CHAPTER 1
INTRODUCTION TO SERVICES MARKETING

1.1 Service sector in India

The era of economic liberalization has ushered in a rapid change in the service industry in India. As a result, over the years, India is witnessing a transition from agriculture based economy to a knowledge based economy. The knowledge economy creates, disseminates, and uses knowledge to enhance its growth and development as well as general well being of the people. It also offers innumerable business opportunities to investors along with creating substantial employment opportunities. Thus, India is in the process of acquiring a dominating place on the world platform. The same is reflected in the impressive growth in its GDP of the last two decades. A survey by finance ministry clearly says that the economy has successfully navigated the turbulent years of recent global economic crisis because of the vitality of the service sector and its prominent role in India’s external economic interactions. It mentions the share of services in India’s GDP has increased from 33.5% in 1950-51 to 55.1% in 2010-11 and to 56.3% in 2011-12.

The service industry is emerging as the dominant sector in every economy in the world today. It has a substantial contribution of over two thirds of the gross domestic product world over. Around 23% of the total workforce is engaged in the service sector which includes businesses like construction, trade, hospitality, transport, food and beverage services, and communication, social and personal services, insurance, banking, financing and other business services. India is the second largest growing economy and thus the above figures are expected to increase with India producing a large pool of highly skilled and educated population. Other factors contributing to this growth scenario are growing demand for business solutions, financial services and high tech knowledge processes for which relevant expertise is in short supply in western countries. Global companies are also looking forward to support from India for information and communication technology enabled services.
1.1.1 Sector Wise Distribution of GDP

<table>
<thead>
<tr>
<th>Sector</th>
<th>1950-51</th>
<th>1990-91</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>56.1 %</td>
<td>29.1 %</td>
<td>17.0 %</td>
</tr>
<tr>
<td>Secondary</td>
<td>11.7 %</td>
<td>21.9 %</td>
<td>25.8 %</td>
</tr>
<tr>
<td>Tertiary</td>
<td>32.7 %</td>
<td>49.0 %</td>
<td>57.2 %</td>
</tr>
</tbody>
</table>

1.1.2 Occupational Distribution of Working Population

<table>
<thead>
<tr>
<th>Year</th>
<th>1951</th>
<th>1991</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>72.1%</td>
<td>62.7%</td>
<td>52.7%</td>
</tr>
<tr>
<td>Secondary</td>
<td>10.6%</td>
<td>14.9%</td>
<td>18.8%</td>
</tr>
<tr>
<td>Tertiary</td>
<td>17.3%</td>
<td>22.4%</td>
<td>28.5%</td>
</tr>
</tbody>
</table>

(Source: compiled by the researcher from the website www.rbi.org)

1.1.1 Reasons for growth in service sector

An economy usually comprises of three main sectors that contribute to the country’s total output - agriculture, industry and services. As the per capita income increases, agriculture loses its importance giving way to industries and services.

In the Pre industrialization era, people are dependent on agriculture as the main occupation. Gradually when there is rise in total output and the per capita income increases, people opt for more mechanized products. Consequently the share of industrial output leads to increased share in GDP and employment.

In the Post industrialization era, people tend to become less materialistic and demand for services like health, education, entertainment, finance etc. this again leads to increased share in GDP. Usually services are people oriented and hence employment also increases, eventually replacing industrial sector. Additional factors contributing to the growth of service factors are larger customer affluence, longer life expectancies, increased demand for leisure, changing social and cultural values and advances in technology. Following figure reflects the international comparison of share
of services in overall GDP for the year 2011-2012. The growth of GDP from services in India has grown by 8% over a period of 10 years.

