

Customer Focused Performance of Indian Banking: An Analysis of Product and Service Diversification

(A Thesis submitted to Assam University in partial fulfillment of the requirement
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By

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DECLARATION BY THE SCHOLAR

I, Babita Lahkar, bearing PhD Registration No. Ph.D/3145/17, dtd. 04.04.2017 hereby declare that the thesis entitled “Customer Focused Performance of Indian Banking: An Analysis of Product and Service Diversification’ has been prepared by me under the guidance and supervision of Late Prof. Ratan Borman, Professor, Department of Commerce, Assam University Diphu Campus, Diphu, and Co-supervision of Dr. Subit Dutta, Assistant Professor, Department of Commerce, Assam University Diphu Campus, Diphu in connection with Degree of Doctor of Philosophy in Commerce.

I further declare that this thesis is my original work and has not been previously submitted anywhere for any other degree, diploma, fellowship, or other similar titles of any University or Institution. Due acknowledgements have been given wherever anything has been referred to or cited in this thesis,

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Preface

Indian banking sector tried to meet the new challenges coming from, the wave of financial deregulation and due to changes in customers' needs. With the opening up of this sector to private players, a stiff competition has arisen what made this sector more challenging. Hence, banks have introduced with a flood of new products and services and new means of marketing. Both public sector and private sector banks are offering multiple products and services to their customers through diversification for their sustainability and profitability. It is prime duty for the bank to fulfill the expectation of the customer.

However, market diversification is one of the most important indicators of economic growth. Moreover, there had been very few such studies were conducted on diversification and hence, it was highly desirable to undertake a comprehensive study on product and service diversification of banking sector.

This research is an attempt to unravel the practice of nature and extent of diversification of public sector as well as private sector commercial banks in India and to measure product/ service performances of selected commercial banks from customers' perspective. This study might be significant to policy makers in doing course correction as far as adopting strategy of diversification for profitability, sustainability and growth of banking sector.

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List of Abbreviation Used

Abbreviation	Full Form
AD	Alliance Diversification
ANOVA	Analysis of Variance
ATM	Automated Teller Machines
BANKSERV	Bank Service Quality
BOI	Bank of India
BSD	Broad Spectrum Diversification
CA	Certification Authority
CBS	Core Banking Solution
CFMS	Centralized Funds Management System
DB	Dominant Business
DEA	Data Envelopment Analysis
DFHI	Discount and Finance House of India
DIFC	Dubai International Financial Centre
EBIT	Earnings before Income Tax
eBankQual	Internet Banking Service Quality
ECGC	Export Credit Guarantee Corporation of India Ltd
EFT	Electronic Funds Transfer
EMT	Electronic Money Transfer
E-P Gap	Expectation and Perception Gap
E-SQ	e-commerce Service Quality
FGII	Generali India Insurance Company Limited
FOREX	Foreign Exchange

FY	Financial Year
GMM	Generalized Methods of Moments
HI	Herfindahl Index
HHI	Herfindahl-Hirschman Index
HDFC	Housing Development Finance Corporation
HSBC	Hong Kong and Shanghai Banking Corporation
IMPS	Immediate Payment Service
IOB	Indian Overseas Bank
IBU	International Banking Unit
IDBI	Industrial Development Bank of India
IOB	Indian Overseas Bank
IPO	Initial Public Offer
LIC	Life Insurance Corporation of India
MF	Mutual Fund
MoU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprise
NII	Net Interest Income
NONII	Non-Interest Income
NOI	Net Operating Income
NRI	Non Resident Indian
NSD	Narrow Spectrum Diversification
NSS	National Settlement System
OIFC	Overseas Indian Facilitation Centre
OTP	One Time Password

P- Value	Probability Value
PIO	Persons of Indian Origin
PIS	Portfolio Investment Scheme
PMSBY	Pradhan Mantri Suraksha Bima Yojna
PNB	Punjab National Bank
PPF	Public Provident Fund
RB	Related Business
RBI	Reserve Bank of India
ROA	Return on Assets
ROE	Return on Equity
RSQL	Retail Service Quality Scale
RTGS	Real Time Gross Settlement
SBI	State Bank of India
SEM	Structured Equations Modeling
SERVPERF	Service Performance
SERVQUAL	Service Quality
SHCIL	Stock Holding Corporation of India Ltd
SIB	South Indian Bank
SIC	Standard Industrial Classification
SIP	Systematic Investment Plan
SITEQUAL	Internet Shopping Site Quality
SPSS	Statistical Package for Social Science
STCI	Security Trading Corporation of India
UAE	United Arab Emirates

UIICO	United India Insurance Company limited
UB	Unrelated Business
UBI	United Bank of India
UK	United Kingdom
ULIP	Unit Linked Insurance Plans
UP	Uttar Pradesh
UPI	Unified Payment Interface
USA	United States of America
UTI	Unit Trust of India
VISA	Visitors International Stay Admission
WebQual	Web Site Quality

List of Publications

CHAPTER-I

INTRODUCTION

1.1 Introduction

Diversification has been an essential basis for the growth and survival of firms in the last half of the twentieth century, due to the vulnerability of the specialized firm to the fast and unexpected changes in the environment (Penrose, 1959, 1995, Marres, 1964, Willington and Mayer, 2000 cited in Lopes, T.D.S., 2001). From the word “diverse” the term “diversification” has been taken. The meaning of “diverse” is “difference”, “unlike”, “distinct”, or “separate” (Mahindru and Chandar, 2007). While applying the word “diversification” to business enterprise, it stands for differences among the various aspects of the firm’s activities (Shergill, 1993). Rumelt, (1982) defined the term “diversification move” as an entry into a new product market that implies an appreciable increase in the available managerial competence within the firm. Thus, the essence of diversification is taken to be “reaching out” into new areas, requiring the development of new competency or the augmentation of the existing ones (Rumelt, 1982).

Similarly, Steiner (1975) defined diversification as producing new goods or services or entry into new markets which involve different skills, techniques, and knowledge from those associated with the present products, services or markets. Hence, it is a collection of business activities under one corporate umbrella. In a broad sense, diversification means expanding business field either to new area, new products or both while retaining strong core business. Turner, (2005) suggested that when the core business fails to offer investors the acceptable returns for the risk taken, there is need to

diversify. However, there is no precise definition of the concept of diversification among researchers.

Some researchers have expressed the meaning of diversification in terms of the number of goods and services and the number of markets (Gort, 1962). While others have defined it in terms of the means and methods that enable organization to achieve growth and reduce overall risk (Markowitz, 1952). A firm is considered diversified when it conglomerate two or more functions in its operations or is involved in more than one locality. For example, while examining the effects of diversification on credit unions' performance, Mulwa (2013) considered a credit union to be diversified when it uses more than one source of financing to raise funds. In finance, diversification is the process of allocating capital in a way that reduces the exposure to any one particular asset or risk (D'Souza and Lai, 2003). Diversification also allows companies to compete in an array of different businesses that may be related or unrelated businesses.

1.2 Diversification Strategies

Strategy refers to a network of thoughts, experiences, ideas, insights, or perceptions, providing guidance in pursuit of particular ends. Strategy is the direction and scope of an organization to achieve advantage through its configuration of resources within a challenging environment. Organisations adopt the strategy to meet the needs of the markets and to fulfill stakeholder expectations (Johnson, et al. 2008 cited in Kavale, S., 2012). Hence strategy refers to the determination of long-term goals and objectives, the adoption of courses of action and associated with allocation of resources required to achieve goals (Kavale, S., 2012). It is a framework, plan, or technique through which officials can accept opportunities or to eliminate competitive threats so as to increase security, growth and profit of an organization. Chandler (1962) stated three types of

strategies that are required for growing more urban and more technologically advance large industrial enterprise. They are - growth that comes either from an enhancement of the firm's existing lines of businesses to the same type of consumers, or it results from a search for new markets and sources of supplies in distant levels, or finally it comes from the opening of new markets by producing a wide range of new products for different types of customers.

Furthermore, strategies can be categorised into three divisions: firstly, corporate strategy, which provides the overall direction of the company in terms of growth and management of its various sections. It consists of stability, growth and retrenchment strategy. Second is the business strategy, which is applicable to a business unit or at a product level to upgrade the competitive position of its products or services in a particular industry or market segment served by the business. Third is the functional strategy which is applicable to functional units for gaining competitive advantage over the competitors (Gupta, S., 2016).

Diversification strategy takes place, when any company or business organization introduces new products in the market. Organizations create new product for the market, when they have excess resources, and capabilities, that have multiple uses. Diversification comes when leading companies realized that their facilities and the scientific know-how of their personnel can be used for the production and sale of new goods for new market. According to Acharya, et al. (2001), diversification is a risk-reduction strategy that adds products/services, location, customers and market to company's portfolio. Ansoff (1957) considered diversification as a growth scheme through which a company tends to provide new markets with new goods. The Ansoff Matrix, developed by the American planning expert Igor Ansoff, is a business tool, linking an organization's marketing strategy with its current strategies. In this matrix, there are four different types of strategies namely 'market penetration', 'market

development', 'product development' and 'diversification'. The following figure 1.1 shows Ansoff Matrix or Ansoff Box that considers diversification as a growth strategy.

Figure 1.1: Ansoff Matrix or Ansoff Box

	Existing Product	New Product
Existing Market	Market Penetration	Product Development
New Market	Market Development	Diversification

Source: www.free-management.ebook.com

Market penetration involves selling existing products or services at existing market to reach high growth in market share. Market development refers to growth of new markets or market segments for existing products. Product development includes manufacturing new goods or services for the present market or customers. But diversification mainly focuses on providing new products to sell into new market. Hence, diversification strategy requires new skills, new techniques and new facilities that lead to change in the physical and organizational structure and hence is completely different from the other three alternatives because those alternatives are usually followed with the same technical, financial and merchandising resources used for the original product line.

According to Thompson and Strickland (2006, cited in Eukeri and Favourate, 2014), "Diversification is a collection of individual businesses." Diversification even allows companies to compete in an array of varied businesses which may or may not be associated. However, diversification is a corporate strategy to enter into a new business which the business is not currently in. Firm may use their surplus resources to manufacture new product for that new market. Firm's existence depends upon its capability to adapt successfully to the changing environment and strategic planning helps

in managing such turbulence. Diversification strategy could be described by the extent of participation in different businesses and the underlying pattern of relationships among various business firms (Nayyar, 1993). Rumelt (1982) explained diversification strategy as an entry into newer business activity that required a change in the available managerial and technical competence of the firm. Being an important strategy, diversification can upgrade the long-term financial performance of an organisation.

A diversified business has two or more discrete business segments, which may or may not be linked to the traditional business. Some relationships may be present among the discrete businesses of a diversified firm. This connection among the businesses of a firm would arise, when they share the markets, channels of distribution, technologies and manufacturing services. In finance, diversification is a way of allocating capital in a manner that decreases the exposure to any one specific asset or risk. A firm is considered diversified when it unites two or more functions or operates within the same area. Diversification has been the way of life for most firms in industrialized countries. According to Pearce, J.A., (1982), strategies are the directions as to how the firm's long run objectives will be achieved. He termed it as Grand Strategy and developed Grand Strategy Selection Matrix (figure 1.2) based on the internal versus external growth with a principal desire either to overcome weaknesses or to maximize strength.

Figure 1.2: Grand Strategy Selection Matrix

Quadrant II	Quadrant I
Turnaround or Retrenchment	Vertical Integration
Divestiture	Conglomerate
Liquidation	

Quadrant III	Quadrant IV
Concentration	Horizontal Integration
Market Development	Concentric Diversification
Product Development	Joint Venture
Innovation	

Source: Model developed by Pearce, J.A. (1982)

In Quadrant I of figure 1.2, to reduce risks due to the problems of having “all of the eggs in one basket”, company can choose vertical integration, which reduces the firm’s risk by lowering uncertainty about input or about access to customers. Alternatively, company may decide to apply conglomerate diversification that gives a profitable environment for investment in such a way that the interest which management can give to the original business is not reduced. In Quadrant II, the strategy is retrenchment, which results in the pruning of existing business. This strategy can act as a turnaround plan, so that the business gains new strength with reduction of waste. The next is divestiture (Quadrant II) which provides the best opportunity for recouping the company’s investment. Liquidation is the bankruptcy of the company.

Quadrant III depicts the market penetration strategies. Two alternative approaches are market and product development. It is an innovation strategy. In Quadrant IV, horizontal integration attracts the firms to improve productive capacity of the business. Concentric diversification is considered as a good option to facilitate an effortless, synergistic, and profitable expansion of the firm’s functioning. The ultimate option for the firm is through joint venture. A joint venture increases firm’s probability of success by significantly reducing financial investment to the point such that formidable ventures become attractive growth alternatives.

Chandler (1962) stated that the successful firms initially spread their operations geographically, then combined them vertically and finally, diversify their product offerings. Hence, presuming the emerging environment and determination of the requirements of different segments of the market becomes the onerous task for the management. Seeing the market, in present times, it becomes crystal clear that the large companies prefer diversification strategy. The 'diversification' activity is of immense important as it moulds the structure of company and has an impact on the performance. The strategy helps matching the organization to its operating environment.

According to Choi and Kotrozo (2006, cited in Molyneux and Yip, 2013), banks' capability to re-direct lower cost capital into new activities plays an important role in encouraging diversification. Berger et al. (2008) pointed out that a strategy to diversify can bring about economies of scope in gathering information which in turn provide diversified banks with better knowhow as how better could they serve their customers. Elsas et al. (2010) mentioned that banks that diversify can reap benefits from specific economies of scope given that operationally leveraged banks can enjoy cost advantages.

In several different fields of academic research, firm diversification has been widely studied. Strategic management study mainly focuses and studies the effect of different types of diversification policies on the functioning of the company. The product and international diversification strategies have got the capacity to enhance the performance of the business (Kim, Hoskisson and Wan, 2004). While Wiersen and Bowen (2011) found that globalisation alters the firm business and competitive condition alters the corporate strategy that has an effect on firm's international diversification strategy. Shackman (2007) tested the growth and vertical integration of capital markets by using sample of 1560 firms from 39 countries. He also tested theories of diversification and vertical integration and discovered an important and useful connection between vertical integration and capital market expansion.

1.3 Motives for Diversification

For variant motives, namely, the synergistic motive, the financial motive, the market power motive, the resource motive, the agency motive, and the cost efficiency motive; the banks and other firms frequently proceed towards the diversification (Ojo O., 2009). When two businesses merge to form a new business, it creates more value to new entity than the combined value of two separate companies. By studying the multiproduct firm, it is found that potential cost advantages are due to joint production facilities. Thus, different businesses of a diversified corporation are termed as synergy (Bruche, G., 2000). Synergy is said to take place when together the sum of all businesses is greater than the sum separately (Hoskission and Hitt, 1990). Synergy can come to play if functioning of the individual units accompanies one another, so there are advantages from providing the customers a complete line of products (Ojo, O., 2009).

Synergies that aim for reduction of costs through the various divisions of the company, such as research and development, manufacturing, sales, distribution channels and management units are termed as cost synergy. While growth of overall revenue through extended markets and cross-selling is termed as revenue synergy. Financial motive for firm is based on not to depend on a single operation but diversify through portfolio. When the returns of the individual units are not perfectly correlated, the total risk is reduced by diversification. The basis for financial motive is derived from the fundamental premise of portfolio theory that “one should not put all one’s eggs in one basket” (Ojo O., 2009). The market power theory and the resource based view theory are oppressive and also indicates the basis of firm diversification based on profit maximization while agency theory is supervisory and focuses on managerial choices and self interest as a ground for diversification (Mulwa et al., 2015).

There are three ways by which a firm can approach to give market power through diversification - subsidization in which they can use the profits from one market to prop up the predatory pricing in another; mutual toleration of rigorous competition among competitors; and corresponding buying among units of a multi-business agency that expropriate small competition (Montgomery, 1994). Through this, the companies are capable to surmount the competition and hence earn profits more than the average market profits. Ansoff (1957 cited in Briglauer, W., 1999) stated that the objective of firm diversification is to design new products and markets.

However, the empirical and theoretical value one gets from this definition is limited because of the capriciousness involved in expressions like "new products/markets" (Briglauer, W., 1999). Others explain diversification motives as a route to achieve demand growth or to combine acquisition process. Some authors even gave the possibility that vertically integrated firms as being diversified, whereas others directly rejected this possibility. According to Ohmac (2007), diversification depends on three major goals: growth, risk reduction, and profitability. Even though growth and risk reduction have been important motives for diversification, their inconsistency occurs with the creation of shareholder value (Ohmac, 2007).

The companies that are diversified have many business segments (multi-segment) conglomerated where those individual segments can be typed into the related segment (segment that is still associated with its core business) and unrelated segments (variation of various segments and some are very different from its core business). According to Montgomery (1994) there are three approaches to diversification in companies. Firstly, the market power view where with the help of diversification strategy market share in the industry can be increased by decrease in the market competition because of its dominance, and hence diversification will have a positive effect on performance of the company. Secondly, the resources-based view that diversification is taken up by using the

volume of its resources. Third, the agency view which sees diversification strategy as an equipment to enhance manager's performance through increased sales.

1.4 Theories of Diversification

1.4.1 Market Power Theory and Diversification

Diversified firms have Conglomerate Power, which make them success on their diversity. Diversified firms broaden the scope to other businesses mainly for anti-competitive reasons. According to Montgomery (1994) there are three possible sources for the market power view. These are as follows -

- a) Cross-subsidization: Firm may enter from one business to another by utilising its excess profits and give this new business an advantage.
- b) Mutual forbearance: Firm may enter another market to compete less severely.
- c) Reciprocal buying: Bigger and more diverse firm may also purchase reciprocally in other markets to reduce competition from smaller competitors.

Hence, anti-competitive activities are always related with motives for diversification. Through strategies and approaches, diversified firms may exploit and extend their power. Montgomery (1994) also stated that the market power view advises a positive relationship between diversification and firm performance. Market has the power itself that makes the company performs better.

1.4.2 Resource Based Theory and Diversification

Resource-based view looks at the organization that perform a set of activities utilising the resources it already has. Resource as assets, both substantial and non

substantial, is semi-permanently attached to the survival of the company. Two different views have been identified on the strategy of the organisation. The traditional and the resource based view. The traditional view depends on the study of the competitive environment, while the latter gives importance to those resources with competitive advantages that are not easily used by other organisations, so that the uniqueness in its product leads the organisation to grow and prosper in the competitive atmosphere.

1.4.3 Agency Theory and Diversification

Manager of the firm may adopt diversification strategy due to the following reasons -

- i) Empire creation: The motive behind diversification for the managers is to build their own empire (Montgomery, 1994).
- ii) Managerial entrenchment: Managers may also move for market or product diversification to increase the demand for their abilities and efficiencies.
- iii) Risk reduction strategy: By diversifying into different markets and products, managers may reduce their employment risk.
- iv) Free cash flow theory: The managers spend the excess profits on acquisitions rather paying stake owners.

At the beginning firm may enjoy profitable scope for reinvestments. However, when the firm becomes mature these scopes become less and the manager turns the cash flow from earlier innovations and use it for opportunistic diversification. Montgomery (1994) also stated that the agency view on diversification has no motive for maximization of profits or value for the firm. Rather, it decreases the value of the firm due to the agency cost.

1.5 Types of Diversification

Galbraith. (2008, cited in Maina, 2011) suggested three types of diversification. They are related, linked and unrelated diversification. As suggested by its name, in related diversification there is a technological similarity between the organizations involve in business which means that the firm is able to make use of its technical knowhow to gain some benefits. The company could look for new products that have technological or marketing synergies with current product lines appealing and supply to a new group of consumers. While in unrelated diversification there are not much similarity between the organizations involve in business, the common features are generally limited to finance and business management. Unrelated diversification is a form of diversification that comes to act when the business introduces new or unrelated product lines and moves into new markets looking for customers. There is no direct link with the company's current business (Janice E., 2014). This method of diversification can be accomplished using one of the following methods -

Firstly, by utilising the current basic capabilities of the organisation and widening from the current markets into new ones to introduce new lines of production, secondly, by moving from existing markets into new ones and begin their new lines of production and thirdly, development of new capability through new market opportunity. Linked diversification indicates travelling into new places of work and working at different centers of concern in those places. Still there is some sort of a chain (integration) among various companies. Other kinds of diversification involves geographical diversification, international diversification (Lin, 2010) income diversification (Gambacarta et al., 2014), product/service diversification (Christiansen and Pace, 1994), deposit diversification, asset diversification and diversification into different economic sectors. According to

Liang and Rhoades (1991) banks are able to diversify either by investing in financing securities or can also choose to diversify in their loan portfolios. However, the major and frequently used diversification strategies in banking are income diversification, assets diversification, credit diversification, geographical diversification and international diversification.

Income diversification has been defined by Ebrahim and Hasan (2008) as the moving into new profit gaining financial services along with the traditional intermediation services. Indeed income diversification involves the combination of or generation of income from distinct income generating activities (Baele et al. 2009). Asset diversification is closely related to income diversification. In asset diversification there is the distribution of banks earning assets across lending assets and non- lending assets (Goetz et al. 2012). One more way the banks can proceed to pursue diversification is the diversification of credit lines. This method includes the diversification of loan portfolio across different sectors, industries or geographical localities. Geographical diversification is another approach by which commercial banks can undertake diversification strategies. Obinne et al. (2012) defined geographical diversification as starting of new branches by a bank away from the head office location. Closely related to geographical diversification is international diversification which entails expansion of banks through cross border outlets either through branches or subsidiaries (Berger et al., 2008).

Some other diversification strategies use by firm to enhance income earning and achieve higher sales volume are horizontal diversification, vertical diversification, concentric diversification, heterogeneous (conglomerate) diversification, and corporate diversification.

Horizontal diversification introduces new products or provides new services to the current product lines and sells company's existing consumer groups. For example, a

pencil manufacturer entering into the notebook market is approaching a horizontal diversification strategy. If the chosen products or services cover a wide area of the market, it can lead towards growing monopoly. Vertical diversification can also be called as vertical integration. A company may expand its business either in the forward or in the backward direction. It happens when the company returns to the previous stages of its production cycle or approaches to further stages of the same cycle.

Concentric Diversification occurs by expanding production portfolio by adjoining new products that fully use the potential of the current technologies and marketing system. For example, a car producing company that primarily produces cars starts manufacturing motor cycles also. Small producers of consumer goods often use this type of diversification. Heterogeneous (conglomerate) diversification is said to take place when the company starts producing new products that have no technological or commercial link with existing products, tools, distribution channels, and this product may be consumed by a new groups of customers. For example, if a mobile company starts producing pen, the company is pursuing a conglomerate diversification. Corporate diversification involves production of unrelated but profit earning goods. High investments are related with it and there may also be high return.

1.6 Diversification in Banking Sector

To mitigate the increased competition, banks have diversified their portfolios away from the traditional intermediation into new geographical areas and new products and services such as bancassurance, brokerage services, merchant banking, housing finance, credit cards, mutual funds, pension fund, general insurance, custodian services, private equity, advisory services, structured investment products etc. Competition has reduced profitability of the banks and also has diminished their cost advantages in raising

funds. For their survival, banks have expanded their traditional activities into new areas. These have led tremendous diversification levels in the banking sector throughout the world as commercial banks have responded by raising their involvement in non-traditional intermediation products and services such as investment banking, bancassurance and venturing in areas that were once viewed as risky (Garm and Phihon, 2011).

Additionally, banks have considerably grown their networks by opening new branches in areas that were earlier considered unprofitable. The term "diversification" is used in banking sector, to define multi-dimensionality in functions. The banks make use of the strategy of diversification mainly to eliminate the risks. They may also widespread their operations to growing their business when the possibility of growth in the current line of operation is limited. This growth may be by expanding the area of their services, i.e., by adjoining new services into their portfolio. That has changed considerably the goals, strategies, and operations of the banking sector. In response to the changing market conditions, policies, and regulations, banks have decided to diversify their operations to reduce the jolt in their financial performance. Additionally, the banks are surpassing their normal operations, and are moving into the areas like insurance, investment and other non-banking activities (Sahoo and Mishra, 2012). The other motives of diversification include gaining market power, maximizing value, strengthening capital base etc.

Nowadays, commercial banks along with the traditional services of 'accepting deposits and making advances', are also operating various services under one-roof (Dev, N., 2011). As the banks are Financial Intermediaries (FIs), diversification is crucial for banks. Since risk management is an integral part of a financial firm's business, the ability to gain from diversifying risks is important for such firms. According to Acharya, V. et al., (2006), banks and FIs may diversify because they can enjoy a great deal of flexibility in achieving either focus or diversification compared to ordinary firms by investing or

disinvesting financial claims (loans) in certain industries and markets. In contrast, a standard corporation has limited option in expanding its product range and the transaction costs of adjusting its portfolio of real sector activities may be high. In addition, FIs face several (often conflicting) regulations that create incentives either to diversify or focus their asset portfolios, such as the imposition of capital requirements that are tied to the risk of assets, branching and asset investment restrictions, etc. Therefore, from an economic as well as a policy standpoint, FIs and banks get benefit from diversification.

Elsas, et al. (2003) suggested that commercial bank can increase diversification by moving into fee-based business that comes from two broad sources - firstly, bank-specific economies of scope as diversification into related business reduces cost over specialized competitors. For example, selling investment products through the existing related bank branch network might result in cost economies of scope. If such economies of scope truly exist in banking, diversification would tend to have positive effects. Secondly, the financial service industry has been undergoing dramatic change due to technological progress and deregulation.

Thus, banks make use of diversification for several reasons that may be both dynamic and secure. Disintermediation in commercial banking with limiting interest margins and new capital adequacy rules lead to a decrease in the banks' returns. To mitigate such a situation, commercial banks have decided to diversify by moving towards gaining profit from non-traditional sources like fee and income based services. Diversification enables a bank in removing the non uniformity of geographical reach, make full use of economies of scale and scope, innovation in product process, diversify risk along with mobilization of additional capital and acquire benefit from modern technology.

The determinants of bank diversification can be classified into the external determinants and the internal determinants. External determinants include economies of scope, disintermediation in banking activities, dynamics of bank competition and global pressure of financial conglomerates. While, the internal determinants are risk reduction motive, reduction in cost of production, reduction in interest margin, low cost of capital, and technology development. The basis for diversification of banking sector is the relationship between three important parts of financial market, i.e., commercial banks, insurance business and investment business. Among these three, investment and insurance business finance a growing volume of assets and do not have enough capital bases that commercial banks have. As a result, commercial banks can provide a sizeable capital base.

For the distribution of their financial products and services like mutual funds, debentures, policies etc. investment and insurance business can get scope from wide network of commercial bank. Combining all the three businesses in the form of diversified financial group, commercial bank can help to compensate satisfactorily. In addition to this significant relationship these three businesses need a variety of businesses and operational skills. Also the three businesses hold a different attitude towards risk. Generally, commercial banks do not prefer to take risk. Whereas, insurance business aims to cover risk, while investment banks mainly aims at taking risks as they are specialized in risk management. These three factors are important while integrating and diversifying the banking operation.

1.7 Product and Service Diversification

To increase profitability and to achieve higher sales volume, companies have employed product diversification strategy to form new products. Hence, it is defined as

expansion into product markets which is new to the company and has been a frequently used strategy by the companies. In the organization and management literature, many measures are evolved to evaluate the diversification level of companies. The majority of measures are focus on product diversification (Varadarajan & Ramanujam, 1987). Product diversification is the way of extending the original market for a product. Since the mid-1900s the relationship between organizational diversification and innovation has gained significant attention in the area of research (Jarris, N.S and Smith, M., 2011). According to Chandler (1962), product diversification offers the three marketing alternatives to firm -

- a) It could energetically push the expansion of merchandising effort on a national scale for the new lines of consumer goods, or
- b) It could withdraw and sell out these lines to outsiders, or
- c) It might retain its present “middle of the road” policy, namely continuing to merchandise without extending their scope or endeavoring to develop other lines.

1.8 Diversification and Performance

As business activities depend on internal and the external environment where it is set, it has to be dynamic in its operation. The wave of globalization changed entirely the environment of the business undertakings. As a result, the state controlled subsidized economy becomes more market oriented that happened as a natural corollary across the globe due to the wave of liberalization, privatization, and globalization. Hence, there is an enough scope for diversification in banking sector. Due to competition, the business opportunities as well as scope of earning profit in banking sector through traditional interest earning business activities are slowly restricted (Sahoo and Mishra, 2012).

Another reason for diversification moves of the banks is competitive pressure from non-banking players who joined the companies as a result of the liberalization (Edwards and Mishkan, 1995). The non-bank competitors enter in banking sector and necessitating banks to shift their sales mix and diversify towards non-interest income sources (Maina M.W., 2011).

Measure of firm diversification is one of the critical issues in the body of literature. Many measures have been used by various researchers on diversification. At the beginning researchers applied the methods that were ranged from qualitative to quantitative. Later on, authors further classified the methods as categorical and continuous measures. Montgomery (1982) also stated two methods for measuring firm diversification and performance relations; continuous as well as categorical measures.

An extensive body of research has looked at the diversification and performance relationship and they have found different results. Some researchers have found significant relations while some of them have found no significant relations between diversification and performance. Some researchers attempted to explain these mixed results by identifying a number of contingencies, which moderate the diversification and performance relationship (Maina, M.W, 2011). Berger et al., (2008) investigated the various studies on link between diversification and performance of banks and found potential benefits of diversification. Diversified banks may enjoy benefit from leveraging managerial skills and abilities across products and geographic regions (Iskandar-Datta and McLaughlin, 2005, cited in Berger et al, 2008). Diversified banks can achieve economies of scope through spreading fixed costs over products and different geographic location and also from providing a financial supermarket to customers who demand multiple products (Berger et al., 2008).

Rumelt (1982) studied Fortune 500 companies and was able to find that from 1949 to 1974, the number of single or leading companies accounted from 70% to 37% of all companies. Over the period, the proportion of diversified companies rose from 30% to 63%. Firm can move to new lines of business internally or may form joint ventures or alliances in new areas of business. Firm may also gain firms in related and unrelated lines of business. However, a very primary way to measure firm diversification is to count the number of different industry activities in which a firm is involved. Obviously, this measure does not say anything about significant diversification characteristics, mostly distribution and relatedness.

Through internal or external expansion, the process of diversification can be realised. Internal expansion makes use of product innovation as a means to gain growth, whereas external expansion enables the firm to acquire resources immediately and in an organised form by acquiring another firm. Internal expansion is mostly preferred because the transaction costs mainly connected to co-ordination and integration issues and expected to be lower. Moreover, there are always important risks that follow take-over, as in the first instance, the risk of overpaying or the survival of long term contracts between the acquired enterprise and its stakeholders. Ultimately, the decision would depend on the overall transaction costs specific to each form of expansion. Also, the related concept of product differentiation should not be ignored either, although exact difference between these concepts cannot be easily seen considering the empirical issues. Seeing all these aspects and dimensions of firm diversification, it seems reasonable to conclude that there exists no single definition that can be applied in general.

A diversified firm is one which gets involved in several distinct lines of business. Three alternative ways have been taken to perform this task (Pitts & Hopkins, 1982). At first, individual businesses can be distinguished in regard to internal firm resources. Thus, business becomes different if the resources consider for use is different from those

supporting the firm's other activities. However, data selection on firms' resources is a very tough job. Second, another approach looks outward from the firm to its markets. However, this approach has also got data difficulties. Market characteristics such as consumer needs or cross elasticity are very difficult to measure. The third way focuses on product differences. Here, each product or product type is taken as a separate business. This approach brings together elements of the resource and the market approach. Two separate products are likely to require different tools for manufacturing and different distribution channels (i.e. different resources) and they are likely to satisfy different customer needs (i.e. different markets).

Grant and Thomas, (1988) brought into use three measures of diversification. The first one he employed by using Rumelt (1974) classification of diversification strategies that depends upon two categories - specialization ratio of the company and the relationship between the activities. According to Rumelt (1974) three different types of relationship exists - vertical integration (the output of one activity is an input of another activity), constrained diversification (activities are related to one another by common core skill), and linked diversification (each business activity is related to at least one another but the businesses are not all related to one another). Firm is thus allocated to different categories of corporate strategy on the basis of the extent of product diversity and the link between different businesses. The second is the index of product diversification and the third is the overseas ratio which is an index of multinational diversity (Grant and Thomas, 1988).

Many approaches to count diversification depend on a business definition based on products and applied the SIC (Standard Industrial Classification) system. SIC code uses to distinguish goods and services that represent various levels of classification. The method for measuring diversification in this way was that a firm operating in five 2-digit (or 3-digit, or 4-digit) SIC codes/industries was considered to be more diversified than a

firm operating in four 2-digit (or 3-digit, or 4-digit) SIC codes/ Industries (Rajan, M. N. 2003). Though the measure was simple it failed to account for the proportionality of the various businesses the firm was involved in. That resulted exaggeration of the extent of firm diversification than actual diversification. There are mainly two groups that use the SIC system, such as business-count approach and strategic approach.

The business-count approach measures diversification by counting a firm's businesses. Therefore, it is called as continuous measure. The root of this approach comes from industrial organization research. Also there are many varieties of this approach. The easiest one is the numerically counting the number of businesses a firm is involved in. But the problem for using this approach is that the differences in the size distribution of businesses are not identified by this approach. To remove this limitation some more measures were developed by assigning weights to get the size of the various businesses. Of the weighted indices to measure diversification the two popular indices are the modified Herfindahl index of diversification and product count measure of Jacquemin-Berry entropy measure of diversification.

In Herfindahl index, the level of diversification is zero if a firm operates in a single industry, and becomes closer to unity if the firm's total sales are divided equally among any number of SIC codes (Rajan M.N., 2003). In Jacquemin-Berry entropy measure, the level of diversification for single industry firms is also zero, and becomes greater with increasing the number of participation of firms to the industry. The only difference between these two indices is that in comparison to Jacquemin-Berry-entropy measure the Herfindahl index allocated smaller weight to smaller business (Rajan M.N., 2003).

In his research, Ojo, O, (2009), found that high level diversification was widely practiced by the companies which were important for companies' growth and service. It

is a dependable strategy. Generally, company adopts a number of diversification strategies which may be related diversification, unrelated diversification, and product diversification among others that mainly focuses to improve performance. In the study of Grant and Thomas, (1988), they found very high level of product diversity which is associated with low profitability. Berger, et al., (2008), in their research, found that the diversification is associated with reduction in profit margin and increase in costs for the banks. According to Ansoff (1957) diversification strategy achieves growth by developing new products for completely new markets. However, Le (2019) in his study found that there are four main views on the relationship between diversification and company's performance in foreign countries - firstly, the higher the degree of diversification, the more favorable to the company's performance; secondly, the higher the degree of diversification, the more unfavorable to the improvement of company's performance; thirdly, the degree of diversification has little effect on company performance; and fourthly, there is a non-linear "U" relationship between diversification and company's performance.

