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Chapter 3

Over view of Regional Rural Banks and Theoretical Framework

Contents

3.1 Introduction

The description of the main variables and the concepts used in the study are explained in the present chapter. In order to get explicit knowledge, a theoretical base is necessary. It includes the history of Regional Rural Banks, Kerala Gramin Bank, fundamental theoretical aspects of customer service quality, consumer behaviour, customer satisfaction, and customer loyalty.

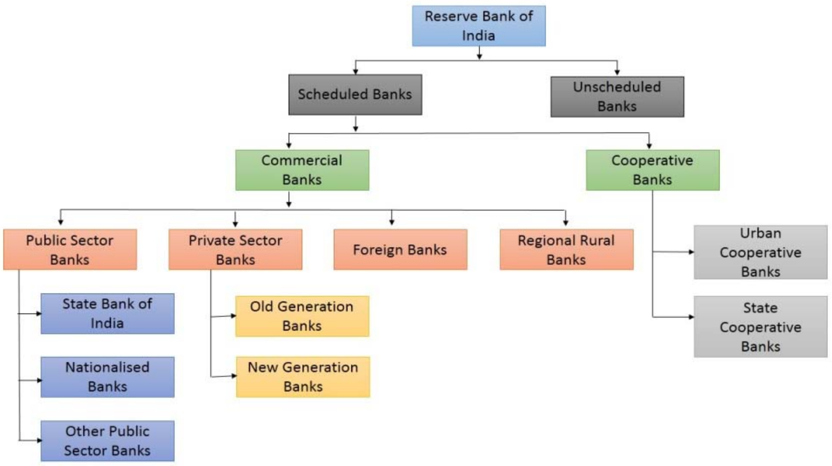
3.2 Indian banking system

Banks have become an integral part of economic life in every field. The growth and development of any economy largely dependents upon the performance of that country's financial institutions. A sound banking system mobilises the savings from the public and makes them available for various investment purposes. In this context, banks assumed to be the engines for economic growth and progress of the country. Modern trade and trade related activities purely based on these banking services. Now, the banking service has reached every corner of the country. In this regard, banks act as a conduit towards promoting nation's economic development. Banking has also played an inevitable role in the modern life of people. Human life is entirely associated with banks and banking-related activities. The banking system structure in India can broadly be categorised as an organised sector and an unorganised sector. The organised sector comprises commercial banks, cooperative banks, development banks and regional rural banks. The unorganised sector includes money lenders and indigenous bankers.

3.2.1 Structure of Indian banking system

The Indian banking system is regulated by the central bank viz., Reserve bank of India. Under the control of RBI, it classified as scheduled and non-scheduled banks. Scheduled bank consist of commercial and cooperative banks. Scheduled commercial banks consist of public, private, foreign and regional rural banks. Public sector banks consist of SBI and its associates, nationalised banks and other public sector banks. Private sector banks consist of old generation and new generation banks. Schedule cooperative banks consist of urban and state cooperative banks. Non-scheduled banks include local area banks. The figure 3.1 exhibits the structure of Indian banking system.

Figure 3.1: The structure of the Indian banking system



Source: (Charumathi, 2013)

3.3 Regional Rural Banks (RRBs)

The banking service sector is one of the major segments in the Indian economy and is proliferating. The financial sector reforms and policies implemented by the Government of India and Reserve Bank of India since 1991 has resulted in a high rate of growth and tremendous change in the banking sector with a massive expansion of the foreign and new generation banks. Even though the share of agriculture has declined consistently over the years, every fourth farmer is indeed an Indian. Agriculture plays a dominant role in the Indian economy. As high as 70 percent of the population in India live in villages. To meet the credit requirements of the people living in a rural area, State-sponsored, State-participated and State-patronised cooperatives formed. Though impressive in itself, the performance of the Cooperatives was inadequate to meet the credit requirements of the rural poor. The Cooperatives could not play any significant role in mitigating the miseries of the villagers caused by the Moneylenders.

The All India Rural Credit Committee (1945) felt the need for the commercial banks to purvey credit for agriculture in specialised areas and recommended converting the Imperial Bank of India into State Bank of India. The study group (1968) under the Chairmanship of Prof. D.K. Gadgil emphasised the need to involve the commercial banking system in providing rural credit. However, the nationalisation of commercial banks resulted in limiting their role as a provider of rural credit. The Government of India took cognisance of this fact and appointed a working group under the chair of Shri Narasimhan in July 1975 for setting up a new institution. Accepting the recommendations of the Narasimhan committee, the government passed the Regional Rural Banks Act in 1976 (RRB Act, 1976). The main objective of Regional Rural Banks (RRBs) is to provide credit and other facilities for the development of agriculture, trade and commerce, industry and other productive activities in the rural areas.

Regional Rural Banks(RRBs) are established to develop the rural economy and create a supplementary channel to the cooperative credit structure to enlarge institutional credit for the rural and agriculture sector. The area of operations of the RRBs is limited to few notified districts in a state. The RRBs mobilised deposits primarily from rural/ semi-urban areas and provide loans and advances primarily to small and marginal farmers, agricultural labourers, rural artisans, and other priority sectors. The government of India initiated a process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a state to provide better consumer service by having better infrastructure, computerisation, experienced workforce, common publicity and marketing efforts etc. the amalgamated RRBs also benefit from a larger area of operation, enhanced credit exposure limits for high value and diverse banking activities.

RRBs were also permitted to decide the need to convert the existing loss-making branches into satellite/ mobile offices keeping in view the cost-benefit aspect. This likely inconvenience may caused to the existing clientele, the effect of the conversion on preparing the district credit plan and priority sector lending. To provide better consumer service in rural areas, RRBs may also convert their satellite offices into full-fledged branches after obtaining concurrence from their board and necessary license from the concerned regional office of RBI.

The RRBs have registered impressive growth since its inception in 1975. They have played a pivotal role in rural institutional financing in terms of geographical coverage and development of the rural economy by holding a joint share with the Central Government, State Government and Sponsoring bank in the proportion of 50:15:35. Because of restructuring in the industry (like mergers, takeovers etc.), the number of RRBs has come down from 64 as of 31 March 2012-13 to 45 as of 31 March 2020.

3.3.1 Performance of Regional Rural Banks

The number of RRBs reduced from 86 in 2008-2009 to 45 in 2019-2020 through amalgamations of RRBs belongs to the same state and sponsored by the same bank. The number of branches also increased over twelve years along with the increase in the total business of the RRBs, which is clear from the indicators of business of a banking institution. At the same time, the total amount of profit made by the RRBs increased, but the number of profit-making RRBs in the nation decreased. The level of Non-Performing Assets of the RRBs also increased from 4.14% of the total loans outstanding in the financial year 2008-2009 to 10.40% in the financial year 2019-2020. The statistics showed the importance of RRBs in the banking sector through lending and financial assistance to the priority sectors such as MSMEs, agriculture, SHGs, housing, and education in the nation's rural areas. The key indicators of the performance of RRBs for the last twelve years shown in table 3.1.

Table 3.1: Indicators of Performance of Regional Rural Banks in India

(Rs. in Crore)