### 1.1.1.1 Performance in Services: International Comparison

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
<th>Overall GDP (US$ billion)</th>
<th>Share of services (percent of GDP)</th>
<th>Change in Share 2011 over 2001</th>
<th>Services growth rate (per cent)</th>
<th>CAGR 2001-11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Overall Services GDP</td>
<td>At current prices 2011</td>
<td>2001</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td></td>
<td>GDP</td>
<td>At constant Prices 2011</td>
<td>2001</td>
<td>2010</td>
<td>2011</td>
</tr>
<tr>
<td>US</td>
<td>1</td>
<td>14991.3</td>
<td>77.0</td>
<td>0.4</td>
<td>78.3</td>
<td>78.4</td>
</tr>
<tr>
<td>China</td>
<td>2</td>
<td>7203.8</td>
<td>40.6</td>
<td>1.1</td>
<td>41.9</td>
<td>41.7</td>
</tr>
<tr>
<td>Japan</td>
<td>3</td>
<td>5870.4</td>
<td>70.6</td>
<td>-0.1</td>
<td>69.9</td>
<td>70.5</td>
</tr>
<tr>
<td>Germany</td>
<td>4</td>
<td>3010.5</td>
<td>70.0</td>
<td>0.0</td>
<td>70.8</td>
<td>70.0</td>
</tr>
<tr>
<td>France</td>
<td>5</td>
<td>2774.5</td>
<td>75.8</td>
<td>1.8</td>
<td>79.0</td>
<td>79.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>6</td>
<td>2476.7</td>
<td>65.4</td>
<td>1.3</td>
<td>66.2</td>
<td>66.5</td>
</tr>
<tr>
<td>UK</td>
<td>7</td>
<td>2230.3</td>
<td>74.0</td>
<td>2.0</td>
<td>76.4</td>
<td>76.0</td>
</tr>
<tr>
<td>Italy</td>
<td>8</td>
<td>2199.9</td>
<td>70.9</td>
<td>2.2</td>
<td>73.1</td>
<td>73.1</td>
</tr>
<tr>
<td>India</td>
<td>9</td>
<td>1297.6</td>
<td>50.1</td>
<td>8.1</td>
<td>56.8</td>
<td>58.2</td>
</tr>
<tr>
<td>Russia</td>
<td>10</td>
<td>1857.8</td>
<td>56.3</td>
<td>5.8</td>
<td>62.4</td>
<td>62.1</td>
</tr>
<tr>
<td>Canada</td>
<td>11</td>
<td>1233.5</td>
<td>65.0</td>
<td>4.7</td>
<td>69.9</td>
<td>69.2</td>
</tr>
<tr>
<td>Australia</td>
<td>12</td>
<td>801.1</td>
<td>67.9</td>
<td>1.3</td>
<td>69.0</td>
<td>69.2</td>
</tr>
<tr>
<td>Spain</td>
<td>13</td>
<td>1118.2</td>
<td>63.7</td>
<td>3.5</td>
<td>68.8</td>
<td>70.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>14</td>
<td>968.8</td>
<td>61.4</td>
<td>2.8</td>
<td>63.8</td>
<td>64.2</td>
</tr>
<tr>
<td>South Korea</td>
<td>15</td>
<td>916.2</td>
<td>60.5</td>
<td>3.9</td>
<td>57.0</td>
<td>56.6</td>
</tr>
<tr>
<td>World</td>
<td></td>
<td>70221.9</td>
<td>68.2</td>
<td>0.7</td>
<td>67.6</td>
<td>67.5</td>
</tr>
</tbody>
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**Source:** Computed from UN National Accounts Statistics accessed on 4th January, 2013 from www.indiabudget.nic.in

### 1.1.2 Dilemma in India

India is the only major country, which is a big exception to this observed tendency. So naturally a question arises whether this trend of service sector becoming more important in comparison to the secondary sector without the country getting anywhere closer to the developed country status is sustainable.

Economic theory does not support persistent growth of service sector in absence of diversified, dynamic and continuously growing secondary
sector. A probable explanation to this trend can be directed at the rapid strides in the export of services, basically IT and ITES. The government is aware of the pitfalls of making our service sector too much dependable on its export demand. Consequently very recently the central government announced a new manufacturing policy (NMP) to address this dilemma. Not only is this directed to keep this sector growing in terms of output and employment but also to make India globally strong competitive economy especially with reference to Chinese economy.

1.1.3 Changing face of services

Since the overall growth of economy is so much dependent on the service sector, the pace of productivity and growth in services becomes critically important. The ability to change has become a keyword of economy for a service organization. In the wake of globalization, a service organization can create and sustain potential corporate advantage by being able to plan strategically on its objectives, on changes required in these objectives and other resources needed for its optimum utilization. Internal and interactive marketing becomes their major strategy and the companies will face the following tasks in:

- Competitive differentiation
- Service quality
- Productivity

Following figure indicates the various factors that stimulate the transformation of the service economy and the changing face of services marketing:
All this shows that services hold immense potential to accelerate the growth of an economy and promote general well-being of the people. Thus, service sector is considered to be an integral part of the economy, especially in India. Along with all the changes evolving in the service industry, a sea change is also witnessed in the buyer behavior world over. The new generation buyers are more aware, educated, informed and self-motivated. As the country showcases growth in per capita income and prosperity of the people, they tend to become more conscious of their demands and look for sophistication. It becomes imperative for the service provider to display a competitive edge and eye for corporate image which would steer customer growth as well as customer satisfaction. This prompts the service businesses to continuously explore their behavior, lifestyle and demographics and thus get innovative insights for development. All the studies of marketing focus on researching into
consumer needs and wants as they are the best source to create a competitive edge for a business. They not only suggest improvements but also provide ideas which are new and vital to the existence of business. Thus, “Quality” can prove to be a magic bullet in this world of aware and urbane customers. It not only increases numbers of customers and profits but also lower costs and assures longer survival under competitive pressures. Without managing quality, assuring and adding value becomes an impossible proposition. Thus a rigorous quality drive can help the service providers in;

(a) Understanding and articulating customer needs and wants

(b) Designing the service specifications according to their expectations and thus managing higher productivity and market share

Among the service organizations, the banking sector primarily caters to the needs of all classes of society and is large enough to capture and represent almost all the facets of service quality assessment. Usually the literature on growth in the banking sector focuses on the productivity and the financial aspects, so it is interesting to study the service quality perspective and understand the management’s commitment towards the same. Recognition of service quality as a competitive weapon is relatively a recent phenomenon in the Indian banking sector. The Reserve Bank of India has also considered its importance and devised new norms for the same.