1.9 Customer Focus

The word "customer" refers to the consumer or buyer who purchases and uses the products and services offered by the company to their clients. Customer focus plan wishes to take every decision in favour of the customer. It primarily includes maintaining an effective customer relations and product and service programme. Customer focus is the idea to design all the organization's systems, processes and activities keeping the customer at the center for the success of the organization. The concept of customer focus is not the same as customer service. Customer service refers to the interactions between frontline personnel and customers. While, on the other hand, customer focus is the

concept of aligning the organization's vision, system, strategy, people, and processes for the comfort and benefit of the customers. Therefore, customer service is the role of a particular department while customer focus is teamwork of the entire organization.

Customer focus is a central tenet of market orientation. Customer focus is the set of beliefs that puts the customer's interest first, which does not exclude all other stakeholders such as owners, managers and employees in order to develop their profitability in businesses (Gladson, J., 2009). Customer focus is defined as the orientation of an organization toward serving its client's needs. The concept of customer focus or customer centricity has been discussed widely in the marketing literature. The true essence of the customer-centricity paradigm lies not in how to sell products but rather on creating value for the customer and, in the process, creating value for the firm.

Now-a-days customers are educated, travel extensively and read widely. These attributes influence their buying behaviour and they are becoming more sophisticated, more discerning and have high expectations. There is difficulty in keeping pace with the rising expectations of customers, which is an economic and social phenomenon, as well as political one. Service providers, therefore, seek to differentiate themselves from their rivals by offering customers higher quality of services, making the basis of their competition to be defined by their services. The nature of services is different from other physical products. Services are intangible, heterogeneous and perishable. One more difference is that production and consumption of service is taken place at same time and makes it peculiar to deliver.

1. 9.1 Factors that Driving the Customer Focus in Banking Sector

The competitive landscape in banking and financial services has changed and standing still is not an option. Strong financial products and services are still essential.

Customers are the new focus. Regardless of their size, profitability and growth, bank focuses on serving customers at the right time, with right level of service and at right cost. Several factors are driving customer focus. These are as follows:

1. Awareness among Customers: Financial needs of the customers have grown into various forms. These are quick cash accessibility, money transfer, security in their deposits, financial advice, deferred payments etc. With a wide network of branches, even in a dissimilar banking scenario, customers expect the banks to offer a more and better service to match their demands and this has compelled banks to take up marketing in right earnest.
2. Growing Competition: Increased competition is being faced by the banking industry from other agencies. Competition is no more confined to resource mobilization but also to lending and other areas of banking activity. The foreign commercial banks with their superior technology speed in operations and imaginative positioning of their services has also provided the necessary impetus to the Indian banks to innovate and compete in the market place.
3. Quality as a Key Factor: Quality is the watchword in the competitive world, which is market driven and banks have to face up to this emerging scenario. In fact, it may not be out of place to reiterate that quality which in future is the sole determinant of successful banking ventures and marketing has to focus on this most crucial need of the hour.
4. Technological Advances: Technological innovation has resulted in financial product development especially in the international and investment banking areas. The western experience has demonstrated that technology has not only made execution of work faster but has also resulted in greater availability of manpower for customer contact.

5. Individual Attention: Banking industry is essentially a service industry. Today's customers expect personalized pricing and portfolio mixes. Banks that cannot deliver such services will suffer and it will reduce their profitability. While banks, by default, sell every product to every customer, digital banking allows customization, providing the data and analytic capabilities needed to examine each customer's profitability and offer individualized or segmented products and pricing.

6. Banking without Boundaries: Lastly, customers expect to experience banking without boundaries, just as they do in retail and other industries. What matters most to them is how they experience the bank's brand, regardless of the channel.

1.9.2 Customers Focused Performance

Performance is used to indicate the hard work to attain a particular goal. The attainments of goal include combination of human, financial as well as natural resources. The performance is an activity applied to a part or whole of the performance of an action in a time period, often with connection to previous or proposed expenditure efficiency, management, responsibility or accountability. Firm performance is a relevant construct in strategic management research and frequently used as a dependent variable (Santos and Brito, 2012). Some of the research studies developed firm performance measure with a single indicator and presented it as one dimensional construct, though they admitted its multidimensionality. Instead of unidimensionality, firm performance is a multidimensional measure that has four elements -

a) Customer-focused performance, that constitutes - customer satisfaction, and product/ service performance,

- b) Financial and market performance which incorporates earning, market position of the firm, cash-to-cash cycle time, and benefits per share,
- c) Human resource performance which includes satisfaction of employee, and
- d) Organizational effectiveness which indicates level of innovation, and production and supply chain flexibility (Alam et al., 2011 cited in Nekesa and Olweny, 2018, Nyathira, N.C., 2012).

Performance measurement is widely used in all sectors of the economy including the service industry. Performance measurement is a broad concept that helps us to determine the system to be used in organizations. Performance measurement systems are important in all organizations and their study can give an indication of the extent of their use (Watson, M.J., 2005). Firm performance stimulation has gathered priority in both public and private sectors as it is related directly with a product's value creation. They are persistently struggling to get better results, competitive advantage and influence. Moreover, firms are striving to upgrade their performance. In the corporate world, performance is the criterion by which a firm measures its capability to prevail. The process of determining expectations for performance, measuring, evaluating, and recording performance relative to those expectations, and providing feedback is known as performance measurement.

A successful measurement of performance includes quality improvement, process improvement, efficiency etc. Performance measurement systems form an important part in all organizations as their study can indicate the extent of their use. The hard work done to attain a particular goal is indicated by performance. This goal is achieved by a combination of human, financial and natural resources. The performance is an activity applies to a part or all of performance of an action in a time period, often with connection

to previous or proposes expenditure efficiency, management responsibility or accountability.

Nowadays, officials of organization have realised that traditional systems of performance evaluation based on financial views, unable to determine the overall performance of the organization and unable to provide a feedback (Pandey, 2005). Even though excessive financial measurements may enhance an organization's profit for a short duration, but it may lead to losing competitive situation, risking the long-term profit. Non-financial criteria like customer's satisfaction, employee's satisfaction and corporate social responsibility are considered important for success of any organisation (Palazzi, et al., 2006). Hence, the ability of an organization to gain and manage the resources in several ways so as to gain competitive advantage is known as performance.

According to Asubonteng et al., (1996, cited in Daniel and Berinyuy, 2010), service quality has become a cornerstone marketing strategy for companies, due to intense competition and the hostility of environmental factors. This is quite obvious that service based companies are bound to facilitate excellent services to their customers in order to have a sustainable competitive advantage. Now, the prime duty of the organization is to know the availability of service quality they have in order to attain their objectives (Daniel and Berinyuy, 2010). Recently, most of the service organisations are revealing their interest in evaluating the attitudes, beliefs and perceptions of their customers. For some departments (like marketing and sales), it is often one of their primary metrics.

Due to the increasing importance of service sector in the economy, the measurement of service performance has become important. Banks form an important component of this sector because of their constant interaction with customers and customers have become more knowledgeable and hence service delivery has been a

factor of extreme importance to banks. Banking is essentially a high contact service industry and there is a close interaction between service provider and the customers in the traditional banking scenario. As service marketing is different from goods marketing, this gives rise to the need for new concepts and approaches for marketing and managing service businesses (Powell, T.C., 1995).

In banking sector, what is served to the customer is service. It becomes an obligation for banks to consistently measure customer satisfaction and to improve the quality of services that cause dissatisfaction (Cirpin and Sarika, 2014). One of the important factors of the strategies of the organizations is satisfaction of the customers, because customers are the source of revenue for any industry. Recently, bankers are paying attention regarding satisfaction of the customers because of competitive market. Current market place has made the consumer more demanding towards all products and service and because of this increasing demand, customer expectation are continuously increasing (Parasuraman et al., 1988).

Customer satisfaction is an assessment of how well a company's products or services meet customer expectations. Customer satisfaction relates to a general and specific psychological evaluation of a customer's experience of a product or service. Customer satisfaction predicts customer retention, loyalty, and product repurchase. Further, when customers will be satisfied they will spread this information to others. This will act as the marketers for the company. Any offering will be successful if it is able to deliver value and satisfaction to customers. A value is a combination of quality, service and price. Value increases with quality and service, and decreases with price. Satisfaction reflects a person's judgment resulting from a product's perceived performance with respect to his/her expectation. Satisfaction can be said as a function of expectation and performance (Malli, R.R., 2011).

Customer satisfaction represents a modern approach for quality in enterprises and organisations and serves the development of a truly customer focused management and culture. Measuring customer focused performance offers an immediate, meaningful and objective feedback about clients' preferences and expectations. In this way, company's performance may be evaluated in relation to a set of satisfaction dimensions that indicate the strong and the weak points of a business organization (Mihelis, G., et al, 2001). Generally satisfaction is conceptualized into two basic concepts - Transaction specific satisfaction and Cumulative satisfaction (Nguyen and Leblanc, 1998 cited in Ali, F. et al. 2011). Evaluation of the customer from their reaction and experience regarding a specific encounter with the service is known as 'transaction specific satisfaction (Cronin and Taylor, 1992). Commutative satisfaction is overall evaluations of customers regarding experience of consumption to date (Fornell, 1992 cited in Ali, F., 2011).

In banking services, satisfaction is usually conceptualized as a multidimensional construct (Manrai, and Manrai, 2007). The list of bank service attributes uses for the measurement of satisfaction comprises elements like : appearance of the facility, attitude and behavior of staff, decor and atmosphere, business hours, interest rate, waiting time, etc. (Bena, I., 2010).

Customer focused performance is the route to income earning of retail banking, which is having a long term financial impact on the business of the banks (Soteriou, et al., 1997). The bank performance depends upon the efficiency and satisfaction of its employees. A good number of studies found that the banks which are responsible in performing their routine activities, have an excellent financial performance. It is seen as a key performance indicator within business. In a competitive environment, where the firms compete for customers, customer focus is seen as a key determinant and has become the main area of business strategy.

However, customer focused performance is an ambiguous and abstract concept that ranges from person to person and service to service. The level of the financial sector's contributions, to the economy, depends largely on the quality and quantity of the products and services it offers. In order to restore customers' confidence business entities need to focus on innovative products and services that satisfy their customers' needs (Kumar, 2011). According to Wildie, et al., (2008), to innovate is one thing, but the innovation to be accepted by customer is entirely other. At the center is the customer and customer service is the main determining factor of its success. Without gaining customer satisfaction no business can exist. Customer satisfaction is a key performance indicator within a business. It determines as to how well the product and service supplied by a company have been able to meet or exceed customers' expectation.

Performance measurement is widely used tool in the service industry as it is associated with both income as well as non-income making set-ups. Bank has acquired a special importance in this sector because it frequently deals with customers. The provision of high quality customer service plays a significant role in the service sector. Now all organisations are focusing on customer satisfaction in this competitive world. Hence, customer focused performance is the factor that will decide the fate of the organisation whether the organisation will remain in the business or not (Kumar, M., 2016).

Thus, customer focused performance is a business approach to measure performance in terms of customer retention, customer satisfaction, service response time, etc. (<https://www.nibusinessinfo.co.uk>). In this approach, all processes in business are tailored to meet customer requirements and satisfy their expectations. The involvement of customers in services results a longer and more intimate relationship. This relationship is made not only purchase of products/services but also to the whole consumption process, making the user's knowledge and experiences more important for service companies than

tangible product companies. This creates major challenges for service companies because new services must be more responsive to customers' needs (Alam & Perry, 2002 cited in Borgqvist and Linderg, 2011).

In judging the performance of a product, the customer compares a set of performance outcomes that are expected for the item. If the performance of the product is below expectations, then the product is likely to be categorised as dissatisfactory. If both instrumental and expressive outcomes are equal to or exceed to expectations, then the consumer tends to judge the product as satisfactory (Swan, J.E. and Combs, L.J., 1976).

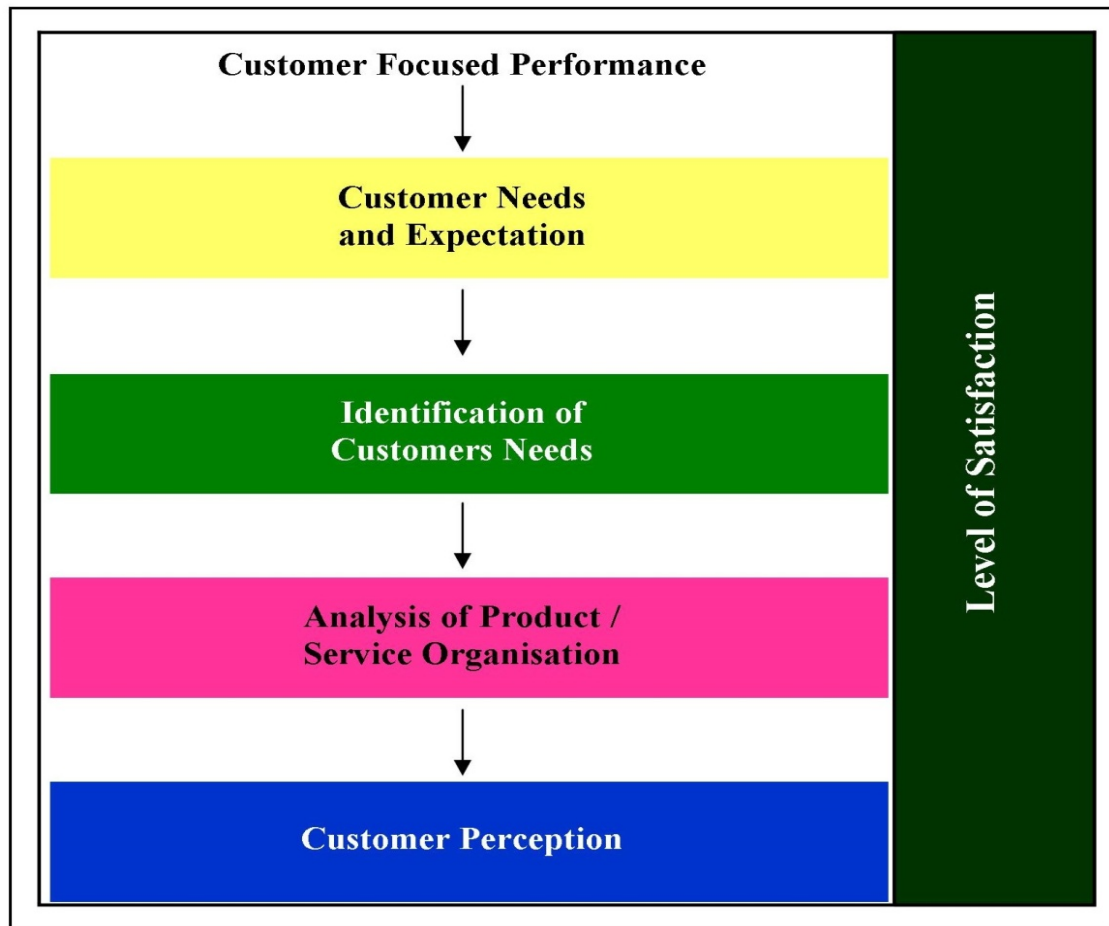
Today's turbulent environment requires firms to give highest priority to customer focused performance, with the actual customer perspective as the focus, so that interests of other stakeholders can also be met. There are two views regarding customer focused performance, they are - The Resource-based view and The Service management view. The Resource-based view advocates mainly on the sources of sustainable competitive advantages, heterogeneous resources and core competences, and the Service management view emphasizes, such as customer perceived quality, customer satisfaction and customer value (Wang, Y., 2003, Avkiran, 1994).

Initially the performance measurements were typically accounting based which gave importance mainly on financial indicators. In recent years, researchers have proposed a number of frameworks, models and equipments for indicating performance measurement based on non-financial indicators such as quality, customer satisfaction and innovation (Ittner et al., 1998, Nudurupati, et al., 2011 cited in Chirunalla and Bertoni, 2013). In a competitive environment, customer focused performance has played the role of a key differentiator and progressively has become a major component of business strategy. Scholars have measured customer focused performance in various ways. Wang, Y., (2003) has measured customer focused performance on the basis of the perceived

service quality, customer value (benefits and cost) and customer satisfaction. However, perceived service quality is measured through reliability, tangibility, responsiveness, assurance and empathy dimension (Wang, Y., 2003).

Brignall, T.J. et al. (1991), has synthesized six performance dimensions for competitive success. The dimensions are - Competitiveness, Financial Performance, Service Quality, Flexibility, Resource Utilisation and Innovation. Each dimension is further evaluated through various types of measure. The dimension Competitiveness is measured through relative market share and position, sales growth, and customer base. Like-wise, Financial Performance is measured through profitability, liquidity, and capital structure and market ratio. The dimension Service Quality is measured through reliability, responsiveness, aesthetics or appearance, cleanliness or tidiness, comfort, friendliness, communication, courtesy, competence, access, availability, and security (Brignall, T.J. et al., 1991). The following figure 1.3 depicts customer focused performance

Figure 1.3 Customer Focused Performance



Source: Compiled by Researcher from Various Literature.

1.9.3 Customer Focus in Banking Sector

Banking, being a customer-oriented service industry, the customer is the centre of attention and customer service has to be the distinguishing factor. The challenge for banks is to lower costs, increase efficiency, while improving the quality of their service, and increase customer satisfaction. Attention has now turned to improve the quality of service encountered, when customers enter the bank and come into face-to-face contact

with bank staff. Until Nineties, the bank-customer relationship was heavily standardized and the low level of banking offers met the lack of demand from the customer. Management considered banking as very different from the entrepreneurial world. Since the Nineties, the increasing level of information and competence of the average retail customer has lead to more complex needs for architecture and a demand of diverse financial services.

Therefore, today, the bank cannot act regardless of its customer's feelings. The customer may choose the bank which will offer him/her a tailored service. Therefore, the banks have to make strong innovation effort to retain their customers. However, the relationship between the bank and its customer differs from that of other service industry for two reasons. Firstly, the peculiarity of financial products is that it remains within the supplier's control after sale. In fact, the supplier can interfere with the product /service after purchase. Secondly, the relationship between the supplier and the user is strictly based on trust due to the information asymmetry and the mutually assumed risks commitments. Hence, the bank's image is the key to the quality of its offers. Customer's concerns and wishes change continuously, and therefore it is necessary to provide non-stop improvement, quality enhancement, and their effectiveness by customer satisfaction testing. The bank's ability in focusing on 'how to serve the client' and not on 'what the client receives' clearly creates customer satisfaction/dissatisfaction and consequently his loyalty (Lacangeleera, et al. 2011).

Customers are now demanding multiple channels through which they can interact with their providers including face to face contact, phone, websites, e-mail, mobile devices etc. This has forced the banking sector to explore new distribution channels, so that ordinary customer can gather more information about multiple banking products/services than even before. There is a phenomenal change and paradigm shift towards customer focus over the past decades. The banking business found standing on

the pillars of customers' satisfaction and it is pertinent that policy makers and branch manager think over the problem on priority basis. Thus, decade-focus on customer can be summarized as - in the beginning the banks were concerned with serving their customers; later, it focused on ways through which they could satisfy their customers and gradually emphasized on pleasing and delighting their Customers. Recently, they are concerned with retaining the customers.

1.10 Evolution of Banking

A bank is a financial institution which deals with deposits and advances and other related financial services. It receives money in the form of deposits from those who have excess of it and it lends money to those who are in need of it. Hence, it is an institution and a financial arbitrator that accepts deposits and uses them for lending activities either directly by granting loan or indirectly through capital markets. It is a connecting link between people who are in need of finance and the people who have excess of this finance. Banks are generally highly regulated in most countries due to their influence within a financial system and an economy, many banks function under a system known as fractional reserve banking. In this process, they keep only a small reserve of the funds deposited and use the rest for profit. They are subjected to minimum capital requirements on the basis of an international set of capital standards, known as the Basel accords.

The origin of banking can be seen from a very early time in human history. In the year 1171, the authorities of Venice had borrowed money from the public for fulfilling the war expenditure and later they repaid the loan. Loan was termed as 'mot' in Italian language while in German language it meant 'bank'. In German language the word 'bank' means a joint stock fund but bank was Italianized into banco, when German ruled many parts of Italy and also in France and England, this word was used. Since 1646, the

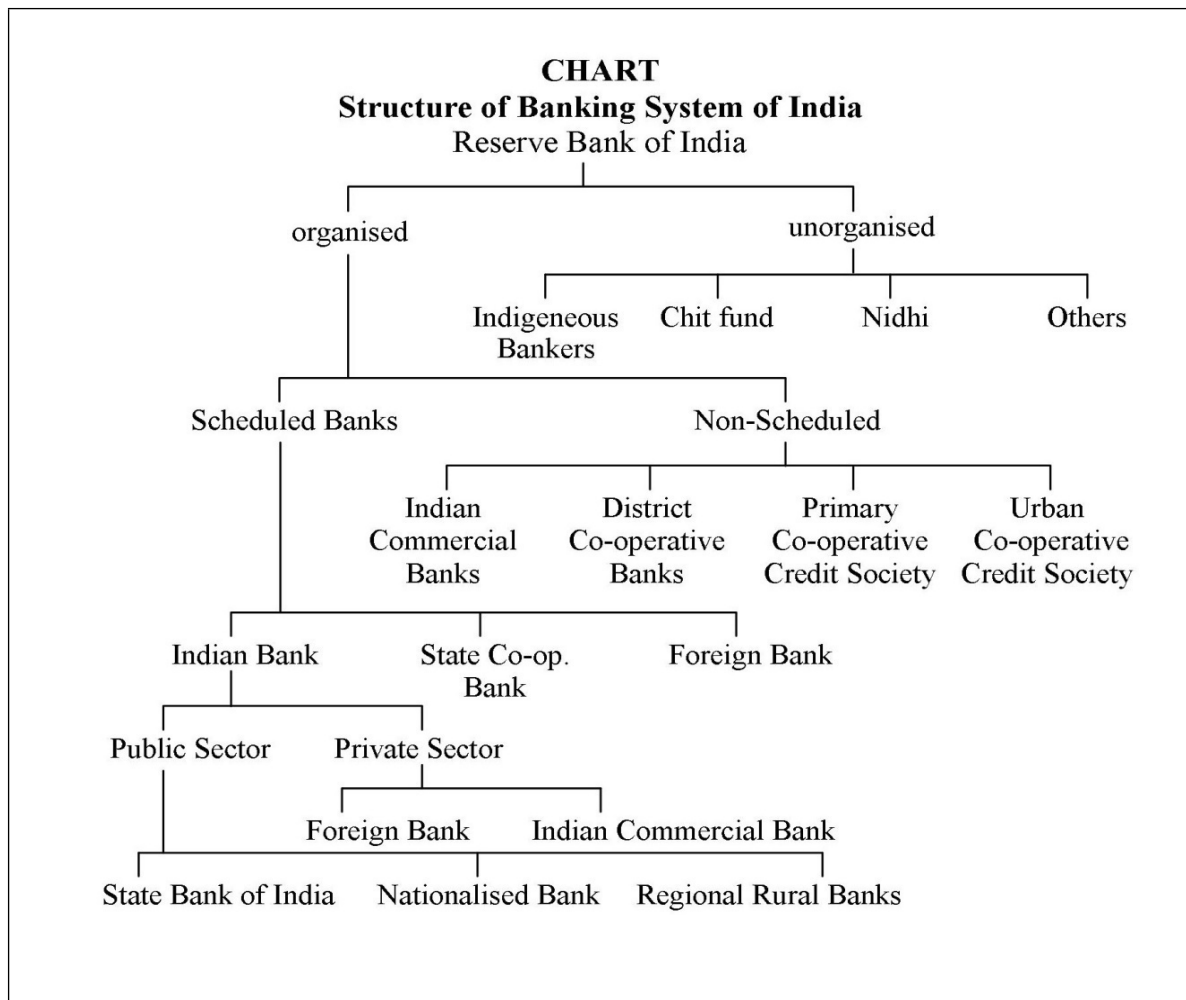
word 'bank' has been used in the articles and many banks used the word bank in their names. However, some thinkers viewed the meaning of Italian word 'banco' as table. The money lenders in those days used table in the market place when they performed any monetary transactions and so the word 'bank' has been evolved. In the ancient Rome and Greece, precious metals and coins were stored at safe places and also loaned money for public and private purposes on interest which was prevalent (Paul, R.R., 1992). In England, banking began with the London goldsmiths. In the 17th century for safe-keeping of money and other valuables they began to accept deposits from merchants and other people. Hence, at that time rich people in England kept their valuables such as gold and silver with the goldsmiths and obtained receipts from them for their deposits. In addition, people who deposited gold and silver, if wished to lend some amount to another person, could issue a letter to his goldsmith instructing him to transfer a certain amount of gold or silver to that particular person. So, it is obvious that from this practice emerged the present-day concept of payment through cheques (Ahuja, H. L., 1986). In Babylon culture there was also banking system.

1.10.1 Indian Banking System

In the last decades of the 18th century the Indian banking system was originated. At that time, Indian banking system was not as sound as many of private banks were already functioning during that period. After independence, for the working of commercial banks two major actions were taken which had a very significant role to be played for the Indian Banking Sector reforms. First, in 1949, the Banking Regulation Act was passed and granted extensive powers to Reserve Bank of India which would act as the supervisor of banking in India as Central Banking Authority. The nationalisation of

Reserve Bank of India was another development. The following chart 1.1 depicts the banking system of India.

Chart 1.1 Structure of Banking System of India



Source: Kalita, K.K., (2003), Page No. 117.

In Indian banking system, the Reserve Bank of India (RBI) which is the central bank of the country hold the top position and hence is the apex monetary authority. RBI has the power to regulate money and credit in the economy as well as control the banking system as a whole. The banking system in India is divided into Unorganised sector and Organised sector. The operation and credit system in unorganised sector run through

traditional manner. The examples are money lenders, indigenous banker, chit funds, nidhis etc. The organised banking sector can be divided into Scheduled and Non-Scheduled banks. Here, scheduled banks are listed under the Second Schedule of the RBI Act 1934. Others are non-scheduled banks basically small banking units. Scheduled banks include the commercial banks operating in India in the form of public sector as well as private sector banks, foreign banks, and State Co-operative Banks. The state co-operative banks and small city or urban co-operative banks are operating banking business with other commercial banks. Banks incorporated outside India but having a place of business in India are listed in the second Schedule of the RBI and permitted to operate in India are the Foreign Banks (Kalita, K.K, 2003).

The main functions of foreign banks are to facilitate finance and deal with import and export trade. Again, commercial banks may be public sector or private sector banks. Private sector banks are owned and managed by private citizens. The risk and return of private banks go to the shareholders of those banks. On the other hand, public sector banks are owned and managed by the government. Public sector banks in India are grouped as -

1. State Bank of India and its Associates (Subsidiaries),
2. Nationalised Banks, and
3. The Regional Rural Banks.

1.10.2 Banking Development - Pre Reform Period

It was seen that a steady decline took place in the importance of the non-scheduled commercial banks in the country which was undoubtedly an important change that took place in that period. In 1955, the Imperial Bank of India was named into the

“State Bank of India” and it was nationalised. It was established under State Bank of India Act, 1955. Also, in 1960 eight regional banks were nationalised. On July 19, 1969, another fourteen commercial banks were nationalised. This Nationalisation of 14 banks in India in 1969 has a strong impact for the growth of Indian banking sector. On April 15, 1980, six more private commercial banks were nationalised. Its purpose was to regulate the increasing heights of economy, provide the banking facilities to underbanked places, mainly in villages and backward places, to ensure increased financial assistance to the neglected areas, to foster the growth of new and progressive entrepreneurs, to make the bank management run by professionals with a view to remove any kind of biasness, etc.

1.10.3 Banking Sector Reforms

The economic crisis of 1991 along with the process of liberalisation brought in various economic reforms. It was seen that banking sector was more affected by the process of liberalisation as compared to any other sector. By 1991 due to the high number of non-performing assets, the banking system had become extremely brittle. Seeing this scenario of the banking sector and considering the decrease in the efficiency and income earning capacity of the banking sector, the government finally took the decision to renovate the banking sector so as to bring about higher competition and efficiency in their functioning and to increase their profit earning ability. To overcome this objective of the government, it was decided to appoint a nine member committee on the Financial System under the chairmanship of M. Narasimham in August 1991. The committee submitted its report within three months.

This report submitted by the committee was considered as a landmark documents that have also played a significant role in the reforms of Indian banking sector that took place in the last few years. The committee recommended in strengthening of banking

supervision and also advised for changing its nature, away from intensive micro intervention over credit decision towards prudential supervision (Misra and Puri, 2016). Until 1991 the competition in the banking sector was very less. The public sector banks dominated the banking industry in terms of size of assets, acted as a monolith. The government, therefore, recognized the need of making the banking industry more competitive. It has thus made certain policy changes such as deregulation of interest rates and dilution of consortium lending requirements. Moreover, private sector banking also became prevalent. As a consequence, new private sector banks have started, old private sector banks have upgraded and enhanced their working and more foreign sector banks have landed in the Indian banking industry. This has promoted competition and has helped in increasing efficiency.

1.10.4 Banking Development- Post Reform Period

To begin the second stage of financial sector reforms, a committee was constituted headed by M. Narasimham, on financial sector reform. The second phase of reforms initiated with an aim to reorganisation measures, human capital development, technological up-gradation and structural development which assisted them in gaining universal benchmarks in terms of prudential norms and pre-eminent practices. Financial sector reform has emphasized on upgrading the competitive efficiency of the banking system. The financial reform process that took place since 1991 had caused the banking sector to upgrade, become well-capitalized and become more competitive. During that period, new private sector and foreign banks were also emerged. These private sector and foreign banks have emerged with the latest technology and well equipped through computerization. Hence, up gradation of communication network continues to take place in banking sector. The structure and nature of banking and financial services have

undergone massive change with the growth of internet. Amongst the technological development, internet banking or e-banking is remarkable.

Banking activity is now very easy and convenient for the customers, where he/she is no longer only limited to the branches to approach the bank branch, for any financial issues like withdrawing cash or depositing a cheque or request for a statement of accounts. In this latest system of internet banking all the transactions and inquiries are carried out through the online mode without any reference to the branch (any where banking) at any time. The banks have now initiated the new concepts of multi-channels, like ATMs, credit cards, debit cards, telephone banking, mobile banking, internet banking, call centers, etc. These systems are based on technology. It upgrades the processes of banking activity and also promotes rapid product development through alternative delivery channels. These modern day technology based activities have changed the image and appearance of the banking sector.

Technology has been implemented to enable the banking services to the rural areas too. The number of bank branches are providing core banking solution (CBS). Now the role of banking is redefined from a mere financial intermediary to the provider of various financial products/services under one roof and act like a financial supermarket. After the implementation of the liberalisation policy, many reforms are raised in the Indian banking system. The reforms are not only global in character, but also reoriented to international norms and practices. Thus, it can be concluded that the Indian banking industry has stimulated to match itself best in the world, and undoubtedly the level of competition has increased, particularly in the retail segment.

1.10.5 Initiative Made by the RBI for Technological Development

Thus, the RBI has taken following initiative under the name of technological advancement in Indian banking, so as to introduce a safe, secure and sound payment and settlement system.

i) Automated Teller Machines (ATMs): Automated Teller Machines have introduced as an alternative way of banking to facilitate low cost banking transactions. ATMs have laid an easy and faster way of withdrawing cash. Both public sector and private sector banks in India have taken the initiative of providing its customers the facility of ATM Cards to its customers. ATM cards are provided by the bank and allow customers to withdraw their money for 24 hours. Customers can use their ATM cards to perform banking transactions without interacting with bank personnel. Some other use of ATM cards are - payment of utility bills, deposit of cash into accounts, balance enquiry, funds transfer etc.

ii) Debit Card: For withdrawing an amount against the balance already available in the designated account the debit card service is offered by the banks. Now-a-days, ATM cards are also frequently used as debit cards for purchase of goods and services. Such cards are known as ATM-cum-Debit card. For transaction purpose the ATM card are swiped by the customer on an Electronic Data Capture Terminal for authorization. When authorization is successful, a hold for the transacted amount will be transferred on the customer's account. Eventually, the account is debited for the transacted amount.

iii) Credit Card: Internet banking has brought about the provision of credit card to its clients. With the help of this credit card, the customer can pay their bills online and they can also ask for a loan on their cards.

iv) Electronic Funds Transfer (EFT): Electronic Funds Transfer a payment system which is prevalent throughout the country. It facilitates nation-wide, one-to-one fund transfer. EFT provides electronic transfer of funds in a safe, secure, and rapid manner across bank branches and the system is controlled by Reserve Bank of India. EFT is popular because of its ease and efficiency with which the transaction can be concluded. EFT is a system enables anyone who wants to make payment to other person to transfer funds directly from his own account to the other person's bank account. The information of bank customer's account details should be furnished to the bank at the time of requesting for such transfers so that the amount reaches the other holder's account correctly and in a quicker manner.

v) Real Time Gross Settlement System (RTGS): Real Time Gross Settlement System is an electronic form of funds transfer system that allows transferring huge amount of fund across the country. RTGS takes place on a real time and on a gross basis. Settlement in real time means a payment transaction is being settled immediately as soon as they processed without delay. Here, gross settlement means the transaction is made on one-to-one basis without bundling with any other transaction. If the pre-requisites are met, RTGS allows transferring funds to any individual across the nation. For that certain details should be furnished to account holder's bank or branch. The RTGS system is facilitated and executed by the RBI and provides a means of efficient and swift funds transfer among banks for managing their financial operations.

vi) Electronic Clearing Service (ECS): To settle bulk payments of a similar nature the option is Electronic Clearing Service. ECS is a retail payment system where each individual payment is of relatively smaller amount and of repetitive nature. This facility is mostly practiced in government departments and companies and to make large volumes of payments and not for funds transfer by individual.

vii) Point of Sale Terminal: Point of Sale Terminal is an electronic device used to make payment to the merchant in exchange for goods and services. It is card payments where a retail transaction is completed. At the time of transaction, amount is debited from the customer's account and the same amount is credited to retailer's account.

viii) Tele Banking: The customer does entire non-cash related banking activities through Tele Banking facilities. Under this system, for simpler queries and transactions, automatic voice recorder is used.

ix) Electronic Data Interchange (EDI): Electronic Data Interchange facilitates exchange of business documents through electronic form such as purchase order, invoices, etc. Through standard computer process, EDI exchange business documents with the help of universally accepted format between trading partners. EDI can also pass financial information and payments in electronic form.

x) Digitization: Now banks have adopted digitization due to rapid growth of digital technology. Operation of banking system with paperless, signature less and branchless systems are the features of digitization. It is the process of converting data into a digital format. Risk of human errors reduces and also increases convenience. Thus, these features make it easier and simpler to operate in the banking system. The system like IMPS (Immediate Payment Service), RTGS (Real Time Gross Settlement), NEFT (National Electronic Funds Transfer), online banking, telebanking etc. are the features of digital technology.

xi) Mobile Banking: Through mobile banking customers have been able to do their financial transactions through mobile device. With the help of the application provided by the bank, customer, can use their smart phone to perform various banking procedures like checking account balance, bill payments, fund transfer, etc. remotely. All these functions can be performed without visiting the bank branch.

xii) Unified Payment interface (UPI): It is the payment facility provided by National Payments Corporation of India for inter-bank transactions. UPI permits user to transfer funds between banks accounts through smartphone application. This system makes funds transfer available for 24 hours, 7 days unlike other internet banking systems.