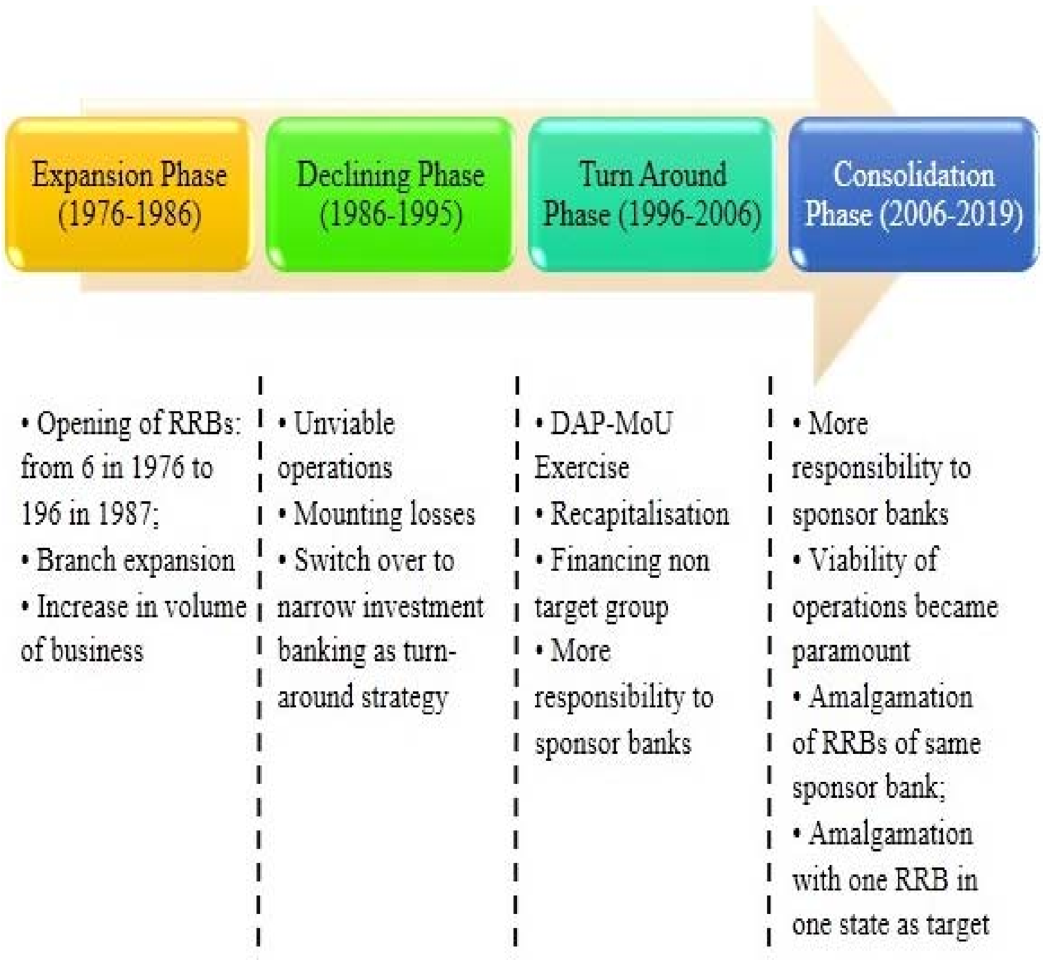
Particulars	Year											
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Number of RRBs	86	82	82	82	64	57	56	56	56	56	53	45
Number of branches	15181	15480	16001	16909	17861	19082	20024	200904	21422	21747	21871	21850
Share Capital	197	197	197	197	197	197	197	5196	6401	6436	6735	7849
Reserves	6754	8062	9566	11263	13247	15805	18712	21032	23080	25185	25395	26817
Deposits	120190	145035	166232	186336	211488	239494	273018	315048	371910	400459	434444	478547
Borrowings	12735	18770	26491	30289	38073	50230	59422	48110	51588	57647	53548	54393
Investments	65910	79379	86540	95975	108548	139631	162781	210936	210984	222266	226172	249155
Loans and advances (outstanding)	67802	82819	98917	116385	137083	159406	180955	207279	226175	253978	280755	298256
RRB earning profit (No.)	80	79	75	79	63	57	51	51	49	45	39	26
Amount of profit	1824	2515	2421	1886	2275	2694	2921	2556	2604	2506	1759	2203
RRB incurring losses (No.)	6	3	7	3	1	0	5	5	7	11	14	19
RRB with accumulated losses (No.)	31	27	23	22	11	8	8	8	8	11	11	17
Recovery (%)	77.9	80.1	81.2	81.6	81.2	81.9	79.5	82.5	NA	77.7	76.9	NA
NPAs to loans outstanding (%)	4.14	3.72	3.75	5.03	6.10	6.09	6.15	6.45	8.00	9.50	10.80	10.40

Source: Consolidated from Annual Report of NABARD 2008-2009 to 2019-2020

3.3.2 Metamorphosis of RRBs (1976-2020)

Regional Rural Banks, established under the Regional rural banks Act, 1976, have come a long way from being regional banks with a limited area of operation and finance only target group beneficiaries to viable banks with operations extending to the entire state in some cases.

Figure 3.2: Stages of the metamorphosis of RRBs



Source: Annual Report, NABARD, 2019

The phase-I amalgamation of RRBs initiated in 2005–06. By 2010, the number of RRBs in the country reduced to 82. Amalgamation in Phase II commenced in 2011–12, and the number of RRBs further brought down to 56 in the year 2014–15. The Government of India initiated amalgamation in Phase III in 2018–19 on the principle of '*One State–One RRB*' in smaller states and a reduction in the number of RRBs in larger states eventual count of 40 RRBs across India. As of 31 March 2019, the number of operating RRBs stood at 53. In the process of amalgamation, it would further reduce to 45 during 2019–20.

3.3.3 Kerala Gramin Bank

The two Regional Rural Banks viz. South Malabar Gramin Bank, sponsored by Canara Bank and North Malabar Gramin Bank, sponsored by erstwhile Syndicate Bank, were functioning in the state since 1976. These RRBs, with deep-rooted presence in all the districts of Kerala State, were amalgamated into a statewide RRB, namely Kerala Gramin Bank, as per the order of the Government of India in 2013, with Malappuram as its head office and Canara bank as the sponsor bank.

The South Malabar Gramin Bank and North Malabar Gramin Bank amalgamated in the second phase of the amalgamation of RRBs in India. The number of branches of KGB increased from 615 in 2016-2017 to 634 in 2019-2020. Non Performing Assets of KGB increasing for the last four years. The bank's Net Profit also shown a decreasing tendency and the last financial year it was suffered by loss even though the business of the bank was at the highest point in its life. Business per employee and business per branch also shown an increasing tendency. The key indicators of the performance of the bank shown in Table 3.2.

Table 3.2: The performance indicators of Kerala Gramin Bank

Particulars	Year			
	2016-2017	2017-2018	2018-2019	2019-2020
Number of Branches	615	630	633	634
No. of staff	3388	3396	3640	3519
Reserve	71846.44	78449.26	78595.39	26817
Per branch productivity	4684.65	5021.1	5492	5863.31
Per employee productivity	850.37	931.48	955.06	1056.36
CRAR (%)	10.06	10.06	9.68	7.18
CD Ratio	91.11	106.23	105.95	93.07
NPA (Rs.)	24203	38265	34365	41254.96
NPA (%)	2.06	2.67	2.24	2.51
Net Profit	10293.62	5378.06	179	-5101.06

Source: Consolidated from Annual Report of KGB 2016-2017 to 2019-2020

3.4 Customer service quality

Quality is an essential prerequisite in every field. There is a significant role of quality concerning industrial growth, so there is a need to comprehend the quality. Quality is a general word having various explanations, and different management Gurus have classified quality in different ways.

The service quality is a measure of the degree to which the service delivered matches customer expectations. If the business entity continues to provide service quality, customers will remain loyal to a service organisation. They want the value of what they receive is determined to be relatively more remarkable than that expected from competitors. Moreover, in a competitive environment, there is a need to understand a customer's lifetime value by developing a long-term customer relationship for the growth of an organisation.

(Deming, 1986) explained quality as an expected level of consistency and dependability adhering to set standards and suitable customer requirements. (Crosby, 1979) said that quality was all about compliance with the requirements. Quality was the amount of level to which a set of inbuilt features perform up to the requirements. In general, quality was the compatibility of goods or services with customer needs and expectations (Mahmudi & Abdoli, 2016). It can also say that consistency, lack of defects and errors, reliability, compliance with requirement and standards in the results were quality outcomes.

The service quality was complex and indefinable term due to the different nature of services. The authors viewed the difference in terms of three exclusive attributes of services: intangibility, heterogeneity, and inseparability of service at the point of production and consumption. About services, service quality equals the difference of perception and expectation. Service quality had different perspectives from the outlook of the service providers and customers. Service quality from the point of view of the service provider the level to which the service attributes meet the specifications and standards of services. It means that the services delivered were quality service if they match up to the customer's expectations. However, the customer expectations might vary from person to person; therefore, service quality further stated as a complete review of service firm by comparing the firm's performance with customer's expectations regarding the firm's performance (Parasuraman, Zeithaml, & Berry, 1988).

In the period of 1980s and near to the beginning of the 1990s, the concept of quality improvement in services and products was a point of paramount concern. This approach necessitated producing service processes with superior results to get better customer satisfaction from a service perspective. In the 1970s, productivity had been an important managerial imperative, i.e.

to toil more rapidly and more capably to decrease costs. In today's scenario, there had been a significant emphasis on linking two strategies, i.e. quality and productivity, to generate enhanced worth for customers and firms. The phrase quality signifies a different perspective to a different person. (Garvin, 1984) recognised five viewpoints on quality.

1. The transcendent view was identical with inherent superiority, a sign of non-compromising criterion an immense accomplishment. It insisted that people discover quality only because of the familiarity achieved through reiterated experience.
2. The product-based approach: It viewed quality as a natural and assessable phenomenon. It insisted that dissimilarities in quality were signs of the differences in the value of an element or features available in a product.
3. User-based definition: It said that quality exists in the views of the viewer.
4. The manufacturing-based approach was a supply-based concept and was related mainly to engineering and manufacturing activities.
5. Value-based definition: It defined quality concerning its worth and price.

