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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	THE CONTRIBUTION OF FINANCIAL MANAGEMENT PRACTICES TO FINANCIAL CHALLENGES FACING LOCAL AUTHORITIES IN SERVICE DELIVERY IN KENYA <i>JOHN NTOITI, ROSELYN W. GAKURE, DR. ANTONY WAITITU & DR. MOUNI GEKARA</i>	1
2.	OUTBOUND INDIAN TOURIST'S PERCEPTION OF SINGAPORE TOURISM : A LESSON FOR INDIAN TOURISM <i>DR. RAVINDER VINAYEK & ARCHANA BHATIA</i>	14
3.	EVALUATION OF PRODUCTIVITY AND PROFITABILITY OF SELECT SCHEDULED COMMERCIAL BANKS IN INDIA <i>DR. U.JERINABI & LALITHA DEVI.T</i>	22
4.	CHARACTERISTICS OF LAISSEZ-FAIRE LEADERSHIP STYLE: A CASE STUDY <i>DR. L. JIBON KUMAR SHARMA & DR. S. KESHORJIT SINGH</i>	29
5.	TOTAL QUALITY MANAGEMENT AND CREATIVE THINKING IN THE HEALTH CARE INDUSTRY <i>DR. CHRIS EHIUBUCHE</i>	32
6.	IMPACT OF CSR INITIATIVES ON CONSUMER BEHAVIOR <i>PUSHKALA MURALIDHARAN, DR. C. MADHAVI & DR. SITALAKSHMI RAMANAN</i>	37
7.	CAPITAL STRUCTURE (DEBT-EQUITY) OF INDIAN REAL-ESTATE INDUSTRY (IREI): A STUDY <i>K KISHORE KUMAR REDDY & C. SIVARAMI REDDY</i>	42
8.	CONSUMER BEHAVIOR, ATTITUDE & COGNITIVE DISSONANCE TOWARDS MWO: AN EMPIRICAL STUDY WITH SPECIFIC RELEVANCE TO URBAN MIDDLE CLASS OF KOCHI <i>ANIL KUMAR.N & DR. JELSY JOSEPH</i>	47
9.	VENTURE CAPITAL INVESTMENTS IN INDIA <i>SRINIVAS K T</i>	57
10.	CHILDREN'S UNDERSTANDING OF TV ADVERTISING: A STUDY OF THE CHILDREN IN DELHI AND NCR <i>ZUHAIB MUSTAFA, DR. RESHMA NASREEN & DR. FAROOQ AHMAD SHAH</i>	61
11.	IMPACT OF CELEBRITIES ADVERTISEMENT TOWARDS COLLEGE STUDENTS <i>S.JEYARADHA & DR. K. KAMALAKANNAN</i>	66
12.	DETERMINANTS OF PROFITABILITY OF COMMERCIAL BANKS IN INDIA <i>DR. UPASNA JOSHI & NEETI KHULLAR</i>	71
13.	A STUDY ON ENVIRONMENT FRIENDLY MARKETING <i>AVINASH PAREEK & DR. SATYAM PINCHA</i>	77
14.	EMERGING TRENDS OF UNIVERSAL BANKING IN INDIA <i>RENU SINGLA & KALIKA JAIN</i>	81
15.	THE IMPACT OF THE PERCEIVED QUALITY, CUSTOMER SATISFACTION, BRAND TRUST AND CONTEXTUAL FACTORS ON BRAND LOYALTY <i>MUHAMMAD RIZWAN, ALI USMAN, TAJAMUL HUSSAIN, AKASHA SHAFIQ, SANA RAUF & QURAT UL AIAN AYAZ</i>	83
16.	HOW TO REMOVE THE UNCERTAINTY CONCERNING THE CONTINUITY OF ENTITY: THE STRONGEST EVIDENCE FROM THE VIEW POINT OF THE AUDITORS IN SAUDI ARABIA <i>DR. BADI SALEM ALRAWASHDEH</i>	90
17.	EMPIRICAL INVESTIGATION OF SERVICE QUALITY IN RETAIL BANKING: COMPARISON OF STATE BANK OF INDIA AND ICICI BANK, AHMADABAD <i>RASHI M. GOPLANI</i>	93
18.	CONSUMER LITERACY REGARDING CONSUMER PROTECTION ACT, 1986 <i>SUDESH KHARB</i>	97
19.	A STUDY ON ETHICAL ASPECTS OF ACCOUNTING PROFESSION- AN EXPLORATORY RESEARCH IN MSMEs <i>CHANDRA HARIHARAN IYER & DR. G.RAVINDRAN</i>	105
20.	THE ROLES AND CHALLENGES OF SHARE COMPANIES IN ETHIOPIA <i>NIGUS ABERA</i>	110
21.	CONSUMER MARKET PURCHASE DECISION: A STUDY ON DURABLE GOODS IN JAFFNA DISTRICT <i>SATHANA.VAIKUNTHAVASAN</i>	115
22.	RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE: EVIDENCE FROM INDIAN STOCK MARKET <i>POOJA V. MEHTA</i>	121
23.	AN EMPIRICAL STUDY ON FACTORS AFFECTING CONSUMER SATISFACTION <i>IRSHAD AHMAD BHAT, NAFEES AHMAD RATHER & FAROOQ AHMAD MIR</i>	125
24.	RISKS IN HOUSING FINANCE THE COMMERCIAL BANKS EXPOSED TO – AN OVERVIEW <i>RAJU D</i>	129
25.	THE CAPITAL STRUCTURE PUZZLE <i>SHIVI KHANNA</i>	134
26.	FOREIGN DIRECT INVESTMENT IN INDIA: A CRITICAL ANALYSIS <i>BHUSHAN AZAD</i>	137
27.	CONSTRAINTS IN FINANCING OF SMEs: A CONCEPTUAL PAPER IN THE PERSPECTIVE OF PAKISTAN <i>AAMIR AZEEM & ASMA RAFIQUE CHUGHTAI</i>	143
28.	A SIMPLE PRICING MODEL FOR CALL OPTIONS TRADED IN NSE NIFTY OPTION MARKET: THEORY, MODEL & EMPIRICAL TEST <i>JAYAPALAN.C</i>	147
29.	AFFECT OF SALES PROMOTIONAL TOOLS ON PURCHASE INTENTIONS OF CONSUMERS <i>MUHAMMAD RIZWAN, MUHAMMAD ATIF MAHAR, NOMAN SHOUKAT, RANA ZEESHAN JAVID, GULAN KHAN, MUHAMMAD DILSHAD BHATTI & MUSAB MAMOON KHICHI</i>	156
30.	SOCIAL MEDIA MARKETING: AN IMPORTANT PHASE IN MODERN BUSINESS MANAGEMENT <i>MAHESH L & DR. AMULYA.M</i>	162
	REQUEST FOR FEEDBACK	165