1.11 Statement of the Problem

Nothing is permanent in this world except change. Change is obvious and banking is not an exception. The key to accept change is to adapt and adjust (Mahalingam, A., 2016). The economic crisis of 1991 has reduced the efficiency and profitability of the banking sector. Hence, this sector tries to meet the new challenges coming from the wave of financial deregulation and due to changes in customers' needs. With the opening up of this sector to private players, a stiff competition made this sector more challenging. Again today's emerging technologies such as computerization, automation, development of communication network and the growth of internet, the structure and nature of banking and financial services has witnessed a significant change. Thus, selection of strategic approach for optimizing performance and growth is a fundamental question for the banks. Recently, banks have introduced with a flood of new products and services and new means of marketing. Customers preferences are changing day by day and they have the choice to obtain their services from any distribution channels.

Thus, both public sector and private sector banks are offering multiple products and services to their customers by introducing new products and services through diversification for their sustainability and profitability. It is the prime duty for the bank to fulfill the expectation of the customer. The main challenge for the banking sector is to increase satisfaction of customer through advance quality services and lesser cost of documentation (Kumar, M. and Sarma, S., 2016). Here, assurance is important for the

customer as they may feel risk and uncertain about the product and service offered by the bank. So, there is a need to analyse the recent trends of products and services of banking sector which is important and justified. It is also essential for the banks to analyse the overall attitude or behavior of their customer towards diversified products and services offered by them. As a service provider banks should find the difference between what customers expect and what they receive actually. Customers' focused performance is important element as it mostly influences customers' buying behavior and customers' intention towards particular products and services. If any organization able to achieve customers trust then they would able to maintain long term relationship with customer.

Market Diversification has been indicated economic growth. Market Diversification also boosts the profitability and sustainability of the bank. Studies on diversification have been based other financial markets with little emphasis on the banking sector. As there have been very few studies on this and hence, it is highly desirable to undertake a comprehensive study on nature and extent of diversification, product/ service diversification of banking sector and diversification and performance of banks. To the best of the researcher's knowledge, there is no local study that has investigated the trend of product and service diversification of commercial banks and product/service performance from customer's perspective. Hence, it is highly desirable to study on such issues. Diversification will be successful only when customer accepts such diversified products and services. The study is relevant in the sense that it might give an opportunity to policy makers in doing course correction as far as adopting diversification strategy in product /service line for profitability and sustainability of the banking sector.

1.12 Research Questions

1. What is the nature and extent of diversification adopted by commercial banks in India?
2. What is the performance of diversified products and services of commercial banks in terms of customer focused performance?
3. Are there any relationship of product and service diversification and the performance of commercial banks?

1.13 Objectives of the Study

The following objectives have been designed for the study:

1. To examine the Nature and Extent of Diversification adopted by commercial banks in India.
2. To examine the Nature and Extent of Product and Service Diversification adopted by the selected commercial banks.
3. To examine the Customer Focused Performance on adoption of diversified products and services by the selected commercial banks.
4. To assess the relationship between product and service diversification and performance of selected commercial banks.

1.14 Significance of the Study

To the bank: This study may be a practical guideline for the bankers. The bankers might be benefited from the study as the study is expected to provide a clear understanding regarding the performance of banks on diversification issues with reference to customer

focused performance. This might help bankers to undertake future course of action initiating for taking more diversification strategy on product/service line as the customers are the ultimate users of such products and services and success of such initiatives depends upon acceptance by them. The outcome of the study may help the bank to develop customer-centric products/ services to deal with the customers. Bank may redesign their financial product/ services to attract new customers.

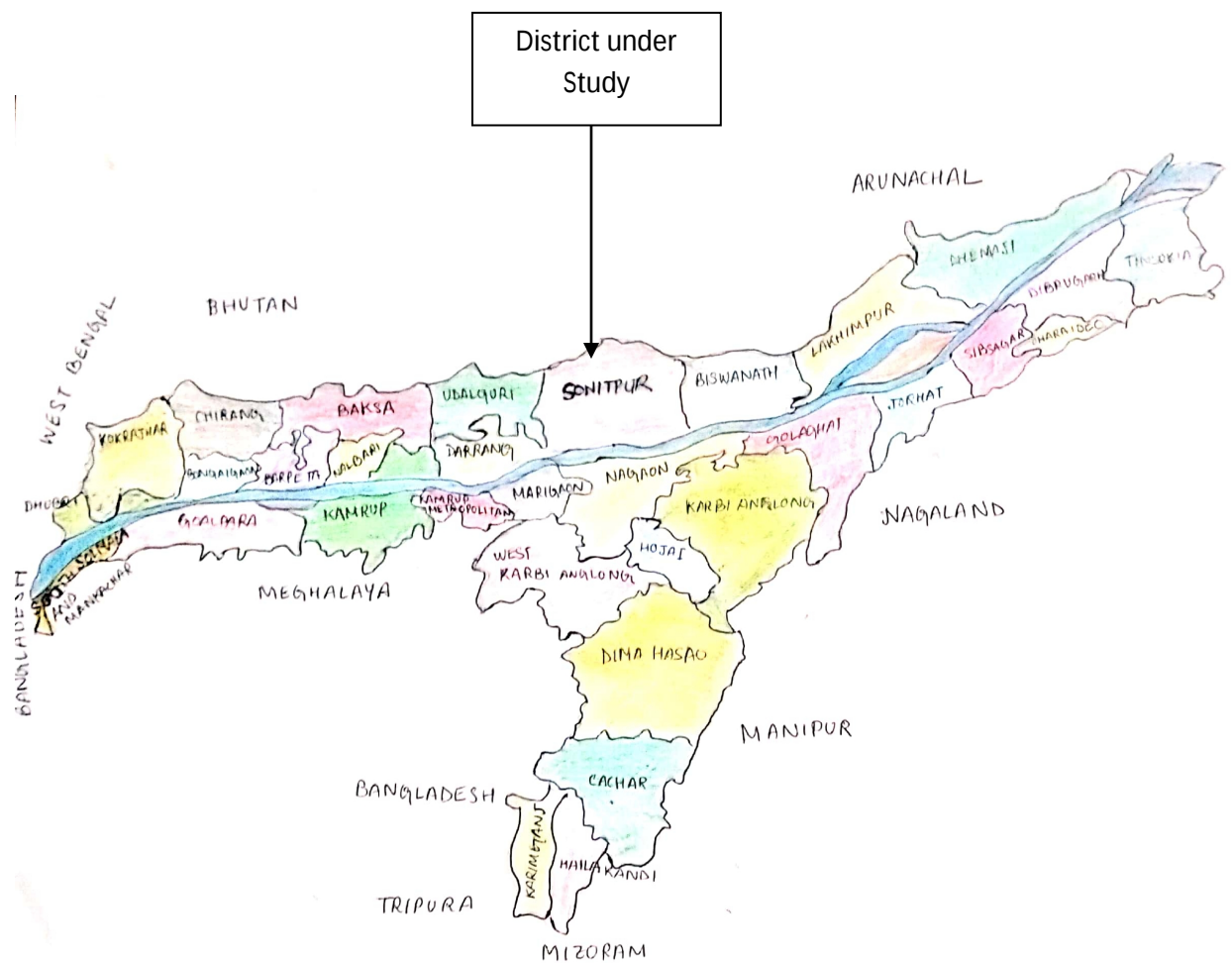
To the government: The findings might go a long way in providing the necessary details and understanding on product diversification in the banking sector and diversification and performance consequences of commercial banks. The government may apply the findings to strengthen the financial sector of the country.

To the researcher: The findings of this study might add to the existing body of literature. New knowledge may act as a source of reference in future study. For further research in diversification in banking sector or related field this study might act as a guideline.

1.15 Scope of the Study

For studying diversification, the whole country i.e., India has been selected as the area for investigation. Entire commercial banks operating in India have been selected as sample. For studying customer focused performance, the Sonitpur district of Assam has been considered as the geographical area for the study.

Map of Assam



Source: Drawn by the researcher.

Sonitpur district, which is one of the important districts of the state of Assam, has been selected for conducting the study on customer focused performance as most of the commercial banks performing their financial services in this area.

The term “diversification” includes producing new products or services or entering into new markets with the present products, services or markets. In his study, Ansoff (1957) considered diversification as a growth strategy by which a company tries to serve new markets with new products. Thus, it is a collection of businesses under one corporate umbrella. In a broad sense, diversification means expansion of business field either to new area, new products or both while retaining strong core business. The level of diversification in the banking sector throughout the world has increased as they involve in non-traditional intermediation products and services and venturing in new areas. Hence, there is a wider scope to undertake studies on a continuous basis on different geographical location. In order to define diversified banks this study has considered those banks as diversified banks which have entered into related business or unrelated business or both in the form of a joint venture, alliance or subsidiary.

Relatedness and Unrelatedness concepts have been used to highlight the nature of diversification in banks. Here, related business refers to expansion into various similar businesses with present business. Hence, related banking business in this study means expansion through integration into similar banking business through banking subsidiaries or associations. In this study, unrelated business refers to expansion into different businesses with present business. Hence, unrelated banking business means expansion through integration into different non- banking business like merchant banking, factoring etc. The study highlights the various financial products and services of commercial banks as on date.

This study is incorporated with product/service performance of bank from customers' perspective. Assessing customer focused performance is a modern approach for the organisation and it involves with the development of customer-focused management and culture. Measuring customer focused performance offers an immediate, meaningful feedback about their preferences and desires. In this way, product/service performance is evaluated in relation to a set of dimensions that indicate the strong and the weak points of a business organization (Mihelis, G., 2001). To measure the product/service performance of organization, the most widely used model in research across the world is Gap Model. With this view, the present study has applied the approach developed by Parasuraman et al., (1988) which is popularly known as Gap Model. The gap model is a multi-item scale for measuring customers' expectations and experiences.

1.16 Chapterisation

The present study is interwoven into seven chapters which are:

Chapter I: Introduction

Being the introductory this chapter includes Introduction, Diversification Strategies, Motives, Theories, and Types of Diversification, Diversification in Banking Sector, Product and Service Diversification, Diversification and Performance, Customer Focus, Factors that Driving the Customer Focus in Banking Sector, Customers Focused Performance, Customer Focus in Banking Sector, Evolution of Banking, Indian Banking System, Banking Development - Pre Reform Period and Post Reform Period, Initiative Made by the RBI for Technological Development, Statement of the Problem, Research Questions, Objectives of the Study, Significance and Scope of the Study.

Chapter II: Literature Review

This chapter presents in details the Nature and Extent of Diversification in Financial Sector, Diversification and Performance Relationship in Financial Sector, Customer Focused Performance. Further, a gap in existing literature has also established to justify the study followed by Conclusion.

Chapter III: Research Methodology

This chapter presents Introduction, The Research Frame, Research Questions, Type of Research, Sample Description, Area of Study, Population, Sampling Design, Study Period, Data Sources, Questionnaire Design, Statistical Technique, Objectives-wise Research Design, Tools for Data Analysis and Conclusion.

Chapter IV: Nature and Extent of Product and Service Diversification of Commercial Banks

This chapter presents the Analysis of Nature and Extent of Diversification which includes Introduction, Measurements and Ways of Diversification, Analysis of Nature and Extent of Diversification in Banking Sector and Conclusion.

Chapter V: Customer Focused Performance on Product and Service Diversification of Commercial Banks

This chapter includes Analysis of Customer Focused Performance and Conclusion.

Chapter VI: Product Diversification and Financial Performance of Banks

This chapter includes Analysis of Product Diversification and Financial Performance of commercial banks in India and Conclusion.

Chapter VII: Conclusion and Recommendations

Being the concluding chapter this chapter presents Major Findings of the Study, Conclusion which is followed by Bibliography and Appendices

1.17 Conclusion

To summarize, this chapter has presented the basic concepts of the study that concentrates on diversification in general and diversification in banking sector, diversification and performance relationship, and customer focused performance in particular. This chapter aims to contribute towards understanding the subject matter of the study. This chapter also presents the detail of Indian banking sector both for pre and post reform period and the technological development of this sector.

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CHAPTER-II

LITERATURE REVIEW

2.1 Introduction

Literature review is an exploration of published works of books, journals, periodicals etc. that examines theory and provides empirical results that are relevant to the topic at hand. Literature review examines critically the various research works on the related aspects of the present study. It provides a base to the researcher in his/her area of research. The review helps the researcher in the generation of ideas for selection of various tools for study and to find meaningful conclusion. A review of related literature is quite indispensable to understand the basic concepts and theories related to the research problem. It helps in comparing the working of various procedures and instruments used. Hence, an attempt has been made to review some of the outstanding studies related to the present research study. Here available literatures and researches have been classified into three major parts according to the area of research i.e.

- i). Review of literature based on nature and extent of diversification in financial sector.**
- ii). Review of literature based on diversification and performance relationship in financial sector.**
- iii). Review of literature based on customer focused performance.**

2.2 Review of literature based on nature and extent of diversification in financial sector

The purpose of this section is to give a general overview of empirical studies which investigate the nature and extent of diversification in financial sector.

Rumelt, R.P. (1982) in his paper “Diversification Strategy and Profitability” observed that the proportion of the largest 500 United States industrial firms listed by Fortune were diversified, rising from 30% to 63%. Author found that firms had adopted absolute product diversity along with the relationships they established among different lines of business. Author also observed that the highest level of profitability earned by those firms who adopted strategy of diversification and lowest profits was exhibited by those of vertically integrated businesses and following strategies of diversification into unrelated business. This paper was prepared on the basis of author’s earlier study and investigated the sources of these performance differences. The population of the study was the largest 500 firms of United States as listed by Fortune. The sample population was constructed by randomly selecting 100 of the largest 500 firms. Data indicated the decline in the number of single business firms and the rapid growth in the related linked and unrelated business categories. In this study, author predicted a theoretical explanation of product diversity and degree of relatedness. An empirical test of this prediction was performed and its implications were discussed.

Grant and Thomas (1988) in their article “Diversity and Profitability: Evidence and Future Research Directions”, focused on British manufacturing industries and found that multi-national diversification is more profitable than product diversification. Study also found that once a high level of product diversity is achieved, increased diversity results lower levels of profitability. The nature of the diversification can be measured through the relatedness between a company’s business activities. This is the key factors

of the success of diversifications. Authors advocated that corporate level relatedness is more convenient to handle than operational relatedness. Corporate diversification on the other hand is generally neither successful nor unsuccessful. The profitability of diversification is crucially dependent upon factors which are specific to the industries, where the firm is spanning. Finally, authors focused on the overall impact of diversification upon performance. According to authors, the key factors that impact diversification upon performance were interactions between diversification and industry membership, firm resources, organization and managerial capabilities etc.

Varadarajan and Ramanujam (1989) in their work on “Research on Corporate Diversification: A Synthesis” described that as diversification is widely discussed topic in the research particularly in the area of industrial organization economics, organization theory and marketing, and financial economics, a synthesis of these diverse streams of research is required. This study attempted such a synthesis with a view to encourage further strategic management research in this area by taking a multi-disciplinary perspective on diversification. Proceeding from the framework, a critique of the literature is performed with a particular emphasis on studies by strategic management researchers. From the study, authors have indicated and discussed five key conceptual and methodological problems. Focus has been given on the five issues. They are – the theoretical bases for diversification and performance relationship, the measurement of diversity and performance, temporal stability issues, possible spuriousness of observed results and implementation of diversification strategies. Further suggestions were offered for future research on diversification.

Shankar, K. (1989) in his study “Characteristics of Diversification in Indian Industry” observed that during 1975-76, the spread and depth of diversification in the Indian corporate sector was low. This paper discussed the theories of diversification particularly the area such as extent, trend, direction and magnitude of diversification.

Furthermore, it also studied the relationship between diversification and age, diversification and size, and industrial house of a company. Study showed a high growth and profitability rates in the industries into which adopts the strategy of diversification. Author observed that age of the company is also positively related with diversification. Study also found that monopoly houses have a positive association with diversification.

Shergill, G. S. (1993) in his research work “Measures of Firm Diversification” examined the major progress concerning the methods developed by different researchers to link diversification and performance of the organization. The two widely used methods in this area were Categorical measures and Continuous measures. Categorical measure was developed by business researchers while continuous measure was explored by industrial organization economists. Research in industrial organization economists enabled to demonstrate any relation between diversity and performance, while Rumelt’s methodology demonstrated such a link, and later phase, a number of studies had confirmed his findings. Another method which was based on market based measures was developed by team of researchers. It is quite difficult to recommend only one measure to meet all the needs. Researchers may apply different measures, keeping in mind the research objectives, nature of available data, and availability of time with the researcher. Author also indicated that each of the measure had its own merits and demerits. Over the time, Rumelt’s classification scheme came to be widely adopted by the researchers to link diversification and performance of the organization.

Montgomery, C. A. (1994) in his paper “Corporate Diversification” examined three perspectives regarding the adoption of firm’s diversity that blended a number of individual points. The three views discussed in this paper were the market-power view, the resource-view and the agency view. Both the market-power view and the resource-view are consistent with profit maximization. Again the resource-view is indicated the efficient use of resources. Agency view is associated with the managerial efficiency. The

market power view of diversification has generated a lot of interest, but it has tended to emphasize blunt arguments, rather than subtle ones. In contrast, both the resource and agency views are considerably more promising. Agency argument tries to describe firm's efficient level of diversification but in practice it is quite difficult to identify the efficient level of diversification for the firm, and agency arguments fails to resolve such. The resource view, on the other hand, expresses the direction of diversified expansion. Like the agency view, the resource view also suffers from difficulties in identifying the efficient level of diversification for the firm. Author concluded that, to estimate the relative importance of the resource-base and agency theory views of diversification, empirical tests would be helpful to discriminate the two views of diversification.

Young and Roland (1999) in their paper "Product Mix and Earnings Volatility at Commercial Banks: Evidence from a Degree of Leverage Model" studied various mixes of financial services produced and marketed jointly by commercial banks. For the purpose of study a data of 472 U.S. commercial banks between 1988 and 1995 was taken. The study found that with shifting from traditional intermediation activities to fee-based activities increases the volatility of the earning of commercial banks. According to the author there are mainly three reasons that increase volatility in earnings and consequential risks of commercial banks. Firstly, earning from lending activities have comparatively stable pattern of income because, switching and information costs are expensive for both lenders and borrowers. While in case of non-interest income, fluctuating pattern was observed as banks' acceptance for these kinds of activities are very easy. Secondly, it was stated that expanding income activities raise fixed cost and consequential increase in the operating leverage of banks. Thirdly, banking regulations do not require banks to hold adequate capital.

Bruche, G. (2000) in his research paper "Corporate Strategy, Relatedness and Diversification" surveyed the discussion of the last decades on corporate strategy and

horizontal diversification among strategy researchers and consultants. In his observation, he found that diversified companies have two major tasks-

- i) The selection of the mix of businesses and the value enhancing management of this mix of businesses based on organizational structures, and
- ii) System and resource policies.

Furthermore, this paper has discussed the diversification strategies in emerging economies which are different from developed economies. However, empirically it was found that the diversified multi-business company was the prevailing approach of the firm of the capitalist economy. Author also expressed that there was no equilibrium level of diversification and size of the firm. Rather diversification moves up and down with the changes of business environment.

Stiroh, K. J. (2002) in his study “Diversification in Banking: Is non-interest Income the Answer?” examined bank data from the late 1970s to 2001 to find the affects of non-interest income on bank profits and revenues, and to find whether concentration in non-traditional activities is correlated with risk indicators. The study demonstrated the relation between the growing dependency on non-interest income and the volatility of bank revenue and profits. Results from both aggregate and bank data provided little evidence that this shift from interest income to non-interest income offers large diversification benefits in the form of more stable profits or revenue. At the aggregate level, non-interest income is much more volatile than traditional net interest income. In terms of bank risk and return, there was a clear negative association between non-interest income shares and profits per unit of risk.

Turner, I. (2005) in his research paper “Diversification: When to and when not to?” described that during ‘60s and ‘70s diversification turned as a fashionable remedy for business entities faced with maturity in their core businesses. In 1980s’ though focus

became the hymn for researchers and executives, diversification was not completely disappeared from the landscape. Study found that some of the world's most successful companies during that period were highly diversified. However from the research, it is seen that moderately diversified group consistently outperformed the fully diversified companies and even companies in the focused category. From this study, it is also seen that the sharing resources for related business by the firm may lower the total costs of producing all the various products then that of producing them separately. The theory of economies of scope allows the firm to make benefits. Firms may use excess resources to diversify into other markets and the result is generation of higher revenues. Another most important benefit of related diversification is the emergence of well-defined market segment. Thus, superior performance is generated as a result of related diversification partly because where many players adopt the same strategy, the strategy becomes legitimized and the infrastructure develops accordingly.

Kenny, G. (2009) in his work "Diversification Strategy: How to Grow Business" discussed seven steps to successful diversification. These are - a supportive corporate center should be established, a capable division manager should be selected, an appropriate performance measure should be installed, an effective incentive should be installed, competitive advantage should be secured, corporate culture should be aligned and good product should be bought and integrated. Author also mentioned that the financial structure of a company could affect the benefit of diversification.

Deb, N. (2011) in her thesis "Indian Banking: A Transition towards Universal Banking Framework" investigated to know the position of a commercial bank with respect to a Universal bank and also the financial health of sample banks and their risk taking behaviour. Thus, the objective of the research was to find the phases of banks to move towards universal banking framework and researcher found that most of the Indian commercial banks are in the process of becoming universal banks. Author found that both

the bank manager as well as the customers of the banks had a positive attitude towards transformation of banks into universal banks. To know the direction of universal banking framework, a 6-point positioning scale was applied and it was found that all the sample banks started their journey towards becoming a Universal Bank but they were not sound as far as their financial health was concerned. Therefore, commercial banks need some degree of monitoring so that they do not fail. Researcher found that commercial banks have started to offer a variety of products under an 'umbrella brand' and the structure of banks has changed. At the initial stages, when banks offer only the traditional banking services, the structure of the banks are quite simple, but with the introduction of services like insurance, mutual funds, investments banking etc., banks are required to choose different structure. In India, almost all banks have been following the Bank Holding Company structure. Finally, the study suggested successful implementation of the universal banking concept such as positive attitude of the bank managers as they are the ultimate authority to create awareness on the variety of services that are offered by the bank.

Goetz, M. (2012) in his study “Bank Diversification, Market Structure and Risk Taking: Theory and Evidence from U.S. Commercial Banks” showed the relationship between a bank’s geographical diversification, the diversity of its competitors and the risk taking behaviour of these banks by using data from the U.S. commercial banking sector. In findings it was found that a bank’s risk taking was lower when its competitors had a more diversified branch network across countries. To measure the causal effects of a bank’s diversification on competing banks’ risk taking, author employed two empirical strategies based on the timing of intrastate branching deregulation and a gravity model. These strategies explain bank’s expansion behavior within a state. The results expressed that the level of competitors’ degree of diversification is significantly correlated with bank’s risk taking behaviour.

Bhatia and Thakur (2013) in their study “Nature, Extent and Pattern of Diversification in the Indian Corporate Sector” considered diversification as growth strategies in business sector. The main objective of the research was to measure the extent of diversification in the Indian corporate sector. To achieve the objective Rumelt’s Methodology was used which was a widely used methodology by the researchers in many countries. The results depicted that over a period of time, Indian companies have diversified but the extent of diversification was not very high. Dominant Business (DB) was the most preferred diversification strategy. Unrelated business strategy was not applied by the companies in Indian corporate sector. Overall, the results described that though the Indian corporate sector was diversified but they preferred to remain their core business.

Ansari (2015) in his research paper “Product Diversification and Bank Risk Taking Behaviour” studied in a detail manner about the relationship of risk taking behaviour of bank through product diversification, size of the bank and ownership. By taking the period of four years from 2001 to 2004, he studied the diversification of banks and found that the degree of product diversification was negatively related with bank risk taking behaviour for small sized banks as compared to large-sized banks. Ownership also matters in the pursuit of product diversification. The study used the Generalized Methods of Moments (GMM) that helped to provide a more useful framework for comparison and assessment.

Aslam et al. (2015) in their research work “Diversification in Banking: Is Non-interest Income the Answer for Pakistan’s Case?” found that Pakistan banking company expanded their revenues from traditional interest-income to the non-interest income through diversifying various business lines. Banks adopted such strategy because of changing trend of global banking that begun after financial reforms, deregulation and improvement of technology. Taking 19 commercial banks of Pakistan including public,

private and foreign banks for the period 2006 to 2012, the findings indicated a positive relationship between decreasing in credit quality and non-interest income, which further depicted that banks were interested to earn more from non-traditional sources to avoid risky interest loans.

Mulwa, Tarus and Kosgei (2015) in their study “Commercial Bank Diversification: A Theoretical Survey” observed that banking industry in the entire world has experienced tremendous diversification levels due to the liberalization and deregulation, this study attempted to give actual meaning of diversification, motivational factors of diversification and the avenues through which banks have executed diversification strategy. The common approaches through which banks pursue diversification are income diversification, assets diversification, credit diversification, geographical diversification and international diversification.

2.3 Review of literature based on diversification and performance in financial sector

The relation between diversification and performance has been a constant subject matter for strategy researchers over the past several decades.

Berger, Hasan, and Zhou (2008) in their paper “The Effects of Focus Versus Diversification on Bank Performance: Evidence from Chinese Bank” examined the effects of focus versus diversification on bank performance by using the data on Chinese bank for the period of ten years (1996-2006). Authors in this research work developed a new measure called economies of diversification, which is based on economies of scope, and compared the results to a more conventional approach called the focus index. Focus index is based on the sum of squares of shares in different products or regions. Based on

the economies of diversification framework they investigated the differences in predicted profits and costs between the observed diversified bank and a hypothetical focused bank. Diversification was captured in four dimensions. The dimensions were loans, deposits, assets, and geography. They found that all four dimensions of diversification were associated with reduced profits and higher costs for the sample banks. The findings of the study have important implications for bank managers and regulators in China as well as in other emerging economies.

Oju (2009) in his paper “Corporate Diversification and Firm Performance” showed the relationship between corporate diversification and firm performance in selected Nigerian companies. Study found that the diversified companies were able to exploit, extend, or defend their power by strategies and tactics. There are a number of motives behind diversification from an agency perspective. Four main reasons for managers to diversify the company are - the managers diversify in order to create their own managerial aggression, managers diversify into markets or products in a way that increases the demand for their skills and abilities, managers try to reduce their employment risk and thereby make the organization less dependent on a single market or product.

Kaur (2010) in his thesis “Diversification in Banking Sector in India - Determinants and Effect on Financial Performance” described that financial sector reforms compelled Indian commercial banks to diversify and adopt universal banking structures in different forms and degrees that made commercial banks one-stop financial supermarket. From the empirical evidence researcher found that the level of interest income to total assets is declined while the ratio of non-interest income to total assets is increased in case of diversified banks. While, variations in non-interest income to total assets was more in non-diversified banks as compared to diversified banks. On the basis of ROA (Return on Assets), profitability of diversified banks was found to be better as

compared to non-diversified banks. However, the degree of diversification had impact on non-interest income of all banks. In comparison of degree of diversification between public and private commercial banks the growth in non-interest income attributable to degree of diversification was found highest in private sector banks. From the research investigation it was also found that the majority of the banks in India have adopted Broad Spectrum Diversification for diversifying their operations through non-banking subsidiaries and alliances, joint ventures etc. However, the decision to diversify is affected by both internal and external factors. These are financial motive, growth motive, customer relationship motive, risk reduction motive, cost management motive, competition motive, optimum use of technology and economies in operation motive. In respect of nationalised banks, a positive but marginal impact of degree of diversification on non-interest income and total income of banks was found. Comparatively, volatility of income was found higher in respect of non-diversified banks and lower in respect of diversified banks. The findings focused that diversified banks had stable pattern of earnings. Thus, from the study it can be concluded that diversified banks are significantly better as compared to non-diversified banks.

Rossem (2010) in his thesis “The Diversification Performance Relationship and its Causal Direction” studied the field of strategic management research and found that diversification and performance relationship is the most widely discussed research relationship. The aim of the study was to provide more information on the diversification performance relationship and its causal direction. The study attempted to answer the relationship between diversification and performance and its causal direction for firms for at least one year. This relationship was examined by conducting panel data analysis on the basis of the sample of past diversification strategy on its current financial performance. The analysis of the study showed limited evidence of positive influences of related diversification on financial performance. However, there was no significant

influence of unrelated diversification on financial performance. The causal direction of the diversification and performance relationship was measured by using panel data analysis on the influence of past financial performance on the firm's present diversification strategy. A highly significant result was found from the study. Findings of the study reflected that the influence of past financial performance on present diversification strategy was more than the influence of past diversification strategy on current financial performance.

Maina (2011) in his paper "The Relationship between Product Diversification and Financial Performance of Commercial Banks in Kenya" formulated the objective to establish the relationship between product diversification and financial performance of commercial banks in Kenya. For the purpose of the study 43 Kenyan commercial banks for the period of 5 years (2008-2012) was taken. Data were basically secondary in nature. Herfindahl-Hirschman Index, Correlations and Regression analysis were applied and revealed that all commercial banks in Kenya were diversified; diversification level had a positive influence on financial performance of commercial banks in Kenya. This study recommended that banks should extend their product mixes to increase profitability through combination of traditional intermediation activities and non-interest activities. The main concern was to establish the relationship between product diversification and financial performance of commercial banks in Kenya. The results revealed that commercial banking sector in Kenya as a whole was moderately diversified. Income source diversification improves financial performance of commercial banks in Kenya. In findings, it was found that diversification level was basically influenced by size. However, ownership had no influence on diversification level. Further study revealed that diversification was steady, stable and less volatile in non-interest income while net interest income diversification level was found to change abruptly, which may be explained by external variables. Further, the analysis reveal that non-interest income

components - fees and commission on loans and advances are highly correlated with interest income. The study found that the two revenue streams i.e., interest income and non-interest incomes were highly and positively related and they moved in same direction and could affect by same shock.

Amediku (2012) in his paper “The Impact of Income Diversification of Bank Performance: A Case Study of Zenith Bank, Cal Bank and Uni Bank” studied the impact of income sources diversification on bank performance. Data were taken from three universal banks by using the statistical tools namely regression analysis for the study. The study revealed that bank income sources were diversified significantly in the Ghanaian banking industry and both interest income and non-interest activities affected positively on bank performance. Furthermore, growth in the number of branches of the banks significantly affected negatively on banks performances. The major finding of the research was that the commercial banks in Ghana were diversified in source of income and income source diversification improved financial performance.

Turkmen and Yigit (2012) in their paper “Diversification in Banking and its Effect on Banks’ Performance: Evidence from Turkey” examined the effect of sectoral and geographical diversification on the performance of Turkish banks and tried to show how the diversification affects banks’ performance. To measure the relationship between the credit diversification and performance of banks, 40 banks’ data were investigated for the time period of 2007 and 2011. To measure performance of banks, ROA (Return on Assets) and ROE (Return on Equity) are used and Herfindahl Index (HI) is used as a measure of diversification of banks. Main finding revealed that geographical diversification, in terms of Turkish banks’ performance was negative in the period of 2007-2011.

Otieno and Moronge (2014) in their paper “Influence of Product Diversification on the Financial Performance of Selected Commercial Banks in Kenya” formulated the prime objective of the study to determine the influence of product diversification on the financial performance of selected commercial banks in Kenya. The specific objectives of the research were to know the influence of new markets, technology and information flow on performance of commercial banks and to determine the impact of innovativeness on financial performance of commercial banks. The study adopted a descriptive research design. The population of the study was 40 top management, 200 middle level management and 360 junior staff working in 4 commercial banks in Kenya. The study used stratification sampling to collect data from the four selected banks. Random sampling was used to obtain a sample of the top management and middle level management respondents from the selected banks. Primary data was collected and analyzed using quantitative and qualitative techniques and then presented using tables and graphs. Secondary data was also obtained from books, journals and commercial banks data base. The findings indicated that the technology, information flow, new markets and innovativeness were the factors that related with financial performance of the banks but the highest influential factor was innovativeness. The study recommended that the technology which is used in rendering financial services should be of high quality and up to date.

Wambua (2014) in his paper “Product Diversification Strategies and Performance of Commercial Banks in Kenya” explored the various product diversification strategies that commercial banks were adopted due to the effects of globalization, changing lifestyle of customers, market trends, technological advancements, as well as the economic and legal regulatory framework. The study also examined the relationship of the strategies to the performance of the commercial banks. Data was collected from 38 commercial banks operating in Kenya and analyzed using

descriptive statistics. The study result indicated that the commercial banks of Kenya adopted related product diversification strategies which helped commercial banks a lot to get a high level of compatibility with the existing business set up and thus leveraged on operational synergy. From the study, it was also found that the adoption of diversification strategies by the commercial banks have a positive relationship with performance. The findings of the study revealed that the product diversification strategies increased customer retention, satisfaction and bank revenues and consequently higher profits for the bank. The recommendation of the study was that, the commercial banks of Kenya need to emerge their business area to the insurance sector by expanding bancassurance products and services.

2.4 Review of literature based on customer focused performance

Today business organizations are more customers-focused than ever before since customer satisfaction is a competitive advantage which is sustainable over the long term. The business organizations to create healthy customer relationships should always focus on listening to customers' expectations, requirements, complaints and needs. In today's competitive environment, keeping customers satisfied is a tougher job for the banks. Therefore, customer satisfaction is considered as one of the widely discussed topic in financial literature.

Parasuraman, Zeithaml and Berry (1988) in their work "SERVQUAL: A Multi-Item Scale for Measuring Consumer Perceptions of Service Quality" described that measuring service quality is difficult because of its abstract and elusive construct. Besides, it has three unique features in terms of production and consumption. These are intangibility, inseparability and heterogeneity. In absence of objective measures, an appropriate technique for evaluating the quality of organization's service is to measure

consumers' perceptions of quality. This paper demonstrated the advancement of a 22-item scale (known as SERVQUAL) for evaluating customer perceptions of service quality in service and retailing organization. Authors developed 22-items for SERVQUAL questionnaire and also developed model which tracks the five attributes of quality service such as reliability, empathy, assurance, responsiveness and tangibles.

Hallowell (1995) in his study 'The Relationship of Customer Satisfaction, Customer Loyalty and Profitability: An Empirical Study" demonstrated the relationship between customer satisfaction, customer loyalty, and profitability. To achieve the study objectives researcher has formulated two hypotheses - customer satisfaction is related to customer loyalty and customer loyalty is related to profitability. Research concluded that customer satisfaction was related to profit. Hence, it is a duty of the bank to satisfy every customer. Any bank would be wise to target and serve only those customers whose needs it can meet better than its competitors in a profitable manner.