3.4.1 Dimensions of service quality

Quality service is becoming an increasingly important differentiator between competing businesses in the retail sector. The five essential dimensions of service quality are mention below:

Reliability: it refers to the consistency of a measure. It is a vital component of a trust worth psychological test to measure service quality. Reliability is the ability of a person or system to maintain quality in routine circumstances, as well as hostile or unexpected circumstances.

Responsiveness: It refers to the specific ability of a functional unit to complete assigned tasks within a given time. It is the quality of being responsive to external stimuli, reacting quickly for quality service. Responsiveness involves responding with emotions to people (customers) and events.

Assurance: it refers to assurance for quality service provided to customers. Quality assurance is a wide-ranging concept covering all matters that collectively influence a product or service quality.

Empathy: Empathy and trust are essential to develop solutions, win and retain business, and avoiding or diffusing conflict. It is essential for handling complaints that improve service quality and maintain customers for a more extended period.

Tangibles: It refers to visually appealing materials associated with the service. In other words, it is the appearance of the physical surroundings and facilities, equipment and way of communication. It is about creating first-hand impressions which would make them more likely to return in the future.

Generic dimensions used by customers to evaluate service quality

Dimensions	**Characteristics**
Tangibles	The appearance of physical facilities, equipment, personnel and communication materials
Reliability	Ability to perform the promised service dependently and accurately
Responsiveness	Willingness to help customers and provide prompt service
Assurance	
• Credibility	Trustworthiness, believability, honesty of the service provider
• Security	Freedom from danger, risk or doubt

• Competence	Possessions of the skills and knowledge required to perform the service
• Courtesy	Politeness, respect, consideration and friendliness of contact personnel
Empathy	
• Access	Approachability ease of contact
• Communication	Listening to customers and keeping them informed in a language they can understand
• Understanding the customer	making an effort to know customers and their needs

Source: (Zeithaml, Parasuraman, & Berry, 1990)

3.4.2 Different perspectives of service quality

The word quality means different things to people according to the context. Common perspectives on quality includes:

1. The transcendent view of quality is synonymous with innate excellence: a mark of uncompromising standards and high achievements. This viewpoint often is applied to the performing and visual arts. It argues that people learn to recognise quality only through the experience gained from repeated exposure.
2. The manufacturing-based approach is supply based and concerned primarily with engineering and manufacturing practices (in services, quality is operations-driven). It focuses on conformance to internally developed specifications that often are driven by productivity and cost containment goals.
3. User-based definitions start with the premise that quality lies in the eyes of the beholder. These definitions equate quality with maximum satisfaction. This subjective, demand-oriented perspective recognises that different customers have different wants and needs.

4. Value-based definitions defined quality in terms of value and price. By considering the trade-off between performance (or conformance) and price, quality defined as "affordable excellence."

These different views of quality sometimes lead to disagreement between managers in different functional departments. Furthermore, researchers argue that the nature service requires a distinctive approach to defining and measuring service quality. The intangible, multifaceted nature of many services makes it harder to evaluate the quality of service compared to a good. Because customers often are involved in service production, a distinction needs to draw between the process of service delivery (Gronroos, 2007) and the actual output (or outcome) of the service. The perceived quality of service results in an evaluation process in which customers compare their perceptions of service delivery and its outcome to what they expect. Therefore, we define service quality from the user's perspective as consistently meeting or exceeding customer expectations.

3.4.3 Customer service quality in the banking sector

The financial services are susceptible to the customers. Since the financial aspects of the people always accounted for and calculated each moment by them. As far as the banking products and services are concerned, its delivery makes sense to the customers, and service people's role also considered. Since the banking sectors are the financial pillar of global in general and India, their performance should cost the result in a high margin. The quality of the service will never be compromised. In the Indian context, both public and private sector commercial banks are playing vital roles in the daily monetary transaction of society. The service delivered by banks has a high impact on customer satisfaction and the patronage they will show there off. The study envisaged the mediating effect of customer satisfaction and customer loyalty in banking service quality around a significant positive correlation between these three variables (Mohsin, Sana, Aasia, Ahmed, & Mushtaq, 2012).

Though the e-banking concept is a well-known and publicised phenomenon under the sky, the bank should not ignore the rural and semi-urban people who are far away from this internet user and the techno-friendly life. Meanwhile, traditional banking services have their significance in any country, especially in the large populated Indian scenario. As the banks are the inevitable part of today's ordinary person, as they rely on the industry to avail subsidies and scholarships, the integrity towards people must be taken seriously by the banks. That kind of integrity could promised through the quality of services by assuring high customer satisfaction and retaining patronage in their minds. The study endorsed that loyal and satisfied customers are the tremendous asset of each organisation, especially service firms. The switching factors are insignificant, and their retention also needs less attention. A minimum service will make them happier than before (Reichheld & Sasser, 1990). It found that offering the quality of services has a positive impact on overall customer satisfaction. The earlier research proves that empathy and responsiveness are the critical dimensions of service quality to transform customer satisfaction followed by tangibility, assurance, and reliability. The study also revealed that high-quality services increaseustomer satisfaction, leading to customer loyalty (Mesay, 2012).

3.4.4 Models of service quality measurement

Organisations analyse customer satisfaction with various customer satisfaction models. Different models clarify different theories of customer satisfaction.

1. SERVQUAL

The SERVQUAL instrument had been widely applied in a variety of service industries, including tourism and hospitality. The instrument used to measure hotel employee quality as well. (Parasuraman, Zeithaml, & Berry, 1988) built a 22-item instrument called SERVQUAL for measuring consumer perceptions of service quality. SERVQUAL addresses many elements of service quality divided into the dimensions of tangibles, reliability, responsiveness, assurance, and empathy.

The most widely accepted conceptualisation of the customer satisfaction concept is the expectancy disconfirmation theory. The theory developed by Oliver in1980, who proposed that satisfaction level is a result of the difference between expected and perceived performance. Satisfaction (positive disconfirmation) occurs when a product or service is better than expected. On the other hand, a performance worse than expected results in dissatisfaction (negative disconfirmation).

According to the SERVQUAL model, service quality can be measurable by identifying the gaps between customers' expectations of the service to be rendered and their perceptions of the actual performance of service. SERVQUAL based on five dimensions of service:

1. *Tangibility*: Tangibility refers to the physical characteristics associated with the service encounter. The physical surroundings represented by objects (for example, interior design) and subjects (for example, employees' appearance).
2. *Reliability*: The service provider can provide accurate and dependable services; consistently performing the service right.
3. *Responsiveness*: A firm's willingness to assist its customers by providing fast and efficient service performances; the willingness that

employees exhibit to promptly and efficiently solve customer requests and problems.

4. *Assurance*: Diverse features provide confidence to customers (such as the firm's specific service knowledge, polite and trustworthy behaviour from employees).
5. *Empathy*: The service firm's readiness to provide each customer with personal service.

Criticism – SERVQUAL

Though SERVQUAL has been generally robust to measure service quality, the instrument had criticised conceptual and methodological grounds (Ramsaran-Fowdar, 2007). The main criticism of SERVQUAL has focused on expectation as a comparison standard (Teas, 1994). It had argued that expectation is dynamic in nature and can change according to customers' experiences and consumption situations (Nadiri & Hussain, 2005). One of the main problems mentioned in the literature is the applicability of the five SERVQUAL dimensions to different service settings, and replication studies done by other investigators failed to support the five-dimensional factor structure as was obtained by Parasuraman et al. in their development of SERVQUAL.

2. Kano Model

The Kano model is a theory developed in the '80s by Professor Noriaki Kano and his colleagues at Tokyo Rika University. The Kano et al. (1996) model of customer satisfaction classifies attributes based on how customers perceive customers and their effect on customer satisfaction. The model based on three types of attributes viz. (1) basic or expected attributes, (2) performance or spoken attributes, and (3) surprise and delight attributes.

The performance or spoken attributes are the expressed expectations of the customer. The essential or expected attributes are, as the meaning implies, the essential attributes without any significant signs worth mentioning. The third one, the surprise and delight attributes, is beyond the customers' expectations.

