



## INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

### CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	STATUS OF INVESTMENT IN SOUTHERN NATIONS, NATIONALITIES AND PEOPLES REGIONAL STATE (SNNPRS) FROM 1993-2011. <i>DR. BREHANU BORJI AYALEW</i>	1
2.	HUMAN RESOURCE MANAGEMENT PRACTICES AND ITS OUTCOMES IN INDIAN PUBLIC SECTOR BANKS <i>DR. T. MANGALESWARAN &amp; DR. P. T. SRINIVASAN</i>	11
3.	ORGANISATIONAL CULTURE AND THE ENTREPRENEURIAL SCHOOL: A CASE STUDY <i>NICK CHANDLER</i>	17
4.	IMPACT OF TRAINING AND DEVELOPMENT IN CONTEXT OF IHRM <i>ANURADHA REDDY</i>	25
5.	JUST! FIVE DISTINCT LEADERSHIP STYLES <i>KRISHNA MURARI</i>	30
6.	A TEST ON MARKET EFFICIENCY OF BSE BANKEX: AN EMPIRICAL RESEARCH <i>DR. K.S. CHANDRASEKAR &amp; ARAVIND.M</i>	37
7.	DETERMINING THE GAP BETWEEN CUSTOMER EXPECTATION AND PERCEPTION IN RETAIL BANKING <i>GANESH P</i>	44
8.	AN ANALYSIS OF 'ORGANIZATIONAL COMMITMENT' AMONG COLLEGE TEACHERS <i>DR. R. S. MANI &amp; N. UMA DEVI</i>	49
9.	MANAGING PEOPLE FOR SUPERIOR PERFORMANCE & RETENTION <i>LRK KRISHNAN &amp; DR. A SETHURAMASUBBIAH</i>	55
10.	AN ANALYSIS ON THE RELATIONSHIP STRATEGIES IN GENERAL INSURANCE SECTOR <i>AMRINDER SINGH &amp; DR. G. S. BATRA</i>	60
11.	BPO PENETRATION IN FMCG SECTOR - AN EMPIRICAL STUDY IN INDIA <i>DR. CHANDAN A. CHAVADI &amp; DR. RAJU L. HYDERABAD</i>	65
12.	MARKETING OF SELECT FOOD PRODUCTS: ETHICAL PRACTICES AND CUSTOMER SENSITIVITY <i>DR. ASHOK AIMA &amp; NARESH SHARMA</i>	75
13.	INDIAN RURAL MARKETING: A NEW PATH TO PROFIT <i>DR. DEEPAKSHI GUPTA</i>	79
14.	WORK STRESS AND EMPLOYEE COUNSELLING <i>DR. KALYANI KENNETH &amp; LATHA JANAKI.R</i>	84
15.	MEASURING OF RETAIL SERVICE QUALITY - A STUDY OF SUPERMARKETS IN BANGALORE <i>S.MANJUNATH &amp; DR. CYNTHIA MENEZES PRABHU</i>	87
16.	CONCEPTUALISING CAUSE RELATED MARKETING: A REVIEW & RESEARCH PROPOSITIONS <i>KRISHAN GOPAL</i>	94
17.	A STUDY OF THE FACTORS AFFECTING EMPLOYEE ENGAGEMENT AMONG THE EXECUTIVES OF MNC'S IN DELHI AND NCR <i>SILKY MADAN</i>	98
18.	PSYCHOGRAPHIC APPERCEPTION AND PURCHASE RESONANCE OF FOREIGN BRANDS IN THE INDIAN MARKETING SECTOR <i>APARNA MARWAH &amp; DALJEET SINGH BAWA</i>	105
19.	CONSUMER COMPLAINT BEHAVIOUR: AN INDIAN PERSPECTIVE <i>DR. MITU G MATTA</i>	113
20.	A STUDY OF EXPECTATION OF B-SCHOOL STUDENTS FROM MANAGEMENT INSTITUTES WITH REFERENCE TO B -SCHOOLS IN PUNE <i>RAJESH KUMAR AGRAWAL</i>	117
21.	CHANGING SCENARIO OF HUMAN RESOURCE MANAGEMENT IN THE 21ST CENTURY: FACTS AND CHALLENGES <i>SRI. PHILIP MODY &amp; SRI. B.P.S BARUA</i>	119
22.	CHANGE: TO BE ACCEPTED WITH OPEN ARMS RATHER A THING TO BE RESISTED <i>NEHA VOHRA</i>	123
23.	AN EMPIRICAL STUDY OF SUPERIOR-SUBORDINATE CONFLICT MANAGING STYLES INFLUENCING CORPORATE DECISION-MAKING <i>RANGARAJ G &amp; DR. R. THIMMARAYAPPA</i>	125
24.	WORKING CAPITAL MANAGEMENT AND PROFITABILITY – A CASE STUDY OF ANDHRA PRADESH POWER GENERATION CORPORATION <i>SYED AZHAR &amp; B. RAMESH</i>	128
25.	CUSTOMER RETENTION THROUGH SERVICE RECOVERY <i>PIYALI PAL</i>	131
	REQUEST FOR FEEDBACK	135