Jazeela (2001) in his study "Customer Perception of Banking Products and Services in Kerala with Reference to Specific Customer Segments in the Urban Area" found that people want to judge banks and hence it is important for banks to create and promote favorable image in the market. The study focused the perceptions of customers in the urban centers of the three districts in Kerala. The total number of people having Savings Bank Account in any of the banks in the urban area was taken as the universe. Hence, in the household segment, a sample size of 400 was chosen for the study. The finding of the study was - the dimensions such as financial guidance and assurance, complaint free processing, and speed were dependent on bank groups. Furthermore, service quality varies among bank groups. Respondents' overall attitude towards computerisation and service quality enhancement was also examined and result showed that ninety percent respondents said computerisation is needed and nearly 90% thought that improvement is required to reduce the waiting time. In conclusion, it was found that

all the respondents were agreed to select a bank with better service. While selection of bank, age group of 40-45 and 50-60 had strong concern for reputation of the bank and age group of 35-45 had very strong concern for returns from the bank. It was the young people in the age group of 20-25 who had strong attitude towards presence of electronic facilities.

Miller (2008) in his book “That's Customer Focus! The Overworked and Underappreciated Manager's Guide to Creating a Customer-Focused Organization” described in details step-by-step instructions to do to create customer focus throughout entire organization. It outlined in detail, 12 proven best strategies for the organizer. Organizer can follow the guidelines as given in this book and can create its own customer focus strategy and implementation plan. This book particularly designed to help organizers to achieve greater customer focus in organization, company, department or team. For achieving this, real world examples, stories and case studies as well as exercises and worksheets were also added in the book.

Kannan (2009) in his paper “A Study on the Preference Analysis of Canara Bank and Customer Satisfaction in Erode District” described that finance is the basis for all transactions and it has become the composition for all social and economical aspects in life. All activities require finance and excellence in financial transactions. This can be achieved if electronic transactions are comprehensively implemented through e-banking system. Financial institute can raise the level of performance and may apply innovative customer-friendly services from time to time. The study was an attempt to measure satisfaction level of customer of Canara bank. For the purpose of the study, stratified random sampling method was used. Thus, a sample of 250 customers from the study district was selected. The major findings were - regarding the year of association with bank the study result revealed that the association with the bank was higher in urban areas than in rural areas. The dissatisfaction was higher among the sample respondents

with regard to the locker facility. On the whole, 37.2 per cent were highly satisfied but 46.8 per cent were highly dissatisfied. However, the level of satisfaction with regard to the locker facility, there was no significant difference in urban and rural areas. It was inferred that dissatisfaction is higher among urban respondents than rural respondents in regard with the method of hearing complaints in banks. Few suggestions were also advocated for further research.

Bena (2010) in his paper “Evaluating Customer Satisfaction in Banking Services” conducted a survey to evaluate the customers’ satisfaction for Romanian bank. The survey was qualitative in nature and primary data was collected on the basis of questionnaire. To measure the level of satisfaction a list of attributes were arranged such as attitude and behavior of bank employees, execution time, accessibility of the offices, price and quality relation, banks reaction to complaints, promotion of services, communication with the bank business hours etc. Customers were also asked to rank their overall satisfaction with the bank. The study revealed that most of the respondents were regularly interact with the bank, almost half of the total customers were utilized the banking services once or twice a month. 60% of the respondents expressed that they were highly satisfied with the services of banks. In order to establish the dependence between the satisfaction regarding the staff’s professionalism and the waiting time, the Chi-Square Test was conducted. The results revealed that the two variables were indirectly dependent. As the customers’ level of satisfaction regarding the staff’s professionalism rises, it will reduce customers’ waiting time.

Meenakhinathan (2010) in his thesis “Servqual Measurement in Commercial Banks with Special Reference to Madurai District” described the changing phase of Indian banking industry after liberalization, privatization and reduction in state ownership. He pointed the root cause of this change. The change in customer needs, expectation and attitude is due to the development of ATMs, phone and net banking

along with availability of service right at the customer's door step. The study formulated the following objectives - i) to identify service quality factors in retail banking, ii) to measure the impact of perception on service quality factors on customer satisfaction and iii) loyalty and the expected service quality from commercial banks in near future. The study was descriptive in nature. From each bank branch 5 customers were selected as a sample for the analysis and the sample size was estimated 547. The information was collected through structured questionnaire. The customer satisfaction was measured with the help of nine variables which were measured at five point scale from highly satisfy to highly dissatisfy. The customer loyalty was measured with the help of six statements by five point Likert scale from highly agree to highly disagree. The study concluded that the profile of the customers played an important role in the determination and discrimination of the service quality expectations. The findings of the study revealed that the customer satisfaction was highly influenced by the service quality but no significant and direct impact on customer loyalty. Furthermore, the customer loyalty on banks can be created only through customer satisfaction by providing better service quality especially value-added, innovative and e-banking service quality.

Kumar and Gaanngal (2011) in their paper "Customer Satisfaction in New Generation Banks: A Case Study of HDFC Bank" examined the level of customer satisfaction in new generation banks. To achieve the objectives of the study researchers took 100 randomly selected respondents and collected the primary data through questionnaire. The customers' expectation and observation on various parameters were collected on 5 point Likert scale. On the basis of the comparison of mean values of expectation and observations (satisfaction) the test of significance has been applied and various parameters were ranked and correlation has been calculated. The major findings of the study were - the customers were satisfied and also praised the efforts of bank staff as they observed good quality staff, but the bank failed to maintain the privacy of

transactions which was most important requirement. Customers were also satisfied with lay out, cleanliness, security & safety of the banks. Authors concluded that the most of the banks in India are not very diversified in terms of the products and services they offered to the customers. Thus, bank should focus to retain more customers to remain competitive but this is possible only through customer satisfaction. Thus, customers' satisfaction is the key of success in today's competitive era and hence, bank should improve their services to fulfill customer expectation.

Malli (2011) in his paper "A Comparative Study on Marketing of Banking Products and Customer Services and Satisfaction Level in Gujarat" investigated the marketing efforts and compares the intensiveness of public, private and cooperative banks in Gujarat. For the study primary data were collected through distributing Questionnaire among customers of public, private & cooperative banks of four major cities such as Ahmadabad, Surat, Baroda and Rajkot of Gujarat. Multisampling technique was used for the study. Researcher formulated hypotheses to find the study objectives. Statistical tools such as Anova, F test and Levene's T test for equality of variance was used. Study indicated that the customers of public sector banks were well informed regarding product and services like annuity & retirement schemes, currency exchange schemes, safe deposit locker facilities, credit card, digicash, net cash and m-cheque in comparison to the customers of private and co-operative banks. On the other hand, the customers of private sector banks had good knowledge about product and services like farmer deposit schemes, housing deposit schemes, automatic extension deposit, currency exchange schemes, gold schemes, ATMs, Internet banking, tele banking, mobile banking, debit card, demat account, e-invest in comparison with customers of public and cooperative banks. The reason was that the private banks always try to educate and inform their customers about their advanced products and services than the other category banks. Study found that customers of cooperative banks have poor knowledge about gold

schemes, locker services, digicash, and credit card as they were not getting proper information because of less promotional tools used by the cooperative banks. It was found that private banks had adopted best marketing practices to educate and inform customers about all products and services while cooperative banks were lacking in these efforts. Again comparatively customers of private & cooperative banks were more aware about interest charges like account handling, debit-credit & ATM cards, internet banking services, demat account handling etc. than public sector banks. This indicated that cooperative banks were more transparent in sharing their lower charges rates. Accordingly, private banks were also doing well in terms of giving information to their customers regarding different charges in technology related services such as ATMs statements, mobile banking, internet banking and tele banking services. Customers of private banks were more interested in availing of advanced services. Regarding the selection of bank, most of the customers switched to public bank in comparison to private bank because they find number of branches in different area, banking hours and comfortable banking layouts. So, they were more concentrated for service reach and hours. Thus, findings of the research indicated the differences in public, private and cooperative bank's marketing efforts and also the difference of their products and services offerings. Author also observed that the customers' expectations and perception are influenced by gender, occupation and educational qualification. At the end, researcher recommended few suggestions regarding the improvement of service quality such as operations transparency, offering more technology related and unique products and services, effective responses from the bank staff, speed in operations etc.

Minkah (2011) in his study "The Importance of Customer Service in the Banking Industry: The Case of Ecobank" applied sampling method to obtain information. Researcher prepared Questionnaires to collect data on the activities of Ecobank Ghana Limited on customer service. From the analysis of gathered information it was found that

banking services of Ecobank Ghana Limited was excellent. Ecobank Ghana Limited also welcomed more customers' complaints. The bank allowed customers to lodge their complaints through their website, suggestion box, customer complaint unit, branch manager and customer service representatives. Further, the study recommended better customer service delivery in order to achieve excellent services and to address their shortfalls as quickly as possible.

Ali (2013) in his paper "Customer Satisfaction and Islamic Banking in Pakistan" focused on the customer satisfaction towards Islamic banking in Pakistan based on the various factors including service quality, product quality offered by Islamic banks, customer care level of Islamic banks, financial benefits given to its customers, competition with conventional banks and religion and market reputation. The main focus of the research was to understand the level of satisfaction of customers regarding Islamic Banks. In this study, data was collected with the help of structured questionnaire distributed among 120 customers of different cities of Pakistan. Different tests like T-test and Correlation were applied to check the effects of different factors or variables on the customer satisfaction regarding Islamic banking system in Pakistan. The study found a positive relationship between the factors and customer satisfaction in Islamic banking in Pakistan.

Nippatlapalli (2013) in his research paper "A Study on Customer Satisfaction of Commercial Banks: Case Study on State Bank of India" expressed that customer satisfaction is a measure of how products and services supplied by a company to meet customer expectation. Author defined the term customer satisfaction as "the number of customers, or percentage of total customers, whose reported experience with a firm, its products, or its services (ratings) exceeds specified satisfaction goals". The objectives of the study were - i) to find the factors that influence the customer behavior, ii) to evaluate the merits and demerits of State Bank of India and iii) to provide effective

recommendations for the improvement of the bank. Author found that the level of satisfaction depends on both psychological and physical variables which is related with satisfaction behaviours such as return and recommend rate of the company. To measure the level of satisfaction, questionnaire was developed by the researcher with a set of statements using a Likert scale. To calculate perception and expectation of performance of the bank, customers were asked to fill each statement of the questionnaire. Customer satisfaction was measured on a five-point scale. Major findings of the study after analyzing the primary data were - 92% of the respondents believed that S.B.I. fulfilled all their banking needs. Respondents were also satisfied with the facilities they achieved from the bank in terms of availing loan, core banking, their minimum charge against each services, response of the banking staff to solve their banking problem and prompt services. Regarding financial transactions with the banks, respondents were highly satisfied.

Mekonnin (2013) in his paper “Customer Orientation and Business Performance of Financial Institution: A Case Study of Eastern Hararghe Commercial Bank of Ethiopia, Haramaya Branch and Harar Branches” expressed a detail description of customer treatment, financial efficiency and supporting customer services with modern banking technology in financial institutions. The study result indicated that customer orientation guided the bank to improve its customers need. Customer orientation was also crucial for financial institutions since their earnings were generated from services rendered to customers. In this study, a total of 110 questionnaires were distributed to respondents for analysis. The major finding was that all customer orientation variables were positively correlated with business.

Abrol (2014) in his paper “Impact of Internet Banking on Customer Satisfaction and Business Performance” found customer as the key contributor for the success and survival of any business. So, it is utmost important to satisfy customers and to retain them

for profitability and better performance of banks. Study observed that customers were shifted their operating mode from traditional banking to online banking very rapidly because of the advantages they got from online banking services. The major benefit they enjoyed from online banking was less operating time. Hence, it is essential to study carefully the increasing importance of internet banking, with its impact on customer satisfaction and business performance. The study considered the conceptual analysis and historical overview of internet banking and various factors that affect their customer satisfaction. The prime objective of the study was to assess the impact of internet banking on customer satisfaction. To achieve the objective, both primary as well as secondary data were collected. Data were collected from 144 bank managers and 410 bank customers. Majority of customers are satisfied with online services because it saves their time and efforts. Furthermore, the online system enabled them to perform their banking transactions by sitting anywhere and anytime. Respondents were also satisfied with login process. They also felt confident and secured by operating online services. The respondents trusted their bank for not using personal information inappropriately and for not allowing any third person to access the same. Respondents were satisfied with online information system for getting familiar with different services of various banks.

Grover (2014) in his thesis “Bankers’ and Customers’ Perspective on Bancassurance in Punjab: A Study of Selected Public and Private Sector Banks” studied the sources, levels and determinants of customers’ satisfaction from bancassurance. It is found that the banks have expanded their activities into various new areas and offered innovative products, such as merchant banking, lease and term finance, capital market or equity market related activities, hire purchase, real estate finance etc. As a result, today’s banks have become far more diversified than ever before. Here, the researcher described the term bancassurance as the combination of two words, bank and insurance i.e., distribution of insurance products through banking channels. To measure the satisfaction

of customer the researcher collected the information from 551 respondents. Two types of questionnaires have been designed for the investigation, one for customers and other for bankers. To achieve the set of objectives and test the hypothesis, different mathematical and econometric techniques such as Data Envelopment Analysis (DEA), Ordered Probit Analysis and Structured Equations Modeling (SEM) were used. However, explaining the level of satisfaction among respondents the followings were the major sources found in this research. These were the latent human element of service delivery, socially responsible behavior of the bank and core service or product.

Sakwa and Oloko (2014) in their study ‘Effect of Customer Service Practices on Performance of Banks: A survey of Commercial Banks in Kitale Town, Kenya” discussed that customer service is the series of activities designed for the customers. The main aim of customer service is to increase the level of customer satisfaction. The products or services should fulfill the customers’ expectation and even beyond their expectation. However, the level of satisfaction based on quality and reliability of products and services that offered by the organization. The main objective of this paper was to assess the effect of customer service on performance of commercial banks particularly their profitability and growth. The sample of the study was employees of eight commercial banks. The method for collection of data was simple random sampling. Questionnaires were prepared to gather information and collected information was analysed and presented using descriptive statistical tools such as tables, Pearson Correlation Analysis and multiple regression with the help of Statistical Package for Social Sciences (SPSS). From the study, it was found that waiting situation affects the performance of the banking sector. It creates dissatisfaction. Further, communication does affect the performance of banks. The study suggested avoiding lengthy procedures so that the level of satisfaction could be raised. Multiple service delivery and adoption of advanced technology has positive effect on performance of banking sectors.

Sriram (2014) in his thesis “Measurement of Service Quality, Customer Satisfaction, Behavioural Intention among the Organized Retail Stores with Reference to Selected Cities of Tamil Nadu” measured the service quality among the organized retail stores in three major cities of Tamil Nadu state and determined its relationship to customer satisfaction and behavioral intention. The sample for the study was selected as 900 customers from organized retail stores by using Retail Service Quality Scale (RSQS) instrument applying five service quality dimensions namely tangibles, reliability, responsiveness, assurance and empathy with twenty seven item to measure service quality. Behavioral intention of the customers was measured by using the behavioral intention battery. The researcher used a seven point likert scale to measure the expected and perceived service quality (performance) and the behavioral intention of the customers. The RSQS instrument was selected to evaluate service gaps between expectation and perception of service quality. A number of hypotheses were formulated and tested using Structural Equation Mode to fulfill the research objectives. Statistical tools such as multiple regression, correlation, Paired t-test, Chi-square test, One-way ANOVA and descriptive statistics were used to analyse the data. To indicate the relationship and impact between service quality, customer satisfaction and behavioural intention, Structural Equation Model (SEM) was employed. The study results found that the customer’s perception was lower than expectation of the service quality as provided by the organized retail stores. The two dimensions such as Responsiveness and Assurance were the most important dimensions in service quality that scored less service quality gap. Furthermore the individual customer’s service quality dimensions had a positive impact on overall satisfaction and to the behavioural intention towards the service provider. This study also determined the association difference between demographic factors and satisfaction of the customers towards the service provider. Both customer satisfaction and service quality have a significant effect on influencing the

behavioural intention. Few recommendations for further research were also prescribed by the researcher.

Waititu (2014) in his research study “An Assessment of Customer Centric Strategy on the Performance of Commercial Banks in Kenya” focused the effect of customer centric strategy on performance of commercial banks or the profitability of commercial banks. The study also focused the challenges that faced customer centric strategies in commercial banks and advocated to improve these strategies. The research was descriptive in nature and the targeted population for the study was all commercial banks in Kenya. Population covered all commercial banks that operating in Nairobi. Structured questionnaire was used to collect Primary data and developed on the basis of research objectives. Data was analysed by using Statistical Package for Social Science (SPSS). The research findings were presented using tables and pie charts. Percentages, means, standard deviations and finally correctional analysis were done to analyse primary data. The study found that customer centric strategy builds trust between the organizations and customers and building trust is the main drive of organizations to retain customers for longer period of time. The customer centric strategy helps banks to maintain better relationships with existing customers as well as to acquire new customers. It enables banks to understand customer’s needs and hence increase customer satisfaction and further it strengthen the organization in terms of growth and sustainability. The study found that the Kenyan banks provided customer-level treatment to their clients. This study advocated taking competitive intelligence practices for greater profitability in the Kenyan banking sector. The four competitive intelligence practices that recommended by the author were market intelligence, product intelligence, technology intelligence and strategic alliance intelligence.

Markovic et al. (2015) in their paper “Service Quality Measurement in Croatian Banking Sector: Application of SERVQUAL Model” aimed to investigate customers’

expectation and perceptions of banking service quality. The study also attempted to identify the number of dimensions for expectation and perception scales and test the reliability of the model. For measuring expectations and perceptions of banking service quality data were collected through questionnaire. To measure satisfaction of the customers, with five dimensions of service quality namely, tangibles, reliability, responsiveness, assurance and empathy, researcher also added the dimension “availability”. The model has two parts, expectation and perception, with 22 questions each. For measuring expected and perceived service researcher used a 7-point Likert scale, ranging from 1 “strongly disagree” to 7 “strongly agree”. However the demographic part of the customer included gender, age, level of education, economic status, frequency of using e-Banking and frequency of bank visits. To find the research objectives, descriptive statistics, t-test, exploratory factor analysis, and reliability analysis were applied. The study results revealed high level of expectations of customers. The gap between bank customers’ expectations and perceptions was negative which indicated that customers expressed dissatisfaction with banking service quality in Croatia. The greatest gap found in the dimension of reliability and responsiveness. Further, the expected and perceived gaps were analysed through a paired samples t-test. The findings revealed that there was a statistical significant difference between customers’ perceptions and their expectations of service quality for all attributes. The level of confidence in all the variables is less than 0.05. A comparison of the respondents’ expectation and perception scores revealed that differences were significant in all bank attributes. In order to reduce differences between expected and perceived service, bank marketing managers should pay more attention to marketing activities and should not give unrealistic promises to the customer.

Bhatt & Bhanwat (2016) in their paper “Measuring Customer Satisfaction Using SERVQUAL Model - An Empirical Study” attempted to measure the customers’

satisfaction for 3 selected hypermarkets in Udaipur city of Rajasthan. For achieving the targeted objective researcher applied five dimensions to measure product/service quality namely tangibility, reliability, responsiveness, empathy and assurance for measuring satisfaction of the customers. By taking 114 respondents to measure customer satisfaction the empirical study revealed that customers are highly satisfied with the service quality of hypermarkets. Customers' also experienced great pleasure for the services offered by the hypermarket which included - speedy and timely service, modern appearance, provision of food courts and trial room, clean environment, merchandising of products and internal layout.

Le (2017) in his thesis "Developing Service Quality Measurement Approach for the Wholesale Banking Operation Unit of a Bank", aimed to evaluate generic customer satisfaction data to create a more pragmatic service quality measurement model that the bank can use to improve its services. This thesis focused on one of the problem area found in the customer satisfaction study made for the wholesale banking operation Unit of the bank. The problem selected for the study was poor accessibility to phone service. Accessibility to service is one of the strategic focus points of the bank. Thus, it is utmost important for the bank to calculate the problem to manage it. Therefore, the primary objective of this research was to develop a set of suitable key performance indicators and a measurement of service quality of phone accessibility. The study findings revealed that the wholesale banking operation unit needs to improve phone accessibility service levels. Good customer service is also about avoiding doing anything that could annoy the customers. Phone Accessibility would improve customer satisfaction and therefore also improve customer loyalty and profitability.

Vershinin (2017) in his paper "Customer Satisfaction in the Banking Sector: A Study of Russian Bank PAO "SBERBANK" expressed that in service-oriented industries profitable business cannot exist without satisfied customers. The main attempt of the

study was to measure current customer satisfaction level regarding services of bank situated in Russia. The main aim of the research was to reveal customer expectations that needs for the successful growth of the company. The objectives formulated for the study was to analyze customer satisfaction concerning services provided by Sberbank of Russia and to find the reasons and factors that influence customer satisfaction. The study also explored various factors that dissatisfied customers and had a direct influence on them. For achieving the targeted objectives i.e., measuring expectation and perception of customer, gap model was applied with five dimensions of service quality, viz., Tangible, Assurance, Reliability, Empathy and Responsiveness. Here, Tangible implies physical facilities, Assurance means ability of staff, Reliability signifies ability of a staff to provide services accurately, Empathy implies level of individualized attention to customers and Responsiveness signifies willingness of employees to help customers. The dimensions were further divided into 44 questions, and then important five gaps were reviewed to measure service quality. Self made questionnaire was applied to measure customer opinion regarding different services that were provided by the bank. After collecting the data from the chosen customers, it was analyzed and presented along with the results and findings. 100 respondents voluntarily participated into the questionnaire and left their opinions regarding their satisfaction of the banking products and services. After analyzing the results, suggestion was also recommended on further improvement of services of Sberbank. Study found that the Debit card, Mobile Bank and the deposit account service were the most popular services of the bank as these three services received good ratings from the respondents. Respondents also expressed their satisfaction regarding the services that provided by the bank staff. However, the auto payment and the loan services received low rates. In this paper author also suggested certain recommendations for improvement of bank services.

2.5 Research Gap

In the area of different aspects of diversification particularly in banking sector, a lot of studies from different perspectives have been investigated. Most of the studies used Rumelt's methodology to measure diversification. Berger, et al. (2008) applied a new method to measure diversification level called economies of diversification and found that diversifications are associated with higher costs and lower profits. It was observed from the survey of literature that over a period of time Indian banking sector has diversified but the extent is not very high (Bhatia and Thakur, 2013). Regarding the nature of diversification in Indian banking sector, studies found that majority of the banks in India have adopted Broad Spectrum Diversification (Kour, S., 2010). Though the diversification has been discussed extensively in different parts of the world, little attention has been given in India. Hence, the gap is found in the relevant literature which has to be covered by further research. Hence, this research is an attempt to fill this gap by studying the situation of the Indian banking sector and providing more empirical evidence on nature and extent of diversification.

Furthermore, the effect of diversification on performance have so far yield mixed results. Thus, the relationship between diversification and performance is still ambiguous and incomplete (Ojo, O., 2009) and hence, it needs further research. The present study is detail investigation of nature and extent of diversification, and its performance consequences.

From the survey of literature, a good number of studies undertaken on customer focused performance in banking sector in India and abroad, but no such research works have ever been undertaken in the state of Assam. Hence, a big research gap is found in the relevant literature that demands a study on customer focused performance in banking sector. Again, in most of the study, researchers analysed five dimensions namely

tangible, reliability, responsiveness, assurance and empathy aspects of measuring product/service performance of bank. None of the comprehensive research studies presented convenient and cost effectiveness aspects as possible dimensions of service quality for measuring customer focused performance. Here, lies another research gap that demands a study on measuring the extent of product/service diversification adopted by commercial banks and performances from the perspective of customer focussed.

2.6 Conclusion

To summarize, this chapter presents an overview of the past studies conducted in this area of investigation. It presents a detail study on nature and extent of diversification as well as its performance consequences. This study aims towards analysing the diversification issues in banking sector. The review of past literature provides basic understanding of the subject and also helps to develop framework for research. The concerned issues in the present chapter have been addressed in following categories. (i) Review of literature based on nature and extent of diversification in financial sector, (ii) Review of literature based on diversification and performance relationship in financial sector and (iii) Review of literature based on customer focused performance.

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CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the approach through which researcher solve research problem thoroughly (Misra and Alok, 2017). It is a systematic and theoretical analysis of the method used in the field of research (Igwenagu, 2016). This chapter presents an approach adopt in the present study such as population for the study, method of data collection, research design, and instruments for research. Research framework of the study is developed to examine the objectives. To examine the objectives, different methodologies and research design is required. According to Cooper and Schindler (2014) “Research design constitutes the blue print for the collection, measurement, and analysis of data”.

3.2 Purpose of the study

The purpose of the study is to provide insights into the different aspects of diversification in banking sector in India. Due to de-regulation and liberalization, there has been a lot of policy changes that might affect diversification and other expansion strategies of banking business. Studying the nature and extent of diversification in banking sector in India, an attempt is also made to assess the relationship between diversification and performance of selected commercial banks. Another reason for the study is that, most of the empirical literature which has been reviewed and concentrated on corporate diversification and focused mostly on developed countries. The concept of

diversification in banking sector is of recent origin in developing countries like India. Hence, there is a need to study the nature of diversification of banking sector in India.

3.3 The Research Framework

The research framework adopts for satisfying the objectives of the study are given below:

3.3.1 Type of Research

The present study is descriptive and analytical in nature. The descriptive study is concerned with establishing what, how and where of the phenomena under investigation. Analytical research evaluates facts and information relating to the study being conducted to find most relevant information. It discovers new ideas and insights and adds knowledge. Hence, in order to achieve the objectives descriptive and analytical research design has been followed.

3.3.2 Sample Description

The present study focuses on Indian banking sector only and analysis is restricted to all the scheduled commercial banks (both public sector banks and private sector banks) in India. To study the nature and extent of diversification, those banks has been included in the definition of diversified banks, which have been entered into the new business in the form of a joint venture, alliance or subsidiary. For example, diversified banks should deal with either insurance or investment in products or services. Furthermore, only sample commercial banks' customers are included in the present study.

3.3.3 Area of Study

For examining first objective i.e., to investigate nature and extent of diversification adopted by commercial banks in India all scheduled commercial banks (both public sector and private sector) operating in India has been considered for the study while foreign and regional banks have been excluded. Foreign banks and their branches are operating in India are already highly diversified banks. On the other hand, regional rural banks are established for specific reasons i.e., to facilitate banking services in rural area. Hence, the area of the present study has been restricted to commercial banks in India.

For examining second objective i.e., to examine the Nature and Extent of Products and Services Diversification adopted by the selected commercial banks, ten scheduled commercial banks (seven from public sector and three from private sector banks) operating in India has been considered for the study.

For examining third objective i.e., to examine the Customer Focused Performance on adoption of diversified products and serviced by the selected commercial banks, study has been carried out in the Sonitpur district of Assam where a number of commercial banks with several branches are existing. However, Sonitpur is one of the important districts of the state of Assam and a commercial hub of North Bank of Assam. The district headquarter is Tezpur. As per 2011 census, the total population of Sonitpur district is 19,24,110. The demography of Sonitpur district is heterogeneous as several linguistic, religious and ethnic communities and groups live in this area. All major commercial banks are operating with their financial services in Sonitpur district. Apart from commercial banks there are 1 rural bank with 31 branches (2012-13) and 1 co-operative bank with 7 branches (2012-13) working in Sonitpur district.

For Examining fourth objective i.e., To assess the relationship between Product and Service Diversification and Performance of selected commercial banks ten scheduled commercial banks (seven from public sector and three from private sector banks) operating in India has been considered.

3.3.4 Population

The total set of observations is referred to Population. Anything that can be grouped together by a common feature, who is the subject of a study, is known as statistical population. The targeted population for the study has been selected at two levels -

Type I: Institutional Level

To investigate nature and extent of diversification, the scheduled commercial banks of India have been selected for the study that includes both public sector as well as private sector scheduled commercial banks. Again, to assess the relationship between diversification and performance consequences, commercial banks operating in India have been selected for the study. Table 3.1 shows the list of scheduled commercial banks (both public sector commercial banks and private sector commercial banks) operating in India.

Table 3.1 List of scheduled commercial banks in India as on October 08, 2017

List of Public Sector Commercial Banks	List of Private Sector Commercial Banks
State Bank of India	Axis Bank Ltd.
Allahabad Bank	Catholic Bank Ltd.

Andhra Bank	City Union Bank Ltd.
Bank of Baroda	Development and Credit Bank Ltd.
Bank of India	Dhanlaxmi Bank Ltd.
United Bank of India	Federal Bank Ltd.
Bank of Maharashtra	HDFC Bank Ltd.
Indian Overseas Bank	ICICI Bank Ltd.
Canara Bank	IndusInd Bank Ltd.
Central Bank of India	Jammu and Kashmir Bank Ltd.
Corporation Bank	Karnataka Bank Ltd.
Indian Bank	Karur Vysya Bank Ltd.
Indian Overseas Bank	Kotak Mahindra Bank Ltd.
Oriental Bank of Commerce	Laxmi Vilas Bank Ltd.
Punjab National Bank	Nainital Bank Ltd.
Punjab and Sind Bank	Ratnakar Bank Ltd.
Syndicate Bank	South Indian Bank Ltd.

Union Bank	Tamilnad Mercantile Bank Ltd.
UCO Bank	Yes Bank Ltd.
Vijaya Bank	Bandhan Bank Ltd.
IDBI	IDFC Bank Ltd.

Source: (<http://www.rbi.in.>),

A total of 21 public sector commercial banks and 21 private sector commercial banks have been operating in India as on October 08, 2017 (<http://www.rbi.in.>). In April 2019, Dena Bank and Vijaya Bank have been merged with Bank of Baroda.

Type II: Customers

To measure customer focused performance, the customers of scheduled commercial banks in Sonitpur district of Assam has been forming the size of population. The following Table 3.2 shows the list of scheduled commercial banks operating in the Sonitpur district of Assam.

Table 3.2: List of Commercial Banks in Sonitpur District of Assam as on 31 March, 2013

List of Public Sector Commercial Banks	List of Private Sector Commercial Banks
State Bank of India	Federal Bank Ltd.
UCO Bank	HDFC Bank Ltd.

Central Bank of India	ICICI Bank Ltd
Allahabad Bank	Axis Bank Ltd.
Punjab National Bank	IndusInd Bank Ltd.
United Bank of India	IDBI Ltd.
Indian Overseas Bank	Yes Bank Ltd.
Bank of Baroda	Dena Bank Ltd.
Vijaya Bank	
Indian Bank	
Union Bank of India	
Bank of India	
Bank of Maharashtra	
Canara Bank	

Source: District Statistical Handbook, Sonitpur, 2012-13

As on 31 March 2013, there were 22 scheduled commercial banks operating in Sonitpur district of Assam (District Statistical Handbook, Sonitpur, 2012-13), of which 14 were public sector commercial banks and 8 were private sector commercial banks. Total customer base of these banks were 8,80,000 (approx.) as on 1st January 2017 (Source: Lead District Manager, Sonitpur).

3.3.5 Sampling Design

According to Hinkin, (1998) “The sample used for the subsequent data collection should be adequate size and be representative of the population of interest and be clearly described.” This study has used a purposive sampling procedure to identify the sample respondents. Sample respondents have been drawn from 10 commercial banks. Out of 10 commercial banks 7 are public sector banks and remaining 3 are private sector banks. As such, the banks are - State Bank of India, UCO Bank, Central Bank of India, Allahabad bank, Punjab National Bank, Bank of India, United Bank of India, Federal Bank Ltd., HDFC Bank Ltd, and ICICI Bank Ltd. The banks are so selected because they are found to have a higher level of information disclosure and have various diversified products and services based on information available from their annual reports. All the 10 banks have number of branches. A total of 49 branches of the 10 selected banks are rendering their services in the district. In this study, for selecting the sample respondents from the 10 banks, 1 bank branch is selected for every 5 or less than 5 branches at a ratio of 5:1. Table 3.3 shows bank-wise selection of branches for selecting the sample respondents.

Table 3.3: Bank-Wise Branch/Branches as on 31st March, 2013 selected for the Study

Name of Banks	No. of Branch/Branches	No. of Branch/ Branches Selected for the Study
State Bank of India	15	3
UCO Bank	9	2
Central Bank of India	7	2
Allahabad Bank	2	1
Punjab National Bank	4	1
Bank of India	1	1
United Bank of India	8	2
Federal Bank Ltd.	1	1
HDFC Bank Ltd.	1	1
ICICI Bank Ltd.	1	1

Source: District Statistical Handbook Sonitpur, 2012-13,

There are 49 branches of 10 commercial banks as on 31st March 2013, operating in Sonitpur district of Assam. Out of 49 branches, 15 branches have been selected for the study. The branches have been selected on the basis of 1 out of 5 or less number of

branches. Hence, from State Bank of India, out of 15 branches, 3 branches have been selected for the study. Likewise from UCO Bank, 2 branches have been selected out of 9 branches. From Central Bank of India, 2 branches have been selected out of 7 branches. From Allahabad Bank, 1 branch has been selected out of 2 branches. From Punjab National Bank, 1 branch has been selected out of 4 branches. Like-wise, from Bank of India, 1 branch and from United Bank of India 2 branches have been selected for the study. From Federal Bank Ltd., HDFC Bank Ltd. and ICICI Bank Ltd., 1 branch from each bank has been selected for collecting sample respondents for the study. Thus, to collect information of customer base of concerned banks, the bank officials extended their cooperation and assistance to obtain the information regarding customer base of concerned bank. Further, for selection of sample respondents, 384 respondents have been considered for the study, based on the formula developed by Krejcie & Morgan (1970). As such, the size of the sample has been estimated to be 384. These sample respondents have been divided between selected banks branches depending on the number of account holders and on the basis of the percentage share of concerned banks to the total customer base of selected banks. The following Table (3.4) shows the bank-wise distribution of sample respondents for the study.