The Kano model measures satisfaction against customer perceptions of attribute performance; grades the customer requirements and determines satisfaction levels. The underlying assumption behind Kano's method is that customer satisfaction is not always proportional to how fully functional the product or service is; or in other words, higher quality does not necessarily lead to higher satisfaction for all product attributes or services requirements. In his model, Kano distinguishes between three basic requirements, which influence customer satisfaction. They are: (1) Must be requirements – If these requirements not fulfilled, the customer will be highly dissatisfied. However, on the other hand, as the customer takes these requirements for granted, their fulfilment will not increase his satisfaction. (2) One-dimensional Requirement – One-dimensional requirements are usually explicitly demanded by the customer – the higher the level of fulfilment, the higher the customer's satisfaction and vice versa. (3) Attractive Requirement – These requirements are the product/service criteria that have the most significant influence on how satisfied a customer will be with a given product. The additional attributes, which Kano mentions, are Indifferent attributes, Questionable attributes, and Reverse attributes.

3. ACSI Methodology

The American Customer Satisfaction Index (ACSI) launched in 1994. The American Customer Satisfaction Index uses customer interviews as input to a multi-equation econometric model developed at the University of

Michigan's Ross School of Business. The ACSI model is a cause-and-effect model with indices for drivers of satisfaction on the left side (customer expectations, perceived quality, and perceived value), satisfaction (ACSI) in the centre, and outcomes of satisfaction on the right side (customer complaints and customer loyalty, including customer retention and price tolerance).

The ACSI based on a model initially implemented in 1989 in Sweden called the Swedish Customer Satisfaction Barometer (SCSB). The ACSI uses two interrelated and complementary methods to measure and analyse customer satisfaction: customer interviewing and econometric modelling.

The ACSI initiative has at least three primary objectives:

1. *Measurement*: to quantify the quality of economic output based on subjective consumer input.
2. *Contribution*: to provide a conceptual framework for understanding how service and product quality relate to economic indicators.
3. *Forecasting*: to provide an indicator of future economic variability by measuring the intangible value of the buyer-seller relationship.

The ACSI survey process involves collecting data at the individual customer level. The casual sequence begins with customer expectations and perceived quality measures, which are presumed to affect, in order, perceived value and customer satisfaction. As measured by the ACSI index, customer satisfaction has two antecedents: customer complaints, and ultimately, customer loyalty.

The ACSI is an economic indicator that measures the satisfaction of customers across the U.S. Economy. The ACSI interviews about 80,000 Americans annually and asks about their satisfaction with the goods and services they have consumed. ACSI data used by academic researchers, corporations and government agencies, market analysts and investors, industry trade association, and consumers (Luo & Bhattacharya, 2006).

4. **HOTELZOT** (A modified version of SERVQUAL)

The conceptual model HOTELZOT measures the zone of tolerance in hotel service by incorporating two levels of expectations – desired and adequate. Desired expectations represent the level of hotel service that a customer hopes to receive – a blend of what a customer believes can be and should offered. This differs from Parasuraman et al. (1988) conceptualisation, which referred only to what the service should be. Adequate expectations represent a lower level of expectations. They relate to what a hotel customer deems as an acceptable level of performance. Desired expectations deemed to remain relatively stable over time, whereas adequate performance expectations might vary with time. The zone of tolerance defined as the extent to which customers recognise and are willing to accept heterogeneity (Zeithaml, Berry, & Parasuraman, 1993).

5. **SERVPERF**

The performance-based service quality (SERVPERF) identified by Cronin and Taylor in 1992. Cronin and Taylor proposed the SERVPERF instrument, a more concise performance-based scale, an alternative to the SERVQUAL model. The perceived quality model postulates that an individual's perception of the quality is only a function of its performance. (Cronin & Taylor, 1994) continue to debate the effectiveness of SERVQUAL and SERVPERF for assessing service quality. The authors remained unconvinced that including customer expectations in service quality measures is a position to be supported and that the SERVPERF scale provides a valuable tool for measuring overall service quality.

Moreover, (Lee, Lee, & Yoo, 2000) empirically compare SERVQUAL (performance minus expectations) with the performance-only model (SERVPERF). The authors also conclude that the results from the latter appeared to be superior to the former. However, it had acknowledged that such an approach limits the explanatory power of service-quality measurement (Parasuraman, Zeithaml, & Berry, 1994).

3.5 Customer satisfaction

Customer satisfaction is the individual's perception of the product's performance or service concerning his or her expectations. The concept of customer satisfaction is a function of customer expectations. A customer whose experience falls below expectations would be dissatisfied. Customers whose experiences match expectations will be satisfied. Furthermore, customers whose expectations exceeded would be very satisfied or delighted. Customer satisfaction is the foundation of business success. In this competitive world, service performance procedure is the most critical factor to obtain a competitive advantage. Understanding the customers' need is a pivotal contributor to the success of any organisation that provides services. Customers and consumers are always looking for suppliers who provide goods or services better than others. For measuring customer satisfaction, it is better to assess the needs and desires of the customers.

Philip Kotler defines customer satisfaction as a person's feeling of pleasure or disappointment, which resulted from comparing a product's perceived performance or outcome against his/her expectations.

3.5.1 Factors affecting customer satisfaction

The customer satisfaction strategy has to follow a phased approach starting from what a customer wants. At present intelligent business, entities stay in constant touch with customers instead of assuming what customer wants they spend time with them to know their minds. The following are the factors that affect customer satisfaction.

- **Core product**: the core product itself provide much satisfaction to the customer. If the customer is satisfied with the core quality of the product, he doesn't bother much about the brand image.
- **Value addition**: the value addition refers to the addition in the quality of the product. If a customer uses a particular product for a particular purpose, but now due to the value addition, if that product satisfies other customer demand, this increases the satisfaction level of customers.
- **Price**: The customer satisfaction somewhere and somehow linked with the price. The effect of fashion, consumer behaviour and the life cycle of the product affect the purchase decision etc., all counted in the satisfaction level of a particular product. For example, suppose the product of high unit price. In that case, the customer demanded quality more than a low unit price; even if the product is not as per expected quality or fails to satisfy the customer, he doesn't feel much disturbed.
- **Contextual factors**: The contextual factors refers to in what context the customers using the product. Different customers use the same product group for a different purpose. Moreover, accordingly, it differs and affects the satisfaction level of customer.
- **Personal factors**: Personal factors refers to the perception, attitudes, beliefs and psychology of the customer. Different customers have different attitudes, thus having different satisfaction level for the product group.

3.5.2 Measurement of satisfaction

The heart of the satisfaction process compares what expected with the product or service's performance – this process has traditionally described as the confirmation/disconfirmation process (Vavra T. G., 1997). First, customers would form expectations before purchasing a product or service. Second, consumption of or experience with the product or service produces a perceived quality influenced by expectations (Oliver R. , 1980). If perceived performance is only slightly less than expected performance, assimilation will occur, perceived performance will be adjusted upward to equal expectations. Conversely, perceived performance lags expectations substantially, the contrast will occur, and the shortfall in the perceived performance would exaggerate (Vavra T. G., 1997).

Performance exceeds expectations, satisfaction increases, but at a decreasing rate. As perceived performance falls short of expectations, the disconfirmation is more. Satisfaction can be determined by subjective (e.g. customer needs, emotions) and objective factors (e.g. product and service features).

3.5.3 Various theories of customer satisfaction

Several theoretical approaches had utilised to explain the relationship between disconfirmation and satisfaction (Oliver R. , 1980). Still again, some theories are surrounding the satisfaction and service paradigm. Many theories had used to understand the process through which customers form satisfaction judgments. Four psychological theories identified by Anderson could be used to explain the impact of expectancy or satisfaction: Assimilation, Contrast, Generalised Negativity, and Assimilation-Contrast (Anderson R. E., 1973). When the expectations and the actual product performance do not match, the consumer will feel tension. In order to relieve this tension, the consumer will make adjustments either in expectations or in the perceptions of the product's actual performance.

1. Assimilation theory

The Assimilation Theory based on Festinger's (1957) dissonance theory. Dissonance theory posits that consumers make some kind of cognitive comparison between expectations about the product and the perceived product performance (Peyton, Pitts, & Kamery, 2003). This view of the consumer post-usage evaluation introduced into the satisfaction literature in the form of assimilation theory. According to (Anderson, 1973), consumers seek to avoid dissonance by adjusting perceptions about a given product to bring it more in line with expectations. Consumers can also reduce the tension resulting from a discrepancy between expectations and product performance either by distorting expectations so that they coincide with perceived product performance or by raising the level of satisfaction by minimising the relative importance of the disconfirmation experienced (Olson & Dover, 1979).

The Assimilation Theory has many shortcomings. First, the approach assumes a relationship between expectation and satisfaction but does not specify how disconfirmation of an expectation leads to either satisfaction or dissatisfaction. Second, the theory also assumes that consumers are motivated enough to adjust either their expectations or their perceptions about the product's performance. Several researchers have found that controlling for actual product performance can lead to a positive relationship between expectation and satisfaction. Therefore, it would appear that dissatisfaction could never occur unless the evaluative processes were, to begin with, negative consumer expectations.