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EMPIRICAL INVESTIGATION OF SERVICE QUALITY IN RETAIL BANKING: COMPARISON OF STATE BANK OF INDIA AND ICICI BANK, AHMEDABAD

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ABSTRACT

The service sector essentially has an element of intangibility. Hence, quantitative methods may not be of use to solve this issue. The service sector is the one which has direct and utmost customer interaction and so their satisfaction can be used as a benchmark for quality management. This paper focuses on the perceptions of the customers of service quality provided by a public sector bank (SBI) and a private sector bank (ICICI). A sample of 100 customers was taken from each bank so as to gauge their satisfaction levels regarding the services provided by the bank of their choice. The customers of SBI showed dissatisfaction regarding employee behaviour whereas for ICICI, the customers perceived lack of reliability. The employees of ICICI failed to instill confidence in customers. The banks can thus design a service that raises the satisfaction levels of employees.

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KEYWORDS

Factor analysis, Service quality, SERVPERF

INTRODUCTION

Service quality is defined as customer's overall impression of an organization's services in terms of relative superiority and inferiority (Johnston, 1995). It should not only meet but exceed customer's expectations and should include a continuous improvement process (Lloyd – Walker & Cheung, 1998).

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. 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 expectations 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.

On the basis of literature survey, customer perceptions have been analyzed so as to get a fair view of both the banks under survey.

RATIONALE OF THE STUDY

The Indian brand equity foundation, February 2011 report mentions the fact that there has been a gradual shift of customers from public sector banks to private and foreign banks. The key drivers for growth in the latter are;

- Anywhere, anytime banking
- Improved processes and bundled product offerings
- Faster service
- Customer-specific products or offerings on a regular basis
- Bank customer has replaced branch customer
- Focus on understanding customer needs or preferences
- Segmentation or differentiation of customers
- Customer-driven strategies
- Large number of micro, small and medium enterprises (MSMEs) with significant growth opportunities in their respective sectors.

The consolidated balance sheet of scheduled commercial banks 2009-10 states that only new private sector banks outperformed their counterparts and showed an accelerated growth in 2009-10 as compared to year 2008-09.

The Indian banking scenario is a well balanced mix of public and private sector banks. Where public sector banks provide stability to it, the private sector provides necessary dynamism to it. The new age customers look up to banks as state-of-the-art modern service providers who not only adapt faster processing systems but also give equal attention to technological advancements, aesthetics and enhanced service quality. The new age customers have a newer set of service quality parameters which can be gauged from their perceptions.