Table 3.4: Name of Selected Banks, Their Branches and Distribution of Respondents for the Study

Name of Banks	No. of Branches considered for the study	Customer Base (approx.)	Percentage of Respondents for the Study $\left(\frac{\text{Sampled Bank Customers}}{\text{Total Bank Customers}} \times 100 \right)$	Number of Respondents Selected for the Study

State Bank of India	3	2,80,000	47%	180 (47% of 384)
UCO Bank	2	90,000	15%	58 (15% of 384)
Central Bank of India	2	70,000	12%	46 (12% of 384)
Allahabad Bank	1	22,000	4%	15 (4% of 384)
Punjab National Bank	1	38,000	6%	23 (6% of 384)
Bank of India	1	10,000	2%	7 (2% of 384)
United Bank of India	2	64,000	11%	42 (11% of 384)
Federal Bank Ltd.	1	10,000	2%	7 (2% of 384)
HDFC Bank Ltd.	1	6,000	1%	4 (1% of 384)

ICICI Bank Ltd	1	5,000	1%	4 (1% of 384)
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Source: Data Collected through personal contact from bank officials of concerned bank

As on 31 March 2018, total customer base of 10 selected banks were 5, 95,000 (Lead District Manager, Sonitpur). Out of 5, 95,000 customer bases, 384 respondents have been considered for the study. Bank-wise distributions of 384 respondents are as follows -

Total customer base of State bank of India are 2, 80,000 (approx.), of which 180 respondents (47%) have been considered for the study. Out of 90,000 (approx.) customer base of UCO Bank, 58 respondents (15%) have been considered for the study. In Central Bank of India there are 70,000 customer base (approx.) of which 46 respondents (12%) have been selected for the study. Total customer base of Allahabad Bank are 22,000 (approx.) of which 15 respondents (4%) have been considered for the study. From Punjab National Bank, out of 38,000 (approx.) customer base, 23 respondents (6%) have been considered for the study. Likewise from Bank of India, United Bank of India, and Federal Bank Ltd., 7 (2%), 42 (11%) and 7(2%) respondents have been considered for the study respectively. From HDFC Bank Ltd. and ICICI Bank Ltd. 4 respondents from each bank have been considered for the study.

3.3.6 Study Period

For first objective i.e. to examine the nature and extent of diversification adopted by the commercial banks in India, the study has been conducted for the time period of ten years (2007-08 to 2016-17). For second objective i.e. to examine the nature and extent of product and service diversification adopted by the selected commercial banks in India the study have been conducted for the time period of ten years (2007-08 to 2016-17). For third objective, the study has been conducted for the time period of one year (2017-2018) to examine product/service performance of selected commercial banks from customers' perspective. For fourth objective, the study has been conducted for the time period of five years (2013-14 to 2017-18) to assess the relationship of product/ service diversification and the performance of selected commercial banks in India.

3.4 Data Collection Design

The collection of appropriate data through various methods differs considerably in terms of time, cost and other resources, available with the researcher (Pandey and Pandey, 2015). For this study, both primary and secondary data have been used.

3.4.1 Secondary Data

The secondary data are those which have already been collected and utilised (Kothari, C.R., 2008). Following are the secondary data sources considered for the present study -

1. Published write-up in various international, national journal which deal with topics relating to nature and extent of diversification, diversification and performance

relationship, and theoretical frameworks pertaining to product/service performance from customers' perspective and so on.

2. Articles published in periodicals which deal with the above subjects.
3. The secondary data have also been gathered from books and doctoral theses for critical evaluation.
4. Information contained in websites of RBI, websites of various commercial banks for bank-specific information. For assessing diversification and performance relationship annual report of selected banks have been studied through their websites.
5. Unpublished data from branches of various banks operating in Assam.

3.4.2 Primary Data

The descriptive part of the study has been carried out using survey research method for eliciting information regarding product/service performance from customers' perspective. The primary data have been collected through the use of structured questionnaire (Annexure-I) from the sample customers (Account holders) of selected banks branches of Sonitpur district of Assam. To approach the respondents for filling up the questionnaire, personal contact method has been applied. However, assurance has also given to the respondents regarding confidentiality of their responses. Those who agreed to participate in the survey, questionnaires were distributed to them only. Thus, under convenience sampling method a total of three hundred and eighty four questionnaires were distributed among the respondents (account holders) of selected commercial banks.

3.5 Variables Designed for the Study

The broad variables of the study are Tangibility, Reliability, Responsiveness, Assurance, Empathy, Convenience and Cost Effectiveness. The product/ service performance of bank from customers' perspective and variables considered for the study are listed in table 3.5 (with explanation of each of the dimension).

Table 3.5: Dimensions for Measuring Product/ Service Performance for the Study

Sl. No.	Dimensions	Explanations
1.	Tangibility (implies the service through physical means)	They are defined as the appearance of physical facility, equipments, and communication materials etc. In it, modern looking equipments, visually appealing exterior and interior of banks, neat and professional appearance of employees and modern and visually appealing materials associated with the service are involved.
2.	Reliability (providing services on promises)	It means ability to perform the promised service accurately and sincerely. In it, providing service as promised, sincere interest to customers, performing services right first time, providing services at promised time and maintaining error-free records are involved.
3.	Responsiveness (willing to help)	This dimension involves in keeping customers informed as to when services will be performed, prompt service, respond customer's request and willing to ready to help customer.
4.	Assurance (inspiring trust and	In this dimension employees who instill confidence in customers, making customers feel safe in their transactions, employees' courtesy, and employees'

	confidence)	knowledge to answer customer questions are involved.
5.	Empathy (individual attention)	It is defined as individual attention provided by the bank to its customers. Bank employees should render personal service to the customers and also understand their specific needs.
6.	Convenience (Ease of use)	It means the services should be run without difficulty. In it convenient operating hours and location, sufficient number of outlets for the customer, flexible mode of payment are involved.
7.	Cost Effectiveness (effective in relation to its cost)	In this dimension lower transaction cost and cheaper service charges are involved.

Source: Compiled by researcher from various research papers.

The variables finally considered for the present study, have been shown in table 3.6

Table 3.6: Variables Considered for the Study

1. The Degree of Expectation of tangibility in product/ service performance.	1. The Degree of Experience of tangibility in product/ service performance.
2. The Degree of Expectation of Reliability in product/ service performance.	2. The Degree of Experience of Reliability in product/ service performance.
3. The Degree of Expectation of Responsiveness in product/ service performance.	3. The Degree of Experience of Responsiveness in product/ service performance.
4. The Degree of Expectation of Assurance in product/ service performance.	4. The Degree of Experience of Assurance in product/ service performance.
5. The Degree of Expectation of Empathy in product/ service performance.	5. The Degree of Experience of Empathy in product/ service performance.
6. The Degree of Expectation of Convenience in product/ service performance.	6. The Degree of Experience of Convenience in product/ service performance.
7. The Degree of Expectation of Cost Effectiveness in product/ service performance.	7. The Degree of Experience of Cost Effectiveness in product/ service performance.

Source: Compiled by the Researcher.

To measure the product/service performance of the selected banks from customers' perspective 28 (twenty eight) items have been considered for the present study. These items are subdivided under 7 (seven) dimensions of product/service performance that have already been listed in the table 3.6. Table 3.7 shows the dimension-wise items for examining customer focused performance -

Table 3.7 Dimension-Wise Items Considered for the Study

Dimensions	Items considered for the study
Tangible	1. Modern equipments of banks
	2. Visually appealing exterior and interior of banks
	3. Neat and professional appearance of employees
	4. Modern and visually appealing materials associated with the service
Reliability	5. Providing service as promised
	6. Sincere interest to customers
	7. Performing services right at first time
	8. Providing services at promised time
	9. Maintaining error-free records
Responsiveness	10. Keeping customers informed as and when services will be performed
	11. Providing prompt service
	12. Willing to ready to help customer
	13. Employees who respond customer's request
Assurance	14. Employees who instill confidence in customers
	15. Making customers feel safe in their transactions
	16. Employees who are consistently courteous

	17. Employees who have the knowledge to answer customer questions
Empathy	18. Giving individual attention to customer
	19. Employees who give personal service to customers
	20. Having the customer's best interest at heart
	21. Employees who understand customer's specific need
Convenience	22. Convenient operating hours
	23. Convenient and sufficient number of outlets
	24. Flexible mode of payment
	25. Convenient location
Cost Effectiveness	26. Lower transaction cost
	27. Cheaper service charges
	28. Benefit is more than cost

Source: Compiled by the researcher from previous literatures.

3.6 Questionnaire Design

According to Boynton (2004), "The first step in producing good questionnaire research is getting the right questionnaire." Thus, to get Information regarding overall performance and on specific components of the system a well-designed questionnaire is essential for the study. Review of literature is the prime source for designing the questionnaire for analyzing the objectives set of. Questionnaire provides information

about respondent's beliefs, attitudes and behaviour (Boynton, 2004). Thus, the survey questionnaires (Annexure 1) have been designed and distributed to a heterogeneous population. The fact is that the needs and expectations are different for different level of society as the targeted respondents come from different genders, age groups, income group and different educational background.

For an easy understanding, the questionnaire has been framed into four major divisions. The first part of the questionnaire is the demographic profile where the respondents have been asked about their gender, age, level of education, and individual monthly income. The second part is about respondent's bank information. For general information of the respondents, questions have been designed based on two main divisions such as multiple choice and open ended question. The third part seeks to evaluate the expectations of customers. There are 28 statements that express how the state of services in the banking sector should look like. The fourth part seeks to investigate experience of customers. There are a set of another 28 statements of service attributes in the banking sector that expresses the customer perceived product/service performance. These statements have been developed by Parasuraman et al., (1988) in their gap model by applying 5 (five) dimensions. The dimensions are tangible, reliability, responsiveness, assurance and empathy. Alongwith these 5 dimensions, the researcher have employed two more dimensions. Hence, a total of 7 (seven) dimensions have been considered to evaluate product/service performance. Thus, for this study, the dimensions like tangible, reliability, responsiveness, assurance, empathy, convenience and cost effectiveness have been taken into consideration to measure product/service performances from customers' perspective. Parasuraman et al., (1988) developed 22 statements for five dimensions. In this study, alongwith these 22 statements, 6 more statements have been added and hence, a total of 28 statements have been designed in the questionnaire for measuring the expected and experienced gap of customers.

3.7 Scaling Technique Used in the Study

Scaling technique is often used in questionnaire to measure response scale. In this study, to measure the expectation and experience level of customer in terms of products/services provided by the banks, 5 (five) point scale has been used. Respondents are asked about their level of expectation and experience. Thus, to measure the level of experience the respondents have been required to express their level of agreement or disagreement for assessing services of each item. Respondents are asked to choose among the five pre-defined five measurements Scale. They are “Strongly Agree”, “Agree”, “Neutral”, “Disagree” and “Strongly Disagree”. Likewise, to measure the level of experience, same criteria have been followed. However, the responses of the respondents are totally based on their personal experience without any influence.

3.8 Data Analysis Design

The collected data have been analysed with the help of statistical techniques. The various statistical tools, SPSS Software have been used and the results have been placed in the form of tables and graphs. The main statistical tools and techniques used for the study are -

- 1. Descriptive Statistics:** A descriptive statistic is a summary statistic that quantitatively describes the information. Here, mean and standard deviation has been used to measure product/service performance of selected banks. The mean and standard deviation have been used to measure the level of diversification of commercial banks to assess the relationship between diversification and financial performance of banks.

2. The t-value: The t-value measures the size of the difference relative to variation in sample data. A t-test is practiced to assess the statistical significance of the difference between two sample means. Here t-value has been calculated to find expected and experienced gap of customers regarding product/service performance of selected commercial banks.

3. The p-value: To perform a statistical test, “p-value” helps to determine the significance of result. The level of statistical significance expresses as p-value between 0 and 1. A p-value higher than 0.05(>0.05) is not statistically significant.

4. Reliability analysis: Reliability refers to the consistency scores. The application of reliability test rises as the function of scales is extended to encompass the realm of prediction (Santos, R.A., 1999). The usefulness of the data for measurement depends on internal consistency. The more the consistency of data in measurement, the more will be useful in analysis. In other words, reliability pertain the degree of estimates in which a measurement is free of unstable error.

There are several types of estimation of coefficient of reliability scores and each type of coefficient measures the consistency through different parameters. However, internal consistency coefficients are more practical than other reliability coefficient. The most widely used reliability statistics in research is Cronbach’s alpha. Cronbach (1951) developed a method to test the reliability. This measure is loosely equivalent to the splitting of the data in two halves in every possible manner. It determines the internal consistency in items of survey instrument to gauge its reliability (Santos, R.A, 1999). The average of the estimated values is similar to the value of Cronbach’s alpha. Cronbach’s alpha assesses the reliability, or internal consistency, of a set of item or scale. Cronbach’s Alpha is used as the reliability coefficient to show how well the items in the instrument are positively correlated to each other. It computes the average

inter-correlations among the items that measure the concept. Cronbach's alpha measures the strength of the consistency of the scale or set of items. However, the coefficient alpha ranges from 0.00 to 1.00. The alpha value 0.00 indicates no reliability and 1.00 shows perfect reliability. Thus, higher value shows greater internal consistency. The closer the alpha values to 1.00, the greater the internal consistency of the items in the questionnaire.

In this study, the researcher tries to ascertain the internal consistency of the seven variables such as tangible, reliability, responsiveness, assurance, empathy, convenience and cost effectiveness Internal Consistency with the help of reliability tests.

5. Correlations Analysis: Correlation denotes the relationship between two or more than two variables (Gogtay, N.J., 2017). Correlation analysis is the statistical tool that can be used to determine the level of association of two variables. Correlation analysis can be seen as the initial step in statistical modeling to determine the relationship between the dependent and independent variables. This technique provides better understanding of decision-makers because it shows the trends and their dependence on other factors so that the uncertainties related to decision-making is reduced (Sachdeva, 2013). The zero value of Correlation shows no relationship between the dependent and the independent variables. In this study, to assess the relationship between diversification and firm performance the correlation analysis has been used.

6. Test of Significance: The method is used to support or reject claims based on sample data, is known as test of significance. By assigning a probability, test of significance addresses the issue of relevance of relationship between the variables (Andre et al., 2011 cited in Waweru, 2014). The most common significance level is

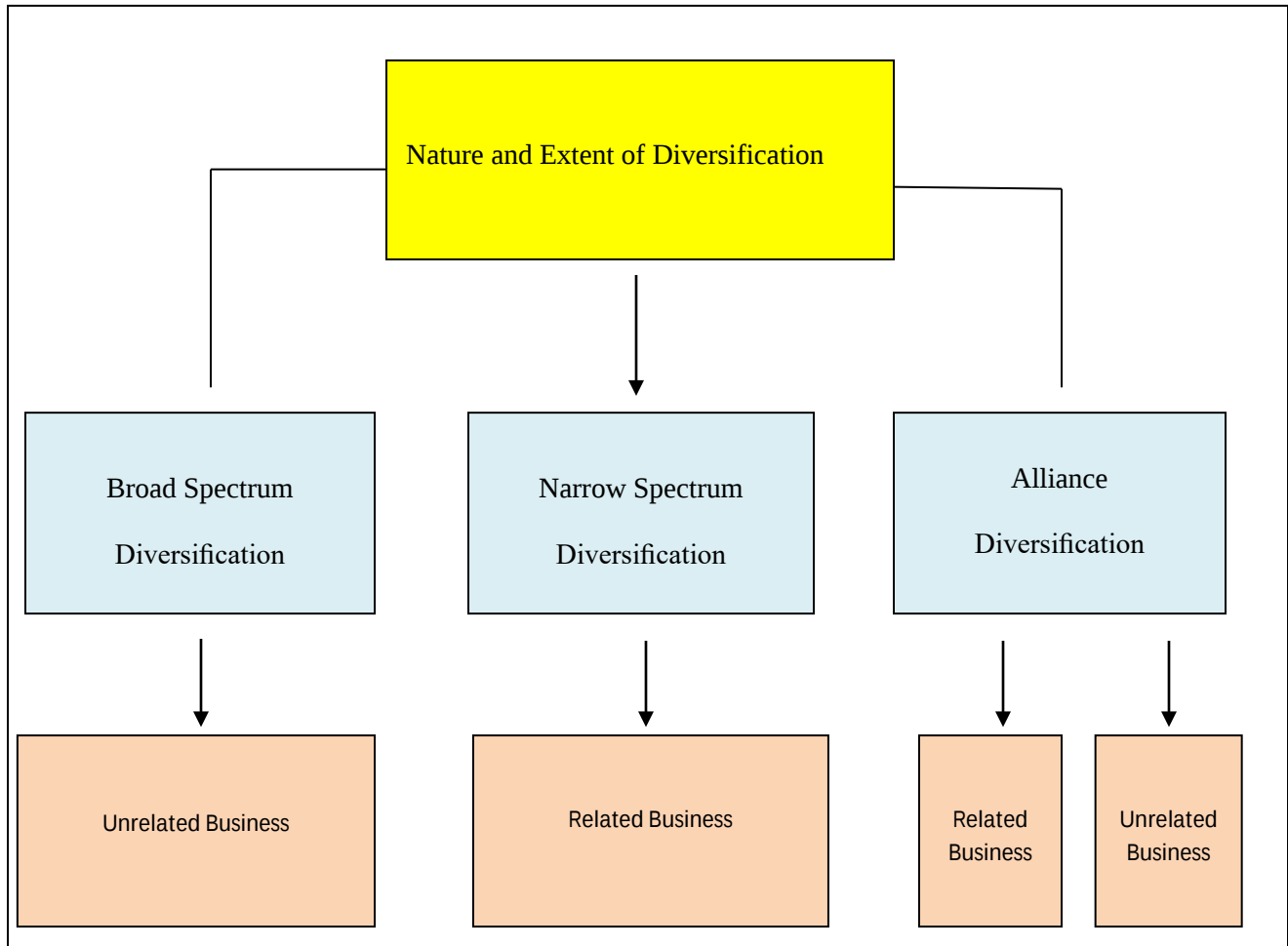
0.05 (5%) that indicates 5% risk, or 0.01(1%) that indicates 1% risk and concluding that a difference exists when there is no actual difference.

3.9 Objectives-Wise Research Design:

Objective 1:

To examine the Nature and Extent of Diversification adopted by commercial banks in India the following framework has been designed.

Figure 3.1: Framework for Examining the Nature and Extent of Diversification in Banks



Source: Compiled by Researcher from review of literature.

To measure Nature and Extent of Diversification, Varadarajan and Ramanujam (1987) developed an approach which categorised the firms into two major divisions i.e., Broad Spectrum Diversification (BSD) and Narrow Spectrum Diversification (NSD).

These two categorical measures of firm diversity use the SIC (Standard Industrial Classification) data for measuring diversification. The SIC-based measurement has been considered suitable for the study of industry-level differences between diversified and non-diversified enterprises, while the categorical measurement is appropriate for the

study of strategy-level differences between related and unrelated diversified companies. The SIC code was created by U.S. National Bureau of Statistics in accordance with the “product categories”. In United States, Standard Industrial Classification (SIC) has been used since 1937 (<https://www.readyratios.com/stand>). SIC is a system that applies to classify industry areas by a four-digit code. Later on, the SIC system is also adopted in other countries. India is also using International Standard Industrial Classification (ISIC). In this SIC system, all activities are categorised into several activity groups. Here activity is divided into division, every division is sub-divided into group and every group is again sub-divided into class with 4-digit numeric code. However the 4-digit SIC code has been widely used in academic research. The first two digits represent an industry sector; the latter two represent specific business category. In this present study, 4-digit SIC code is used.

The Broad Spectrum Diversification (BSD) is the diversification into a new four digit SIC industry category into two digit SIC industry (Jacquemin and Berry, 1979). Under Broad Spectrum Diversification, firms are grouped on the basis of unrelated business. In other words, Broad Spectrum Diversification is the expansion of unrelated (dissimilar) businesses with present business. Under unrelated banking business, banking businesses are expanded through integration into different non- banking businesses like merchant banking, factoring etc.

Under Narrow Spectrum Diversification (NSD), firms are grouped on the basis of related business. In other words, Narrow Spectrum Diversification is the expansion of various related businesses with present business. Under related banking business, banking businesses are integrated into similar banking businesses through banking subsidiaries or associations.

One more category has been considered in present study for measuring diversity is Alliance Diversification. Alliance occurs, when two or more enterprises share resources, operations and activities to achieve their strategic goal (Markides, 1995). However, in strategic alliance, goals of the firms do not necessarily have to be similar (Oliver, 1997). In Alliance Diversification two or more institutions join together to pursue mutual benefits. It is a synergy between organizations that aims for greater benefits than those from individual effort. Under Alliance Diversification, banking and non-banking businesses are expanded through tie-ups or joint ventures. Hence, Alliance Diversification may occur as related business or unrelated business.

Objective 2:

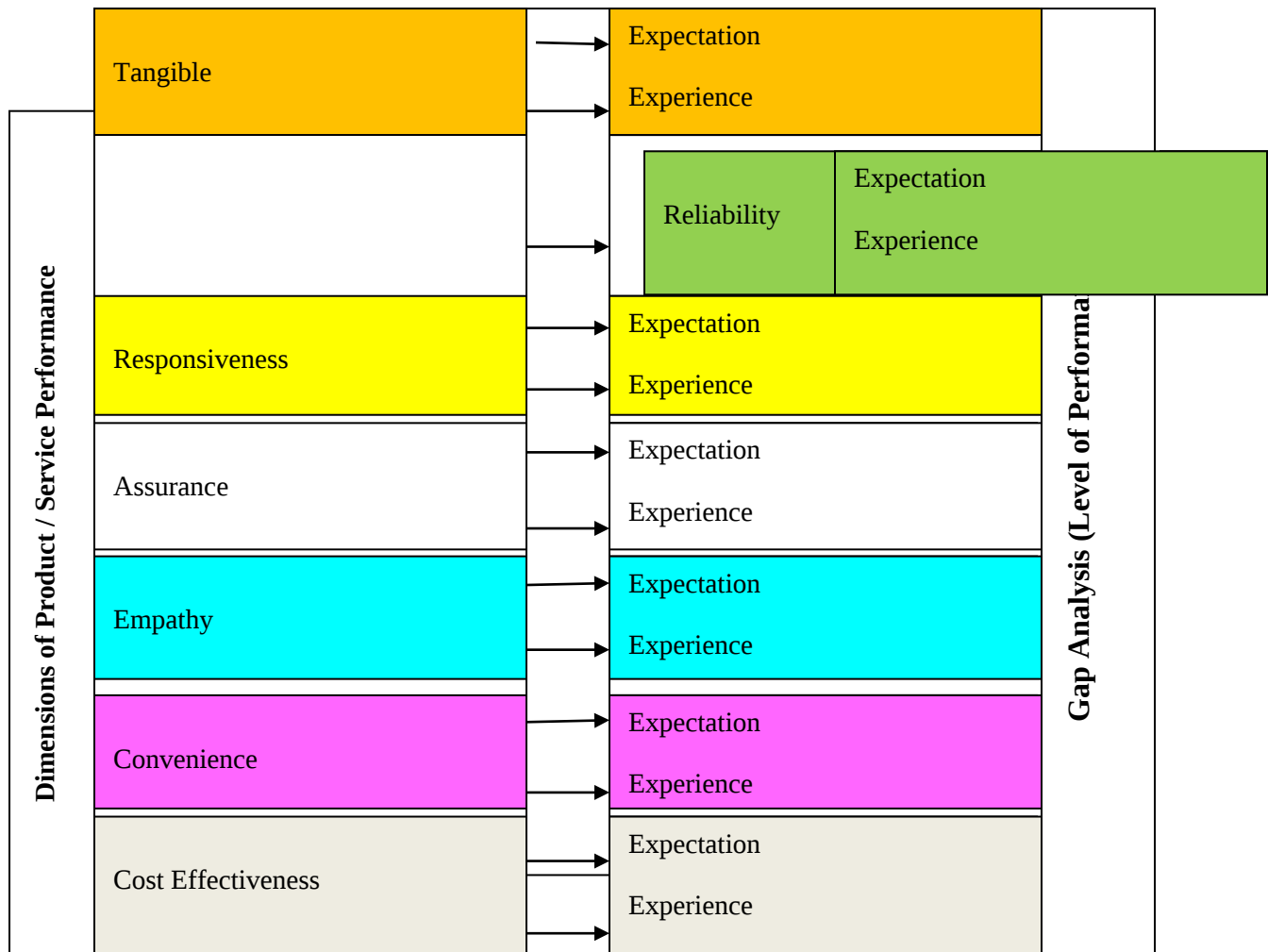
To study the Nature and Extent of Product and Service Diversification of selected commercial banks in India, information has been collected regarding diversified products/services of selected banks by visiting concerned banks' websites. Collected information has been arranged and listed in a tabular form. Here, data has been arranged on the basis of related business and unrelated business that selected banks has been involved. The related business is the process of expansion of business activities that has important similarities with its current business. This is known as related diversification strategy or related diversification. Commercial bank with related business means number of subsidiaries or associates with the bank. The parent bank and its subsidiary bank perform the same banking activities. The unrelated business is the way of expanding business by adding new or unrelated products lines for new market. This is known as unrelated diversification strategy or unrelated diversification. Commercial bank with unrelated business means relation with non-banking financial companies such as investment or insurance business. In this study, to obtain this objective, 10 scheduled commercial banks have been selected of which 7 banks are public sector commercial

banks and 3 banks are private sector commercial banks. The development of diversified products/services for the period of 10 years i.e. from 2007-08 to 2016-17 have been considered in this study.

Objectives 3:

To examine the Customer Focused Performance on adoption of diversified products and services by the selected commercial banks the following framework has been designed -

Figure 3.2 Framework for Measuring Customer Focused Performance



Source: Compiled by researcher from review of literature.

To obtain objectives 3 i.e. to examine Customer Focused Performance on adoption of diversified products and services by the commercial banks the framework 3.2 has been used. To study customer focused performance, gaps model, developed by Parasuraman et al., (1988) has been used. In this framework, expected and experience product/service performance gap has been calculated with respect to one another and findings have been analysed (Cirpin and Sarika, 2014). Assessing product/service performance from customer's perspective, directly related to the level of satisfaction, Parasuraman et al. (1988) developed a series of scale for measuring expected and experience gap in service industries. The positive (Experience - Expectation) gap scores result satisfaction to the customer and negative (Experience - Expectation) gap scores result dissatisfaction to the customer. In other words, greater the expectation than experience, the result leads dissatisfaction of customer. In this study, to measure expectation and experience of bank customers, two widely used products/ services of three important segments of commercial banks i.e., general banking, insurance and investment has been assessed in terms of tangibles, reliability, responsiveness, assurance, empathy, convenience and cost effectiveness.

Objective 4

To assess the Relationship between Product and Service Diversification and Performance of commercial banks the research work designed by Maina, M.W. (2011) has been used in this present study. In his study Product diversification was analyzed using Herfindahl-Hirschman Index (HHI). One of the most widely used method of estimating the degree of diversification is the Herfindahl-Hirschman Index, named after the two great economists Orris C. Harfindahl and Albert U. Hirschman (Anand and Ramasubramaniam, 2015). To obtain this objective, variables such as Net Interest Income, Non-Interest Income, Net Operating Income, Earnings before interest and tax,

Return on Assets and Return on Equity have been considered in this study. For measuring level of diversification the three variables namely Net Interest Income (NII), Non-Interest Income (NONII) and Net Operating Income (NOI) have been used. Here, Net Interest Income and Non-Interest Income have been calculated from Annual Reports of selected commercial banks. However, Net Operating Income is the summation of Net Interest Income and Non-Interest Income. Product diversification has been obtained by using Herfindahl-Hirschman Index (HHI) and the formula is -

$$HHI= 1- \{(NII/NOI)^2 + \{(NONII/NOI)^2\}$$

HHI is the level of product diversification, NII is Net Interest Income and NONII is Non-Interest Income. Here NOI is Net Operating Income and 1 is a unit. The sum of squared revenue is subtracted from a unit so that HHI level increases with the level of diversification which takes on values between $0.00 < HHI < 1.00$. Increase in the HHI, indicates increase in diversification level and decrease in HHI means decrease in diversification level. In this study, the annual financial reports of the selected commercial banks for the five financial years (2013-14 to 2017-18), specifically as the balance sheets and as the income statements, have been used. The financial statement of a bank contains net interest income and non-interest income. Both interest income and non-interest income components depict different levels of diversification. Here, components of NONII are fees, commissions, foreign exchange trading income, and dividend income. Likewise, the components of NII are loans and advances, government securities, deposits with other banking institutions and other interest income.

After calculating the level of diversification, the financial performance of commercial banks has been measured by using certain financial ratios. The two widely accepted ratios to determine the financial performance of banks are the “Return on Assets” (ROA) and “Return on Equity” (ROE) (Acharya et al., 2002). According to

Leontiades (2009, cited in Maina, M.W., 2011) though these two determinants viz., ROE and ROA are different, but together they draw a clear picture of sound management. Another determinant of assessing diversification and performance is Earnings before interest and tax (EBIT). All these variables have been used to assess the relationship between diversification and performance of commercial banks.

3.10 Conclusion

To summarize, this chapter presents an overview of the research design. Thus, here the researcher tries to provide the detail information about the framework of the present study to be carried out. This chapter presents description of objective wise research design that includes methods of collection of data, presentation of data, statistical tools and technique used for the present study.

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CHAPTER-IV

NATURE AND EXTENT OF PRODUCT AND SERVICE DIVERSIFICATION OF COMMERCIAL BANKS

4.1 Introduction

The area of interest regarding nature and extent of diversification are different for different groups. Strategy researchers are more concerned with nature of firm diversification while economists were interested in finding the degree or extent of corporate diversification (Jayathilake, 2018; Rajan, 2003). In banking, diversification is done through combining certain activities like commercial banking, securities trading, insurance and other financial services (Baele et al., 2006). Ebrahim and Hasan (2008) explained the concept of bank diversification as the expansion of new financial services and products along with the traditional intermediation activities. Christiansen and Pace (1994) defined diversification as the extension of a banks permissible activities into non-traditional banking activities.

4.2 Nature of Diversification in Commercial Banks

Banking sector practices a wide range of organization structure to expand their business. Most of the Indian banks have set up their subsidiaries through which they are providing a wide range of specialized financial services like underwriting of equities and bonds, venture capital financing, leasing etc. It has resulted into transformation from domestic banking to international banking. These changes are required because a growing economy not only demands stronger and vibrant financial sector but also necessitates the provision of more sophisticated and variety of financial and banking products and services (Karunagaran, 2006). Banks, in particular, stride into several new areas and offer innovative products. Before investigating the nature of diversification in banks it is important to discuss the underlying relationship between the three important parts of financial markets, i.e., commercial banks, insurance and investment business. The combination of these three different businesses give a basis for diversification of banking activities (Kaur, S., 2010).

Investment and insurance business normally finance a growing volume of assets and do not have enough capital base. In these conditions, commercial banks can offer a considerable capital base. Also, wide bank-branch network can provide scope to investment and insurance businesses for the distribution of their financial products like mutual funds, debentures, insurance policies etc. This amalgamation of all the three businesses in the form of diversified financial group plays a compensatory role. But, in spite of this important relationship, these three businesses require varying business skills and functional skills. These three businesses also have differences in attitude towards risk. Commercial banks always avoid risk; insurance business aims to cover risk while investment banks specialize in risk management. All such determining factors are important for diversification and integration of bank functions.

The diversification of banking activities have paved the way for the entry of banks and other financial institutions into new areas of the financial services so that they can provide multiple products to their customers. Diversification helps the banks to stabilize the financial performance, distribution of risks, and increase efficiency. The diversity status and mode is an indication of how diversified the firm is in terms of product or market combinations (Berghe and Verweire, 1998).

4.3 Analysis and Interpretation

4.3.1 Analysis based on Objective 1

The first objective of this study is to examine the nature and extent of diversification adopted in Indian banking sector. The purpose of the study is to analyze the strategies of diversification followed by banks in India and the extent to which they are diversified in respect of their operation. For this, it is required to differentiate between diversified banks and non-diversified banks. In this study, those banks are included in the definition of diversified banks, which have at least one insurance subsidiary or investment product or both. These may be in the form of a subsidiary, joint venture or in any other mode such as alliance distribution etc. (Kaur, S., 2010). In a nutshell, diversification refers to the expansion of the base of the business activities different from the existing business.

To achieve the objective the study, a period of 10 years i.e. from 2007-08 to 2016-17 has been undertaken to examine the nature and extent of diversification adopted by the sample banks. The main source of data for the analysis is published financial documents and the report on trends and progress in banking sector in India. The following table 4.1 shows the nature and extent of diversification in commercial banks in India. Here BSD indicates Broad Spectrum Diversification with UB (Unrelated Business), NSD indicates Narrow Spectrum Diversification with RB (Related Business), and AD indicates Alliance

Diversification with RB (Related Business) and UB (Unrelated Business). Here NDB indicates Non-Diversified Bank. The symbol ***** is used for commercial banks under study to denote the Standard Industrial Classification (SIC) for classifying these industrial areas by a four digit code.

Table 4.1: Nature and Extent of Diversification in Indian Banking Sector

		Diversified Bank			Non – Diversified Bank (NDB)
		BSD	NSD	AD	
Public Sector Banks					
1.	State Bank of India	***** UB	*****RB	***** UB and ***** RB	
2.	Allahabad bank	***** UB		***** UB	
3.	Andhra Bank	***** UB	***** RB	***** UB and ***** RB	
4.	Bank of Baroda	***** UB	***** RB	***** UB and ***** RB	
5.	Bank of India	***** UB	***** RB	***** UB and ***** RB	

6.	Bank of Maharashtra			**** UB	
7.	Canara Bank	**** UB		**** UB and **** RB	
8.	Central Bank of India	**** UB		**** UB	
9.	Corporation Bank	**** UB		**** UB	
10.	Dena Bank (In April 2019, merged with Bank of Baroda).				
11	Indian Bank	**** UB		**** UB	
12..	Indian Overseas Bank	**** UB		****UB and **** RB	
13.	Oriental Bank of Commerce			**** UB	
14.	Punjab National Bank	**** UB	**** RB	**** RB	
15.	Punjab and Sind Bank			**** UB	
16.	Syndicate Bank			**** UB	

17.	Union Bank	**** UB		**** UB	
18.	United Bank of India			**** UB	
19.	UCO Bank			**** UB	
20.	Vijaya Bank (In April 2019, merged with Bank of Baroda.)				
21.	IDBI	**** UB		**** UB	
Private Sector Banks					
22.	Axis Bank Ltd.	**** UB	**** RB	**** UB	
23.	Catholic Bank			**** UB	
24.	City Union Bank			**** UB	
25.	Development and Credit Bank			**** UB	
26.	Dhanlaxmi Bank			**** UB	
27.	Federal Bank Ltd.			**** UB	
28.	HDFC Bank Ltd.	**** UB		**** UB	
29.	ICICI Bank Ltd.	****	**** RB	**** UB	

		UB		and **** RB	
30	IndusInd Bank Ltd.			**** UB	
31.	Jammu and Kashmir Bank			**** UB	
32.	Karnataka Bank			**** UB	
33.	Karur Vysya Bank			**** UB	
33.	Kotak Mahindra Bank	**** UB		**** UB	
34.	Lakshmi Vilas Bank				**** NDB
35.	Nainital Bank				**** NDB
36.	Ratnakar Bank				**** NDB
37.	South Indian Bank			**** UB	
38.	Tamilnad Mercantile Bank			**** UB	
39.	Yes Bank	**** UB			
40.	Bandhan Bank				**** NDB
41.	IDFC Bank				**** NDB

Source: Compiled by the researcher.

Table 4.1, shows the nature and extent of diversification in Indian banking sector. So far as public sector banks in India are concerned, all of them are found as diversified banks as on 31st March 2018.