2. Contrast Theory

The Contrast Theory was first introduced by Hovland, Harvey, & Sherif, in 1957. Contrast theory defined as the tendency to magnify the discrepancy between one's attitudes and the attitudes represented by opinion statements (Dawes, Singer, & Lemons, 1972). Contrast theory presents an alternative view of the consumer post-usage evaluation process than was presented in assimilation theory. Post-usage evaluations lead to results in opposite predictions for the effects of expectations on satisfaction. (Cardozo, 1965) While assimilation theory posits that consumers will seek to minimise the discrepancy between expectation and performance, contrast theory holds that a surprise effect occurs, leading to the discrepancy being magnified or exaggerated.

According to the contrast theory, any discrepancy of experience from expectations would exaggerate in the direction of discrepancy. For example, if the firm raises expectations in its advertising, then a customer's experience is only slightly less than that promised. Therefore, the product/service would reject as totally unsatisfactory. Conversely, under-promising in advertising and over-delivering will cause positive disconfirmation also too exaggerated (Vavra T. G., 1997).

The contrast theory of customer satisfaction predicts customer reaction instead of reducing dissonance; the consumer will magnify the difference between expectation and the performance of the product/service.

3. Assimilation-Contrast Theory

The Assimilation-contrast Theory suggests that if performance is within a customer's latitude (range) of acceptance, even though it may fall short of expectation, the discrepancy will disregard – assimilation will operate. Hence, the performance deemed as acceptable. However, if performance falls within the latitude of rejection, the contrast will prevail, and the difference will be exaggerated, the produce/service deemed unacceptable.

The assimilation-contrast theory has been proposed as yet another way to explain the relationships among the variables in the disconfirmation model. This theory is a combination of both the assimilation and contrast theories. This paradigm posits that satisfaction is a function of the magnitude of the discrepancy between expected and perceived performance. As with assimilation theory, the consumers will tend to assimilate or adjust differences in perceptions about product performance to bring it in line with prior expectations, but only if the discrepancy is relatively small. Assimilation-contrast theory attempts to illustrate that both the assimilation and the contrast theory paradigm have applicability in the study of customer satisfaction.

4. Negativity Theory

The Negativity Theory developed by Carlsmith & Anderson, in 1963 suggests that any discrepancy of performance from expectations will disrupt the individual, producing 'negative energy. The negative theory has its foundations in the disconfirmation process. The negative theory states that when expectations strongly held, consumers will respond negatively to any disconfirmation. Accordingly, dissatisfaction will occur if perceived performance is less than expectations or if perceived performance exceeds expectations. Affective feelings toward a product or service will be inversely related to the magnitude of the discrepancy.

5. Disconfirmation Theory

The Disconfirmation Theory argues that satisfaction is related to the size and direction of the disconfirmation experience that occurs due to comparing service performance against expectations. Therefore, t disconfirmation paradigm is the best predictor of customer satisfaction (Petrick, 2004). Updated definition on the disconfirmation theory, which states "satisfaction is the guest's fulfilment response. It is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfilment, including levels of under-or over-fulfilment."

(Mattila & O'Neill, 2003) discuss that amongst the most popular satisfaction theories is the disconfirmation theory, which argues that satisfaction is related to the size and direction of the disconfirmation experience that occurs as a result of comparing service performance against expectations. Satisfaction is the result of direct experiences with products or services, and it occurs by comparing perceptions against a standard (e.g. expectations). How the service was delivered is more important than the outcome of the service process, and dissatisfaction towards the service often occurs when guest's perceptions do not meet their expectations.

6. Cognitive Dissonance Theory

The Cognitive Dissonance is an uncomfortable feeling caused by holding two contradictory ideas simultaneously. The theory of cognitive dissonance proposes that people have a motivational drive to reduce dissonance by changing their attitudes, beliefs, and behaviours or by justifying or rationalising them (Festinger, 1957).

The phenomenon of cognitive dissonance, initially stated by Festinger, has been quickly adopted by consumer behaviour research. Described as a psychologically uncomfortable state that arises from the existence of contradictory (dissonant, non-fitting) relations among cognitive elements, cognitive dissonance revealed high exploratory power in explaining the state of discomfort buyers

Although cognitive dissonance is a well-established construct in consumer behaviour research, applications are relatively scarce in current marketing research projects. The reasons are: First, dissonance is often merely a transitory phenomenon. Second, problems of measurement and difficulties in administering data collection often get in the way of empirically addressing cognitive dissonance.

7. Adaptation-level Theory

The Adaptation-level Theory is another theory, which is consistent with expectation and disconfirmation effects on satisfaction. Helsen originated this theory in 1964 put his theory as "it posits that one perceives stimuli only concerning an adapted standard. The standard is a function of perceptions of the stimulus itself, the context, and psychological and physiological characteristics of the organism. Once created, the 'adaptation level' serves to sustain subsequent evaluations in that positive and negative deviations will remain in the general vicinity of one's original position. Thus, only large impacts on the adaptation level will change the final tone of the subject's evaluation".

This theory is gaining acceptance, as it can explain some counter-intuitive predictions made by assimilation-contrast theories.

8. Opponent-process Theory

The Opponent-process Theory was initially a theory of motivation reformulated by Solomon and Corbit, adapted from the basic physiological phenomena known as homeostasis. Homeostasis assumes that many hedonic, affective or emotional states, being away from neutrality and exceeding a threshold level of hedonic feelings, are automatically opposed by central nervous system mechanisms, which reduce the intensity of the feelings, both pleasant and aversive, to some constant level. The onset of the opponent process dependent on the effect of the primary process, in which a known stimulus initiates an emotional state. If the initial stimulus eliminated to reduce the primary process effect entirely or partially, the opponent process would continue to operate at a decaying rate determined by inertia factors.

The opponent-process is purely an internal drive, which causes satisfaction/dissatisfaction to decay to a new or original level. Therefore, the degree to which satisfaction achieved depends upon the magnitude of disconfirmation and the strength of the opponent process.

9. Equity Theory

The Equity Theory built upon the argument that a man's rewards in exchange with others should be proportional to his investments" (Oliver & Swan, 1989). Early recognition of this theory first came out of research by Stouffer and his colleagues in military administration. They referred to relative deprivation (equity) as the reaction to an imbalance or disparity between what an individual perceives to be the actuality and what he believes should be the case, especially where his situation is concerned. In other words, the equity concept suggests that the ratio of outcomes to inputs should be constant across participants in an exchange. As applied to customer satisfaction research, satisfaction thought to exist when the customer believes that his outcomes to input ratio equal to that of the exchange person.

In the handful of studies that have examined the effect of equity on customer satisfaction, equity appears to have a moderate effect on customer satisfaction and post-purchase communication behaviour.

10. Dissonance Theory

The Dissonance Theory would predict that a customer experiencing lower performance than expected if psychologically invested in the product or service, would mentally work to minimise the discrepancy. This may be done either by lowering expectations (after the fact) or, in the case of subjective disconfirmation, positively increasing the perception of performance.

11. Hypothesis Testing Theory

A two-step model for satisfaction generation was suggested by Deighton in 1983. First, Deighton hypothesises, pre-purchase information (primarily advertising) plays a substantial role in creating expectations about the products customers will acquire and use. Customers use their experience with product/service to test their expectations. Second, Deighton believes, customers will attempt to confirm (rather than disconfirm) their expectations. This theory suggests customers are biased to positively confirm their product/service experiences, which is an admittedly optimistic view of customers. However, it makes the management of evidence a vital marketing tool.

12. Cue Utilisation Theory

The Cue Utilisation Theory argues that products or services consist of several arrays of cues that serve as surrogate product or service quality indicators. There are both intrinsic and extrinsic cues to help guests determine quality, where the intrinsic cues provide information on the physical attributes of the product or service. In contrast, extrinsic cues are product related to providing information such as brand and price (Reimer & Kuehn, 2005).

13. Stimulus-organism-response Theory

The concept behind Stimulus-organism-response Theory is that one of the basic frameworks that help to understand how the physical environment impacts behaviours the stimulus-organism-response theory, which is a hospitality environment states that the physical environment acts as a stimulus, gests are organisms that respond to stimulus, and the behaviour directed towards the environment by guests is a direct response to the stimulus (Mattila, 1999).

14. Hypothesis Testing Theory

It is a two-step model for satisfaction generation. First, pre-purchase information (essentially advertising) plays a substantial role in creating expectations about the products customers will acquire and use. Customers use their experience with products/services to test their expectations. Second, customers will tend to attempt to confirm (rather than disconfirm) their expectations. The theory suggests customers are biased to positivity confirm their product/service experience.