Two decades post liberalization, the banking sector is continuously making innovations in the quality management not only to compete in the dynamic business world but also to revolutionize the perceived corporate image in the minds of the consumers. Banks lately realized that attracting and retaining satisfied customers would undoubtedly bring growth in the organization (M Kailash, 2011). Not to forget that there has been a tremendous change in the perceptions of customers due to the very obvious reasons like increased education and incomes, upward social
mobility and immense involvement of expressive and collaborative social media.

Hence this study evaluates the need for the banks to have a more customer centric approach and a continuous flow of innovative offerings which can redefine their corporate image and boost profitability.

1.2 Meaning and definition of services

The American marketing association defines services as “activities, benefits or various levels of satisfaction which are offered for sale and are provided with the sale of goods.”

Stanton defines services as, “services are those separately identifiable, essentially intangible activities that provide want satisfaction and that are not necessarily tied to the sale of a product or another service.”

According to Phillip Kotler, “A service is any act or performance that one party offers to another that is essentially intangible and does not result in the ownership of anything.”

Thus, a service is an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is transitory, often intangible in nature, and does not normally result in ownership of any other factors of production.

A service is an economic activity that creates value and provides benefits for customers at specific times and places by bringing about a desired change, in, or on behalf of, the recipient of the service.

1.2.1 Difference between goods and services

1. Customers do not obtain ownership of services

2. Service products are ephemeral and cannot be inventoried.

3. Intangible elements dominate value creation.

4. Customers may be involved in the production process.
5. Other people may form part of the product.

6. There is a greater variability in operational inputs and outputs.

7. Many services are difficult for customers to evaluate.

8. The time factor assumes great importance.

9. Distribution channels take different forms.

### 1.2.2 Nature and characteristics of service

Physical goods are produced, then stored, later sold, and still later consumed. In contrast, services are first sold, then produced and consumed the same time. In services marketing, the service provider is the product.

A company must consider four special service characteristics while designing marketing programs;

1. **Intangibility** - Services cannot be seen, touched, tasted, felt, smelled or heard before purchase. So buyers look for ‘signals’ of service quality. They draw conclusions from the place, people, price, equipment, and communications that they can see. Therefore, the service provider’s task is to make the service tangible in one or more ways and to send the right signals about quality. Following efforts may help to reduce intangibility;
   - Stressing tangible cues
   - Using personal source of information
   - Stimulating word of mouth communication
   - Creating strong corporate image
   - Encouraging employees to communicate with the employees.

2. **Inseparability** - It refers to simultaneous production and consumption of a service. Services cannot be separated from their providers, whether people or machines. If a service employee provides the service, then the employee becomes a part of the service. Because the customer is
also present as the service is produced, provider-customer interaction is a special feature of services marketing. Both the provider and the customer affect the service outcome. Managing the human element is critical for success for service firms with a high degree of inseparability. Thus more use of automation and computerization can be planned out to reduce human dependence and increase efficiency. For example, installation of ATM machines and net banking methods by banks. Also multiple site strategy can help the customers access the services at various locations, leading to better service quality.

3. **Variability** – It refers to unwanted or random levels of service quality customers receive when they patronize a service firm. The service quality depends on who provides them as well as when, where, and how they are provided. Since the primary cause is presence of human element, the same can be reduced by standardization and industrialization.

4. **Perishability** – Services cannot be stored for later sale or use. The perishability of service is not a problem when the demand is steady. However, when demand fluctuates, services firms often have difficult problems. Hence service firms often design strategies for producing better match between demand and supply. This can be accomplished by making simultaneous adjustments in demand, supply and capacity. Synchro marketing can help to shift the demand from peak periods to lean ones.

### 1.2.3 The 8p’s Of Services Marketing

The peculiar nature of services differentiates it from a product and thus requires a distinctive marketing mix. The same is an extension to the marketing mix of a product.

1. **Product elements**

   It is in the heart of a firm’s marketing strategy. It should create meaningful value for customers. A service product consists of a core product that responds to customer’s primary need and an
array of supplementary service elements that help the customers to use the core product effectively as well as adding value through enhancements.

2. **Place and time**
   It refers to use of physical or electronic channels for the delivery of services. Firms may use direct or indirect methods depending on the nature of the service. Speed and convenience of place and time have become important determinants of effective sales delivery.

3. **Price and other outlays**
   It refers to setting a pricing strategy in tandem with customer type, competitor's prices, time and place of delivery, level of demand along with reduction of outlays that customer's incur in using the service, like time expenditures, unwanted mental and physical effort and exposure to negative sensory experiences.