State Bank of India has adopted all the three moves of diversification, namely Broad Spectrum Diversification, Narrow Spectrum Diversification and Alliance Diversification. State Bank of India has five associate banks, seven non-banking subsidiaries along with many foreign subsidiaries. The non-banking subsidiaries are SBI Capital Markets Ltd., SBI Funds Management Pvt. Ltd. SBI Factors and Commercial Services Pvt. Ltd., SBI Cards and Payments Services Pvt. Ltd., SBI Life Insurance Company Ltd., SBI General Insurance, and SBI DFHI Ltd. SBI have entered into a number of new businesses with strategic tie-ups. The products are Pension Funds, General Insurance, Custodial Services, Private Equity, Mobile Banking, Point of Sale, Advisory Services, and Structured Products etc. Venturing with SBI Life is a joint venture with Cardiff, is an example of alliance diversification.

Allahabad bank has adopted both Broad Spectrum Diversification and Alliance Diversification. Allahabad bank has wholly owned merchant banking subsidiary. All Bank Finance Ltd. is merchant banking subsidiary of Allahabad bank. Allahabad Bank and SBI Life Insurance came together and signed a bancassurance pact to offer financial services to consumer. In a bid to diversify its revenue stream, Allahabad Bank set up its syndication desk to generate more fees based income.

Andhra Bank has adopted all the three moves of diversification, namely Broad Spectrum Diversification, Narrow Spectrum Diversification and Alliance Diversification. The bank has entered MoU with Bank of Baroda and Legal & General Group of UK to form a joint venture life insurance company. Andhra Bank Financial Services Ltd. is wholly owned subsidiary of the bank. Andhra Bank has one associate rural bank.

India's First Life Insurance Company Ltd. is joint venture of Andhra bank. Another joint venture of this bank is India International Bank (Malaysia).

Bank of Baroda is another bank, which has adopted all the three moves of diversification. In NSD, it has one associate bank i.e., Nainital Bank and several subsidiaries dealing with banking and non-banking business. It has diversified into areas of merchant banking, housing finance, credit cards and mutual funds as a move to become a one stop financial supermarket. The bank has ventured into the life insurance business. It has very large overseas presence amongst the Indian banks and has branches and representative offices in countries like USA, UAE, UK, Singapore, Thailand, Malaysia, Mauritius, South Africa, Kenya, Hong Kong, China, Bahrain, Australia etc.

Bank of India is also highly diversified bank as the bank has followed the three moves of diversifications i.e., BSD, NSD and AD. The bank has 5,100 branches and overseas presence in 22 foreign countries spread over 5 continents with 60 offices including 5 Subsidiaries, 5 Representative Offices and 1 Joint Venture. It has banking and financial centers in Tokyo, Singapore, Hong Kong, London, Paris and New York. The bank has various subsidiaries and associates including BOI AXA Investment Managers Pvt. Ltd., Central Depository Services (India) Ltd., National Collateral Management Services Ltd., BOI Shareholding Ltd., BOI Merchant Bankers Ltd., STCI Finance Ltd. and ASREC (India) Ltd. BOI has established a wholly owned subsidiary, Bank of India (New Zealand) Ltd., in Auckland, New Zealand established on 6 October 2011. Then Bank of India has established a wholly owned subsidiary, Bank of India (Uganda) Ltd., on 18 June, 2012. Besides, Bank of India has also opened its wholly owned subsidiary Bank of India (Botswana) Ltd., on 9 August 2013.

The bank of Maharashtra has adopted Alliance diversification. The bank of Maharashtra attained autonomous status in 1998. The bank has a tie up with Life Insurance

Corporation of India and United India Insurance Company for sale of insurance policies. Bank has achieved 100% CBS (Core Banking Solution) enabling anytime anywhere banking to its customers. Bajaj Auto and Bank of Maharashtra have signed a strategic alliance to offer two wheeler loans in India. Bank introduces its telebanking service which is the first of its kind of the nationalised bank in the region. In 2005, bank has also sponsored Regional Gramin Bank Ltd.

Canara Bank has adopted both Broad Spectrum Diversification and Alliance Diversification move and has been scaling up its market position to emerge as a major 'Financial Conglomerate' with nine subsidiaries, sponsored institutions and joint ventures in India and abroad. In 2008, Canara Bank incorporated two joint ventures namely, Canara Robeco Asset Management Company Ltd. and Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd. To give a thrust on augmenting non-interest income sources and avenues, the bank has entered into a corporate agency agreement with ECGC (Export Credit Guarantee Corporation of India Ltd.) for soliciting and procuring export credit insurance business. Across the borders, the Bank has 8 branches, one each at London, Leicester, Hong Kong, Shanghai, Manama, Johannesburg, New York and DIFC (Dubai) & a representative office at Sharjah, UAE. Canbank Financial Services Ltd., Canbank Venture Capital Fund Ltd., Canbank Factors Ltd., Canara Robeco Asset Management Company Ltd., Canbank Computer Services Ltd., Canara Bank Securities Ltd. and Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd. are the subsidiaries of this Bank that offer non-banking products and services to the customers.

Central Bank of India offers a wide range of general banking services to customers, including credit cards, debit cards, cash management and remittance services and collection services. By adopting both BSD and AD, the bank has distributed third party life and non-life insurance policies and mutual funds on an

agency basis. Central Bank of India provides commercial banking products and services to corporate and commercial customers, including mid-sized and small businesses and government entities. The Bank sponsors 7 Regional Rural Banks and also, they entered into agency agreements with Life Insurance Corporation of India and The New India Assurance Company Ltd. to distribute their various insurance products, for which they are paid a fee. The Bank entered into agreements with UTI Asset Management Company Pvt. Ltd. and Tata Asset Management Ltd. for the sale of their mutual fund products, for which the bank is paid on a commission basis and fee basis, respectively. With a view to provide “one stop banking”, to the valued customers, Central Bank of India has undertaken selling and distribution of Life Insurance, General Insurance and Health Insurance Products of most trusted insurers through its branches. The Bank has tied-up with Life Insurance Corporation of India and TATA AIA Life Insurance Corporation Ltd. to undertake Life Insurance Business, Bajaj Allianz General Insurance Company Ltd. and The New India Assurance Company Ltd. to undertake Non-Life Insurance Business and Apollo Munich Health Insurance Company Ltd. to undertake Standalone Health Insurance business as corporate agent of all the Insurance companies on fee basis without any risk participation. Cent Bank Home Finance Limited; and Cent bank Financial Services Limited are the two subsidiaries of Central Bank of India.

Corporation Bank has adopted both BSD and AD and entered into a strategic alliance with the Stock Holding Corporation of India Ltd., (SHCIL). Corporation Bank is the first public sector bank to launch the bullion scheme for jewellery exporters. Corp Bank Securities Limited is a wholly owned subsidiary of Corporation Bank in Securities Trading.

Dena bank: the Government of India proposed the merger of Dena Bank with the Bank of Baroda on 17 September 2018. The merger was approved by the Union Cabinet and the boards of the banks on 2 January 2019.

Indian Bank has adopted both BSD move and AD move for diversifying banking business. Indian Bank has a separate subsidiary dealing in Merchant Banking, as Indbank Merchant Banking Services Limited (Indbank) incorporated in the year 1989.

Indian Overseas Bank has adopted both BSD and AD. In the year 2010-11 the bank has signed a joint venture agreement with Bank of Baroda and Andhra Bank to open a banking subsidiary in Malaysia. The joint venture has been duly incorporated at Malaysia on 13th of August 2010 as 'India International Bank (Malaysia) Ltd.' IOB entered into Non Life Insurance Business with Universal Sompo General Insurance (USGI) Company Limited with equity participation of 19% along with Allahabad Bank, Karnataka Bank and Dabur Investments. Indian Overseas Bank (IOB) has tie up with Apollo Munich Health Insurance to provide specialised health and personal accident products to its customers. The Bank has its overseas presence in 5 countries – Singapore, Hong Kong, Thailand, Sri Lanka, and South Korea. The Bank has 12 establishments abroad including 8 overseas branches, 1 Representative office, 2 Remittance Centers, and 1 Joint Venture Subsidiary as on 31st March 2018. There are two branches each at Hong Kong, Sri Lanka and Bangkok and one each at Singapore and South Korea. Its Representative office is located at Dubai.

Oriental Bank of Commerce by adopting Alliance Diversification, the bank operates into four business segments comprising of Treasury Operations, Corporate banking, wholesale Banking, Retail Banking and Other Banking Business Operations. As of March 2007, the bank had signed MOU with IDBI Capital Market Services for providing online share trading facility for its customers. During that period Canara

Bank, HSBC Insurance (Asia-Pacific) Holdings and the Oriental Bank of Commerce had signed a non-binding memorandum of understanding to jointly establish a life insurance company in India. Bank has a Corporate Agency tie-up with M/s TATA-AIA Life Insurance Co. Ltd. from 30 March, 2015, for providing Group Life Insurance cover to Housing.

Punjab National Bank is highly diversified bank. The bank has followed the three moves of diversification i.e., BSD, NSD and AD. Punjab National Bank (international) Ltd. and Druk PNB Bank Ltd. are the two international subsidiaries of Punjab National Bank. Dakshin Bihar Gramin Bank, Sarva Haryana Gramin Bank, Himachal Gramin Bank, Punjab Gramin Bank, Prathama UP Gramin Bank, PNB Housing Finance Ltd., PNB Metlife, and UP Tengri Bank, are the domestic subsidiaries. Everest Bank Ltd. is the Joint Venture. PNB Gilts Ltd., a subsidiary of this bank, is engaged in the business of the bank and also engaged in the business of trading in govt. securities, treasury bills and, investments. It is also engaged in dealing in money market investments. PNB investment services Ltd., a wholly owned subsidiary, has been set up by the bank for carrying out merchant banking business.

Punjab & Sind Bank has adopted Alliance Diversification. The bank has tie-up arrangement for non-life insurance business and distributed products such as life and non-life insurance policies through corporate agency agreements with Aviva Life Insurance Company India Pvt. Ltd. and Bajaj Allianz, and mutual funds with UTI AMC through a distribution agreement.

Syndicate Bank has adopted Alliance Diversification and signed a Memorandum of Understanding (MOU) with M/s SBI Life Insurance Co. Ltd. on 30 March, 2015 for providing Group Life Insurance cover to Education Loan Borrowers of the Bank.

Union bank has adopted both BSD and AD. The bank has tied-up with United India Insurance Company limited (UIICO) for providing accidental death insurance under Pradhan Mantri Suraksha Bima Yojna (PMSBY). Union Bank expanded internationally in 2007 with the opening of offices in Abu Dhabi, United Arab Emirates, and Shanghai in China. In 2008, Union Bank established a branch in Hong Kong, its first branch outside India. In 2009, Union Bank opened a representative office in Sydney, Australia. The Bank made a tie up with New India Insurance Company for market and distributed the products of New India Insurance Company on a commission basis. Acquisition of Union KBC Asset Management Company Private Limited and Union KBC Trustee Company Private Limited have become wholly owned subsidiaries of the bank.

United Bank of India (UBI) has followed Alliance Diversification. For augmenting its non-interest income the bank has undertaken Bancassurance business for life and non-life insurance segment since 2004. The Bank has tied up with HDFC Life Insurance Co. Ltd. In addition to LIC of India as a new insurance partner, other two partners, namely, Bajaj Allianz General Insurance Co. Ltd. and TATA AIG General Insurance Co. Ltd. are also working with this bank to perform both life and non-life insurance businesses. UBI has around 4,300 branches. Four of these are overseas branches set up in Hong Kong, Dubai, Antwerp, and Sydney. UBI also has representative offices at Shanghai, Beijing and Abu Dhabi.

UCO Bank has adopted Alliance Diversification. Apart from its core banking activities, the bank has entered into the Bancassurance Business with the object of offering a variety of services and products to its customers at affordable price. UCO Bank has a vital presence in the financial markets in India and abroad. UCO Bank presently has four overseas branches in two important international financial centers. The Bank is corporate agent of Life Insurance Corporation of India (LIC), the only public sector insurance company, since August 2003. In Bancassurance - the bank is a corporate agent

for three general insurance companies under corporate agency tie-up. These companies are Reliance General Insurance Company Limited, Future Generali India Insurance Company Limited, and Liberty and Videocon General Insurance Company Limited.

Vijaya Bank: the Government of India proposed the merger of Vijaya Bank with the Bank of Baroda on 17 September 2018. The merger was approved by the Union Cabinet and the boards of the banks on 2 January 2019.

IDBI (Industrial Development Bank of India) bank has a wholly owned subsidiary known as ICMS. It started functioning as a Broking and Distribution company in 1993. Currently its business includes Merchant Banking, Stock Broking, Distribution of Financial Products, and Corporate Advisory Services. IDBI Federal is a joint venture life insurance company of IDBI Bank Ltd.

Axis Bank Ltd. is India's third largest private sector bank. This bank has adopted the three moves of diversification namely BSD, NSD and AD. Axis Bank signed a Memorandum of Understanding (MoU) with Kia Motors. As a part of this agreement, the Bank offers one-stop banking and financing solutions such as inventory funding, cash credit, auto loans, fast tags etc. Axis Bank has entered into a corporate agency agreement with Life Insurance Corporation of India, the largest public sector life insurance company. Axis Bank, in line with its core values of customer centricity, ethics, transparency, teamwork and ownership, has entered into the arrangement to distribute the best life insurance solutions to its customers. In 2013, Axis Bank's subsidiary, Axis Bank UK, commenced banking operations. Axis Bank UK has a branch in London. Axis Bank has ten wholly owned subsidiaries - Axis Private Equity Ltd., Axis Trustee Services Ltd., Axis Asset Management Company Ltd., Axis Mutual Fund Trustee Ltd., Axis Bank UK Ltd., Axis Securities Ltd., Axis Finance Ltd., Axis Securities Europe Ltd., and Axis Forex.

Catholic Syrian Bank Ltd. has partnership with HDFC Life. With this partnership, HDFC Life offers its leading range of individual life insurance, health and pension products to the Catholic Syrian Bank customers. The bank has adopted Alliance Diversification.

City Union Bank Ltd. has tied up with Star Health Insurance and adopted Alliance Diversification. They entered into MoU with LIC of India and National Insurance Co. Ltd. for selling insurance product.

Development Credit Bank Ltd. and Birla Sun Life Insurance have tied-up for dealing insurance product. This alliance marked a new initiative for the distribution of life insurance products. Birla Sun Life Insurance now distributes their products through Development Credit Bank's network across the country. Development Credit Bank Ltd. has recently tied-up with TATA AIG General Insurance Company for distribution of General Insurance Products. Hence, Development Credit Bank Ltd. has adopted Alliance Diversification with unrelated businesses.

Dhanlaxmi Bank Ltd. has alliance with private life insurance companies. Canara HSBC and Oriental Bank of Commerce Life Insurance have entered into an alliance with Dhanlaxmi Bank. All the life insurance products of Canara HSBC and Oriental Bank of Commerce Life Insurance are available to customers of Dhanlaxmi Bank.

Federal Bank Ltd. has adopted Alliance Diversification and entered into a partnership with Fortune Wealth Management Company Ltd. Fortune Wealth Management Company Ltd. is one of the leading stock broking companies of South India for providing Portfolio Investment Scheme (PIS) services to NRIs. The Bank joined hands with ICICI Prudential Life Insurance Company Ltd. for premium collection through their branches and introduced new Fed e-Pay services. In 2005, JRG Securities Ltd. forged an alliance with this Bank for providing loans for subscribing

to initial public offers (IPOs). During the period of 2006-07, this Bank entered into a joint venture agreement with IDBI Ltd. & Fortis Insurance International N V for incorporating a Life Insurance Company under the name of IDBI Fortis Life Insurance Company Ltd. In April 2016, Federal Bank entered into a strategic partnership with Phillip Capital (India) Pvt. Ltd., a subsidiary of the Singapore headquartered Phillip Capital group, for providing Portfolio Investment Scheme (PIS) services to NRIs.

HDFC Bank Ltd. is a diversified bank and has two subsidiary companies, namely HDFC Securities Ltd. and HDB Financial Services Ltd. The Bank has three primary business segments, namely, retail banking, wholesale banking and treasury. The retail banking segment serves retail customers through a branch network and other delivery channels. HDFC Bank is a certified corporate agent of HDFC Life Insurance Co. Ltd., Tata AIA Life Insurance Co. Ltd. and Aditya Birla Sun Life Insurance Co. Ltd. for the distribution of life insurance products. The bank has followed both BSD and AD.

ICICI Bank Ltd. is a highly diversified bank as the bank has adopted the three moves of diversification such as BSD, NSD and AD. The bank has subsidiaries namely UK PLC United Kingdom, ICICI Bank Canada, ICICI Securities Limited, Securities Broking and Merchant Banking, ICICI Securities Holdings Inc., ICICI Securities Inc., ICICI Securities Primary Dealership Limited, ICICI Venture Funds Management Company Limited, ICICI Home Finance Company Limited, ICICI Trusteeship Services Limited, ICICI Investment Management Company Limited, ICICI International Limited Mauritius, ICICI Prudential Pension Funds Management Company Limited, ICICI Prudential Life Insurance Company Limited India, ICICI Lombard General Insurance Company Limited, ICICI Prudential Asset Management Company Limited, ICICI Prudential Trust Limited, ICICI Strategic Investments Fund, and ICICI Merchant Services Private Limited. ICICI Securities Holding Inc. is a wholly owned subsidiary of

ICICI. ICICI Prudential Pension Funds Management Company Limited is another wholly owned subsidiary of ICICI Prudential Life Insurance Company Limited.

IndusInd bank Ltd. has made a tie-up with Religare Securities for extending portfolio management services. They have also made a tie-up with Aviva Life Insurance for bancassurance. They made a strategic tie-up with Religare Securities for offering a value-added 3-in-1 savings accounts-linked package to customers, comprising a savings bank account, a depository account, and an Internet trading account. Also, they made a strategic partnership with Cholamandalam MS for bancassurance. IndusInd Bank has also signed a Corporate Agency agreement for distributing Reliance General Insurance products to its customers. The bank opened an International Banking Unit (IBU) at Gujrat as the Gujarat International Finance Tec-City (GIFT City) to meet the requirements of offshore banking operations from India.

Jammu and Kashmir Bank Ltd. has entered into tie-up with reputed Asset Management Company for selling mutual fund products. They are Kotak and Reliance mutual fund.

Karnataka bank Ltd. has tied-up with Fintech Company to offer wealth management products and services. The bank also offers mutual funds services through the bank's KBL Mobile Plus app.

Karur Vysva Bank Ltd. adopted diversification through alliance. The bank has all types of life insurance policies through a tie-up with M/s Birla Sun Life Insurance Company Ltd., all types of general insurance policies through a tie-up with M/s Bajaj Allianz General Insurance Company Ltd. Mutual Fund products of the bank are namely UTI MF, SBI MF, Reliance MF, Sundaram BNP Paribas MF, Birla Sun Life MF, Franklin Templeton MF and LIC MF.

Kotak Mahindra Bank Ltd. has adopted both BSD and AD. Kotak Mahindra bank tied-up with the Overseas Indian Facilitation Centre (OIFC) as a strategic partner gives them a platform to share their comprehensive range of banking & investment products and services for Non Resident Indians (NRIs) and Persons of Indian Origin (PIO). The bank has overseas subsidiaries with offices in Mauritius, London, Dubai, Singapore, New York, & San Francisco. The overseas subsidiaries are mainly engaged in investment advisory and investment management of funds Equity & Debt Trading management of GDR/ FCCB issuances broker & broker dealer activities and investments. In 2001, Kotak Securities Ltd. became a subsidiary company. As on 31st March 2017, Bank has eighteen subsidiaries as listed below:

Domestic Subsidiaries - Kotak Mahindra Prime Limited, Kotak Securities Limited, Kotak Mahindra Capital Company Limited, Kotak Mahindra Old Mutual Life Insurance Limited, Kotak Mahindra Investment Limited, Kotak Mahindra Asset Management Company Limited, Kotak Mahindra Trustee Company Limited, Kotak Investment Advisor Limited, Kotak Mahindra Trusteeship Services Limited, Kotak Infrastructure Debt Fund Limited (formerly known as 'Kotak Forex Brokerage Limited'), Kotak Mahindra Pension Fund Limited, Kotak Mahindra General Insurance Company Limited, and IVY Product Intermediaries Limited; and

International Subsidiaries - Kotak Mahindra (International) Limited, Kotak Mahindra (UK) Limited, Kotak Mahindra Inc., Kotak Mahindra Financial Services Limited and Kotak Mahindra Asset Management (Singapore) Pvt. Ltd. The Bank has four Associate companies, namely, ACE Derivatives & Commodity Exchange Limited, Infina Finance Private Limited, Matrix Business Services India Private Limited, and Phoenix ARC Private Limited.

Lakshmi Vilas Bank is a non-diversified bank. On 5 April 2019, the board of Lakshmi Vilas Bank approved a merger of the bank with the country's second largest housing finance company, Indiabull Housing Finance Ltd. Indiabulls shareholders received a 90.5% stake in the consolidated entity which is to be called Indiabulls Lakshmi Vilas Bank, and Lakshmi Vilas Bank received the remaining 9.5%.

The Nainital Bank Ltd. is a non-diversified bank. The bank is a subsidiary of Bank of Baroda. The bank has mixed bag of customers; right from the elites to rural mass in the interiors of Uttarakhand.

Ratnakar Bank Ltd is a non-diversified bank.

South Indian Bank has adopted AD and tied-up with Kotak Mahindra Life Insurance Ltd. and SBI Life Insurance Co. Ltd. in addition to its existing partner, Life Insurance Corporation of India. As the second partner for General Insurance in addition to Bajaj Allianz General Insurance Co. Ltd., the bank tied-up with the New India Assurance Co. Ltd. The bank launched a new online mutual fund platform SIB e-Invest to facilitate online purchase & sale of mutual funds.

Tamilnad Mercantile Bank Ltd. has tied-up with United India Insurance Company Ltd, and launched a co-branded family healthcare product to offer customized health insurance policy for the bank's customers.

YES BANK is India's fourth largest private sector bank formed as a high quality, customer centric and service driven Bank. Since inception in 2004, YES Bank has grown into a 'Full Service Commercial Bank' providing a complete range of products, services and technology driven digital offerings, catering to corporate, MSME and retail customers. YES Bank operates its investment banking, merchant banking & brokerage businesses through YES Securities and its mutual fund business through YES Asset Management (India) Limited, both wholly owned subsidiaries of the Bank. Headquarter

is in Mumbai and has a pan-India presence across all 28 states and 9 Union Territories in India including a Representative Office in Abu Dhabi.

Table 4.1, shows the nature and extent of diversification in Indian banking sector. So far as public sector banks are concerned, all public sector commercial banks are diversified as on 31st March 2018. Among them State Bank of India, Andhra Bank, Bank of Baroda, Bank of India, and Punjab National Bank are highly diversified banks. They have adopted BSD (Broad Spectrum Diversification), NSD (Narrow Spectrum Diversification) and AD (Alliance Diversification) move. They have diversified into the areas of merchant banking, housing finance, credit cards and mutual funds as a move to become a one stop financial supermarket. As part of diversification plan they have ventured into the life insurance business. They have very large overseas presence amongst the Indian banks and have branches and representative offices in different parts of the world.

Allahabad Bank, Canara Bank, Central Bank of India, Corporation Bank, Indian Bank, Indian Overseas Bank and Union Bank have adopted Broad Spectrum Diversification move and have been scaling up their market position to emerge as a major Financial Conglomerate with subsidiaries, and joint ventures in India and abroad. To increase non-interest income sources and avenues, the banks have entered into a corporate agency agreement for soliciting and procuring export credit insurance businesses. They set up their syndication desk to generate more fee based income. Other public sector banks such as United Bank of India, UCO Bank, Syndicate Bank, Punjab and Sind Bank, Oriental Bank of Commerce, and Bank of Maharashtra, are gradually making their path to become diversified. They have adopted Alliance Diversification.

In case of Private Sector Banks, Old Private Sector Banks are not highly diversified at all. However, old private sector banks are those which survived at the time

of nationalisation of commercial banks in India. Old private sector banks were not nationalised at the time of nationalisation due to their small size or for some other reasons. Catholic Bank, City Union Bank, Dhanlaxmi Bank, Federal Bank, Jammu and Kashmir Bank, Karnataka Bank, Karur Vysya Bank, Lakshmi Vilas Bank, Nainital Bank, Ratnakar Bank, South Indian Bank and Tamilnad Mercantile Bank are the old private sector banks. Most of the Old private sector banks have followed Alliance diversification. Some of them are Non-Diversified banks. Most of the New Generation Private Sector Banks is highly diversified banks. These banks have started their operation since 1993 and are known as new generation private sector banks. Axis Bank, Development and Credit Bank, HDFC Bank, ICICI Bank, IndusInd Bank, Kotak Mahindra Bank, Yes Bank, IDFC are the new generation private sector banks. Most of them are highly diversified banks.

Axis Bank and ICICI Bank have followed both BSD (Broad spectrum Diversification) and NSD (Narrow spectrum Diversification). HDFC Bank, IndusInd Bank, Kotak Mahindra Bank and ING Vysya Bank are categorised as highly diversified banks, as they have followed BSD (Broad Spectrum Diversification) and AD (Alliance Diversification) to expand their banking and non-banking products and services. Most of the new generation private sector banks are diversifying through Broad Spectrum Diversification, either through their own non-banking subsidiaries such as securities houses or insurance companies or have become heavily involved in product sales such as bancassurance or mutual funds etc.

4.3.2 Analysis based on Objective 2

The second objective of the study is the nature and extent of product and service diversification adopted by the selected commercial banks. To achieve this objective a period of 10 years i.e. from 2007-08 to 2016-17 has been considered. The main source of data for the analysis is considered the published financial documents of the selected banks and the report on trends and progress of selected banks. For in-depth study ten (10) commercial banks have been selected, of which, seven (7) banks are public sector banks and three (3) banks are private sector commercial banks. It is seen that commercial banks are no longer restricted to provide traditional services of accepting deposits and making advances, but, are engaged in diverse kinds of banking and financial business like insurance, mutual funds, investment banking, housing finance, factoring etc. (Dev, N., 2011). Hence, diversified financial products and services include a wide variety of financial products and services including various lending products such as credit cards, securities, etc. Product diversification includes new market, technology, information flow and innovativeness (Otieno and Moronge, 2014). To analyse the nature and extent of product diversification of selected commercial banks, a table has been prepared for Product Diversification with Unrelated Business (UB) and Product Diversification with Related Business (RB) with List of some products and services (based on diversified). When new business has a link with current business or similar with existing products/ services, it is known as related business. Here, product/service diversification with Related Business (RB) means number of subsidiaries and associates of concern bank. When new business does not have any link with current business or not similar with existing products/ services, it is known as unrelated business. Unrelated businesses are the new businesses for the banks. Here, product/service diversification with Unrelated Business (RB) means insurance products, investment products, diversified loan products etc. of the banks.

The following table 4.2 shows the nature and extent of product/service diversification with Unrelated Business (UB), product/service Diversification with Related Business (RB) and list of diversified products/ services of selected Banks.

Table 4.2: Nature and Extent of Product/Service Diversification of Sample Banks

SL No	Name of Banks	Product/Service Diversification with Unrelated Business (UB)	Product/Service Diversification with Related Business (RB)	List of some Products and Services (Based on Diversified)
1	State Bank of India (Public Sector Bank)	Non-banking subsidiaries of SBI are SBI Capital Markets Ltd., SBI Funds Management Pvt. Ltd., SBI Factors and Commercial Services Pvt. Ltd., and SBI Cards and Payments Services Pvt. Ltd.	Five associate banks are Bank of Jaipur and Bikaner, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, and State Bank of Travancor and Bharatiya Mahila Bank along with many foreign subsidiaries in Mauritius, California, Washington D.C.,	Home/Car/Personal/Education/Corporate Loan, Gold Banking, Working Capital Finance, Project Finance, Corporate Term Loan, Structured Finance, Loan Syndication, Construction Equipment Loan, Overdraft against Fixed Deposit, SBI Life Insurance Policies - Endowment Plan (Flexi Smart, Smart Money Back, Saral Life, Sanjeevan Supreme, Shubh Nivesh), ULIP, Investment Plan of SBI - SBI Life-Smart Bachat, SBI

			Nigeria, Nepal, Moscow, Shanghai, Kenya and Seoul.	Life-Smart Women Advantage, SBI Life-Smart Swadhan Plus, SBI Life-Smart Humsafar, SBI Life-CSC Saral Sanchay, SBI Life-Smart Income Protect, SBI Life-Smart Guaranteed Savings Plan etc., Locker, Debit Card, Credit Card, Green Remit Card, SBI NRI Services, Public Provident Fund (PPF) etc.
2	UCO Bank (Public Sector Bank)	Agency tie-up with Life Insurance Corporation of India (LIC), Reliance General Insurance Company Limited, Future Generali India Insurance Company Limited, Liberty and Videocon General Insurance Company Limited	Not adopted Diversification with Related Business.	Personal/Business/Home/Car loan, Loan against fixed deposits, Property loan, Education loan, Bancassurance (life and non-life), Credit Card, Debit Card, PPF, Mutual Fund, Structured Investment etc.
3	Central Bank of India (Public Sector Bank)	Agency agreements with Life Insurance Corporation of India, The New India Assurance Company Ltd., UTI Asset Management Company Pvt. Ltd. and Tata Asset Management Ltd. for the sale of their mutual fund	Not adopted Diversification with Related Business.	Personal/Home/Business/Property/Vehicle/Education/Trade/Saral/Gold loan, Govt. schemes and Deposits, Corporate Banking, Debit Card, Credit Card, Mutual Fund, Insurance Service (life and non-life), Structured

		products. Tie-up with TATA AIA Life Insurance Corporation Ltd. to undertake life insurance business, Bajaj Allianz General Insurance Company Ltd. to undertake non-life insurance business and Apollo Munich Health Insurance Company Ltd.		Investment Plan(SIP) etc.
4	Allahabad Bank (Public Sector Bank)	All Bank Finance Ltd. wholly owned merchant banking subsidiary of Allahabad bank. Allahabad Bank and SBI Life Insurance came together and signed a bancassurance pact.	Not adopted Diversification with Related Business.	Home/Education /Auto/Vehicle Loan, Gold Bond, PPF, Mutual Fund, Insurance (life and general), Govt. businesses etc.
5	Punjab National Bank (Public Sector Bank)	Everest Bank Ltd. PNB Investment Services Ltd. a wholly owned subsidiary, PNB Gilts Ltd. a subsidiary of the bank is engaged in the business of trading in govt. securities, treasury bills and, investments. PNB Housing Finance Ltd., PNB Metlife, JSC Tengri Bank for carrying out merchant banking business.	Punjab National Bank (International) Ltd and Druk PNB Bank Ltd. are the two international subsidiaries. Dakshin Bihar Gramin Bank, Sarva Haryana Gramin Bank, Himachal Gramin Bank, Punjab Gramin Bank,	PNB credit card, PNB business loan, PNB car loan, PNB education and home loan, Buyers' and Suppliers' Credit against Imports into India, Letter of Guarantee (Issued on behalf of Foreign Bank), Precious Metal Business (On Consignment Basis) Gold Loan Scheme, Insurance Scheme on Fire/Motor Vehicle, Marine etc. Health Insurance Scheme, Mutual Fund

			Prathama UP Gramin Bank, is associated with Punjab National Bank.	Investment Scheme. PPF etc.
6	Bank of India (Public Sector Bank)	The bank has various subsidiaries and associates including BOI AXA Investment Managers Pvt. Ltd., Central Depository Services (India) Ltd., National Collateral Management Services Ltd., BOI Shareholding Ltd., BOI Merchant Bankers Ltd., STCI Finance Ltd. and ASREC (India) Ltd.	Bank of India has 5 Subsidiaries and banking and financial centre in Tokyo, Singapore, Hong Kong, London, Paris and New York. BOI established a wholly owned subsidiary, Bank of India (New Zealand) Ltd., Bank of India (Uganda) Ltd., and Bank of India (Botswana) Ltd.	Bank of India (BOI) Master Card/ VISA Card/ Gift Card, Education/Home Vehicle/Mortgage loan, pensioner loan scheme, Forex, safe deposit locker, insurance scheme such as General/ Health/ Motor. The General Insurance includes Fire/ Marine/ Miscellaneous. Govt. business, mutual fund, PPF etc.
7	United Bank of India (Public Sector Bank)	Tie-up with HDFC Life Insurance Co. Ltd., LIC of India, Bajaj Allianz General Insurance Co. Ltd., TATA AIG General Insurance Co. Ltd. and Star Health and	Not adopted Diversification with Related Business.	Loan against property/ Education/ Home/ Auto etc. Credit Card, Debit card, Govt. business, tax payment. PPF, Insurance Scheme (life and non life), Term finance, Trade finance, Corporate

		Allied Insurance Co. Ltd.		finance, Structured Investment, etc.
8	Federal Bank Ltd. (Private Sector Bank)	Strategic partnership with Fortune Wealth Management Company Ltd., ICICI Prudential Life Insurance Company Ltd. Alliance with JRG Securities Ltd. Joint venture agreement with IDBI Ltd. & Fortis Insurance International N V., Phillip Capital (India) Pvt. Ltd.	Not adopted Diversification with Related Business.	Loan against Car/Gold/Home/, Credit Card, Debit Card, Health and Life Insurance, IDBI Federal Childsurance Saving, Protection Insurance Plan, Mutual Fund, Systematic Investment Plan(SIP) etc.
9	HDFC Bank Ltd. (Private Sector Bank)	Two subsidiary companies namely HDFC Securities Ltd and HDB Financial Services Ltd. HDFC Bank is a corporate agent of HDFC Life Insurance Co. Ltd, Tata AIA Life Insurance Co. Ltd. and Aditya Birla Sun Life Insurance Co. Ltd. for the distribution of life insurance products.	Not adopted Diversification with Related Business.	Loan against Property/Gold/education/ Car, Loans for multi categories, Credit Card, Debit Card, mutual fund, insurance (life and non-life), Term Insurance, FOREX (money exchange), Dollar exchange, Safe deposit locker.
10	ICICI Bank Ltd. (Private Sector Bank)	ICICI Securities Ltd., Securities Broking and Merchant Banking, Securities Holdings Inc., ICICI Venture Funds Management Company Ltd., ICICI Home Finance Company Ltd., ICICI	ICICI Bank has subsidiaries namely UK PLC United Kingdom and ICICI Bank Canada.	ICICI Credit Card, ICICI Bank Business Loan/Car Loan/ Education Loan/ Gold Loan, Loan against Property, Loans for multi categories such as commercial vehicle, Corporate Finance, Forex

		Trusteeship Services Ltd., ICICI Investment Management Company Ltd., ICICI Prudential Pension Funds Management Company Ltd., ICICI Prudential Life Insurance Company Ltd., ICICI Lombard General Insurance Company Ltd., ICICI Prudential Asset Management Company Ltd., ICICI Prudential Trust Ltd., ICICI Merchant Services Private Ltd.		Services, ICICI Pru Term Insurance, Pension and Retirement Plans, Wealth Insurance Plan, Unit Linked Plans (ULIPs), Mutual Fund, and Public Provident Fund etc.
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Source: Published Financial Documents, Reports, and websites of Selected Banks

Table 4.2, shows the nature and extent of product/service diversification of selected commercial banks in India. All the selected banks are diversified as on 31st March 2018. The nature and extent of product/service diversification of selected commercial banks are based on unrelated business and related business.