3.5.4 Factors influencing customer satisfaction in banks

The satisfaction of customers is necessary for a successful organisation, and employee satisfaction is valuable to obtain the vision and task of the organisation. Employee satisfaction is one of the most critical factors in the service sector, so the organisation should be careful to increase employee satisfaction. In an industry such as banking, customers interact directly with the employees. When an employee feels satisfied with her/his job, s/he will try the best to attract more customers. There are many ways that an employee can attract customer, such as good relationship, email reply, good care and welcome for help. A receptive attitude is a crucial component for giving the customer a positive image of the bank and the service provided.

The behaviour of employees which leads towards customer staying or leaving is important. According to the research, satisfied employees can satisfy the customer. Long-term priorities for business development and Social Welfare programs influenced both the employee and the customer.

Organisations may reach high levels of the quality of product or customers service if the employees feel satisfied.

Other factors, which influence customer satisfaction in commercial banking, are branch location and its convenience, physical environment, structure, design, and general atmosphere have the same effect on customer satisfaction

Customer behaviour is also affected by personalities such as age, life cycle, occupation, economic status, and lifestyle. Those factors such as evidence of services, encounters, image, and price constitute customers. Satisfaction or dissatisfaction did not arise from similar factors. The level of customer satisfaction will change if some factor of service quality gets imported. Contrary, if the quality of these factor decreases, it will cause customer dissatisfaction.

Consequently, a manager can learn that these factors are significant to stay competitive in today's banking world. Banks should consider all these factors while making policies regarding customer satisfaction.

3.6 Customer service quality and customer satisfaction

Customer service quality and customer satisfaction are fundamental aspects in case entities in the service sector. In the highly competitive market, rivalry business concerns compete to provide maximum quality through their services to delight their customers, without waiting for complaints from the customers. Similarly, firms cannot wait to evaluate the progress in customer satisfaction based on the number of complaints acknowledged. Satisfying customer is not a much difficult task as measuring service quality. Satisfaction and service quality go hand in hand. Many studies have been made in customer satisfaction and customer service quality to establish the relationship between these variables. Satisfaction is generally viewed as a broader concept, whereas service quality assessment focuses especially on dimensions of service. Service quality is a focused evaluation that reflects the customers' perception of specific dimensions of service quality – reliability, responsiveness, empathy, tangibles and assurance. Satisfaction, on the other hand, is more inclusive. It influenced by perceptions of service quality, product quality and price, and situational and personal factors.

Various studies have examined whether customer satisfaction leads to service quality and vice-versa, i.e. the relationship between customer satisfaction and service quality. But this aspect is yet unresolved. Comparing two inter-related constructs, (Parasuraman, Zeithaml, & Berry, 1988) conceptualised perceived service quality as long run overall evaluation about service; in contrast to it, the customer satisfaction is a transaction-specific evaluation. Based on these conceptualisations, the authors have profound that the incidents of customer satisfaction over time result in the perception of service quality. (Bitner, 1990) prescribed a model of service encounter evaluation and supported the effect of customer satisfaction on service quality empirically, which clearly shows the author's positive opinion towards the argument that customer satisfaction leads to service quality.

(Spreng & Mackoy, 1996) also studied the relationship between service quality and satisfaction based on their modified satisfaction and service quality model. Customer satisfaction and service quality had widely recognised as antecedents of repurchase intentions. Customer satisfaction is a better predictor of repurchase intentions than service quality. It was evident from a study conducted by (Cronin & Taylor, 1992) where the researcher observed a strong relationship between customer satisfaction and repurchase intentions than the relationship between service quality and repurchase intentions.

3.7 Consumer behaviour

Consumer behaviour is the study of the behaviour of individuals, organisations and groups to know how they purchase, select, use and dispose of goods, services, experiences or ideas to satisfy the needs and wants (Kotler, Kevin, Koshy, & Jha, 2009). It blends concepts from psychology, sociology, social anthropology, marketing and economics. It tries to understand how emotions affect buying behaviour both individually and in groups. It attempts in-depth knowledge into the various characteristics like demographics and behavioural variables of the individuals to identify their needs. It also tries to influence the consumer from groups such as friends, family, reference groups, and society.

Customer behaviour study based on consumer buying behaviour in which the customer plays three different roles of user, payer and buyer (James, Roger, & Paul, 1990). Research has revealed that consumer behaviour is challenging to predict even for experts in the field as it is irrational. Relationship marketing an influential asset for customer behaviour analysis. It has a keen interest in highlighting the importance of the customer or buyer, thereby bringing out the true meaning of marketing.

Consumer acts in a variety of the way when faced market situation that requires a purchase decision. Consumer behaviour comprises of several uses and diverted to answer the questions of what buyer's buy, how much they buy, who does buying, why buyers buy, how buyers buy and where buyers and so on.

Consumer Behaviour- Definitions

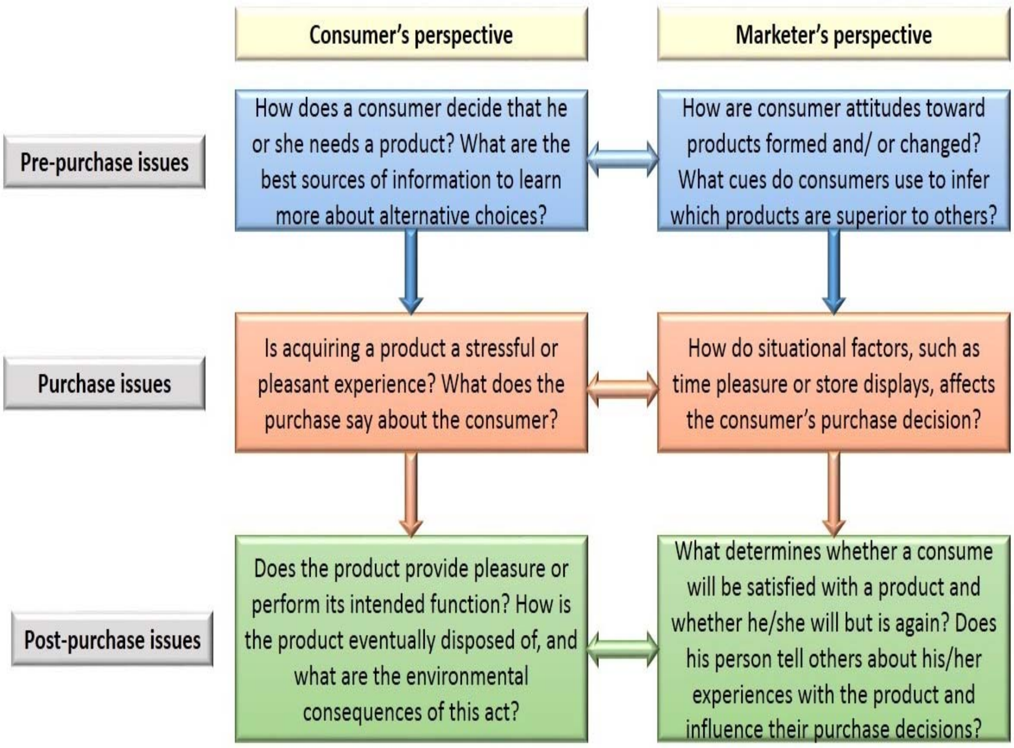
Definitions given by eminent contributors in the area of consumer behaviour are given below:

- "*Consumer behaviour refers to those acts of individuals directly involved in obtaining and using economic goods and services including the decisions processes that precede and determine these acts*"- Engel, Blackwell and Kollat.
- "*Buyer behaviour is all psychological, social and physical behaviour of potential consumers as they become aware of, evaluate the purchase, consume and tell other people about products and services*"- Webster.
- "*Consumer behaviour can be defined as the activities and actions of people and organisations that purchase and use economic goods and services, including the influence on these activities and actions*"- E.J.F. Engel.
- "*Consumer buying behaviour refers to the buying behaviour of final consumers individual households who buy goods and services for personal consumption*"- Kotler & Armstrong.
- "*The field of consumer behaviour is the study of individuals, groups, or organisations and the processes they are to select, secure, use and dispose of products, services, experiences or ideas to satisfy needs and the impacts that these processes have on the consumer and the society*"- Hawkins, Best & Coney.
- "*Consumer behaviour is the process whereby individual decides, when, what, where, how and from where to purchase goods and services*."- Prof. C G Walter.
- "*Consumer behaviour is all the psychological, social and physical behaviour of potential. Customers as they become aware to evaluate, purchase, consume and tell about the product and the services*"- Prof. G W Paul.

