955; Petty et al., 1984; Iaffaldano and Muchinsky, 1985). It was only when other scholars (Smith et al., 1983; Bateman and Organ, 1983; Motowidlo, 1984, Organ, 1988) focused on qualitative conceptualisation and measures of employee performance, that these researchers identified significant linkages between job satisfaction and performance. Consequently, the view that satisfied employees will deliver quality service or improved performance has almost become an axiom in the service literature.

Yet, notwithstanding the apparent support for the hypothesis, some studies suggest that overall job satisfaction, as well as some specific dimensions of satisfaction, may not always reflect positively in terms of customer orientation (Hoffman and Ingram, 1992; Wilson, 1997; Boshoff and Tait, 1996) or customer perceived quality (Atkins et al.,
Besides, to date, only a few studies have examined how various dimensions of job satisfaction and related moderator variables may explain service performance.

2.16 FACTORS INFLUENCING JOB SATISFACTION

A strong indication that overall satisfaction ratings are inflated is that people typically report much lower satisfaction levels for specific aspects of the job. For instance, only 54 per cent of American workers believe that they are paid fairly, 46 per cent say their company promotes fairly, and 41 per cent claim that senior management truly cares about them. Satisfaction with coworkers seems to be one of the few ratings that come close to overall job satisfaction (84 per cent) (Moore, 1987; Baker, 1997). Sinha (1971) studied the job satisfaction prevalent in Indian offices and manual workers, and analysed the causative impacts on satisfaction and dissatisfaction. 'Interesting work', 'social status', and 'boss' were found as crucial factors contributing to satisfaction whereas inadequate salary and lack of security were regarded as important factors causing dissatisfaction. Clerical employees were found to be lower in their satisfaction, indicating a reverse tendency to what is usually observed, that is, increase in satisfaction with occupational level.

Employees who find themselves unable to adjust between work and family, generally seem to be less satisfied with their jobs as well as their. Fair promotional policies in any organisation become their foundation of growth. When an employee gets fair promotion, which is generally based on his true assessment, he gets a type of recognition, and hence, increases his job-satisfaction. Kalleberg and Mastekaasa (2001) examined the impact of intraorganisational (resignations and layoffs) and interorganisational (promotions and
downward commitment) job mobility on changes in job satisfaction and organisational commitment. They found that promotions increase employee’s perceptions of the quality of their job and thereby enhance both their satisfaction and commitment. Resignations increase job satisfaction, whereas layoffs have no effect on satisfaction. It is observed that uncertainty of production is a common problem in the organisations. Although production is based upon pre-planning, but in spite of planning, uncertainty of production cannot be avoided. It is very important to find the linkage of production uncertainty with job satisfaction. Wright and Cordery (1999) investigated the relationship between job control and affective outcome (job satisfaction and intrinsic motivation) varies with the level of production uncertainty. The qualification of an employee must match his job, if he feels that his qualification is not matched with his job, naturally he will be dissatisfied. Johnson and Johnson (2000) investigated the effects of perceived overqualification on dimensions of job satisfaction, using the relative deprivation theory. The cross-sectional results supported the hypothesis and suggested that perceived overqualification has a negative effect on job satisfaction. Some demographic variables, for example, age, race, and employment status, have been found as important factors in determining level of job satisfaction (Sinacore, 1998).

It has been investigated that group level task interdependence, increases the feeling of belongingness and coordination among employees and hence increases the degree of job satisfaction (Vander, Emans, and Van De 2001).

It has been observed that routine jobs are boring and they create a type of boredom and monotony. On the other hand, when jobs are challenging in nature, they create an
environment of satisfaction. Findings of Jonge, Dollard, Dormann, LeBlance (2000) provide renewed empirical support for the view that high-strain job (high demand, low control) are conducive to ill health (emotional exhaustion, health complaints). Further, it appears that active job (high demands, high control) give rise to positive outcome (job challenge, job satisfaction).

Organisational politics is a vital part of an organisation. Taylor (1997) stated that perception of organisational politics was found to have negative relationship with job attitudes (job satisfaction and organisational commitment), a positive relationship with intention to leave the job (exit), and a stronger positive relationship with negligent behaviour (neglect). A weak negative relationship was found between perception of organisational politics and employee's performance as reported by supervisors.

When an organization care for its employees, it definitely gets their support in reward. Organisational investment in employee's well being results in the higher satisfaction in employees. Job satisfaction is directly related to company's investment in employee's well being.