4. **Promotion and education**
   It has three important roles to play; create awareness; persuade target customers, encourage them. Various means of promotion may be used to increase demand.

5. **Process**
   It refers to how a service is delivered and hence designing an effective, expedient and efficient system becomes imperative for the service marketers. Customers are usually co producers in the system and hence a bad system might expose the loopholes of the organization. Hence a well designed process can assure a satisfying experience to the customer as well work a long way in image building.

6. **Physical environment**
   It refers to the tangible aspects of the service design model. It is also referred to as servicescape. Since the customer comes in the contact with the physical environment of the service provider, it is the most important criterion in forming an important place in the customer's mind. The infrastructure, machinery, signage, interior
furnishings, appearance of the employees etc are important tangible cues of the service quality provided by the firms.

7. People

It refers to the front line staff that comes in direct contact with the customers. The nature of these interactions, strongly influence how customers perceive service quality. Employees need to be made aware of their key role in the service quality and an intensive human resource management program can provide the strategies to ensure the highest standards of customer care.

8. Productivity and quality

Productivity is usually defined by the employees whereas quality is more customer-specific. Both are sides of the same coin. Productivity can be referred to a cost reduction strategy but quality seems to be an unachievable task unless incremental costs are incurred in investing into it. Hence an effective trade off can help build strategies with biggest payoffs that seek to improve productivity and quality simultaneously.

The service firms must integrate the functions of operations, human resource and marketing in order to build successful business strategy. Services essentially are customer centric and problems in one of the areas would lead to dissatisfaction among the customers.

Most of the literature in services marketing is conceptualized on the base of customer needs and wants. The process design and delivery is shaped by customer inputs and experiences. As Lovelock says, “a sound services marketing strategy is based on the solid knowledge of the market, customers, and the competition.” A framework designed by Lovelock et al, for developing an effective service marketing strategy has been presented below.
1.2.4 A FRAMEWORK FOR DEVELOPING EFFECTIVE SERVICE MARKETING STRATEGIES

UNDERSTAND CUSTOMER NEEDS, DECISION-MAKING, AND BEHAVIOR IN SERVICE ENCOUNTERS

BUILDING THE SERVICE MODEL

The Value Proposition

Develop service concept: Core and supplementary elements
Select physical and electronic channels for service delivery

Value Exchange

Set prices with reference to Costs, competition, and value

The Business Model

Educate customers and Promote the value proposition
Position the value proposition against competing alternatives

MANAGING THE CUSTOMER INTERFACE

Design and manage Service processes Balance demand against productive capacity

Plan the service environment

Manage service employees for competitive advantage

IMPLEMENTING PROFITABLE SERVICE STRATEGIES

Create customer relationships And build loyalty
Plan for service recovery and create customer feedback systems

Continuously improve service quality and productivity

Service marketers should take a cue from the model that a well organized and disciplined approach to service marketing would be an offshoot of an effective customer interface. This would help them to continuously assess the changes in the consumer behavior as well as redesign the programs to provide utmost satisfaction to them. Thus management of service quality would become a cinch when the service firms consider customer feedback as the foundation to development of a sound strategy. Developing service quality improvement strategies will provide the necessary leverage for higher productivity and financial success.

Quality is the value added offering that provides a more satisfying experience, which makes the customer come back for more of the same pleasurable experience. It is essential in building loyalty and larger market share. Quality and productivity improvement strategies must be considered jointly rather than in isolation. Quality focuses on the benefits created for the customer’s side of the equation and productivity addresses the financial costs incurred by the firm. Carefully integrating quality and productivity improvement programs will improve the long term profitability of the firm.

1.3 SERVICE QUALITY MANAGEMENT

1.3.1 NEED FOR SERVICE QUALITY

Customers have become demanding and the loyalties are diffused. There are multiple choices; the wallet share is reduced with demand on flexibility and customization. Given the relatively low switching costs; customer retention calls for customized service and hassle free, flawless service delivery. Designing a service concept is a complex task as it requires an understanding of how core and supplementary services should be combined, sequenced, delivered and scheduled to create a value proposition that meets the needs of target market segments. In all types of services, managing service encounter is central to creating satisfied customers who would be willing to enter into long term relationship with the service provider. Whether the customers are satisfied will depend on how well their expectations were met. Gaining a better understanding of how customers evaluate, select and use services should lie at the heart of
strategies for designing and delivering service products. This will definitely impact customer preferences, as they are bound to react to the value added offerings.