State Bank of India has adopted diversification strategy through unrelated business and related business. Unrelated businesses of State Bank of India are non-banking subsidiaries namely SBI Capital Markets Ltd., SBI Funds Management Pvt. Ltd., SBI Factors and Commercial Services Pvt. Ltd., and SBI Cards and Payments Services Pvt. Ltd. These are the product lines which are new and penetrate new markets. Related businesses of State Bank of India are with five associate banks, namely Bank of Jaipur and Bikaner, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala, and State Bank of Travancor. Bharatiya Mahila Bank alongwith many foreign subsidiaries in

Mauritius, California, Washington D.C., Nigeria, Nepal, Moscow, Shanghai, Kenya and Seoul also perform their banking activities with State Bank of India. Associate banks and subsidiaries also perform the banking services to their customers.

UCO Bank mainly diversified through unrelated business strategy. Here non-banking subsidiaries are agency tie-up with Life Insurance Corporation of India (LIC), Reliance General Insurance Company Limited, Future Generali India Insurance Company Limited and Liberty and Videocon General Insurance Company Limited.

Central Bank of India has diversified through unrelated business strategy. The bank has agency agreements with Life Insurance Corporation of India, The New India Assurance Company Ltd., UTI Asset Management Company Pvt. Ltd. and Tata Asset Management Ltd. for the sale of their mutual fund products. The bank is tied-up with TATA AIA Life Insurance Corporation Ltd., Bajaj Allianz General Insurance Company Ltd. and Apollo Munich Health Insurance Company Ltd. to undertake life insurance and non-life insurance business.

Allahabad Bank has diversified through unrelated business strategy. All Bank Finance Ltd. is wholly owned merchant banking subsidiary of Allahabad bank. Allahabad Bank has agency agreements with SBI Life Insurance to sale bancassurance products.

Punjab National Bank has followed the strategy of unrelated business and related business for diversification. Unrelated businesses of Punjab National Bank namely Everest Bank Ltd. and PNB Investment Services Ltd. are wholly owned non-banking subsidiary of Punjab National Bank. PNB Gilts Ltd. a subsidiary of the Punjab National Bank is engaged in the business of trading in govt. securities, treasury bills and, investments. PNB Housing Finance Ltd., PNB Metlife, and JSC Tengri Bank are carrying out merchant banking business with Punjab National Bank. To perform Related banking business, the two international subsidiaries of Punjab National Bank are Punjab National

Bank (international) Ltd. and Druk PNB Bank Ltd. Dakshin Bihar Gramin Bank, Sarva Haryana Gramin Bank, Himachal Gramin Bank, Punjab Gramin Bank, Prathama UP Gramin Bank, are also associated with Punjab National Bank for their banking businesses.

Bank of India has adopted both unrelated business and related business strategy. The bank has adopted unrelated business through various subsidiaries and associates including BOI AXA Investment Managers Pvt. Ltd., Central Depository Services (India) Ltd., National Collateral Management Services Ltd., BOI Shareholding Ltd., BOI Merchant Bankers Ltd., STCI Finance Ltd., and ASREC (India) Limited to perform non-banking activities. For, related business, Bank of India has 5 Subsidiaries and banking and financial centre in Tokyo, Singapore, Hong Kong, London, Paris and New York. BOI has also established wholly owned subsidiaries namely Bank of India (New Zealand) Ltd., Bank of India (Uganda) Ltd., and Bank of India (Botswana) Ltd.

United Bank of India has adopted unrelated business strategy. The bank has tied up with HDFC Life Insurance Co. Ltd., LIC of India, Bajaj Allianz General Insurance Co. Ltd., TATA AIG General Insurance Co. Ltd. and Star Health and Allied Insurance Co. Limited.

Federal Bank Ltd. has followed the strategy of unrelated business. The bank has strategic partnership with Fortune Wealth Management Company Ltd., and ICICI Prudential Life Insurance Company Ltd. The bank has also alliance with JRG Securities Ltd. and Joint venture agreement with IDBI Ltd. & Fortis Insurance International and N V. Phillip Capital (India) Pvt. Ltd.

HDFC Bank Ltd. has followed unrelated business strategy. The bank has two subsidiary companies, namely HDFC Securities Ltd. and HDB Financial Services Ltd. HDFC Bank is a corporate agent of HDFC Life Insurance Co. Ltd., Tata AIA Life

Insurance Co. Ltd. and Aditya Birla Sun Life Insurance Co. Ltd. for the distribution of life insurance products.

ICICI Bank Ltd. is highly diversified private sector bank and followed unrelated business strategy through ICICI Securities Ltd., Securities broking and merchant banking, Securities Holdings Inc., ICICI Venture Funds Management Company Ltd., ICICI Home Finance Company Ltd., ICICI Trusteeship Services Ltd., ICICI Investment Management Company Ltd., ICICI Prudential Pension Funds Management Company Ltd., ICICI Prudential Life Insurance Company Ltd., ICICI Lombard General Insurance Company Ltd., ICICI Prudential Asset Management Company Ltd., ICICI Prudential Trust Ltd., ICICI Strategic Investments Fund, and ICICI Merchant Services Private Ltd. for non-banking activities. The bank also involved with related business through subsidiaries namely UK PLC United Kingdom and ICICI Bank, Canada.

4.4 Conclusion

This chapter includes the analysis of nature and extent of diversification of commercial banks and product/service diversification of commercial banks. Through the subsidiaries like capital markets, merchant banking, mutual funds, factoring, housing finance, etc. banks perform non-banking activities. Now banks have venturing with financial services firms and offered variety of products and services to their customers. The products and services that commercial banks have diversified into are mutual fund, insurance, etc. The real estate business has been increasing faster and commercial banks have taken advantage of the trend and diversified into the mortgage market as unrelated diversification strategy. The commercial banks also formed partnership with automobiles companies and insurance firms to facilitate a one full package for the customers. The different types of loan such as credit card loan, home loan, car loan, two-wheeler loan,

education loan to students, loan against insurance scheme, loan against fixed deposits, mortgages, small business loan etc. are the critical milestone in this line. Bancassurance products are “adds-on” on the main bank products. Presently banks’ investment portfolios are fully diversified.

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CHAPTER-V

CUSTOMER FOCUSED PERFORMANCE ON PRODUCT AND SERVICE DIVERSIFICATION OF COMMERCIAL BANKS

5.1 Introduction

This chapter presents respondents' demographic profile, Reliability test, Normality test, analysis and interpretation of results. To measure Customer Focused Performance, two widely used products or services of three important segments of commercial banks i.e., general banking, insurance and investment has been examined in terms of tangibles, reliability, responsiveness, assurance, empathy, convenience and cost effectiveness.

Demographic profile of the respondents constitutes gender, age, and level of education, income, and respondents' bank information. The following Table 5.1 shows the demographic characteristics of the respondents -

Table 5.1: Description of Basic Information of the Respondents

Gender	Frequency	Percentage
Male	214	55.7
Female	170	44.3
Total	384	100.00
Age	Frequency	Percentage

18-25 yrs	47	12.2
26-40 yrs	162	42.2
41-56 yrs	139	36.2
56 yrs and above	36	9.4
Total	384	100.00
Education	Frequency	Percentage
Undergraduate	56	14.6
Graduate	111	28.9
Post Graduate	204	53.12
Any Other	13	3.38
Total	384	100.00
Monthly Income	Frequency	Percentage
Less than Rs. 10000	31	8.1
Rs.10000-Rs. 30000	102	26.6
Rs.30000-Rs 50000	172	44.8
Above Rs. 50000	79	20.5
Total	384	100.00
Accounts with Other Banks	Frequency	Percentage

No	93	24.21
Yes	291	75.79
Total	384	100.00
Number of Years with the Sample bank	Frequency	Percentage
0 to 3 Years	34	8.85
3 to 6 Years	102	26.57
6 to 9 Years	159	41.40
More than 9 Years	89	23.18
Total	384	100.00
Type of Account	Frequency	Percentage
Savings Bank A/C	210	54.68
Current Bank A/C	174	45.32
Total	384	100.00

Source: Based on survey data.

Out of 384 respondents, 44.3% are female and 55.7% are male respondents. In terms of age-wise distribution of respondents, majority of the respondents (42%) are in the age group of 26 to 40 years followed by 36.2% are in the age group of 41 to 56 years, 12.2% are in the age group of 18 to 25 years and 9.4% are in the age group of 56 and above years. In terms of education-wise distribution of respondents, the majority of respondents (53.12%) are having post graduate degree followed by (28.9%) are graduate, 14.6% are undergraduate and 3.38% belongs to other category.

Monthly income-wise distribution of respondents shows that 44.8% are having income of Rs.30000 to Rs.50000 followed by 26.6% are having income of Rs.10000 to Rs.30000, 20.6% are having income above Rs.50000 and 8.1% are having income less than Rs. 10000.

Majority of the respondents (75.79%) have expressed that they have accounts with other banks while remaining have accounts with one bank only.

While enquiring about the number of years he or she is having accounts with the bank, 41.40% of the respondents opined that they have accounts with the sample bank for 6 to 9 years, 26.57% have 3 to 6 years, 23.18% have more than 9 years and 8.85% have accounts with the sample bank for 0 to 3 years. Besides, 54.68% of the respondents are Saving Bank Account holders and 45.32% are Current Bank Account holders.

To examine the Expectations and Experiences of product/service performance, following products/services (based on diversified) have been considered for the study -

A. General Banking products / services are -

- (i) ATM service and
- (ii) Online Banking

General banking is considered as the starting point of all banking operation. Commercial banks perform these services to their customers. Opening accounts, remittance of funds, accepting deposits from customers, issuing bank draft and pay order etc. are the important general banking services of commercial banks. General banking is also known as retail banking. In this study, two important general banking products/services such as ATM service and Online Banking have been considered for analysis of product/ service performance from customers' point of view.

B. Investment products/ services are -

- (i) Mutual Fund and
- (ii) PPF (Public Provident Fund)

Investment products are the arrangement between particular bank and an investment company and bank allows the investment company to sell its products to bank's customers. It is umbrella term for the products such as bonds, stocks and for various financial instruments. This encourages customers to put their money into the products in expectations of gaining profits. In this study, two important investment products such as Mutual Fund and PPF (Public Provident Fund) have been considered for analysis of product/ service performance from customers' perspective.

C. **Insurance** products/ services are -

- (i) Life Insurance and
- (ii) General Insurance

Bank allows insurance companies to sell their products to the bank's customer base. It is the partnership arrangement between bank and insurance company. This partnership might be profitable for both bank and the insurance company. Products like life insurance and general or non-life insurance are offered by the bank to its customers.

5.2 Reliability Test

In this study, variables considered for measuring product/service performance from customers' perspective are service dimensions i.e. (1) Tangibility, (2) Reliability, (3) Responsiveness, (4) Assurance, (5) Empathy, (6) Convenience and (7) Cost Effectiveness. These variables are measured in terms of Degree of Expectations of Tangibility in product/service performance, Degree of Expectations of Reliability in product/service performance, Degree of Expectations of Responsiveness in

product/service performance, Degree of Expectations of Assurance in product/service performance, Degree of Expectations of Empathy in product/service performance, Degree of Expectations of Convenience in product/service performance, Degree of Expectations of Cost Effectiveness in product/service performance, Degree of Experience of Tangibility in product/service performance, Degree of Experience of Reliability in product/service performance, Degree of Experience of Responsiveness in product/service performance, Degree of Experience of Assurance in product/service performance, Degree of Experience of Empathy in product/service performance, Degree of Experience of Convenience in product/service performance and Degree of Experience of Cost Effectiveness in product/service performance.

In order to check, whether the respondents' scores on any item tend to be related to their score on the others, the reliability test has been conducted. Hence, reliability calculation has been done using Cronbach's Alpha test. The Table 5.2 shows the scores of reliability:

Table 5.2: Reliability Test of Degree of Expectation and Experience in respect of the Dimensions of Product/ Service Performance

Products and Services	Degree of Expectation and Experience	No. of Respondents	No. of Items	Cronbach's Alpha
ATM Service	Expectation	384	28	.918
	Experience	384	28	.935
Online Banking	Expectation	143	28	.847
	Experience	143	28	.940

Mutual Fund	Expectation	74	28	.704
	Experience	74	28	.915
PPF	Expectation	68	28	.791
	Experience	68	28	.933
Life Insurance	Expectation	143	28	.809
	Experience	143	28	.923
General Insurance	Expectation	91	28	.783
	Experience	91	28	.921

Source: Based on survey data.

Table 5.2 presents reliability test for 28 items for each all six products/services of selected commercial banks. It is observed from the table (5.2) that the degree of expectation of variables is reliable as reliability scores are above the ideal score of 0.70. According to Sekaran and Bougie, (2010), Cronbach Alpha value 0.80% to 0.95% fall under very good reliability, 0.70% to 0.80% fall under good reliability and 0.60% to 0.70% fall under fair and below 0.60% fall under poor reliability. Nunnally (1978) and DeVellis (2003) suggested lower limit for Cronbach's Alpha is 0.70. Therefore, the cut-off point for measuring reliability is 0.70. In this study, since the value of Cronbach's Alpha is above 0.70, all the items are deemed reliable. Hence, the internal consistency of the statements fall under good reliability and questionnaire is valid.

5.3 Normality Test

In this study, one sample Kolmogorov-Smirnov (K-S) Test has been done. The K-S Test result for each products/ services reveals that the distribution is normal. These are shown below -

Table 5.3: K-S Test Result (ATM Service)

	N	Normal Parameters		Most Extreme Differences			Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)
		Mean	Std. Deviation	Absolute	Positive	Negative		
Total score of expectation of Tangibility	384	17.80	1.619	.185	.185	-.150	3.617	.000
Total score of experience of Tangibility	384	13.53	2.849	.157	.157	-1.46	3.076	.000
Total score of expectation of Reliability	384	21.89	2.510	.153	.108	-.153	2.988	.000
Total score of experience of Reliability	384	15.66	4.326	.808	.808	-0.51	1.574	.010
Total score of expectation of Responsiveness	384	17.13	2.390	.148	.115	-.148	2.892	.000

Total score of experience of Responsiveness	384	11.90	3.157	.104	.104	-0.96	2.039	.000
Total score of expectation of Assurance	384	16.95	2.342	.121	.096	-.121	2.369	.000
Total score of experience of Assurance	384	11.75	3.190	.128	.128	-0.75	2.501	.000
Total score of expectation of Empathy	384	16.82	2.453	.138	.097	-.138	2.708	.000
Total score of experience of Empathy	384	11.67	3.167	.076	.076	-0.59	1.494	.020
Total score of expectation of Convenience	384	16.93	2.222	.128	.084	-.128	2.502	.000
Total score of experience of Convenience	384	12.11	2.766	.089	.084	-0.89	1.740	.000
Total score of expectation of Cost Effectiveness	384	12.71	1.887	.152	.112	-.152	2.980	.000

Total score of experience of Cost Effectiveness	384	9.73	2.373	.100	.076	-1.00	1.954	.000
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Source: Based on survey data.

From the table (5.3) it is found that the distribution is normal.

Table 5.4: K-S Test Result (Online Service)

	N	Normal Parameters		Most Extreme Differences			Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)
		Mean	Std. Deviation	Absolute	Positive	Negative		
Total score of expectation of Tangibility	143	17.37	2.279	.147	.124	-.147	1.761	.004
Total score of experience of Tangibility	143	12.72	3.583	.119	.119	-.063	1.421	.035
Total score of expectation of Reliability	143	21.41	2.199	.167	.095	-.167	1.995	.001
Total score of experience of Reliability	143	15.15	4.322	.079	.079	-.060	.946	.333

Total score of expectation of Responsiveness	143	17.06	1.761	.157	.130	-.157	1.878	.002
Total score of experience of Responsiveness	143	11.70	3.117	.085	.085	-.058	1.019	.250
Total score of expectation of Assurance	143	16.85	1.880	.163	.096	-.163	1.945	.001
Total score of experience of Assurance	143	11.48	2.978	.130	.130	-.082	1.559	.016
Total score of expectation of Empathy	143	16.68	1.927	.180	.100	-.180	2.155	.000
Total score of experience of Empathy	143	11.62	3.301	.098	.098	-.065	1.170	.130
Total score of expectation of Convenience	143	16.63	1.920	.150	.105	-.150	1.793	.003
Total score of experience of Convenience	143	11.98	2.947	.097	.082	-.097	1.163	.134

Total score of expectation of Cost Effectiveness	143	12.94	1.611	.165	.111	-.165	1.972	.001
Total score of experience of Cost Effectiveness	143	9.15	2.427	.147	.134	-.147	1.760	.004

Source: Based on survey data.

From the table (5.4) it was found that the distribution is normal.

Table 5.5: K-S Test Result (Mutual Fund Service)

	N	Normal Parameters		Most Extreme Differences			Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)
		Mean	Std. Deviation	Absolute	Positive	Negative		
Total score of expectation of Tangibility	74	17.53	1.572	.131	.131	-.123	1.129	.156
Total score of experience of Tangibility	74	12.46	3.360	.149	.149	-.084	1.281	.075

Total score of expectation of Reliability	74	21.68	1.705	.157	.114	-.157	1.348	.053
Total score of experience of Reliability	74	14.61	3.122	.197	.197	-.094	1.692	.007
Total score of expectation of Responsiveness	74	17.32	1.705	.195	.109	-.195	1.674	.007
Total score of experience of Responsiveness	74	11.61	2.504	.132	.132	-.103	1.132	.154
Total score of expectation of Assurance	74	16.92	1.929	.185	.125	-.185	1.595	.012
Total score of experience of Assurance	74	10.91	2.560	.161	.161	-.074	1.384	.506
Total score of expectation of Empathy	74	16.92	1.678	.200	.138	-.200	1.719	.005

Total score of experience of Empathy	74	11.38	2.429	.096	.096	-.089	.824	.506
Total score of expectation of Convenience	74	16.76	1.834	.188	.141	-.188	1.616	.011
Total score of experience of Convenience	74	11.86	2.723	.117	.117	-.091	1.002	.267
Total score of expectation of Cost Effectiveness	74	13.18	1.475	.185	.108	-.185	1.591	.013
Total score of experience of Cost Effectiveness	74	9.05	2.275	.128	.098	-.128	1.102	.176

Source: Based on survey data.

From the table (5.5) it is found that the distribution is normal.

Table 5.6: K-S Test Result (PPF Service)

	N	Normal Parameters		Most Extreme Differences			Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)
		Mean	Std. Deviation	Absolute	Positive	Negative		

Total score of expectation of Tangibility	68	17.19	2.180	.130	.099	-.130	1.072	.201
Total score of experience of Tangibility	68	12.03	3.186	.127	.127	-.074	1.045	.767
Total score of expectation of Reliability	68	21.53	1.661	.154	.100	-.154	1.273	.078
Total score of experience of Reliability	68	14.34	4.497	.081	.081	-.051	.666	.488
Total score of expectation of Responsiveness	68	17.24	2.159	.168	.100	-.168	1.384	.043
Total score of experience of Responsiveness	68	11.46	3.169	.101	.101	-.064	.835	.284
Total score of expectation of Assurance	68	17.06	1.992	.182	.098	-.182	1.499	.022
Total score of experience of Assurance	68	10.84	2.751	.120	.120	-.061	.987	.454

Total score of expectation of Empathy	68	16.76	2.179	.127	.114	-.127	1.046	.224
Total score of experience of Empathy	68	11.13	2.926	.104	.104	-.070	.858	.213
Total score of expectation of Convenience	68	16.69	2.002	.194	.102	-.194	1.597	.012
Total score of experience of Convenience	68	11.50	2.857	.128	.128	-.088	1.058	.093
Total score of expectation of Cost Effectiveness	68	12.75	1.633	.193	.119	-.193	1.593	.013
Total score of experience of Cost Effectiveness	68	8.57	2.482	.150	.150	-.101	1.239	.093

Source: Based on survey data.

From the table (5.6) it s found that the distribution is normal.

Table 5.7: K-S Test Result (Life Insurance Service)

	N	Normal Parameters		Most Extreme Differences			Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)
		Mean	Std. Deviation	Absolute	Positive	Negative		
Total score of expectation of Tangibility	143	17.37	2.030	.146	.098	-.146	1.748	.004
Total score of experience of Tangibility	143	12.44	3.301	.101	.099	-.101	1.211	.131
Total score of expectation of Reliability	143	21.80	2.673	.155	.116	-.155	1.856	.002
Total score of experience of Reliability	143	14.55	3.665	.098	.098	-.056	1.168	.101
Total score of expectation of Responsiveness	143	16.99	2.190	.167	.085	-.167	1.993	.001

Total score of experience of Responsiveness	143	11.45	3.048	.102	.102	-.058	1.222	.003
Total score of expectation of Assurance	143	16.96	2.007	.125	.089	-.125	1.492	.023
Total score of experience of Assurance	143	11.35	3.205	.152	.152	-.062	1.816	.061
Total score of expectation of Empathy	143	17.02	1.941	.188	.097	-.188	2.248	.000
Total score of experience of Empathy	143	11.39	2.910	.110	.110	-.080	1.320	.060
Total score of expectation of Convenience	143	17.05	1.676	.204	.131	-.204	2.444	.000
Total score of experience of Convenience	143	11.07	2.752	.133	.133	-.072	1.585	.013

Total score of expectation of Cost Effectiveness	143	12.77	1.706	.225	.096	-.225	2.692	.000
Total score of experience of Cost Effectiveness	143	8.94	2.450	.124	.124	-.108	1.488	.024

Source: Based on survey data.

From the table (5.7) it is found that the distribution is normal.

Table 5.8: K-S Test Result (General Insurance Service)

	N	Normal Parameters		Most Extreme Differences			Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)
		Mean	Std. Deviation	Absolute	Positive	Negative		
Total score of expectation of Tangibility	91	17.22	2.032	.177	.086	-.177	1.688	.007
Total score of experience of Tangibility	91	11.69	3.473	.113	.113	-.071	1.078	.195

Total score of expectation of Reliability	91	21.80	2.040	.154	.086	-.154	1.469	.027
Total score of experience of Reliability	91	14.08	3.114	.121	.121	-.072	1.157	.138
Total score of expectation of Responsiveness	91	17.03	1.741	.185	.114	-.185	1.762	.004
Total score of experience of Responsiveness	91	11.29	2.396	.119	.119	-.079	1.136	.151
Total score of expectation of Assurance	91	16.95	1.709	.171	.104	-.171	1.632	.010
Total score of experience of Assurance	91	10.64	2.677	.144	.144	-.071	1.369	.047
Total score of expectation of Empathy	91	16.89	1.676	.175	.144	-.175	1.666	.008
Total score of experience of Empathy	91	10.62	2.951	.107	.107	-.094	1.025	.244

Total score of expectation of Convenience	91	16.84	1.893	.161	.087	-.161	1.536	.018
Total score of experience of Convenience	91	10.98	2.385	.134	.134	-.094	1.275	.077
Total score of expectation of Cost Effectiveness	91	12.73	1.808	.198	.104	-.198	1.886	.002
Total score of experience of Cost Effectiveness	91	8.16	2.442	.109	.109	-.096	1.043	.227

Source: Based on survey data.

From the table (5.8) it is found that the distribution is normal.

The K-S Test result for all six products/services (ATM, online banking, mutual fund, PPF, life insurance service, general insurance service) in the table (5.9) shows that the distribution is normal.

Table 5.9: K-S Test Result for all products/ Services

	N	Normal Parameters		Most Extreme Differences			Kolmogorov -Smirnov Z	Asymp. Sig. (2-tailed)
		Mean	Std. Deviation	Absolute	Positive	Negative		
Total score of expectation of ATM Services	384	107.39	8.588	.118	.065	-.118	2.303	.000
Total score of experience of ATM Services	384	76.61	13.944	.070	.070	-.038	1.378	.045
Total score of expectation of Online Banking Services	143	119.00	7.215	.151	.079	-.151	1.805	.003
Total score of experience of Online Banking Services	143	83.86	15.992	.056	.056	-.044	.664	.769
Total score of expectation of Mutual Fund Services	74	120.30	5.663	.130	.070	-.130	1.122	.161
Total score of experience of Mutual Fund Services	74	81.88	13.125	.103	.103	-.065	.883	.416

Total score of expectation of PPF Services	68	119.16	7.548	.140	.058	-.140	1.157	.137
Total score of experience of PPF Services	68	79.87	13.833	.069	.069	-.066	.570	.901
Total score of expectation of Life Insurance Services	143	119.95	7.825	.120	.072	-.120	1.437	.032
Total score of experience of Life Insurance Services	143	81.25	15.326	.099	.099	-.072	1.183	.122
Total score of expectation of General Insurance Services	91	119.46	6.632	.115	.068	-.115	1.095	.182
Total score of experience of General Insurance Services	91	77.43	12.884	.066	.066	-.048	.634	.816
Total score of expectation of all Products/ Services	384	268.96	196.902	.230	.230	-.179	4.510	.000
Total score of experience of all Products/ Services	384	186.37	115.737	.203	.203	-.151	3.975	.000

Source: Based on survey data.

The tables below represent respondents' product-wise Expectations and Experience Gap, t-value and P-value. Expectation and Experience of respondents are examined with these seven dimensions through 28 items. However, mean value and standard deviation are calculated to measure Experience and Expectation gap of respondents. Further t-value and p-value have been calculated to examine the level of significance. To measure the gap between customer's expectations and experience the following formula has been used -

$$\text{Gap score} = \text{Experience} - \text{Expectation}.$$

Average score of Experiences and average score of Expectations have been calculated for each dimension. Following this, the Gap Score for each item has been calculated by subtracting the average Expectation score from the average Experience score. Finally sum of averages is calculated for product/service performance. Here, t-value and p-value is computed to measure statistical significance.

To achieve, most important dimensions of product/service performance in this study, the dimensions are measured on the basis of the scores they obtained. The average values have been computed for each dimension. The highest score dimension reveals the most important dimension and lowest score dimension shows the least important dimension.

Table 5.10 ATM Service and Respondents' Expectation and Experience Gap, t-value and P-value

Total no. of Respondents=384

Dimensions	Expectation		Experience		Gap (Mean difference)	t-value	P-value
	Mean	SD	Mean	SD			
Tangibility	17.80	1.619	13.53	2.849	- 4.281	- 24.815	0.000
Reliability	21.89	2.510	15.66	4.326	- 6.234	- 30.465	0.000
Responsiveness	17.08	2.390	11.90	3.157	- 5.182	- 27.573	0.000
Assurance	16.95	2.342	11.75	3.190	- 5.201	- 27.412	0.000
Empathy	16.82	2.453	11.67	3.167	- 5.143	- 26.234	0.000
Convenience	16.85	2.222	12.11	2.766	- 4.740	- 25.993	0.000
Cost Effectiveness	12.78	1.887	9.73	2.373	- 3.055	- 21.233	0.000

Source: Based on survey data.

One of the most important general banking service is ATM (Automated Teller Machine) service. It is an electronic banking outlet that permits bank customers with debit card or credit card to complete their basic transactions.

Analysing the data, it is found that all 384 respondents are availed ATM service from selected commercial banks. Here negative (Experience - Expectation) gap score implies that respondents' expectations are higher than the experience. Here, mean expectation of Tangibility dimension is 17.81 and mean experience of Tangibility dimension is 13.53. This shows a negative gap scores (-4.281) between expectations and experiences. The t-value (-24.815) and the p-value (0.000) reveals that the difference is significant at <5% (0.05) level. Mean expectation and mean experience of reliability dimension is 21.89 and 15.66 respectively that shows a negative gap scores (-6.234) of expectations and experiences. The t-value (-30.465) and the p-value (0.000) reveals that the difference is significant at <5% (0.05) level. Mean expectation and mean experience of Responsiveness dimension is 17.08 and 11.90 respectively that shows a negative gap score (-5.182) of expectations and experiences. The t-value (-27.573) and the p-value (0.000) indicates that the difference is significant at <5% (0.05) level.

Mean expectation and mean experience of Assurance dimension is 16.95 and 11.75 respectively that shows a negative gap score (-5.201) of expectations and experiences. The t-value (-30.465) and p-value (0.000) indicates that the difference is significant at <5% (0.05) level. Mean expectation and mean experience of Empathy dimension is 16.82 and 11.67 respectively that shows a negative gap score (-5.143) of expectations and experiences. The t-value (-26.234) and the p-value (0.000) indicates that the difference is significant at <5% (0.05) level.

Mean expectation and mean experience of Convenience dimension is 16.85 and 12.11 respectively that shows a negative gap score (-4.740) of expectations and experiences. The t-value (-25.993) and p-value (0.000) shows that the difference is significant at <5% (0.05) level. Mean expectation and mean experience of Cost Effectiveness dimension is 12.78 and 9.73 respectively that shows a negative gap score (-3.055) of expectations and experiences. The t-value (-21.233) and p-value (0.000) reveals

that the difference is significant at <5% (0.05) level. Here, all dimensions such as Tangibility, Reliability, Responsiveness, Assurance, Empathy, Convenience, and Cost Effectiveness shows negative (Experience - Expectation) gap score. It seems that customers expectation are more from the bank.

In expectation section, the most important dimensions in this study is Reliability with the largest average score 21.89, followed by Tangibility, Responsiveness, Assurance, Convenience and Empathy while Cost Effectiveness has the lowest average score i.e. 12.78. In experience section, again Reliability is the most important dimensions with largest average score 15.66. Contrarily, the less important dimension with lowest average score of 9.73 is Cost Effectiveness.

Table 5.11 Online Banking Service and Respondents' Expectation and Experience Gap, t-value, and P-value

Total no. of Respondents =143

Dimensions	Expectation		Experience		Gap (Mean difference)	t-value	P-value
	Mean	SD	Mean	SD			
Reliability	21.41	2.513	15.15	4.511	-6.266	-14.519	0.000
Responsiveness	16.96	2.103	11.71	3.490	-5.252	-15.376	0.000
Assurance	16.85	2.066	11.48	3.427	-5.371	-15.40	0.000
Empathy	16.68	2.181	11.62	3.504	-5.056	-13.892	0.000
Convenience	16.63	2.145	12.00	3.173	-4.629	-12.688	0.000
Cost Effectiveness	12.94	1.909	9.15	2.407	-3.790	-14.947	0.000

Source: Based on survey data

Now-a-days, it has become popular to manage financial transaction through online by using computer, tablet, smartphone etc. By using website of the bank, the series of financial transactions can be done through online. Here, in this study, out of 384 respondents, 143 respondents avail online banking services of selected banks. Transactions through online does not require physical facilities; hence, the dimension Tangibility has not been considered here. Other six dimensions such as Reliability, Responsiveness, Assurance, Empathy, Convenience and Cost effectiveness have been analysed in terms of expectations and experiences. Here, mean Expectation and mean Experience of Reliability dimension is 21.41 and 15.15 respectively that shows a negative gap score (-6.266) of expectations and experiences. Mean expectation and mean experience of Responsiveness dimension is 16.96 and 11.71 respectively that also shows a negative gap score (-5.252) of expectations and experiences.

Mean expectation and mean experience of Assurance dimension is 16.85 and 11.48 respectively that shows a negative gap score (-5.371) of expectation and experience. Mean expectation and mean experience of Empathy dimension is 16.68 and 11.62 respectively that also shows a negative gap score (-5.056) of expectation and experience.

Mean expectation and mean experience of Convenience dimension is 16.63 and 12.00 respectively that shows a negative gap score (-4.629) of expectations and experiences. Mean expectation and mean experience of Cost Effectiveness dimension is 12.94 and 9.15 respectively that also shows a negative gap score (-3.790) of expectations and experiences of product/service performance.

Based on the calculation of the t-test and the p-values, it indicates that the significance values among all dimensions are <5% (0.05) which means that all the dimensions of online banking are statistically significant.

In expectation section, the most important dimensions in this study is Reliability with largest with average score of 21.41, followed by Responsiveness, Assurance, Empathy, and Convenience, and the lowest is the Cost Effectiveness with average score of 12.78. In experience section also, Reliability is the most important dimension followed by Convenience, Responsiveness, Empathy, and Assurance. Contrarily, the less important dimension with lowest average score of 9.73 is Cost Effectiveness.

Table 5.12: Mutual Fund Service and Respondents' Expectations and Experience Gap, t-value and P-value

Total no. of Respondents =74

Dimensions	Expectation		Experience		Gap (Mean difference)	t-value	P-value
	Mean	SD	Mean	SD			
Tangibility	17.53	2.277	12.46	3.360	-5.068	-11.579	0.000
Reliability	21.68	1.917	14.61	3.831	-7.068	-13.753	0.000
Responsiveness	17.32	1.705	11.54	2.953	-5.784	-14.931	0.000
Assurance	16.92	1.964	10.91	2.957	-6.014	-15.259	0.000
Empathy	16.92	1.718	11.38	2.922	-5.540	-13.693	0.000
Convenience	16.73	2.049	11.86	2.598	-4.865	-11.203	0.000
Cost Effectiveness	13.18	1.723	9.05	2.275	-4.122	-12.689	0.000

Source: Based on survey data

Mutual fund is the kind of investment where investors invest in stocks, bonds or other types of investment. Bank's sale of mutual fund products at various branches is supported by qualified personnel and dedicated relationship manager. After analysing data, the researcher has found that out of 384 respondents, 74 respondents have availed mutual fund service from selected banks. Here, overall negative (Experience - Expectation) gap score of all dimensions such as Tangibility, Reliability, Responsiveness, Assurance, Empathy, Convenience, and Cost Effectiveness imply that respondents' expectations of bank service is higher than the experience. Here, Tangibility dimension with mean expectation of 17.53 and mean experience of 12.46 shows a negative gap (-5.068) between expectations and experiences. The Reliability dimension with mean expectation of 21.68 and mean experience of 14.61 also shows a negative gap score (-7.068) between expectation and experience.

The Responsiveness dimension with mean expectation of 17.32 and mean experience of 11.54 shows a negative gap score (-5.784) between expectations and experiences. The Assurance dimension with mean expectation of 16.92 and mean experience of 10.91 also shows a negative gap score (-6.014) between expectation and experience. The Empathy dimension with mean expectation of 16.92 and mean experience of 11.38 further shows a negative gap score (-5.540) between expectation and experience.

The Convenience dimension with mean expectation of 16.73 and mean experience of 11.86 shows a negative gap score (-4.865) between expectation and experience. The Cost Effectiveness dimension with mean expectation of 13.18 and mean experience of 9.05 also shows a negative gap score (-4.122) between expectations and experiences. Here, overall negative (Experience - Expectation) gap score of all

dimensions such as Tangibility, Reliability, Responsiveness, Assurance, Empathy, Convenience, and Cost Effectiveness implies that respondents' expect more quality services from banks.