3.7.1 Process of consumer behaviour

Consumer behaviour is an ongoing process, not merely what happens when a consumer hands over money or a credit card and urn receives some goods or service. The exchange, a transaction in which two or more organisations or people give and receive something of value, is an integral part of marketing. Although exchange remains an integral part of consumer behaviour, the expanded view emphasises the entire consumption process, which includes the issues that influence the consumer before, during, after a purchase. It contains some pre-purchase issues, purchase issues and post-purchase issues.

Figure 3.3: Process of consumer behaviour



Source: (Solomaon, 2002)

3.7.2 Determinants of consumer behaviour

One's behaviour, either as an individual or as a consumer, is being affected by many factors. Some of which may be economic, psychological and sociological, which are being further affected by many other sub-factors as consumer behaviour being a psychological aspect.

I. **Economic determinants**: Economic scientists were the first among social scientists to study consumers and their behaviour and provided the details about the solutions to the consumer and their consumption behaviour. Economists take men as a social and a rational animal and is being affected by many factors like:

1. **Personal income**: From the marketing point of view personal income can be classified into disposable income and discretionary income. Disposal income is the amount of money that a consumer has at this disposal for spending or saving, or both. Any change in disposable income will have a direct effect on consumer's buying decisions. A decline in disposable income reduces consumer spending, and the increase in disposable income raises consumer spending and leads to go for more and more luxuries. Discretionary income means the income after spend for the nececities of an individual.
2. **Family income**: In case a consumer is the maker of a joint family. The buying behaviour influenced by family income rather than individual income. Family income is the aggregation of different individual incomes. Nevertheless, it is seen that in a joint family, a rise in an individual member's

income may be naturalised by a fall in another member's income. So the size of the joint family and total income of the family determines the buying behaviour of the family members.

3. **Consumer credit**: Availability or paucity of consumer credit has an impact on consumer buying behaviour. Consumer credit is a facility extended marketer to postpone the payments of the product. Easy availability of consumer credit makes the consumer go in for those consumers durable, which he would have postponed otherwise. Further,, it makes them spend more freely the current income that is happening the, as bank are giving liberal loans, consumers are buying among items that they otherwise cannot buy.
4. **Level of the living standard**: If the consumer income goes down, the consumer spending will not come down proportionately because it is tough to come down from one's established standard of living. On the other hand rise in one's income raises one's living standard accordingly.
5. **Consumer income expectations**: Future income expectations of the consumer influence consumer behaviours. Suppose he is optimistic or the pessimistic about consumer income, that determines the level of current spending. If he has got bleak prospectus and less future expected income, he spends less and saves more and vice versa.
6. **Availability of consumer credit**: Availability or paucity of consumer credit has its tremendous impact on consumer

buying behaviour. These deep banks and other official institutions are giving very liberal consumer credit in many shapes like deferred payment, instalment and higher purchase system. Easy availability of consumer credit makes the consumer go in for those consumers durable, which he would have postponed otherwise. Due to these facility consumers may spend more than their requirement, which may disturb their peace of mind and monthly budget.

7. **Consumer liquid assets**: If a consumer has got a good amount of liquid assets, i.e. assets held e-money, or near money, then his sending capacity and behaviour would be different if a consumer has got a good amount of cash in the bank or share bonds and saving certificate then he will spend more in purchasing consumable and durable items.

II. **Psychological determinants:** Psychologists have also given certain determinants that may affect consumer behavior: internal consumer like his perception, motivation, and brand loyalty. Some of these are the critical psychological determinants:

1. **Motivation and morale level of consumers**: Motivation is an active, strong driving force that exists to reduce tension and bring a person in high spirit. When a consumer is in high spirit, his spending behaviour is changed. It leads the individual to act in a particular way. Motivation leads to why a consumer behaves in a particular way. It is governing force of consumer behaviour. It directly affects one's quality and equality of purchase. Motivation is the complex network of

psychological and physiological mechanisms affecting consumer behaviour.

2. **Perception of the consumer**: Perception has got a particular importance in marketing as the process of perception leads to thoughts, and thought leads to action. Perception is when one can see, hear, touch, smell and sense something, some event or some relation and act accordingly. Perception is selective if things that matters one in life. The variables like colour, size, shape, contrast, intensity, and frequency all depend upon one's perception, leading to affect consumer behaviour.
3. **Attitude**: Attitudes are learned. These formed as a result of direct experience with the product, information acquired from others, or mass media exposure. A learned attitude has got a motivational quality. To some extent, attitudes have got consistency. Secondly, attitudes occur within a situation. By situation, we mean events or circumstance at a particular point in time. As the marketing manager's success determined by his ability to understand, predict, and influence consumer attitudes. Attitude changing is a more difficult task than mere confirming. It is easier to create a new attitude than to change the existing one. The most potent instrument of attitude change and its new creation is through advertising.
4. **Learning**: Listening is the ability to understand and report effectively to oral communication. Hearing is with ears but listening with the mind. Listening and learning go side by side. Learning involves change, though not necessarily an

improvement in one's behaviour. Every aspect of human behaviuor responsive to learning. Learning defined as a permanent change in one's behaviour due to experience. Learning has numerous benefits in every sphere of life and every aspect of business activities like marketing, HRD, production.

5. **Personality**: Personality is an organised behaviour of an individual to react in a given stimulus in a manner. Personality might be understood as a character-wise pattern of behavior and mode of thinking that determine a person's adjustment to the environment.

III. **Sociological determinants**: Sociologist and social psychologists have attempted to explain the behaviour of a groups of individuals and how it affects consumer behavior while making purchasing decisions. Group of individual in the form of:

1. **Family**: Family being a primary group is vital because it links the individual with a broader society, and it through that, individuals learn the roles. The family impact on consumer buying behaviour could traced in two ways:
   (i) The family influence on individual's personality, chrematistics, attitude and the evaluation criteria.
   (ii) The family influences on the decision making process involved in purchase.
2. **Reference group**: Every human being in this world is the member of his family and a member of some group or groups outside the family circle. This group can be called as

reference group. There are a professional group and social group that influences the individual opinions, believes and aspirations. These groups provide an individual with a sense of identity, accomplishment, and stability.

3. **Opinion leaders**: They are also known as influential, which play a key role in influencing their followers' buying behaviour. The beliefs, preferences, attitudes, actions and behaviour of the leader set the trend and pattern for others to follow in a given situation. Marketers very often try to catch hold of the opinion leaders through advertisement and other means of communication. If they succeed in selling their ideas and products to the opinion leaders, they have sold it to the entire group of followers he hires them.
4. **Social class and caste**: In fact, to a more considerable extent, buying behaviour is also influenced by the social class and the caste to which they belong. Social class is a larger group than family and reference group. Social class is, in fact, is determined by income, authority, power, ownership, lifestyle, education, consumption pattern, occupation and the type of individual markers.
5. **Culture**: Culture includes cognitive elements, beliefs, values, norms, signs and even non-formative behaviour. These elements of culture pass socially from one generation to the next generation. Culture groups further divided into sub-culture groups with a unique consumption pattern that provides an important basis to marketers. While designing the

marketing mix, it is essential to determine the broad cultural values relevant to the product as the most effective means of conveying these values.

3.7.3 Post service behaviour

The post-purchase or post service behaviour plays an important part in developing a relationship between the customer and the marketer. On the part of the marketer, an attempt to recognise consumer's post-purchase behaviour indicates his desire and commitment towards the implementation of marketing orientation or marketing concept in business. In this, the marketer identifies with his customers and thinks from customer's perspective. If purchase represents customer’s consumption motives and purposes, the post-purchase behaviour indicates whether those purposes and motives had achieved.

After making the purchase, the consumer may experience dissatisfaction from certain disquieting features or hearing favourable things about other brands and will be alert to information that supports his or her decision. Marketing communications should supply beliefs and evaluations that reinforce consumers' preference and help them feel good about the brand. Therefore, the marketer has a great responsibility in monitoring post purchase satisfaction, post purchase actions and post purchase product uses.

3.8 Customer loyalty

The level of competition in the service industry increased day by day. Therefore the service industry depends upon customer loyalty to a large extent. Since loyal customers can help generate new customers, it is a need to give due thought to the concept of customer loyalty. The concept of customer loyalty and the other aspects of customer loyalty based on the available literature explained below.

(Jacoby & Kyner, 1973) explained loyalty as a subjective behavioural reaction by a customer as a result of psychological processes which customer articulated over time for the respective brands out of present brands. (Newman & Werbel, 1973) defined customer loyalty as features of the customers, who only considered a particular brand, and purchased, again and again, that brand without getting information for that brand.