LITERATURE SURVEY

E Mubarak Ali, G.S David Sam Jaykumar and P L Senthil (May 2011) investigated into the service quality of Indian Bank in Thanjavur District where the five dimensions of the SERVQUAL instrument along with demographic and rational profile were tested using exploratory analysis. Confirmatory Multiple Regression Analysis was the statistical tool used to analyze the contribution of various dimensions to the overall service quality. And then the 22 items of the SERVQUAL were put to exploratory factor analysis so as to reduce the same and extract the most significant ones to the service quality to and the conclusions reinforced the importance of 'empathy' as the key factor to influence and enhance customer loyalty.

Jaspal Singh and Gagandeep Kaur (February 2011) conducted an empirical study of selected Indian banks to identify the determinants of customer satisfaction. Two banks each of private and public sector were selected for the survey. 32 items selected for the survey were incorporated in a questionnaire which was administered to 200 customers. A demographic profile of customers was also undertaken for the study. This item scale was subjected to factor analysis using principal component method with varimax rotation. They identified nine factors namely responsiveness, tangibles, service innovation, social responsibility, reliability and accessibility, assurance, pricing and other facilities, problem solving capability and convenient working hours of the bank. They recommended that in this world of evolving customer expectations, their satisfaction should be the key concern for all banks where the above mentioned determinants play a justifiable role. Customer dissatisfaction will put the bank at a competitive disadvantage.

M.Kailash (May 2011) evaluated customer perceptions on service quality of retail banks in Tamil Nadu using SERVQUAL model. Firstly the researcher collected demographic information of the respondents and analyzed an association between various demographic variables and customer perceptions. Then to test the service quality dimensions, the 23-item instrument developed by Parasuraman was used by the researcher. His survey concluded that customers' perception was maximum in the 'tangibles' area and minimum in the 'responsiveness' area. It was also noticed that age and education did not have any impact on the customer perceptions. But income group did make a difference in the perceptions. The fixed income group had higher perceptions of service quality than flexible income groups. In order to gain a competitive edge banks need to give importance to innovative and personalized products and competitive pricing.

Mohammed Hossain and Shirley Leo (2009) conducted an analytical study based on primary data regarding service quality perceptions in the Qatari Retail banking industry. On the basis of scholarly studies, they designed a questionnaire consisting of four dimensions namely reliability, competence, tangibles and empathy, which cover 18 parameters. The degree of perception of customers on the 18 parameters was quantified by using a 5 point Likert scale. The same was tested for reliability and validity using Cronbach's alpha quotient. With the help of Z tests and descriptive statistics were used to rank the number of items in priority so far customer perceptions were concerned. Again the perception was highest in tangibility area and lowest in competence area. The parameter 'customer support' was poor in ranking that means the bank did not pay attention to customer support and that was the cause of major dissatisfaction. Thus the study proved to be useful to selected Qatari banks as it revealed the weak areas and instigated the management to work for the health of the same.

Sandip Ghosh Hazra and Kailash B L Srivastava (August and November 2009) studied the impact of service quality on customer loyalty, commitment and trust in the Indian Banking Sector. Their main objective was to study the strength of association between service quality and customer satisfaction, loyalty and trust. The other part of the study consisted of evaluation of perceptions of customers of private and public sector banks and discovers the degree of difference and the factors affecting the same. A 43 item questionnaire was used wherein service quality was measured by 22 item scale adapted from Parasuraman et al. customer loyalty was measured by a 13 item scale adopted from the Behavioral Intentions Battery (BIB) developed by Zeithaml et al. Customer commitment and customer trust was measured by a 4 item scale each adopted and modified from Gabarino and Johnson (1999) and Walter et al(2003). As all the above variables are multi dimensional, factor analysis was used to explore the major factors. The results identified the importance of four factors; assurance-empathy, reliability, tangibles and security. Customer commitment emerged as a single factor which was independent. Consequently, the researchers worked on examining the strength of association between independent and dependent measures by multiple regression analysis. Implications of the study show that banks should go for loyalty programs and provide better quality services in order to retain customers and get their commitment. The overall results regarding service quality of the private sector banks displayed a lack of 'reliability' factor whereas for public sector banks, the 'tangibility' aspect was missing. A strong correlation was seen between assurance-empathy factor and customer loyalty and commitment.