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## DETERMINING THE GAP BETWEEN CUSTOMER EXPECTATION AND PERCEPTION IN RETAIL BANKING

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### ABSTRACT

Today banks have to look much beyond just providing a multi-channel service platform for its customers. With the Phase in which the banking sector is growing, Banks concentrate more on Product designing, Technology advancement, Expanding, Recruitment, etc, forgetting one main factor - Customer Satisfaction/ Expectation. The banking industry is highly competitive, with banks not only competing among each other; but also with non-banks and other financial institutions. Most bank product developments are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality. Analyzing markets based on customer perceptions, designing a service delivery system that meets customer needs, and enhancing the level of service performance are all pertinent objectives for banks seeking to gain and retain a competitive advantage. Service quality has received much attention because of its obvious relationship with costs, financial performance, customer satisfaction and customer retention. Study was conducted to measure the service gap between the perceived and expected services provided by the retail banks in the top five cities of Tamilnadu. The study confirms that there is significant gap between the customers expected service and perceived service level in retail banking across all service quality dimensions, which leads to dissatisfaction and non-committal approach towards the service provider. A customer is not just money in the cash register. He is a human being with feelings and deserves to be treated with respect. Any business without a focus on customer satisfaction is at the mercy of the market. Without loyal customers eventually a competitor will satisfy those desires and your customer retention rate will decrease.

### KEYWORDS

Customer expectations, Retail Banking.

### INTRODUCTION

The banking industry is highly competitive, with banks not only competing among each other; but also with non-banks and other financial institutions (Kayak and Kucukemiroghu, 1992; Hull, 2002). Most bank product developments are easy to duplicate and when banks provide nearly identical services, they can only distinguish themselves on the basis of price and quality. Therefore, customer retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment.

Analysing markets based on customer perceptions, designing a service delivery system that meets customer needs, and enhancing the level of service performance are all pertinent objectives for banks seeking to gain and retain a competitive advantage (Brown and Swartz, 1989; Yavas, Benkenstein and Stuhldreier, 2004). Service quality has received much attention because of its obvious relationship with costs, financial performance, customer satisfaction and customer retention (Ranaweera and Neely, 2003; Zeithaml, Berry and Parasuraman, 1996; Alexandris, Dimitriadis and Markata, 2002; Reichheld, 1993).

The literature has provided a rigorous investigation of traditional service quality outcomes in which face-to-face interaction between customers and employees was the primary focus. Recently, however, technology has had a remarkable influence on the growth of service delivery options (Dabholkar and Bagozzi, 2002) and a profound effect on services marketing (Bitner, Brown and Meuter, 2000). Customer acceptance of the new automated channels of service delivery in banks brings a dramatic change in the way retail banks build and maintain a close relationship with their customers (Mols, 2000).

Retained customers are profitable customers (Reichheld, 1996) and that customer retention rates can be connected to profitability (Payne and Frow, 1997). The driver of a higher rate of customer retention was found to be customer satisfaction (Berry and Parasuraman, 1991; Rust and Zahorik, 1993). In other studies, (Storbacka et al, 1994), found customer satisfaction drove longevity. Other authors (Oliver, 1980; Zeithaml et al, 1990; Storbacka et al, 1994; Rust et al, 1995; Hallowell, 1996; Heskett et al, 1997) found that satisfaction drove customer loyalty and also exerted influence on purchase intention (Cronin and Taylor, 1992).

