SERVICE QUALITY IN BANKING SECTOR IN INDIA – A THEORETICAL FRAMEWORK

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Abstract

The services sector is the most important sector, which contributes largely to the national economy. In India, the banking service is an important component of services sector. The share of banking and insurance sector within the services industry has burgeoned from 2.78 per cent of Gross Domestic Product in 1980-81 to 6.27 percent in 1
997-98. It has been so due to the increased significance of financial services in post-reforms era. In the recent years the presence of a number of private sector and foreign banks has made the Indian Market more competitive. Increasing competition has forced the banks to think of better ways and means of generating revenues from different sources, other than conventional borrowing and lending services. The onset of competition from the private players and initiation of banking reforms since early 1990s have led to an increased emphasis on efficient customer service. Moreover, in the tough competitive arena in which these banks operate today, maintaining the quality of service is a pre-requisite for survival. Therefore, measurement of service quality has increasingly created an interest among the banks and scholars alike.

Introduction

Quality in services is an elusive concept and as such there is no generic definition of service quality. Service quality is considered as “a measure of how well the service is delivered and matches customers’ estimations” or “providing the customer with what he wants, when he wants it, and at acceptable cost within the operating constraints of business” or “providing a better service than what the customers expects”. Thus service quality is defined as the conformance of services to the customers’ specifications and estimations. The quality of service therefore depends on the ability of the server to meet the estimations of the customer. On the other hand perceived service quality may be defined as the evaluation by the customers towards the overall excellence or uniqueness of the service rendered.

Components of Service Quality

Service quality can be analysed from two angles:

i) External service quality (ESQ) and
ii) Internal service quality (ISQ)

External Service Quality (ESQ)

External service quality, which refers to the quality of service delivered to the customers, has gained importance in the light of increasing customers’ estimations, and changing customer preferences. External service quality offered to customers is generally referred to as service quality. Providing high quality services enhances customer retention rates, helps to attract new customers through positive word of mouth advertising, increases productivity, leads to higher market share, financial performance and profitability.

Different researchers have identified different dimensions to measure External service quality. Sasser (1978) measured it with the help of security, consistency, attitudes, completeness, conditions, availability and training. Garnin (1984) measured the ESQ with the help of performance, features, reliability, conformance, durability, serviceability, aesthetics and prestige. Driver and Johnson (2001) estimated the ESQ with different dimensions namely alternativeness, care, courtesy, flexibility, friendliness, reliability, competence, integrity, access, availability and functionality.

Internal Service Quality (ISQ)

In services organisations, personnel come in contact with the customers in the process of production and consumption of services. The inseparable nature of services emphasizes the point that the human factor forms an important element in service industries. In service businesses, the service personnel reflect the organisational realities. It is through the interaction with the staff that the customers form an opinion of the organisation. It becomes essential for the service marketers to motivate the employees to serve the customer better.

The main prerequisite for motivating the employees to deliver quality service to customers is delivering quality service to internal customers (employees).

Internal service quality is defined as the feeling that employees have towards their job, colleagues and the company. It is referred to the quality of work life among the employees. The Internal service quality had been measured by the employees' attitude on pay, benefits, opportunities, job security, pride in the work, openness, fairness and friendliness in the organisation.

Relationship between the External and Internal Service Quality and Customers Attitude

Nowadays many organizations have started giving importance to customer relationship and hence they use all sorts of technologically advanced services and facilitate their customers to avail of the benefits. Right from the seventies there was a need for improvement in customer services in banks. With the emergence of new generation banks, introduction of technology, competition, deregulation, etc., new dimensions to customers' service have been added. In the present scenario, "customers' delight", has been the buzzword in banking. The external and internal service quality in banks is a compulsory requirement for the survival of banks in the industry.

Indian Banking Industry

The origin of the Indian banking industry may be traced to the establishment of the Bank of Bengal in Calcutta in 1786. Since then, the industry has witnessed substantial growth and radical changes. As of March 2002, the Indian banking industry consisted of 97 commercial banks, 196 Regional Rural Banks, 52 Scheduled Urban Co-operative Banks and 16 Scheduled State Co-operative Banks. The scheduled banking structure in India as on March 2003 is given in the Figure.

The growth of the banking industry in India is witnessed in terms of two broad phases: Pre-Independence (1786-1947), and Post-Independence (1947 till date). The post-independence phase may be further divided into three sub-phases: i) Pre-Nationalisation Period (1947-1969), ii) Post-Nationalisation Period (1969-1991) and iii) Post-Liberalization period (1991 to till date).

Financial Structure of Indian Commercial Banks

The structure of Indian commercial banks is grouped into State Bank Group, Nationalised banks, Private sector banks, Foreign banks and Regional Rural banks. The number of banks, deposits, loans and advances; capital, reserves, total assets, borrowings and investment in the above said groups during 2003.The total number of commercial banks in India was 289 during 2003. There were 19 Nationalised banks, 8 State Bank Groups, 30 private sector banks, 36 foreign banks and 196 Regional Rural Banks. The Nationalised banks mobilised a maximum deposits of Rs. 6,88,361 crores whereas the loans and advances disbursed was 3,60,142 crores. The capital mobilised by the Nationalised banks was a maximum of 13140 crores whereas the reserves were Rs.29,310 crores. The total assets in all Nationalised banks were worth of Rs.7,91,281 crores. The borrowings and investment of Nationalised banks were 10,383 crores and 3,22,302 crores respectively.