Over the years, along with the expansion of service sector, the importance of improving service quality has gained a momentum as it is the only differentiating factor where the services are identical in nature. It is viewed as a strategic tool to augment operational competence and improve business performance. The inherent characteristics of services make the task of service quality management a difficult one for the service provider. Hence resolving the question of measurement of service quality becomes imperative as it is based on the customer interface. Many scales have been developed for various service sectors trying to identify the problems areas and thus providing various insights to service quality managers. So it is important for these scales to be psychometrically and diagnostically sound so that quality shortfalls can be identified and addressed appropriately. Service quality researchers generally view expectations as normative standards ‘what service provider should offer’. The others view as ‘predictive standards ‘what service providers will offer’. The gap is identified as zone of tolerance. This Zone of Tolerance varies across people and situations. When the actual service delivery is above the desired service, customer satisfaction will be very high. Such high service quality delights the customer. Also when the actual service delivery is below adequate service, the customers feel cheated and may rate the service quality as very poor.

### 1.3.2 SERVICE QUALITY DIMENSIONS

Services, as mentioned earlier are intangible nature. Also there is an inherent feature of variability. Hence it becomes difficult for the customer to evaluate the services at pre-consumption, consumption and post consumption stage. On the other hand, the organization may also face difficulty in understanding how its customer perceive and evaluate the quality of its services. Many researchers have tried to understand the nature of services and multiple dimensions to the nature and content of the same.
The original concept of service quality emerged out of two schools of thoughts;

a) Nordic school based on the Service Research Centre of Karlstad University and

b) North American School led by the Interstate Centre for services marketing, Arizona state University.

**The Nordic School** focuses on service quality issue from the product’s viewpoint. Lehtinan and Lehtinan proposed three aspects;

i. Physical quality derived out of tangible aspects of the services.

ii. Corporate Quality derived out of the corporate image of the service provider

iii. Interactive quality derived out of service encounter i.e. interaction between customer and service provider.

Gronroos who belonged to the same school of thought proposed two dimensions;

i. Process quality

ii. Outcome quality

Process quality refers to the outcome which the consumer receives when he is offered the service. So technical quality and functional quality comprehensively lead to process design whereas outcome quality is the result obtained after the service has been offered. The external factors play an important role when a consumer compares the final output.

**The North American School** of thought propounded by Parasuraman, Berry and Zeithaml is based on the study of consumer expectations and perceptions as a tool to attain quality. However the Nordic school and North American School might use different approaches for service quality measurement but the underlying feature of both the schools is witnessed as ‘consumer judgment’. This judgment is an outcome received by the consumer from a service provider which is a function of numerous factors like people, process, environment, image etc.
the consumer chooses a service provider according to the image positioned in his mind which again is a result of the above mentioned factors. After receiving a service, the customer tends to compare it with the initial expectations which ruled his thoughts at the time of making a choice. Hence this comparison which is natural to a human being has been articulated in a questionnaire framed by PZB which is known as SERVQUAL which measures the service quality shortfall in the same, based on a model called the Gaps Model. This model identifies the gap between expectations and perceptions by classifying the reason into four possible potential gaps in the service organization. The model was refined and presented by Lovelock as follows;

Knowledge gap: this refers to difference between what service provider’s believe customers expect and customer’s actual needs and expectations.

Standard gap: this refers to difference between management’s perceptions of customer expectations and the quality standards established for service delivery.

Delivery gap: this refers to difference between specified delivery standards and the service provider’s actual performance on these standards.

Internal communication gap: this refers to the difference between what the internal employees think about the service quality of the organization and what they are actually able to deliver to the customers.

Perceptions gap: this refers to the difference between what is delivered to customers and what customer’s perceive they received.

Interpretation gap: this refers to the difference between what promises the service provider makes before the service and what customer thinks were promised to them.

Service gap: this refers to the difference between what customer’s expect to receive and their perceptions of what was actually delivered.
1.3.2 GAP ANALYSIS

Thus in order to improve service quality requires identifying the specific causes of all the gaps and then developing strategies to close them.

Rust and Oliver (1994) proposed a new concept wherein service quality is based on the customer’s evaluation of three dimensions of the service encounter:

- Customer employee interaction
- Service environment
- Outcome

The customer’s behavior is changing due to changes in various factors as time, income, age, competitive environment and many such external factors. So does the service environment. The service providers need to match up to the changes in the society and upgrade their models in order to understand the expectations of the customers. All the models need to be customer centric in order to enhance business and maintain satisfied customers. Since the 1980’s, the subject of
Service quality is becoming richer in concepts due to various researches and enhancements in the dimensions of service quality. Nitin Seth and S.G. Deshmukh appraised various service quality models critically so as to identify future directions of research.

1.3.3 SERVICE QUALITY IN BANKING

Service quality is an imperative element impacting customers’ satisfaction level in the banking industry. In banking, quality is a multi-variable concept, which includes differing types of convenience, reliability, services portfolio, and critically, the staff delivering the service.

The banks have realized that in order to become a market leader it is important to focus on superior service quality. A lot is yet to be achieved in urban and rural areas; so far mass banking is concerned in India. Customer satisfaction is linked to customer loyalty and retention. In order to build a service quality model which would ensure customer satisfaction, it is imperative to identify the problems of customers. The banks review the service delivery process to make it more customer-friendly.