The antecedent of customer satisfaction (Parasuraman et al, 1985 and Cronin and Taylor, 1992) is service quality. Perceived service quality caused bank customers to feel satisfied or dissatisfied (Storbacka et al, 1994) and service quality was also found to have a positive relationship with customer retention (Keaveney, 1995 and Hocutt, 1998).

### IMPORTANCE OF CUSTOMER SATISFACTION

**A customer saved is a customer earned - a saved customer can be worth up to five new customers!**

Customer satisfaction enables the firm to reap rewards such as:

1. Continued purchase of services
2. Customers become less sensitive to price
3. Customer becomes less costlier to serve – Decreased service cost
4. Positive word of mouth recommendation which provides free advertising.
5. Cross sell of various products
6. Take less of company's time.

### THE GAP MODEL: SERVQUAL

**GAP model** framed by Zeithaml V A, Parasuraman A and Berry L L in 1985 came up with 5 GAPS:

GAP 1: denotes GAP between Expected & Mgt's perception of customer Expectation.

GAP 2: denotes the GAP between Mgt's Perception & Service Quality Specifications.

GAP 3: denotes the GAP between Quality Specifications & Service Delivery.

GAP 4: denotes the GAP between Service delivery & External communication.

GAP 5: denotes the GAP between Perception and Customer Expectation.

**Gap 5 denotes the gap between Expected service & Perceived service of a Customer.**

As stated by Parasuraman A, Zeithaml V A and Berry L L, GAP 5 denotes the service gap between the expected services and perceived, where, Expected Service (also mentioned as desired service) is the level of service that customer hopes to receive – the "wished for" level of performance.

Desired service is a blend of what the customer believes "can be" and "should be". We call the threshold level of acceptable service as adequate service – the level of service the customer will accept. Adequate service represents the "minimum tolerable expectation" the bottom level of performance acceptable to the customer.

**SERVICE QUALITY DIMENSIONS**

Customers do not perceive quality in a uni-dimensional way but rather judge quality based on multiple factors relevant to the context. The dimensions of service quality have been identified through the pioneering research of Parasuraman A, Zeithaml V A and Berry L L. Their research identified five specific dimensions of service quality that apply across a various of service contexts:

- Reliability: ability to perform the promised service dependably and accurately.
- Responsiveness: willingness to help customers and provide prompt service
- Assurance: employees’ knowledge and courtesy and their ability to inspire trust and confidence.
- Empathy: caring, individualized attention to customers.
- Tangibles: appearance of physical facilities, equipment, personal and written materials.

**NEED FOR THE STUDY**

Today banks have to look much beyond just providing a multi-channel service platform for its customers. With the Phase in which the banking sector is growing, Banks concentrate more on Product designing, Technology advancement, Expanding, Recruitment, etc, forgetting one main factor - Customer Satisfaction/ Expectation.

There are other pressing issues that banks need to address in order to chalk-out a roadmap for the future:

1. Number of Retail bank branches have increased from 57262 (March 2006) to 71998 (March 2011), hence reach is no more an issue in choosing a bank for the customer.
2. Banking channels like ATM, Mobile Banking, Online Banking, Phone Banking and TV banking have made banking easier and convenient.
3. Dissatisfaction with banking services have gone up, as the expectations of the customers has reached a new level due to advances in technology. Complaints filed against banks have increased from 10560 (March 2004 ) to 75927 (March 2011 )
4. Average middle class Indians have more than two bank accounts.
5. Approximately 6 percentages of a retail bank’s customers are lost every year because of dissatisfaction with some aspect of its value proposition.
6. Inclusive Banking, an RBIs’ strategy, to ensure all individuals have an bank account, so that any schemes launched by the government, the benefits can be rooted through bank account.