Financial Results of Banks in India

The financial results of banks in India are analysed by its total income, total expenditure, operating profits, provision and contingencies and net profit. The above said financial performance measures in different groups of banks are shown in the following Table 1.

Table 1: Financial Results of Banks in India

(Rs. in Crores)

Sl. No	Bank Group	Total Income	Total Expenditure	Operating Profits	Provisional Contingencies	Net Profit
1.	State Bank Groups	48867	44355	11229	6718	4512
2.	Nationalised banks	79598	71814	18486	10702	7784
3.	Private sector banks	31866	28908	7239	4281	2958
4.	Foreign banks	12044	10220	3728	1904	1824
5.	Regional rural banks	5931	5407	714	190	524
	Total	178306	160704	41396	23795	17602

Source: *RBI Report on Trend and Progress of banking in India, 2002-03.*

The total income among the group of banks varies from Rs.79598 crores in Nationalised banks to Rs.5931crores in Regional rural banks. The total expenditure varies from Rs.71814 crores in Nationalised banks to Rs.5407 crores in Regional rural bank. The maximum operating profit is identified as Rs.18486 crores in Nationalised banks followed by State Bank Groups with 11229 crores. In the case of Regional rural banks, it is identified as a minimum of Rs.714 crores. The net of profit of the banks is noticed as high as 7784 crores in Nationalised banks and followed by State Bank Groups with Rs.4512 crores.

Market Share of Different Groups of Banks

The market share of the different groups of banks regarding various aspects of banking during 2002-2003 is presented. Regarding the number of banks, the regional rural banks constitute a market share of 67.82 per cent followed by foreign banks with the market share of 12.46 per cent to the total. By deposits and loans and advances, the Nationalised banks constitute 49.02 and 47.25 per cent to the total respectively. It is followed by the State Bank Groups with 27.85 per cent and 24.82 per cent respectively. Regarding capital, reserves and total assets, the Nationalised banks dominate with the market share of 54.97, 37.27 and 44.89 per cent to the total respectively. By borrowings, the market share of private sector banks is identified as a maximum of 48.10 per cent. In the case of total investment, total income, total expenditure, operating profits, provision and contingencies; and net profit, the market share of Nationalised banks is identified as a maximum of 45.63, 44.64, 44.69, 44.66, 44.98 and 44.22 respectively. It is followed by the State Bank Groups with the market share of 31.62, 27.41, 27.60, 27.13, 28.23 and 25.63 per cent respectively.

Paradigm Shift in Indian Banking System

Indian banking system had undergone a paradigm shift especially after globalization. The paradigm shift scenario in India is presented below.

Table 2: Paradigm Shift-Scenario in India

Before 1991	After 1991
Seller's market	Buyer's market
Protected markets	Open market
Protected markets	Increase in number of global brands
Friendly competition	Cut-throat competition
Patient customers	Demanding customers
Limited choice for customers	Increasing choice for customers
Limited television promotion	Extensive television promotion
Cost plus pricing	Competitive price-cutting
Limited role of service	Increase role of services
Slower marketing reflexes	Quicker marketing reflexes
Speed @ will	Turbo speed
Fundamental Standalone System	Enterprise System (ERP/CRM)
IT-competitive advantage	IT-enables
Gaining new customers	Retaining existing customers
Monologue	Dialogue
Transaction	Relationship
Standard of living	Quality of life

Source: IBA Bulletin 25 (8), August 2004, p.16.

The paradigm shift in Indian banking industry is towards a stress on the need of quality service in the banking. The Indian banks focus on providing better customer service in the following ways:

i) Selling service with standards and improving management of service-some banks stored ISO certification for their branches and administrative offices;
ii) Providing skill based training and product/service knowledge to the front line staff;
iii) Establishing incentives and motivation for quality service;
iv) Enunciating a new corporate philosophy based on quality of service by changing the cultural and attitudinal bias in the organisation and
v) Making customer satisfaction a central focus at the corporate level.

Conclusion

Two major factors that shape the practice of marketing in service organisations are a) the environment and b) how a particular business views and organizes its marketing efforts. Both factors are equally important in creating and constraining manager's opportunities for effective action. In the financial service industry, the three major external forces that affect competition are: increasing internationalization of all financial products and players, the change in the regulatory environment, and the accelerating impact and pervasiveness of information technology which create long-lasting change.

Three forces dominate the prevailing marketing environment in the banking sector: increasing competition from private players, changing and improving technologies, and continuous shifts in the regulatory environment, which have led to the growing customer sophistication. Customers have become more and more aware of their requirements and demand higher standard of services. Their perceptions and estimations are continually evolving, making it difficult for the service providers to measure and manage services effectively. The key lies in improving the service selectively, paying attention to more critical service attributes/dimensions as a part of customer service management. It is an imperative to understand how sensitive the customers are to various services attributes or dimensions. Allocating resources in the fashion that is consistent with customer priorities can enhance the effectiveness in the service operations. In addition, the management commitment is highly essential to provide a better environment among the service providers to deliver apt service to the customers. Both the service quality: customers perceptions; and service quality: managerial implications are the two important pre requisites in any banks to deliver the qualitative product/service to the customers. Hence the present study makes an attempt to analyse the importance of both external and internal service quality in banks and also the consequences of such service quality in customer satisfaction.

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