The consequences of implementing a common form of teamworking and the effects of interdependence and autonomy in particular interdependence as a moderator of the relationship between autonomy and employee's well being has been studies and results showed that higher job-related strain cause lower job satisfaction. Style of leadership also plays an important role in determining level of job satisfaction. Foels, Driskell, Muller, and Salas (2000), using a meta analytic integration of research evidence to address the paradox, reveal that there was a significant tendency for groups experiencing democratic leadership to be more satisfied than groups experiencing autocratic leadership.
Increased upward communication and its reward also results in job satisfaction. Avtgis (2000) indicated that people who reported increased communication and high reward in communication also reported greater relational satisfaction and greater perceived organisational influence.

2.17 BANKING ENVIRONMENT IN INDIA

After 1969, commercial banks are broadly classified into nationalised or public sector banks and private sector banks. The State Bank of India and its associate banks along with another 20 banks are public sector banks. The private sector banks include a small number of Indian scheduled banks, which have not been nationalised, and branches of foreign exchange banks. After 1991, the banking scenario has been changed completely. The impact of globalisation and privatisation has affected work culture of both, public sector and private sector banks. These are witnessing a fundamental shift in working attitude and work style due to open economy and increased competition. We came a long way from the days of protectionism of Indian banking industries. The entry of private sector banks and foreign banks has forced public sector banks to adopt a new customer-centric work environment. A comparison between public and private sector banks would make a significant contribution to the existing body of knowledge on job satisfaction.

This discussion is timely. In India, the old concept of public sector economy has been completely changed. The government is working in the direction of selling profit-making oil companies. So after liberalisation there is a complete change in the Indian environment. It has been discussed earlier that in India, private sector jobs do not have
the required reputation and prestige as compared to government jobs. Indians seek satisfaction through the ownership of a company. If it is a private company then satisfaction will be very low and people will try to switch to a government job. In India, government jobs are symbols of status, prestige, security, and social acceptance. Private sector jobs are the second choice of Indians. In India the 5,000 Rs (about $195) per month salary of a government sector employee is perceived better than the 20,000 Rs (about $782) per month salary of a private sector employee. So, there may be various factors responsible for job satisfaction or dissatisfaction.

But in Indian case, the factor that seems to be very closely linked with job satisfaction or dissatisfaction is the ownership of an organisation—whether it is a public or private sector company. Since job satisfaction is considered an important aspect of work culture, public sector and private sector variations seem to affect the job satisfaction of these organisations. Since public–private sector background is an important factor in shaping the work culture of an organisation, the work culture also seems to have its root in the culture from which it is generated. Therefore, job satisfaction is likely to be affected by public–private sector differences. A natural assumption can be made that work culture of public–private sector banks would be different because such banks have different cultural roots. It has been observed that the work culture of public sector banks was based on the social economy concept, in which profitability was secondary. After nationalisation, public sector banks used to serve social welfare in terms of social banking through special employment and poverty alleviation programmes. Despite many adverse criticisms and comments, the Indian government had persisted in using bank funds to
finance various social sector schemes for employment generation and poverty alleviation. On the other hand, private sector banks work towards profitability. There is a basic work culture difference between public and private sector banks due to their different objectives. Although after 1991, the working style of public sector banks has been changing, but the previous impact of social banking policy on work culture of public sector banks cannot be ignored. Being an important aspect of work culture, job satisfaction level of these banks should also be different. However, the arguments above are assumptions and there is a need to verify them. The present study is designed to examine the specific problem whether job satisfaction of the employees working in public and private sector banks is different. It is hypothesised that job satisfaction of the employees working in different types of banks, namely public sector and private sector would differ significantly.

2.18 EMPLOYEES-CUSTOMER LINKS

Several empirical studies (Schmit and Allscheid (1995)) show that it is impossible to maintain a satisfied and loyal customer base without satisfied and loyal employees. The studies show a significant impact on customer satisfaction following an improvement in employee attitudes.

The linkage between customer and employee variables has also been depicted by Hesket et al. (1997) within a framework termed the service profit chain or employee-customer profit chain. According to this framework, the elements of the chain are interdependent and complex and the size and strength of their influence varies by industry, market
segment and even organizational function. Nevertheless, the basic links can be described as follows:

- Employee variables like employee satisfaction, commitment and loyalty influence customer perception of the value of the product and service, which in turn influences customer satisfaction;
- Customer satisfaction influences customer loyalty; and
- Corporate financial results are directly influenced by customer loyalty.