**OBJECTIVES**

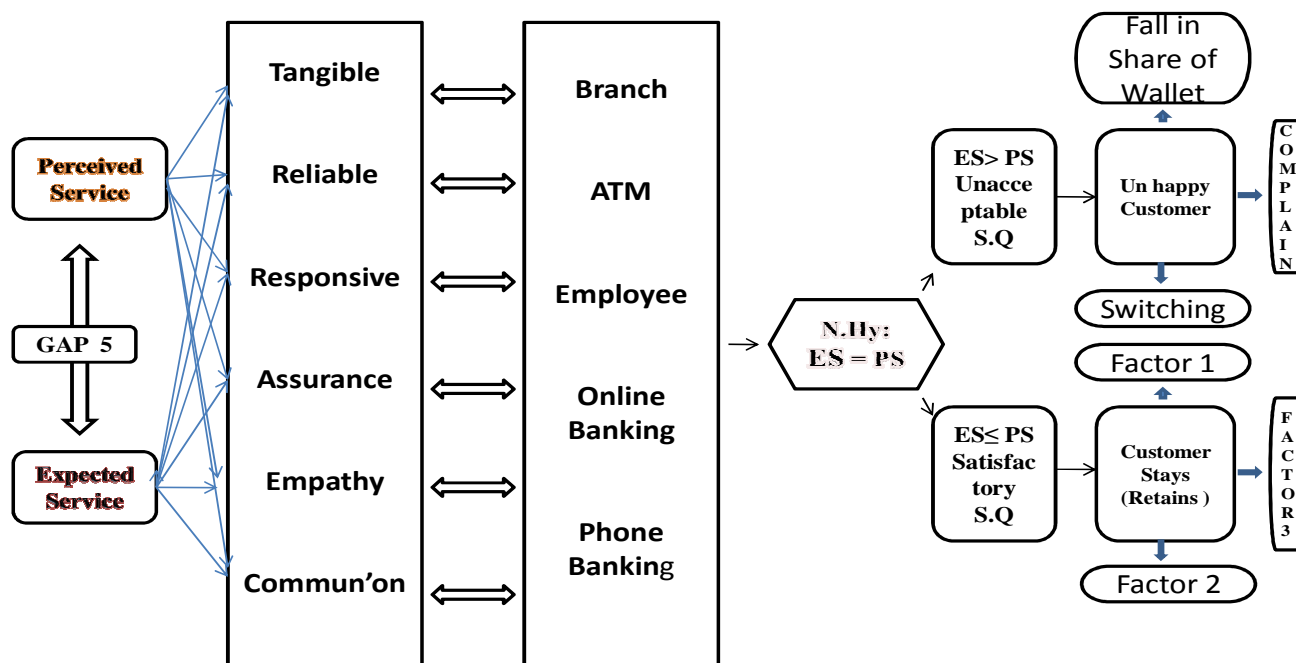
**PRIMARY OBJECTIVE**

To measure the service gap between the perceived and expected services provided by the retail banks in the top five cities of Tamilnadu.

**SECONDARY OBJECTIVES**

- To find which bank provides better services in the following attributes: Tangibility, Reliability, Responsiveness, Empathy, Assurance and Communication.
- To identify the factors influencing customer retention.
- To determine the differences in service level provided by the retail banks among the top five cities in Tamilnadu.

**Framework for the study**



**METHODOLOGY**

**Research Design: Descriptive.** The research design is descriptive since an attempt is made to explain/ describe the gap between the perceived and expected services provided by the retail banks.

**Sampling method: Non-probability purposive sampling method.** This method is followed because the population is very large and not clearly defined.

**Sampling Technique:** The study was conducted in top five cities in Tamilnadu in terms of retail deposit among the Top four banks in Tamilnadu ( two public sector and two private sector ), in terms of number of branches present in Tamilnadu, using a structured questionnaire following convenience sampling technique.

**Sample Distribution:**

LOCATION/ BANK	SBI	INDIAN BANK	ICICI BANK	HDFC	TOTAL
COIMBATORE	45	50	47	45	187
MADURAI	42	42	40	45	169
TRICHY	40	38	35	37	150
SALEM	43	40	43	42	168
CHENNAI	40	50	50	47	187
TOTAL	210	220	215	216	861

Primary data were collected by direct oral investigation method.

**TOOLS USED:** To analyse the data, the following tools were used:

1. 'Z' Test
2. One Way ANOVA
3. Two Way ANOVA
4. Garrett's Ranking

Techniques were appropriately applied.