It is broadly defined as the number of customers, or total percentage of customers, whose reported experience with a firm, its products or its services exceeds specified satisfaction goals. This suggests that expectations are key factors behind satisfaction. While customer satisfaction is the key performance indicator/differentiator, tapping the same becomes an imperative task for the service provider.

Market starts and ends with discovering and understanding needs of customer and so is banking. Banking is now a habit of urban customers. With the advent of technology, though new age customers intend to go for online banking. Yet majority of the Indian consumers still prefer traditional banking methods. The banks identify the processes and design a service for customer convenience. The service consumption is preceded by service expectations. If the banks stand true to their expectations, the perceptions of the customer improve leading to higher levels of satisfaction. So the primary task of the banker is to gauge the expectations and then bridges the gap between expectations and perceptions.
The gap needs to be addressed by toning down the expectations and enhancing the perceptions.

Service excellence, meeting client needs, and providing innovative products are essential to succeed in the banking industry (David Cohen et al, 2006). Unless a bank can extend its product quality beyond the core service with additional and potential service features and value, it is unlikely to gain a sustainable competitive advantage. Thus, the most likely way to both retain customers and improve profitability is by adding value via a strategy of differentiation while increasing margins through higher prices.

Indian public sector banks and the new age private sector banks exhibit vast differences in the style of operations. The bank premises, amenities, services, people, technology and operations are significantly different from the older counterparts. The marketing strategies are well designed to attract customers. Hence RBI has rapped the public sector banks for poor performance. In the year 2011, SBI spent about Rs. 400 crores on technology upgrade and customer service (Business standard, January 2011).

1.3.4 SERVICE QUALITY MEASUREMENT

All the above concepts focus on various dimensions of service quality under different structures, cultures as well as organizations. Though customers evaluate the same on the basis of the service encounter, a very important fact is that the design and the process flow always reflect the attitude of the management. If the management undertakes constant efforts to improve service quality, they redesign and redevelop the servicescape as well as also focus on upgrading the service encounter. This also adds to the image of the service provider in turn creating a positive image in the minds of the customers. Hence it is important to understand that a service quality model should undoubtedly aim at higher customer satisfaction

1.3.5 SERVQUAL

It is a research instrument to measure customer satisfaction with various aspects of service quality. It is based on the premise that customers can evaluate a firm’s
service quality by comparing their perceptions of its service with their own expectations. It is seen as a generic measurement tool that can be applied across a broad spectrum of service industries.

It was derived from a focus group research by Valarie Zeithaml, Leonard Berry and A.Parasuraman, based on the exploratory research to understand the construct of service quality and its determinants, defined service quality as the degree of discrepancy between customers’ normative expectations and their perceptions of service performances. Initially, they identified 10 criteria used by customers in evaluating the service quality.

1.3.5 SERVQUAL

Later in further researches, they could identify a strong correlation among these variables and hence consolidated them into five broad dimensions as mentioned below;

Tangibles (appearance of physical elements)

Reliability (dependable, accurate performance)
Responsiveness (promptness and helpfulness)

Assurance (competence, courtesy, credibility and security)

Empathy (easy access, good communication, and customer understanding)

When perceived performance ratings are lower than expectations, this is a sign of poor quality. The reverse indicates good quality. Poor quality places a firm at a competitive disadvantage, potentially driving away dissatisfied customers.

1.3.6 SERVPERF

Cronin and Taylor investigated the conceptualization and measurement of service quality and its relationship with consumer satisfaction and purchase intention. They developed a performance only model SERVPERF which tries to justify that perceptions only are better predictors of service quality. They identified conceptual and methodological difficulties with disconfirmation paradigm. Not only is the scale more efficient in reducing the number of items to be measured by 50 per cent, it has also been empirically found superior to the SERVQUAL scale for being able to explain greater variance in the overall service quality measured through the use of single-item scale.

1.3.7 SERVQUAL V/S SERVPERF

Many studies have been conducted to assess the superiority of both the scales, SERVQUAL and SERVPERF. The premise used by Parasuraman et al for service quality measurement is the gap between performance and expectation. Cronin and Taylor counter argued with a premise that performance itself is the indicator of service quality. It may not help to clearly indicate the shortfalls but is free from conceptual and methodological difficulties. Sanjay Jain et al (2004) compared both the scales to analyze their diagnostic and psychometric soundness. SERVQUAL possesses higher diagnostic power as compared to SERVPERF but it is coupled with gigantic data collection task which reduces its reliability and methodological soundness. Also measurement of expectation component is conceptually difficult and vague as well. Many empirical studies reveal that evaluating validity, reliability and methodological soundness of SERVPERF is superior to SERVQUAL. SERVPERF also reveals more
convergent and Discriminant validity. Convergent validity can be established if two similar constructs correspond with one another. Discriminant validity applies to two dissimilar constructs that are easily differentiated. Hence SERVPERF identifies and correlates theoretically similar concepts along with discriminating the dissimilar ones. A major advantage of this tool is that it reduces the data collection by 50%.