Following this approach, Rucci et al. (1998) analysed the employee-customer profit chain at the company Sears Roebuck and Co. In their model, employee behaviour is explained by three variables: attitude about the job, attitude about the company and employee retention. They have estimated that a five-point improvement in employee attitudes drives a 1.3 point rise in customer satisfaction, which in turn will drive a 0.5 per cent improvement in revenue growth.

More recently, Brooks (2000) overviews the research on the relationships between financial success and customer and employee variables. According to this research, between 40 and 80 per cent of customer satisfaction and loyalty is determined by the customer-employee relationship, depending on the industry and market segment that is being considered.

On the other hand, as Crosby et al. (1994, p. 21) point out: “If employees are truly motivated by a desire to do quality work that meets customer needs, then achievement of that outcome (customer satisfaction) should contribute to their own satisfaction as well.”
So, compelling evidence shows that there is a strong linkage between employee and customer satisfactions.

2.19 THE CRITICAL ROLE OF EMPLOYEES IN SERVICE DELIVERY

The interactive nature of service delivery places service employees in a very critical role in the delivery of quality services: Zeithaml and Bitner (2000, p. 287) even assert that employees are the "service", "the organisation" and "the marketers". Given the metaphor of services as "performances" or "drama" (Grove and Fisk, 1983; Grove et al., 1998), in which an employee acts, emotions and attitudes affect the quality of the service and the employees' critical role cannot be over-emphasised.

Studies on service encounters also show that events which delight customers most and which are associated with high perceived quality are related to the extra behavioural efforts of service personnel (Solomon et al., 1985; Bitner, 1990; Bitner et al., 1990). This is understandable because the extant literature on service quality indicates that most of the criteria by which customers evaluate the perceived quality of services, such as empathy, reliability, courtesy, assurance and even tangibility (Parasuraman et al., 1985, 1988), are all associated with employee favourable behaviours and attitudes (Zeithaml, 1981; Zeithaml and Bitner, 2000). These favourable behaviours which enhance a harmonious and quality internal service climate, as well as customers' perceptions of service quality, have been described variously as service orientation (Hogan et al., 1984), customer orientation (Hoffman and Ingram, 1992; Bettencourt and Brown, 1997; Peccei and Rosenthal, 1997), prosocial behaviours (Brief and Motowidlo, 1986; Puffer, 1987;
George and Bettenhausen, 1990; Bettencourt and Brown, 1997), and performance quality (Singh, 2000). The importance of such behaviours to process quality (Gronroos, 1982, 1984) and interactive quality (Hogan et al., 1984; Lehtinen and Lehtinen, 1991) has also been noted.

2.20 JOB SATISFACTION AND SERVICE PERFORMANCE

For many decades now, the view that job satisfaction affects employee performance has received much attention in the literature. The general consensus from numerous studies was that employee satisfaction is only mildly, but positively, linked to general measures of performance. Some scholars even downplayed the link between employee satisfaction and general measures of performance (Brayfield and Crockett, 1955; Petty et al., 1984; Iaffaldano and Muchinsky, 1985). It was only when other scholars (Smith et al., 1983; Bateman and Organ, 1983; Motowidlo, 1984, Organ, 1988) focused on qualitative conceptualisation and measures of employee performance, that these researchers identified significant linkages between job satisfaction and performance. Consequently, the view that satisfied employees will deliver quality service or improved performance has almost become an axiom in the service literature.

Yet, notwithstanding the apparent support for the hypothesis, some studies suggest that overall job satisfaction, as well as some specific dimensions of satisfaction, may not always reflect positively in For many decades now, the view that job satisfaction affects employee performance has received much attention in the literature. The general consensus from numerous studies was that employee satisfaction is only mildly, but positively, linked to general measures of performance. Some scholars even downplayed
the link between employee satisfaction and general measures of performance (Brayfield and Crockett, 1955; Petty et al., 1984; LaFaldano and Muchinsky, 1985). It was only when other scholars (Smith et al., 1983; Bateman and Organ, 1983; Motowidlo, 1984, Organ, 1988) focused on qualitative conceptualisation and measures of employee performance, that these researchers identified significant linkages between job satisfaction and performance. Consequently, the view that satisfied employees will deliver quality service or improved performance has almost become an axiom in the service literature.