(Jacoby & Chestunt, 1978) defined loyalty as fact, which was the result of the behavioural aspect of consumer's inclination for a particular brand. (Dick & Basu, 1994) defined loyalty as potency of association between an individual outlook and repeat behaviour. (Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994) explained customer loyalty as purchasing products and services from a company again and again and recommending the company to others. (Bloemer & Kasper, 1995) viewed that despite expressing loyalty as repetitive purchasing behaviour, it could inferred as true loyalty leading to the actual repurchase of the brand regardless of commitment.

(Gremler & Brown, 1996) broadened the notion of customer loyalty in the direction of services to describe service loyalty. Service loyalty stated as the level to which a consumer displays the buying deeds repeatedly from a service giver, has a positive attitude toward the service giver, and whenever there was a requirement customer considers the same service giver. (Oliver R. L., 1997) stated loyalty as the strong promise by the customer to re-bought the much-loved goods or services besides the presence of marketing and situational-based factors that can influence customers' behaviour.

(Neil, 1999) defined loyalty as the customer's ratio of a similar product or services to the overall number of shopping by the customer in a specific category. Customer loyalty had defined as consumer's actions and their wishes in substitution for their involvement in interactive programmes by the firms (Kotler P. , 2003). Customer loyalty could stated as a customer persisting in considering that company's goods/services were the superior choice and the company fulfilled the consumer's worth able proposition in a most acceptable manner. Therefore, customers would consider the given offer by the company at any time they face the purchasing decision of the product or service. Loyalty defined as a level to which consumers desired to maintain their relationships with a service provider. This aspect depends upon their belief whether the value they received from the concerned service provider was greater or not compared to other service providers.

Loyalty connotes emotions or an approach of dedicated connection as a result of affection with the company. Such affection enables a person to feel accountable to continue the relationship with the company even in the bad phase of the company. Customers can stick with their relationship with the firm and displays loyal behaviours on the grounds of their faith in the brand. Rundle-Thiele (2005) stated loyalty as "the state or quality of being loyal, where loyalty defined as a customer's allegiance or adherence towards an object." Loyalty was a particularity of beliefs, a set situation of mind where the customer perspective from the long-term viewpoint had assurance to do business again and again with the same company (Zineldin, 2006).

Customer loyalty signifies lynching in there even at the time of existence of problem over there. The existence of such behaviour was the reason the company had been friendly to them in the earlier times and resolved the problems whenever they existed. It generally explains that these customers did not search for competitors, and whenever contacted or reached competitors, they didn't show interest. It also explains that these customers had been eager to prevail over any flaw of the company, eager to spend the time and put the effort in interaction with the company based on previous successes. (Oliver R. L., 2010) defined customer loyalty as intensely held devotion to purchase or show support to a favoured product or services time and again in the future, thereby leading to buying of the same brand or the same brand set again and again, despite circumstantial and marketing influence having the prospective to lead the switching deeds. In a nutshell, customer loyalty means a customer wishes to execute dealing with the company and does.

3.8.1 Types of loyalty

Loyalty had classified into four types based on the relationship between attitude and repeat behaviour loyalty. These four types of loyalty are as follows (Dick and Basu, 1994):

True Loyalty: The situation where both the attitude and the repurchasing behaviour of the customer was high.

Latent Loyalty: The situation where the attitude of the customer was high, but the repeated purchase was low. It generally relegated a situation where the consumers might not often purchase from the same brand, but they went for the same one whenever they did purchase.

Spurious Loyalty: The situation where both the attitude and the repurchasing behaviour of the customer occurs to be low. In this situation, customers might go for a repeated purchase because of some circumstantial restrictions, a lack of feasible alternatives or the occurrence of inconvenience for other options.

No Loyalty: The situation where customers had no positive attitude toward the brand and even didn't repeat their purchase from the same brand. The customers in this category didn't develop any kind of loyalty to the brand.

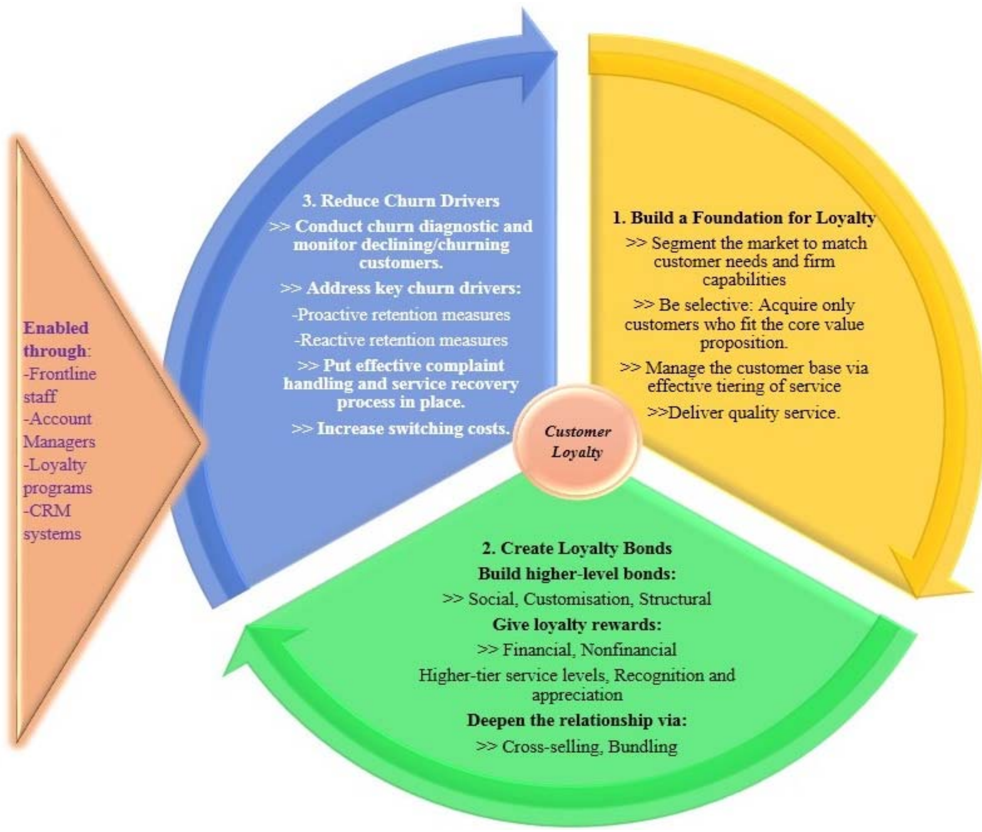
According to (Gounaris & Stathakopoulos, 2004) ,customer loyalty classified into the following four types:

- **Premium loyalty** indicated the most significant degree of loyalty among customers. Consumer showed favourable feelings regarding the brand, and they go for purchasing the brand again and again and for this they also have the consent of their group, community or public.
- **Inertia loyalty** was the feeble type of loyalty. It covered a sequence of purchases again and again but lacked both affection and social support. Customer behaviour based on habit or convenience can describe the sequence of purchases done.
- **Covetous loyalty** not include repeated buying of the brand. Despite, covetous loyal consumers have developed constructive belief and fondness for the brand. The social environment reinforced the customers to adopt this attitude. Covetous loyal consumers were imperative for the organisation as if they can influence the preferences of friends, associates, family and so on, hence they can indirectly contribute to the company's income.
- **No loyalty** was about not purchase the brand, no social influences and a complete lack of attachment.

3.8.2 The wheel of loyalty

Building customer loyalty is complicated. Most people cannot think of more than perhaps a handful of firms they genuinely like and to whom they are committed to going back. It shows that although firms put enormous amounts of money and effort into loyalty initiatives, they often are not successful in building true customer loyalty.

Figure 3.4: The Wheel of Loyalty



Source: (Lovelock, Wirtz, & Chatterjee, 2011)

The figure 3.4 explains the framework for thinking about how to build customer loyalty. It comprises three sequential strategies.

- First, the firm needs a solid foundation for creating customer loyalty that includes targeting the right portfolio of customer segment, attracting the right customers, tiering the service and delivering high levels of satisfaction.
- Second, to truly build loyalty, a firm needs to develop close bonds with its customers that either deepen the relationship through cross-selling and building or add value to the customer through loyalty and higher-level bonds.
- Third, the form needs to identify and eliminate the factors that result in "churn" – the loss of existing customers and the need to replace them with new ones.

3.9 Conclusion

The historical background of Regional Rural Banks and Kerala Gramin Bank summarised in the first part of the present chapter. Regional Rural Banks plays an essential role in the development of the rural area. The satisfied customers become loyal customers if the banks ensure quality in their service. The fundamental theoretical background of the major areas of study, such as service quality, customer satisfaction, consumer behaviour, and customer loyalty, is also explained in the present chapter.

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