1.4 CUSTOMER SATISFACTION AND SERVICE QUALITY

Usually used by marketing managers a key term customer satisfaction is defined as,

“Satisfaction is a person’s feelings of pleasure or disappointment resulting from comparing a product’s perceived performance (or outcome) in relation to his or her expectations”.(Kotler, 2000, p.36).Customer satisfaction is a collective outcome of perception, evaluation and psychological reactions to the consumption experience with a product/service.

It is broadly defined as the number of customers, or total percentage of customers, whose reported experience with a firm, its products or its services exceeds specified satisfaction goals. This suggests that expectations are key factors behind satisfaction. While customer satisfaction is the key performance indicator/differentiator, tapping the same becomes an imperative task for the service provider.

Many studies indicate that customer retention is based on employee performance and professionalism, willingness to solve problems, friendliness, and level of knowledge, communication skills and selling skills. It is economical to reduce customer defection for retention rather than acquiring new customers. Such satisfied customers tend to bring referral business for the organization. Service quality is the upshot of personnel quality in banking as on the counter customers perceive on the basis of the front line behavior. Employees’ conduct goes a long way in instituting a positive image of the organization.
1.5 CUSTOMER LOYALTY

Customer loyalty is defined as repeated purchasing and referring a company to other customers generating positive and measurable financial results. This would emerge only out of customer satisfaction which is a perceived state of happiness and a positive output of the offerings of the service provider as well as the comprehensive experience during the service encounter. This state would help the provider get extra mileage in terms of economic benefits as well as increased goodwill. Customer loyalty is thus concerned with the likelihood of customer returning, making business referrals, providing strong word of mouth references and publicity. It is imperative to understand the reason for customer loyalty as sometimes it is a result of convenience and satisfaction. There may be high switching barriers due to which the customer becomes apprehensive of switching the service provider. So customer loyalty itself is not the indicator of customer satisfaction. This generates the need of studying customer satisfaction as it would be one of the key factors determining the quality of output as provided by the service provider.

1.6 CUSTOMER RELATIONSHIP MANAGEMENT

Personal relationships with clients are important, as loyalty to service firms has been associated with clients’ personal relationships with a service provider. Therefore, service providers, including financial institutions like banks, should focus on building relationships with their clients to reap the long term rewards of support and loyalty. Also the benefit of referral business can work wonders for the service providers. Levitt terms it as ‘reciprocal dependency’ as it would benefit both the parties in the long term. This would put the firm on auto mode of success by not only enhancing the goodwill but also lowering transactional costs, further improving profitability.

Customer relationship management (CRM) can be defined as a core business strategy that integrates internal processes and functions and external networks to create and deliver value to targeted consumers at a profit. CRM can be further described as a comprehensive set of activities that covers all functions of the firm interacting with and supporting a consumer. These activities ultimately build
customer satisfaction by providing in their needs, wants, and desires over the long term (Wilmshurst & Mackay, 2002).

The thinking reflected in CRM is based on three aspects of marketing management: (1) customer orientation; (2) relationship marketing, and; (3) database marketing. These aspects join in CRM due to developments in Information and Communication Technology. There are two types of CRM-practices: (1) programs that aim to build close relationships with customers, and; (2) practices that use data-mining techniques to improve targeting, cross selling and market research. The first CRM-practice focuses on satisfying customers and fulfilling customers’ needs. Thereby it is expected that the resulting increase in customer loyalty will enhance profits. The second CRM-practice focuses on a more efficient and effective use of marketing tools and is sometimes referred to as ‘cost reduction management’.

Such relationship oriented marketing has proved very fruitful as compared to transactional marketing, especially in the long run. Growing demands of customers and awareness levels have forced the service marketers to give importance to customer demands and fulfill the same in order to gain loyal customer base. Customer relationships ensure that consumers develop the perception of customization, empathy, appreciation, friendliness, communality and feelings of trust. This perception leads to support and loyalty among consumers to firms. It identifies and solves specific issues, meaning understand customers’ expectations, know the customers, evaluate services process, obtain a proper service quality and adequately manage customers’ relationship.

1.7 EMPLOYEE EMPOWERMENT

Empowerment means engaging employees in the thinking processes of an organization in ways that matter, involvement means having input. Empowerment means having input that is heard and used and it means giving employees ownership of their jobs. Empowerment requires a change in organizational culture, but it does not mean that managers abdicate their responsibility or authority. (Goetsch et al, 2010). It refers to turning the “front line” loose, and encouraging and rewarding employees to exercise initiative and imagination.
Empowerment at implementation level specifically means, “Removal of conditions that contribute to feelings of powerlessness and creation of a work environment that strengthens an employee feeling of self efficacy” (Ugboro et al, 2000) Empowerment can take place at several levels:

a) *Suggestion Involvement* empowers employees to make recommendations through formalized programs. 
b) *Job Involvement* represents a dramatic opening up of job content. Jobs are redesigned to allow employees to use a wider array of skills. 
c) *High Involvement* gives even the lowest-level employees a sense of involvement in the company’s overall performance. Information is shared. Employees develop skills in teamwork, problem solving, and business operations, and they participate in work-unit management decisions. There is profit sharing, often in the form of bonuses.