In line with the perceived importance of service employees in the delivery of services, many scholars have stressed the need for service managers to pay keen attention to employee satisfaction (Berry, 1981; Tornow and Wiley, 1991; Boshoff and Tait, 1996; Schlesinger and Zornitsky, 1991; Hartline and Ferrell, 1996; Rust et al., 1996; Bowen et al., 2000). Particularly, Schlesinger and Heskett's (1991, p. 19) model termed, “The cycle of success model” suggests that satisfied employees will deliver high service quality. This view, commonly termed “The job satisfaction-service performance/quality thesis” is underpinned by theories such as social exchange (Blau, 1964), equity (Adams, 1965), and attitude-behaviour theories (Fishbein and Ajzen, 1975; Ajzen and Fishbein, 1977). The apparent logic is that employees who are satisfied with their jobs tend to be cooperative, helpful, respectful and considerate to both co-workers and customers. Thus satisfied employees will deliver quality services to both internal and external customers.

2.21 CUSTOMER CONTACT EMPLOYEES AND SERVICE QUALITY
In service industries such as hotels, insurance, banking, retail, etc., companies are increasingly paying more attention to customer-contact employees to achieve the desired profit and market-share goals. Companies are now adopting a people-oriented approach as compared to a profit-oriented approach. Successful service managers recognize the importance of crucial factors that drive profitability in this new service paradigm: investment in people, technology that supports frontline workers, revamped recruiting and training practices, and compensation linked to performance for employees at every level (Heskett et al., 1994).

In customer-contact businesses, the quality of service delivered cannot be separated from the "quality" of the service provider (Lewis, 1989). Because service delivery occurs through human interaction, customer-contact personnel during the service encounter largely determine the level of service quality delivered. All kinds of behaviour and actions on the behalf of customer-contact employees during the service encounter cannot be directed and controlled by management. Hence, it can be argued that during the "moments of truth" (Carlzon, 1987) of service encounters, it is the discretionary behavior of committed customer-contact employees that will largely determine service quality perceptions and customer satisfaction on the external front (Boshoff and Tait, 1996). Different forms of organisational commitment have different impacts on service quality. Further, the job satisfaction of employees is critical to delivering service quality, as satisfied customers can only be created by satisfied employees. The relative influence of different forms of commitment and job satisfaction on service quality remains largely unexplored in the services marketing literature.
This study will focus on the importance of the role of job satisfaction of bank customer-contact employees in relation to the service quality delivered to customers. The paper tests empirically the relationship between the job satisfaction of these contact employees and service quality in the retail banking sector and compare the private and public sector banks in this regard.

The concept of a service-profit chain (Heskett et al., 1994) connects employee satisfaction and loyalty to customer satisfaction and loyalty, and ultimately to profits. Despite the popularity of the service-profit chain concept, the relationship of employee satisfaction and loyalty with customer satisfaction and loyalty remains a complex and unresolved issue (Silvestro and Cross, 2000).

It is generally observed that organisations pay insufficient attention to understanding the nature of the organisational commitment and job satisfaction of customer-contact employees who represent the organisation to the customer and can directly influence customer satisfaction. With increasing “phone-rage” among customers and decreasing propensity to wait for a service the jobs in a service provider firm become one of the ten most stressful jobs in today's economy (Ruyter et al., 2001). This has an effect on the commitment and job satisfaction of employees.

The customer contact in the service organizations is becoming increasingly important for customer relationship management, today banks are becoming increasingly important to the link between companies and customers. "It is often times that customers view the service quality of the organisation as a whole based on their interaction with the
employee" (Burgers et al., 2000, p. 142). Thus, for customers, the evaluation of a service often depends on the evaluation of a service encounter with a contact employee.

To serve customers effectively, each contact employee has to go through mandatory training regarding the essentials of customer service and use of technology. Nowadays, companies are investing in new technologies like simulation-based training (SBT) to train their new employees so that customers get the best quality service (Anton, 2000). The turnover of these employees raises concerns for the organisation, such as the cost of the investment made in these employees, the recruitment and training costs associated with hiring new employees, etc.

Most of the research exploring such relationships has been conducted among customer-contact employees involved in face-to-face encounters with customers, such as in hotels, call center branches of retail banks, insurance selling agents, etc. (e.g. Boshoff and Tait, 1996; Iverson et al., 1996; Hartline and Ferrell, 1996; MacKenzie et al., 1998; Boshoff and Allen, 2000). Studies are not available that explore such relationships in retail banking sector in the Indian scenario.