Usha Arora and Bhavna Vashishat (August 2011) investigated into the perceptions of borrowers regarding service quality dimensions of retail banking with special reference to credit schemes. In this study, total service quality was measured in the selected dimensions with the help of a structured questionnaire filled by borrowers of selected banks (3 public sector banks and two private sector banks) of Haryana. 51 items were selected covering various dimensions of perceptions of customers regarding credit schemes of banks. Principal component analysis economized the variables from 51 to 11 and then they were further classified in five categories; a) product features b) office services c) pre sale services d) post sale services and e) behavioral response. The SERVPERF score, which is the overall score for service quality, was obtained by averaging the mean scores of all the dimensions and multiple comparisons were also carried out. The Punjab National Bank showed best results in all the dimensions. It concluded that people look for customization of products, trained staff and feedback system for better customer complaint handling. A special emphasis was made by 'A' class borrowers for door to door services. The importance of benchmarking for quality improvement was also revealed in the study.

SERVQUAL SCALE

Valarie Zeithaml, Leonard Berry and A.Parasuraman are one of the best known researchers in the field of service quality management. They developed a research instrument to measure customer satisfaction with various aspects of service quality. It was based on the premise that customers can evaluate a firm's service quality by comparing their perceptions of its service with their own expectations. SERVQUAL is a scale containing 22 items relating to perceptions and expectations, based on the five dimensions identified by the researchers. When perceived performance ratings are lower than expectations, this is a sign of poor quality. The reverse indicated good quality. The dimensions are 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)

Poor quality places a firm at a competitive disadvantage, potentially driving away dissatisfied customers. But over a period of time, the parameters of service quality have changed along with a major change in the perceptions of customers. This scale has been strongly criticized by Cronin and Taylor (1992) as there have been issues regarding P-E gap scores. Hence they developed a scale called SERVPERF scale, which is based on the perception component alone so as to reduce the duplication error of SERVQUAL. Also when the expectations of the customers tend to be very high with respect to all the variables, gauging the same would lead to huge gaps which would give the wrong impression about the results. This research hence incorporates only perceptions of the customers so that the weaker areas of performance can be identified and worked upon. SERVPERF scale is thus used to measure the (P) component alone.

OBJECTIVES OF THE STUDY

- To evaluate the service quality initiatives taken by selected banks in Ahmedabad
- To evaluate the perceptions (P) of customers with reference to selected service quality parameters
- To suggest, on the basis of results, means of improving service quality, in selected banks of Ahmedabad with a view to making overall banking service qualitative, effective and efficient.

RESEARCH METHODOLOGY

SAMPLE CHARACTERISTICS

In order to fulfill the above mentioned objectives a random sample of 100 customers, each of a public sector bank and a private sector bank were chosen between the ages of 31-45 years having a savings account in the respective banks. Simple Random Sampling was used to collect the data from the customers. The study intends to gauge the perceptions of customers regarding service quality initiatives of the banks in Ahmedabad which can be used as a base for further studies which would help the banks to design a service process which would best suit the needs of a fast evolving urban environment. The customers of Ahmedabad have become demanding in a very recent past due to a sudden outburst of opportunities, income and availability. Hence their inclination towards banking services has not only increased but has shown a considerable rise in their demands for sophisticated offerings. So this is the time when we research into what do the customers perceive and communicate to the banks in operation for a focused service effort.

RESEARCH INSTRUMENT

In order to understand the customer perceptions in the banking industry of Ahmedabad, a 23 item instrument was administered to the customers based on the SERVQUAL scale. This was an adoption from Parasuraman *et al.* (1988), which consisted dimensions of tangibility, employee responsiveness, reliability, assurance and empathy.

A very striking feature, in the current study was that the customers of Ahmedabad were still used to traditional methods of banking. The question of safety and reliability dominated the perceptions of the customers when questions were asked to them about private banks. Though the researcher tried to capture of the

young and middle aged customers, hardly two of them showed interest in newer methods of banking. So, the SERVQUAL instrument, which is supposedly now obsolete, still has relevance in understanding customer's perceptions where still traditional banking prevails.

FACTOR ANALYSIS AND SCALE VALIDATION

As the researcher wanted to identify the focal areas of service quality, it was imperative to reduce the variables to minimum factors where correlation was established. Hence, for this purpose the Exploratory Factor Analysis was employed. SPSS 15 was used for statistical analysis. Principal Component Analysis was employed wherein the variables with an Eigen value greater than 1 were initially extracted. A few of variables showed multiple loadings and hence the matrix was rotated using Varimax rotation, which finally helped the researcher to understand the key factors affecting service quality.