**Babakus et al (2003)** regarded as the right step to have a direct positive impact on customer satisfaction. The management relinquishes control over many aspects of service delivery to frontline employees who, because of their boundary spanning roles can provide quick, appropriate and equitable responsibility to customers who are not satisfied. With this, the employees learn the connection between action and customer value.

Following figure reflects the service talent cycle which works as a guiding framework for successful HR practices aiming at service excellence and productivity:
1.7 Employee empowerment

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2. Enable Your People

* Build High Performance Service Delivery Terms:
  * Ideally Cross Functional, Customer centric Structure
  * Develop team Structures and Skills that Work

* Extensive Training on:
  * Organizational Culture, Purpose and Strategy
  * Interpersonal and Technical Skills
  * Product / Service Knowledge

3. Motivate and Energize Your People

* Use the Full Range of Rewards:
  * Pay
  * Bonus
  * Job Content
  * Feedback and Recognition
  * Goal Accomplishment

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Because the key role of culture and the association between service quality and culture, improvement and strengthening of culture must be continuous. However, a strong culture of service orientation will be difficult to develop if the organization and top management are driven by figures. Therefore top management commitment to provide quality service as one of the service climate is the first requirement. In mass services like banking, empowerment of front line staff was seen to be beneficial to service quality. Since a lack of belief from top management in employee empowerment could lead to customer dissatisfaction, education and training of management might help the delegation of authority and proper training in order to ensure that the employees have required personality and ability to manage the extra responsibility caused by empowerment. (Akiko Ueno, 2009)

The earliest lessons of quality movement are still applicable today and those of:
(a) Understanding what people want from a service or a product, and delivering it to match those needs (fitness for purpose);

(b) Drawing detailed specifications based on the articulated customer needs, and delivering carefully to them (conformance to specification) understanding and managing the variables in the manufacturing/service delivery process which can lead to deviation from specification (process control) keeping detailed records of the process, allowing deviations to be traced and rectified (quality audit/document control) (V. John Peters, 1999)

1.8 TOTAL QUALITY MANAGEMENT

The literature on service marketing proves that managing services is an incessant task as it requires continuous monitoring of not only the service processes but changing customer behavior. Earlier the quality management task under services was an outsider approach. It focused on providing quality services to customers for better satisfaction which would lead to retention of the same. Now, the scope of service quality management has been extended to all the stakeholders of the organization. The concept of service quality now encompasses the employee behavior, their training, management commitment, continuous improvement models, benchmarking and so on. Customers are becoming increasingly intolerant of poor service, late deliveries, unreliable products, shoddy workmanship etc. The organizations would be thrown out of the business if they do not focus on “quality excellence” which is a key to worldwide competitiveness. Hence Total Quality Management is a philosophy that involves everyone in an organization in a continual effort to improve quality and achieve customer satisfaction. It is a company wide effort through full involvement of the entire workforce striving to achieve quality standards. This TQM concept is based three key philosophies;

i. **Continuous improvement**- It is an ongoing process which is targeted to designing problem solving techniques. The organization has to continuously monitor the results and reports so as to identify loopholes and amend the same, thus looking for breakthroughs with revolutionary order of magnitude changes that would result in transformation of organization in to a world class organization.
ii. **Employee involvement**- It refers to participation of employees in decision making. This gives encouragement to employees to give suggestions and come up with innovative techniques to foster customer satisfaction. Since the frontline employees are in constant touch with customers, it is easy to get suggestions for improvement. For this, employee training and motivation are essential for achieving and sustaining high levels of service quality.

iii. **Customer satisfaction**- Focusing on customer needs and wants enables organizations to have a better market orientation than ever before by providing a competitive edge over the rivals. In service organizations especially where there is an element of intangibility, the satisfaction levels of customers need to be monitored. They are highly fluctuating and complex. This can be achieved through a strong feedback system which would provide inputs for quality improvement.

In order to fulfill the above mentioned objectives, the TQM model rests on four pillars;

- Customer centric approach
- Process/system design
- People
- Improvement tools

Parasuraman et al assert the fact that ‘Quality Counts in Services too’. This shows how it important it is for a service organization to upgrade its quality levels and satisfy their customers for long lasting gainful relationships. Understanding culture of the country and investment in technology will aid in uplifting the quality standards and progress towards achievement of total quality management. The marketing of services can be based on the quality of the services provided which may indeed differ for every such organization. The knowledge of profile of customers will help the organizations decide their plan of action regarding services to be provided and the quality of the output. In order to measure service quality, it is indeed important to understand nature and determinants of service quality, both from customers and employees perspectives so as to identify shortfalls and problems faced by the employees in rendering such services. This would help them design and execute strategies for better service standards.