**FINDINGS**

**TABLE OF MEAN – Z TEST**

Null Hypothesis:  $X_{ce} = X_{ex}$  (On an average the current service level is equal to customer expectations)

Touch Point	Attribute	Mean		Zo	Significance	Reamrks
		Current	Expected			
Branch	Tangible	9.85	13.06	18.37	0.00	N.Hy Rejected
	Responsible	3.74	4.27	5.71	0.00	N Hy Rejected
	Reliable	6.90	9.21	11.26	0.00	N Hy Rejected
	Assurance	3.31	4.08	9.27	0.00	N Hy Rejected
	Communication	5.67	8.34	39.97	0.00	N Hy Rejected
Employee	Responsible	3.74	4.27	5.71	0.00	N Hy Rejected
	Reliable	3.49	4.38	22.07	0.00	N Hy Rejected
	Assurance	6.27	8.39	26.19	0.00	N Hy Rejected
	Empathy	13.38	17.12	26.72	0.00	N Hy Rejected
	Communication	6.98	8.69	26.08	0.00	N Hy Rejected
ATM	Tangible	13.01	16.62	29.12	0.00	N Hy Rejected
	Responsible	6.87	8.22	19.50	0.00	N Hy Rejected
	Reliable	3.50	4.25	19.17	0.00	N Hy Rejected
	Communication	3.62	4.22	16.31	0.00	N Hy Rejected
Online Banking	Tangible	3.25	3.54	9.29	0.00	N Hy Rejected
	Responsible	3.19	3.51	10.93	0.00	N hy Rejected
	Assurance	3.17	3.53	11.83	0.00	N Hy Rejected
	Communicastion	6.56	7.14	8.99	0.00	N Hy Rejected
Phone Banking	Responsible	6.36	6.91	8.89	0.00	N Hy Rejected
	Assurance	6.27	6.84	9.90	0.00	N Hy Rejected
	Empathy	12.68	13.75	8.94	0.00	N Hy Rejected

In all the above cases the Null Hypothesis is rejected and it is concluded that, on all factors customer's expectations are significantly more than Current experienced service level.

**ANOVA TEST: BETWEEN CITIES**

Null Hypothesis:  $X_{ch} = X_{cb} = X_{tr} = X_{sl} = X_{md}$  ( On an average there is no significance difference between the attributes among the cities taken for analysis )

Touch Point	Attribute	F- Ratio	Significance	Remarks
Branch	Tangible	0.686	0.602	Sig (p) > 0.05
	Responsible	0.207	0.935	Sig (p) > 0.05
	Reliable	0.904	0.461	Sig (p) > 0.05
	Assurance	1.031	0.390	Sig (p) > 0.05
	Communication	0.311	0.871	Sig (p) > 0.05
Employee	Responsible	0.207	0.935	Sig (p) > 0.05
	Reliable	0.523	0.719	Sig (p) > 0.05
	Assurance	0.487	0.745	Sig (p) > 0.05
	Empathy	0.978	0.419	Sig (p) > 0.05
	Communication	0.602	0.661	Sig (p) > 0.05
ATM	Tangible	0.429	0.788	Sig (p) > 0.05
	Responsible	0.642	0.633	Sig (p) > 0.05
	Reliable	1.066	0.372	Sig (p) > 0.05
	Communication	0.936	0.442	Sig (p) > 0.05
Online Banking	Tangible	2.490	0.042	Sig (p) < 0.05
	Responsible	1.379	0.239	Sig (p) > 0.05
	Assurance	1.442	0.218	Sig (p) > 0.05
	Communication	3.916	0.004	Sig (p) < 0.05
Phone Banking	Responsible	0.949	0.435	Sig (p) > 0.05
	Assurance	0.478	0.752	Sig (p) > 0.05
	Empathy	1.034	0.389	Sig (p) > 0.05



Except for communication in online banking, for all other factors the Null Hypothesis is accepted which shows that there is no significant difference between the cities.

**ANOVA TEST – ATTRIBUTES AGAINST PERSONAL PROFILE**

Null Hypothesis: Xag = Xed = Xin: On an average there is no significance difference between the attributes among the personal profiles taken for analysis.

Profile	Attribute	F – Ratio	Significance	Remarks
Age Group	Tangible	4.642	0.010	Sig (p) < 0.05
	Responsive	5.535	0.004	Sig (p) < 0.05
	Reliable	8.952	0.000	Sig (p) < 0.05
	Assurance	8.263	0.000	Sig (p) < 0.05
	Communication	11.969	0.000	Sig (p) < 0.05
Education	Tangible	5.029	0.007	Sig (p) < 0.05
	Responsive	10.898	0.000	Sig (p) < 0.05
	Reliable	8.151	0.000	Sig (p) < 0.05
	Assurance	1.420	0.242	Sig (p) > 0.05
	Communication	9.787	0.000	Sig (p) < 0.05
Income Group	Tangible	2.064	0.103	Sig (p) > 0.05
	Responsive	5.633	0.001	Sig (p) < 0.05
	Reliable	4.493	0.004	Sig (p) < 0.05
	Assurance	4.207	0.006	Sig (p) < 0.05
	Communication	14.417	0.000	Sig (p) < 0.05