RESULTS

TOTAL VARIANCE EXPLAINED FOR SBI

Factors	Total	% of variance	Cumulative % of var.	Rotation Total	Rotation % of var.	Rotation Cum. % of var.
1	5.985	26.020	26.020	3.115	13.542	13.542
2	2.345	10.197	36.217	3.014	13.105	26.647
3	2.110	9.176	45.394	2.445	10.631	37.378
4	1.925	8.368	53.762	2.146	9.332	46.610
5	1.421	6.179	59.941	1.932	8.400	55.011
6	1.185	5.151	65.092	1.778	7.730	62.740
7	1.175	5.108	70.200	1.716	7.459	70.200

TOTAL VARIANCE EXPLAINED FOR ICICI

Factors	Total	% of variance	Cumulative % of var.	Rotation Total	Rotation % of var.	Rotation Cum. % of var.
1	5.004	21.757	21.757	2.599	11.301	11.301
2	2.225	9.675	31.432	2.417	10.508	21.809
3	2.100	9.131	40.653	2.292	9.965	31.774
4	1.905	8.282	48.845	2.056	8.939	40.712
5	1.655	7.197	56.043	2.006	8.722	49.434
6	1.363	5.925	61.968	1.827	7.943	57.378
7	1.248	5.424	67.392	1.660	7.218	64.515
8	1.156	5.027	72.420	1.423	6.188	70.784
9	1.047	4.550	76.970	1.423	6.186	76.970

FACTORS EXPLAINED FOR ICICI

Factors	% of variance explained	Factor Name
1	13.542	Employee behaviour
2	13.105	Accuracy
3	10.631	Assurance
4	9.332	Empathy
5	8.400	Reliability
6	7.730	Tangibles
7	7.459	Time factor

FACTORS EXPLAINED FOR SBI

Factors	% of variance Explained	Factor Name
1	21.757	Reliability
2	9.675	Safety
3	9.131	Assurance
4	8.282	Tangibles
5	7.197	Accuracy
6	5.925	Employee behaviour
7	5.424	Empathy
8	5.027	Time factor
9	4.550	Speed

INTERPRETATION AND SUGGESTIONS

The above conclusions reveal that maximum variance in the customer's perceptions was explained by seven factors, where the focal factor was 'employee behaviour' for the public sector bank SBI whereas nine factors were identified for private sector bank ICICI, led by the factor 'reliability'. The least variation was explained by the time factor for both the banks reflecting the bank's efforts to match up to the suitability and convenience of the customers. In fact, the customers of SBI were very satisfied with the banks approach towards convenience as it posted regular advertisements in leading newspapers regarding extension of banking hours during financial year ending. Moreover they also revealed that bank used to operate extra hours after a long patch of public holidays. But they also showed dissent regarding behaviour of employees and suggested some constructive changes in their behaviour.

Thus, for State bank of India, it would be helpful to maintain quality of the service if they engage in programs of *employee training and empowerment*. Such programs shall motivate the senior employees to understand the demands of the new age customers and help them manage higher satisfaction levels of the customers as well as longer productive relations. Being the oldest bank of Ahmedabad, it has acquired the place of safest bank in the customer's mind, so the factor of assurance and reliability doesn't arise in the minds of customers. But for total quality management, the tool of *benchmarking* would help them attain a competitive and modern edge.

ICICI bank has been the fastest evolving private bank of Ahmedabad, characterized by aggressive promotion techniques, very well trained and empathetic employees and ultra modern infrastructure. The customers in question showed a great amount of satisfaction regarding the employee's approach towards understanding their needs. Also the bank had made persistent efforts to resort to the convenience of customer s in the processes. But the bank is yet to go a long way so far the question of reliability is concerned. The customers may be attracted with the speed and accuracy of the bank's transactions but still displayed worry with the tag 'private' bank. ICICI bank needs to focus on positioning strategies in Ahmedabad as to extend their reach to the semi urban crowd, the bank

needs to reinforce that private is just a matter of ownership and in no ways harm the public interest. Such campaigns would help them carve a niche in the little explored market of Ahmedabad.

LIMITATIONS

- Sample size not large enough
- The study is based on the service quality model framed by Parasuraman et al. It does not consider use of technology like e banking or m-banking as majority of the customers still prefer on the counter banking in Ahmedabad.
- Undertakes only non financial aspects

SCOPE OF THE STUDY

1. This was a pilot study conducted for the purpose of gauging customer perceptions in the banking sector.
2. The same can be used for *comparison* between various banks.
3. Also *cross sectional studies* can help the banks in designing cultural marketing strategies
4. The use of internet and mobiles would reduce employee involvement but increase technical hassles. The banks can focus on *e-service quality management*.
5. Also now the focus has shifted from service quality to *total quality management*, which undertakes perceptions of the management as well as employees. Hence a comprehensive study can be undertaken.

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