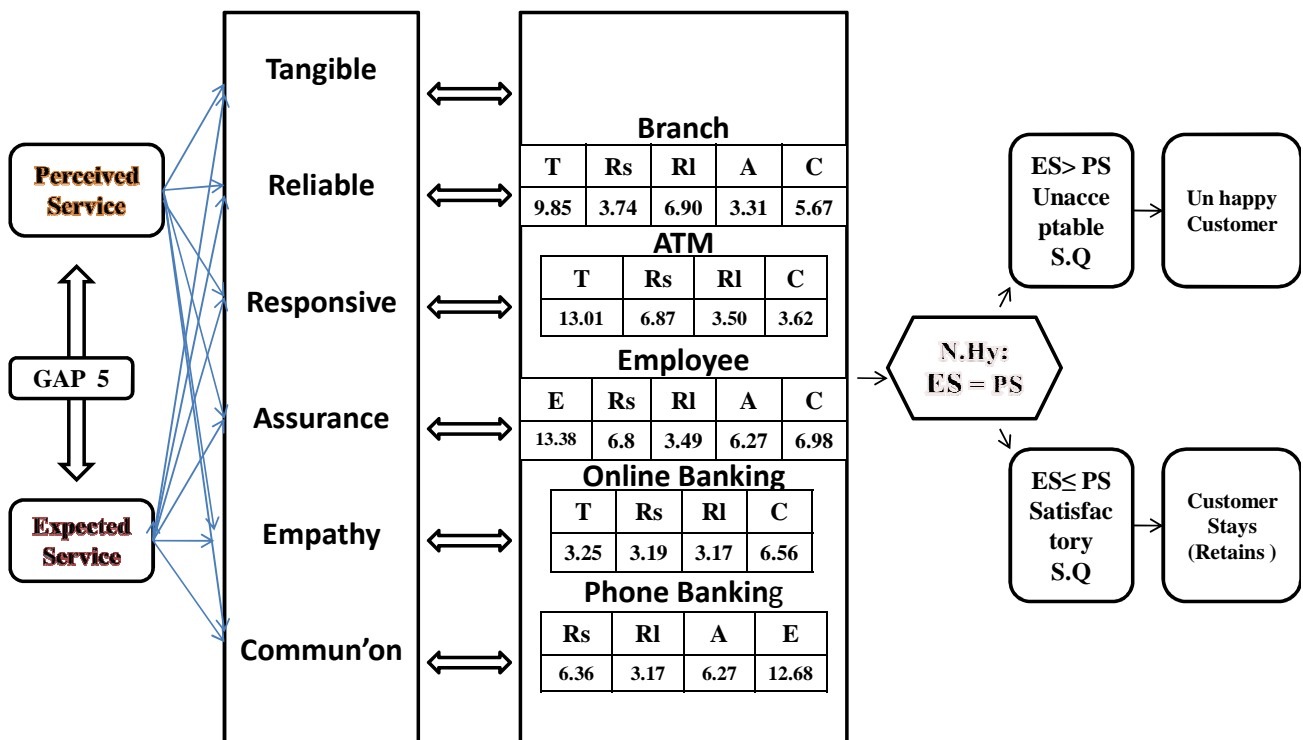
**Age Group:** In all factors the Null Hypothesis is accepted which shows that there is no significant difference between the age groups.

**Education Group:** In all factors, except in assurance, the Null Hypothesis is accepted which shows that there is no significant difference between the education groups.

**Income Group:** In all factors, except in tangibility, the Null Hypothesis is accepted which shows that there is no significant difference between the income groups.

**CONCLUSION**

## Results of testing the Framework



The study confirms that there is significant gap between the customers expected service and perceived service level in retail banking across all service quality dimensions, which leads to dissatisfaction and non-committal approach towards the service provider.

A customer is not just money in the cash register. He is a human being with feelings and deserves to be treated with respect.

Any business without a focus on customer satisfaction is at the mercy of the market. Without loyal customers eventually a competitor will satisfy those desires and your customer retention rate will decrease.

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