Based on the calculation of the t-test and the p-values for all the dimensions, it is found that the significance values among all dimensions are <5% (0.05) which means that all the dimensions of mutual fund are statistically significant. In other words, there is a significant difference between expectations and experiences of product/service performance from customer's perspective.

The most important dimension in expectation section is Reliability with average score of 21.68 followed by Tangibility, Responsiveness, Assurance, Empathy, and Convenience, and the lowest is Cost Effectiveness. In experience section also, the most important dimension is Reliability with the highest score of 14.61, followed by Tangibility, Convenience, Responsiveness and Assurance. However, the less important dimension with the lowest average score of 9.05 is Cost Effectiveness.

Table 5.13: PPF (Public Provident Fund) Service and Respondents' Expectations and Experience Gap, t-value and P-value

Total no. of Respondents =68

Dimensions	Expectation		Experience		Gap (Mean difference)	t-value	P-value
	Mean	SD	Mean	SD			
Tangibility	17.19	2.024	12.03	3.319	-5.162	-11.998	0.000
Reliability	21.53	1.808	14.34	4.227	-7.191	-12.924	0.000
Responsiveness	17.21	1.808	11.46	3.303	-5.750	-13.514	0.000

Assurance	17.06	1.946	10.87	3.124	-6.191	-14.180	0.000
Empathy	16.76	1.862	11.13	3.012	-5.632	-11.870	0.000
Convenience	16.68	2.126	11.50	2.899	-5.176	-10.233	0.000
Cost Effectiveness	12.75	1.748	8.57	2.427	-4.176	-12.364	0.000

Source: Based on survey data

PPF is the investment option for long time that offers attractive rate of interest and return. It mobilizes small savings and offers good amount of returns and also provides income tax benefits. In this study 68 respondents are investing in PPF. In table 5.7, the gap scores of expectations and experiences of Tangibility (-5.162) dimension indicates higher expectations. Likewise, gap between expectations and experiences of Reliability (-7.191), Responsiveness (-5.750), Assurance (-6.191), Empathy (-5.632), Convenience (-5.176), and Cost Effectiveness (-4.176) indicate negative gap score.

Based on the calculation of the t-test and the p-values for all the dimensions, it is found that the significance values of all dimensions are <5% (0.05) which means that all the dimensions of PPF (Public Provident Fund) are statistically significant. In other words, there is a significant difference between expectations and experiences of product/service performance from customer's point of view.

From the table (table: 5.14) it is found that the most important dimension with highest mean score (21.80) is Reliability which is followed by Responsiveness, Tangibility, Assurance, Empathy Convenience, and the least important dimension is Cost Effectiveness.

**Table 5.14: Life Insurance Service and Respondents' Expectations and Experience
Gap, t-value and P-value**

Total no. of Respondents =143

Dimensions	Expectation		Experience		Gap (Mean difference)	t-value	P-value
	Mean	SD	Mean	SD			
Tangibility	17.37	1.916	12.44	3.301	-4.930	-17.002	0.000
Reliability	21.80	2.039	14.55	3.790	-7.252	-19.854	0.000
Responsiveness	16.99	1.966	11.52	3.088	-5.476	-18.026	0.000
Assurance	16.96	2.034	11.35	3.277	-5.608	-18.070	0.000
Empathy	17.02	1.948	11.39	2.948	-5.629	-17.533	0.000
Convenience	17.04	1.854	11.07	2.772	-5.972	-19.039	0.000
Cost Effectiveness	12.77	1.706	8.94	2.450	-3.832	-16.103	0.000

Source: Based on survey data.

Insurance is a contract between insurance company and policy holders. Here, policy holder pays premium and the insurer pays a sum of assured amount in exchange after a set period or upon the demise of a policy holder. It is a part of financial plan. Now, almost all the branches of commercial banks deal with life insurance products. In this study, it is found that out of 384 bank customers, 143 customers have availed life insurance services. Here, Tangibility dimension with mean expectation of 17.37 and mean experience of 12.44 shows a negative gap score (-4.930) between expectation and experience. Likewise, Reliability dimension with mean expectation of 21.80 and mean

experience of 14.55 also shows a negative gap score (-7.252) between expectation and experience. Here, gap score of dimensions of Responsiveness (-5.476), Assurance (-5.608), Empathy (-5.629), Convenience (-5.972) and Cost Effectiveness (-3.832) further indicate negative gap scores. Here, overall negative (Experience - Expectation) gap score of all dimensions such as Tangible, Reliability, Responsiveness, Assurance, Empathy, Convenience, and Cost Effectiveness imply that respondents' expectations are higher than the experience.

From the table (table: 5.14) it is found that the most important dimension with the highest mean score (21.80) is Reliability which is followed by Tangibility, Convenience, Empathy, Responsiveness, Assurance and the least important dimension is Cost Effectiveness.

Computing t-values and the p-values for all the dimensions, it is found that the significance values among all dimensions are <5% (0.05), which means that all the dimensions of Life Insurance Service are statistically significant. In other words, there is a significant difference between expectations and experiences of product/service performance from customer's perspective.

Table 5.15: General Insurance Service and Respondents' Expectations and Experience Gap, t-value and P-value

Total no. of Respondents =91

Dimensions	Expectation		Experience		Gap (Mean difference)	t-value	P-value
	Mean	SD	Mean	SD			
Tangibility	17.22	2.004	11.69	3.473	-5.527	-14.225	0.000
Reliability	21.80	1.945	14.08	3.730	-7.725	-16.798	0.000

Responsiveness	17.03	1.663	11.29	2.557	-5.747	-18.633	0.000
Assurance	16.95	1.852	10.64	2.877	-6.308	-19.966	0.000
Empathy	16.89	1.696	10.62	3.072	-6.275	-16.392	0.000
Convenience	16.84	2.162	10.98	2.573	-5.857	-14.938	0.000
Cost Effectiveness	12.73	1.927	8.16	2.442	-4.560	-13.878	0.000

Source: Based on survey data.

A wide range of general insurance products such as motor/ health/ travel/ home insurance etc. are available through the bank branches. It is found from the analysis that out of 384 bank customers, 91 customers have availed general insurance services. Here, Tangibility dimension with mean expectation of 17.22 and mean experience of 11.69 shows a negative gap score (-5.527) between expectation and experience. The t-value -14.225 and p-value 0.000 reveals that the difference is significant at <5% (0.05) level. Likewise, Reliability dimension with mean expectation of 21.80 and mean experience of 14.08 shows a negative gap score (-7.725) between expectation and experience. The t-value -16.798 and p-value 0.000 also reveals that the difference is significant at <5% (0.05) level. Here, gap score of dimensions like Responsiveness (-5.747), Assurance (-6.308), Empathy (-6.275), Convenience (-5.857) and Cost Effectiveness (-4.560) indicate negative gap scores. Here, overall negative (Experience - Expectation) gap score of all dimensions such as Tangibility, Reliability, Responsiveness, Assurance, Empathy, Convenience, and Cost Effectiveness imply that respondents' expectations are higher than the experiences.

From the table (table: 5.15) it is found that the most important dimension with the highest mean score (21.80) is Reliability which is followed by Tangibility,

Responsiveness, Assurance Empathy, Convenience, and the least important dimension is Cost Effectiveness with lowest score of 12.73.

Computing t-values and the p-values for all the dimensions, it is found that the significance values among all dimensions are <5% (0.05), which means that all the dimensions of General Insurance Service are statistically significant. In other words, there is a significant difference between expectations and experiences of product/service performance from customer's perspective.

The above tables (table 5.10, table 5.11, table 5.12, table 5.13, table 5.14 and table 5.15) show respondents' product-wise Expectations and Experience Gap, t-value and P-value. Here, overall negative (Experience - Expectation) gap score of all dimensions such as Tangibility, Reliability, Responsiveness, Assurance, Empathy, Convenience, and Cost Effectiveness of 6 (six) diversified products/services (ATM service, online banking, Mutual fund, PPF, Life insurance and General insurance) entail that respondents' expectations are higher than the experience. This indicates that the commercial banks are slightly lack of ability for facilitating the "best" service for their customers and must think on this issue. Bank should do something for customers so that customers get satisfaction from bank's service. The dimensions with the highest scores are - Reliability, Convenience, Responsiveness, Empathy and Assurance. It seems that customers' expectation is more on accurate and error-free services from bank. Contrarily, the dimensions which have least average scores are Tangibility and Cost Effectiveness. Bank customers' have given less importance on physical facilities, visually appealing equipments, neat and professional appearance of employees, lower transaction cost, cheaper service charge etc.

To measure overall expectations and experience gap of all six products/services the following table (table 5.16) has been prepared -

Table 5.16: Over all Expectation and Experience Gap and t-value and P-value of Six Diversified Products and Services

Products and Services	Expectation		Experience		Gap (Mean difference)	t-value	P-value
	Mean	SD	Mean	SD			
ATM	107.39	9.879	76.61	14.094	-30.781	-40.122	0.000
Online Banking	131.69	9.629	93.36	19.449	-38.329	-19.592	0.000
Mutual Fund	120.27	6.469	81.81	14.921	-38.459	-19.027	0.000
PPF	119.18	7.655	79.90	16.987	-39.279	-16.597	0.000
Life Insurance	119.96	7.914	81.26	15.674	-38.699	-24.856	0.000
General Insurance	119.45	7.587	77.45	15.489	-42.000	-22.739	0.000
Over All	273.69	214.591	196.09	143.335	-77.604	-16.420	0.000

Source: Based on survey data

From Table 5.16, it is clear that the expectations level of the customer for each product /services are higher than experience of service quality. The widest gap appeared in general insurance services is (-) 42.000 followed by PPF with gap score of (-) 39.279, Life Insurance Services with gap score of (-) 38.699, Mutual Fund services with (-) 38.459 and in ATM service with gap score of (-) 30.78. The overall gap score also indicates negative gap score of (-) 77.604. It means customers' expectations are more.

Computing t-values and the p-values for all the products, it is found that the significance values among all dimensions are <5% (0.05) and statistically significant.

5.4 Conclusion

To examine Customer Focused Performance, six widely used products/services of three important segments of commercial banks i.e., general banking, insurance and investment has been examined in terms of Tangibility, reliability, responsiveness, assurance, empathy, convenience and cost effectiveness, Experience and Expectation of consumers are examined with these seven dimensions through 28 items. Descriptive statistics such as mean, standard deviation are used to measure Experience and Expectation gap of respondents. Here, overall negative (Experience - Expectation) gap score of all dimensions such as Tangibility, Reliability, Responsiveness, Assurance, Empathy, Convenience, and Cost Effectiveness implies that respondents' expectations of bank service is higher than the experience.

Notes and References

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CHAPTER-VI

PRODUCT DIVERSIFICATION AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS

6.1 Introduction

To study fourth objective i.e. to assess the relationship of product diversification on the performance of selected commercial banks, relevant informations have been collected from 10 commercial banks, of which 7 are public sector commercial banks and 3 are private sector commercial banks. Study period has been considered for the period of 5 years from 2013-2014 to 2017-18. For the purpose of this study, the audited financial statements have been used. The financial statements have been obtained from individual bank's websites. Additional information has been collected from RBI (Reserve Bank of India) websites. All such sources have been considered as authentic and reliable. A set of financial statements has five components such as an income statement, a statement of changes in equity, a Balance Sheet, a statement of cash flow, and notes to financial statements (<https://www.accountingverse.com>).

Diversification and Performance are measured through return on assets (Chakrabarti, A., et.al, 2007). As a profitability measure, return on equity (ROE) and return on assets (ROA) are the important measure (Amediku, J., 2012). Return on Equity (ROE) is a frequently used variable in judging performance for the management or for the organization. In relation to the equity, it measures the profitability of business. In other words, ROE is the net income (income available to common stockholders) divided by stockholders equity (Pandya and Rao, 1998). Another frequently used variable to measure performance is Return on Assets (ROA). It is defined as net income (income

available to common stockholders) divided by the book value of total assets (Pandya and Rao, 1998). In other words, it indicates profitability of a company relative to its total assets.

Thus, ROE and ROA are the important and frequently used variable to measure organizational performance. In this study, one more variable i.e. EBIT (Earnings before Interest and Tax) has been used. EBIT is a measure of a firm's profit that includes all income and expenses excluding interest expenses and income tax expenses. Thus, ROE, ROA and EBIT (Earnings before Interest and Tax) have been used to measure performance of sample banks. The framework of research developed by Maina M.W. (2011) has been used in present study to assess the relationship between diversification and performance of selected banks. Herfindahl-Hirschman Index and Correlations have also been used. Diversification is analyzed using Herfindahl-Hirschman Index denoted as HHI. The following formula has been used to calculate HHI (level of diversification).

$$HHI= 1- \{(NII/NOI)^2 + \{(NONII/NOI)^2\}$$

HHI is the level of product diversification, NII is Net Interest Income and NONII is Non-Interest Income, NOI is Net Operating Income and 1 is a unit. NOI is the summation of NII and NONII. The sum of squared revenue is subtracted from a unit so that HHI level increases with the level of diversification which takes on values between $0 < HHI < 0.75$ (Maina, M.W., 2011). The components NII and NONII have been taken from Profit and Loss account of banks' Annual Report. The following table shows the Mean Diversification Levels of Sample Banks for the Period of 5 Years (2013-14 to 2017-18).

Table 6.1: Mean Diversification Levels of Sample Banks (2013-14 to 2017-18)

Period	HHI_NII_NONII
	Mean
2013-14	.37
2014-15	.38
2015-16	.37
2016-17	.39
2017-18	.40
Total	.38

Source: Compiled by Researcher from Banks' Annual Reports.

Table 6.1 shows the average diversification level of 10 (Ten) sample banks. The banks are - State Bank of India, UCO Bank, Central Bank of India, Allahabad bank, Punjab National Bank, Bank of India, United Bank of India, Federal Bank Ltd., HDFC Bank Ltd, and ICICI Bank Ltd. Here, steps have been followed to calculate average diversification level by using diversification formula. Level of diversification has been calculated for individual bank for each year separately for the period of five years (2013-14 to 2017-18). After that mean diversification has been calculated for all individual bank and finally mean diversification has been calculated for all sample bank.

Here mean diversification level for 10 commercial banks is .38. This indicates that sample commercial banks are moderately diversified. Jacquemin-Berry entropy

measure of diversification shows a score of zero for single firms, and becomes greater with increasing levels of diversification (Waweru, T. N., 2014).

6.2 Product Diversification and Profits

Table 6.2 : Average Diversification Level, and Profit of Sample Banks for 2013-14 to 2017-18

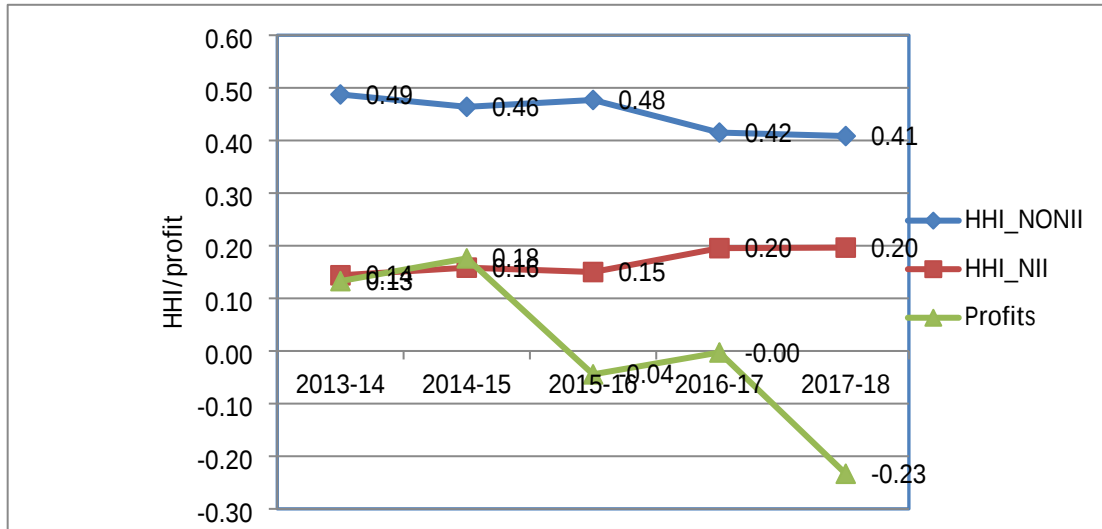
	Period					
	2013-14	2014-15	2015-16	2016-17	2017-18	Total
	Mean	Mean	Mean	Mean	Mean	Mean
HHI_NONII (Diversification Level of Non-Interest Income)	.49	.46	.48	.42	.41	.45
HHI_NII (Diversification Level of Net-Interest Income)	.14	.16	.15	.20	.20	.17
PROFIT	.13	.18	-.04	.00	-.23	.01

Source: Compiled by Researcher from Banks' Annual Reports.

Table 6.2 shows the average diversification level and profit of sample banks for the period of 5 years. It is seen that the Financial Components such as NONII (Non-Interest Income), NII (Net Interest Income), and Profit of Sample Banks reveal different levels of diversification.

The following figure (6.1) shows the average level of diversification and profit of sample banks –

Figure 6.1 Average Diversification Level and Profit of Sample Banks ((2013-14 to 2017-18)



From the figure 6.1, it is found that, profits have been decreasing from 2015-16 and similarly HHI_NONII is also decreasing from 2015-16. However (HHI_NII) has been increased in 2015-16 and remained the same till 2017-18. Evidently, the growth of profits could be associated with the movement of diversification level of non-interest income which has been seen in figure 6.1. For example, in 2015-16, the HHI_NONII has been found as 0.48 and profit has been found as (-) 0.04. After gradual reduction of HHI_NONII from 2015-16 the level of profit has also been reduced subsequently.

Table: 6.3 Trend of Income Source Components (NONII, NII, NOI, and EBIT) of Sample Banks (2013-14 to 2017-18)

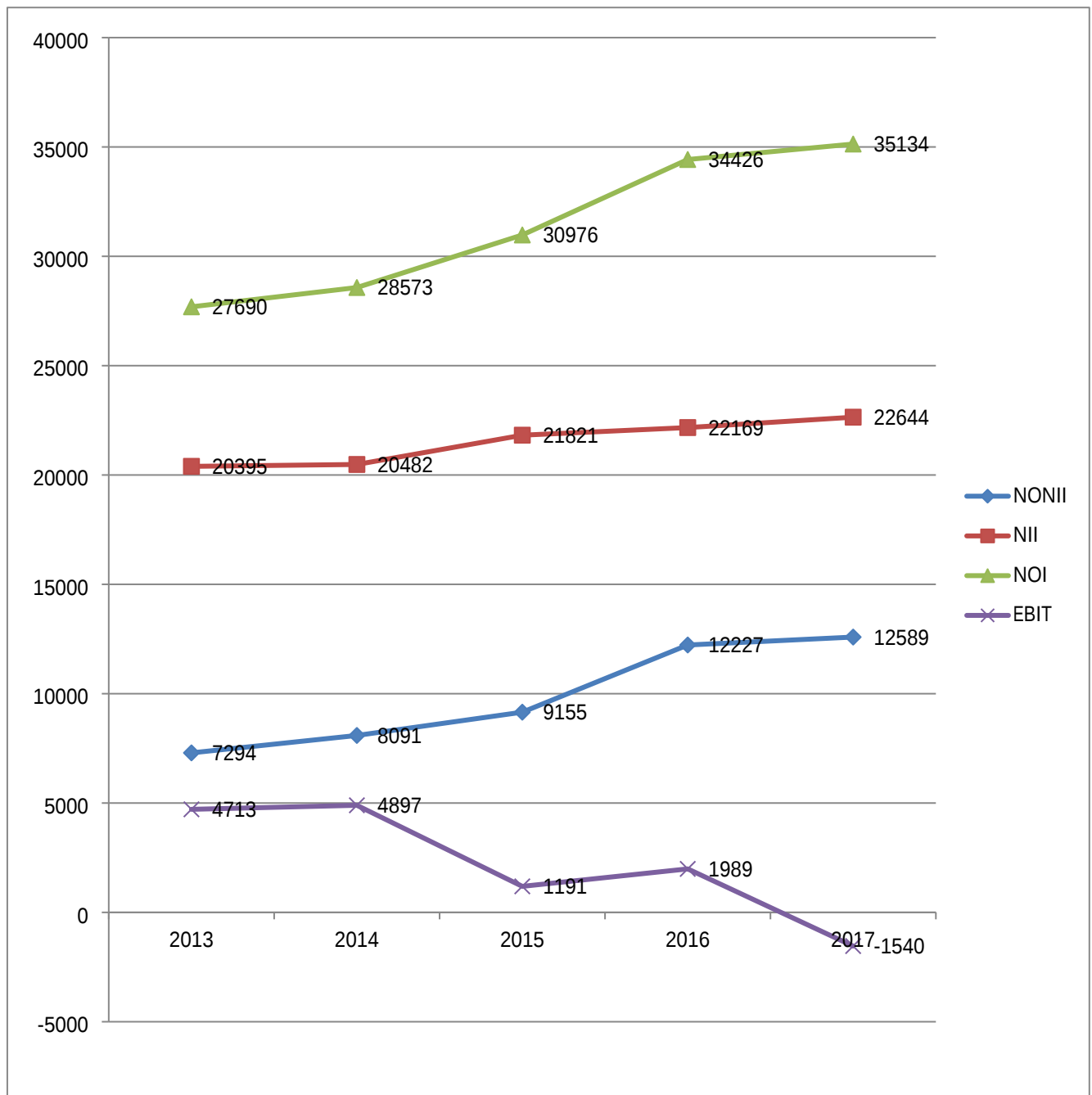
Financial Component	Period					
	2013-14	2014-15	2015-16	2016-17	2017-18	Total
	Mean	Mean	Mean	Mean	Mean	Mean
NONII	7294	8091	9155	12227	12589	9871
NII	20395	20482	21820	22169	22644	21502
NOI	27690	28572	30976	34426	35134	31360
EBIT	4713	4897	1191	1989	-1540	2250

Source: Compiled by Researcher from Banks' Annual Reports.

Table 6.3 represents average income sources of sample banks. Here NII, NONII, NOI, and EBIT are the financial components of 10 sample commercial banks. Information has been collected from annual reports of sample banks. Data have been taken for the period of 5 years. The average non-interest income (NONII) of sample banks show an increasing trend from 2013-14 to 2017-18. The non-interest income components are mainly fee based activity of commercial bank other than traditional interest earning activity. Hence, non-interest income represents the level of diversification of commercial banks. The Net Interest income (NII) is also rising during that period. However, Net operating income is the summation of non-interest income and net interest income. It is found that, earnings of sample banks have been reducing

gradually and have shown a decreasing trend. This has been shown in the following figure 6.2.

Figure 6.2: Trends of Average Income Source Components (NONII, NII, NOI) and EBIT



From figure 6.2 it is found that NONII have been increasing annually and replicated by NOI, but at varying rates for the study period (2013-14 to 2017-18). The growth of NONII and NII both are showing an increasing trend. But earnings of the banks have been decreasing during the study periods. It is evident that, non-interest income and net interest income have been changed in a same direction. If non-interest income increases, the net interest income also increases and vice versa. Hence, both non-interest income and net interest income are correlated with each other. This relation is seen in figure 6.2.

However, Overall correlation is shown in the table 6.4.

Table 6.4: Correlation between EBIT and other Financial Components (NII, NONII, NOI, ROA and ROE) for Individual Bank and All Sample Banks

		Overall perform ance	B1	B2	B3	B4	B5	B6	B7	B8	B9	B10
NII	Pearson Correlation	.356*	-.891*	.897*	-.730	-.822	.555	-.690	-.672	.130	.991**	-.596
	Sig. (2-tailed)	.011	.042	.039	.162	.088	.331	.197	.214	.835	.001	.289
NON II	Pearson Correlation	.284*	-.825	.324	-.732	-.290	-.621	-.132	-.264	.279	.990**	-.870
	Sig. (2-tailed)	.046	.085	.594	.159	.636	.263	.832	.667	.649	.001	.055

NOI	Pearson Correlation	.339*	-.861	.917*	-.183	-.875	-.589	-.133	-.569	.170	.992**	-.777
	Sig. (2-tailed)	.016	.061	.028	.768	.052	.296	.831	.316	.785	.001	.122
ROA	Pearson Correlation	.787**	.878	.998* *	- .996* *	-.669	.998* *	1.000 **	-.016	.704	-.929* *	.591
	Sig. (2-tailed)	.000	.050	.000	.000	.217	.000	.000	.979	.185	.023	.294
ROE	Pearson Correlation	.691**	.960**	.991* *	- .987* *	-.569	1.000 **	1.000 **	-.019	.750	-.673	.631
	Sig. (2-tailed)	.000	.010	.001	.002	.317	.000	.000	.975	.144	.213	.253

*Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Table 6.4 shows the relationship between bank earnings with other financial variables. Here, the interrelationship between bank earnings and other financial components such as NII, NONII, NOI, ROA, ROE have been measured both individually as well as all sample banks as a whole. Here, in this table all 10 commercial banks have been selected for assessing diversification and performance. The name of these banks are State Bank of India, UCO Bank, Central bank of India, Allahabad Bank, Punjab National Bank, Bank of India, United Bank of India, Federal Bank Ltd., HDFC Bank Ltd., and

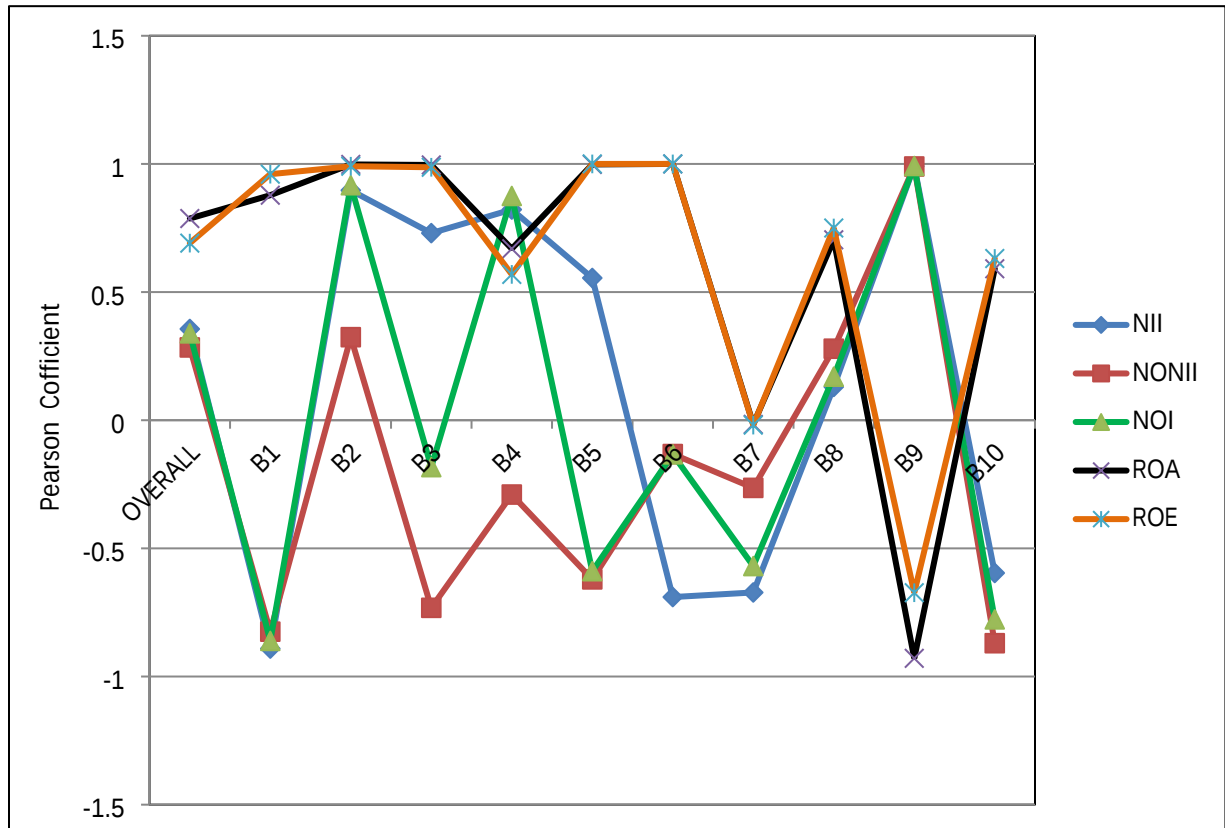
ICICI Bank Ltd. and are denoted as B1, B2, B3, B4, B5, B6, B7, B8, B9, and B10 respectively. The individual performance for single bank is shown separately. Overall performance shows the diversification and performance relationship of 10 banks. Pearson correlation analysis is used for measuring the relationship between bank diversification and performance. This is widely used statistical tool for measuring interrelationship of dependent and independent variables. In this study, several financial components such as NII, NONII, NOI, ROA, ROE and EBIT have been applied to find interrelationship between them. EBIT is dependent variable and NII, NONII, NOI, ROA, and ROE are independent variables. This implies that, the bank earnings depends on net interest income, non interest income etc.

By observing individual bank interrelationship between EBIT and other independent variables, it is found that the interrelationship between EBIT and NII, EBIT and NONII, and EBIT and NOI of State Bank of India showed negative relationship with either 0.05% level of significance or 0.01% level of significance. All the negative value of NII, NONII and NOI indicated that the diversification of bank has negatively affected the bank profitability. Likewise, Central bank (B3), Allahabad bank (B4), and Punjab National bank (B5) also indicate negative relationship between bank earnings and other financial components. However, UCO bank (B2), Federal bank Ltd. (B8) and HDFC bank Ltd. (B9) show a positive relationship between their earnings and other financial components.

Thus, by analysing individual bank, it is found that some of the sample bank has negative growth while some of them have positive growth in terms of their earnings and other financial components such as NII, NONII, and NOI. Further, it is seen from the correlation table that all are statistically significant at either 0.05% or 0.01% level. This results that there is a relationship between non-interest income of the banks and their earnings. However, overall performance of sample banks as a whole indicates negative

relationship between banks' earnings and other financial components. Thus, overall performance of the sample banks is negatively correlated and significant at either 0.05% or 0.01% level.

Figure 6.3 Bank-wise Relationship between Profits and Other Financial Components (NII, NONII, NOI, ROA, and ROE)



Here, the relationship between banks' earnings (EBIT) with other financial components such as NONII, NII, EBIT, ROA, ROE are depicted in table 6.4. The study finds that there is negative correlation between diversification and banks' profit. The correlation focuses less diversification benefits as the banking industry steadily shifts its sources of revenue from interest income to non-interest income. The findings of the study shows varied degree of interrelationships, but all are statistically significant at either 0.05 levels or 0.01 level of confidence. Thus, it can be concluded that banks' strategy of

diversification has not improved the performance of commercial banks and the banks' performance is actually negatively correlated and it also reflects the negative ROA and ROE.

6.3 Conclusion

To summarize, this chapter presents an analysis of the objective set for the study. It has concentrated on diversification, and its performance consequence. The study has found that almost all the commercial banks (both public sector banks and private sector banks) are diversified moderately. However, the level of diversification and performance of sample commercial banks have negative and significant correlation.

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CHAPTER-VII

CONCLUSION AND RECOMMENDATIONS

7.1 Introduction

In banking sector in India, a substantial transformation have been taken place due to increasing competition, technological upgradation, changing customer needs, product varieties, dynamic financial instruments, increased disintermediation etc. This study attempts to present empirical evidence on the different aspects of diversification of banks in India especially in the field of nature and extent of diversification, and diversification and performance relationship. The main findings have been summarized, generalized and presented in this chapter. Thus, a summarized form of major findings, limitations of the study and scope for future research in this field have been presented in this chapter.

The study consists of seven chapters. In the introductory chapter, concept of diversification along with strategies of diversification has been discussed theoretically. Overall level of diversification, reason behind adopting diversification has been presented with various diversification models. The study related to diversification and performance consequences have been discussed. Further, the concept of firm performance, customer

focused performance have also been explained briefly. The main objectives of this study, which has to be examined by the researcher, are (i) to examine the Nature and Extent of Diversification adopted by commercial banks in India, (ii) to examine the Nature and Extent of Product and Service Diversification adopted by the selected commercial banks, (iii) to examine the Customer Focused Performance on adoption of diversified products and services by the selected commercial banks and (iv) to assess the relationship between product and service diversification and performance of selected commercial banks.

In second chapter, the researcher has presented an overview of the past studies related to the area under investigation. The chapter has addressed the review of existing literatures on the basis of nature and extent of diversification in financial sector, diversification and performance relationship in financial sector and customer focused performance to find gap in the body of knowledge and justification of the present study.

The third chapter presents the research design of the present study. Thus, the researcher, in details, has tried to highlight the area of the study, population of the study, sampling procedure, method of data collection and tools and techniques used for data analysis. The study is descriptive and analytical in nature. To study the nature and extent of diversification, those banks are included in the study as diversified banks, which have diversified their products/services in the form of a joint venture, alliance or subsidiary. Analysis of the Nature and Extent of Diversification in Indian Banking sector has been done by using the framework called Standard Industrial Classification (SIC) which has been developed by Varadarajan and Ramanujam (1987). To examine nature and extent of diversification SIC has been grouped as Broad Spectrum Diversification (BSD), Narrow Spectrum Diversification (NSD) and Alliance Diversification (AD). To study customer focused performance, gaps model, developed by Parasuraman, et al., (1988) has been used where expectation from product/service performance and experience of product/service performance has been used by the authors.

First three chapters of the study viz, Introduction, Review of existing literatures and Research Methodology presented above have been forming the foundation of the study. The next three chapters i.e., chapter four, chapter five and chapter six, where major analysis and interpretation have been done, would fetch the major findings of the study.

7.2 Findings

7.2.1 Findings of the Study based on objective 1 i.e. to examine the Nature and Extent of Diversification in Indian Banks

Nature and Extent of Diversification in Indian Banks has been studied by using methodology developed by Varadarajan and Ramanujam (1987). In the first step, banks are divided into diversified or non-diversified banks. Further, diversified banks are arranged into three groups i.e., BSD (Broad Spectrum Diversification), NSD (Narrow Spectrum Diversification), and AD (Alliance Diversification) depending upon the nature of their diversification. Thus, the main findings are as follows:

1. As on 8th October 2017, there were 41 commercial banks which include both public sector banks and private sector banks (<http://www.rbi.in>), Out of 41 commercial banks, only 39 banks have been considered for the study because Dena bank and Vijaya bank, which were individual bank earlier have been merged with Bank of India on April, 2019.
2. Out of the selected 39 commercial banks, 34 banks are diversified banks and the rest i.e., 5 banks are non-diversified banks.
3. The researcher has found that all the 19 public sector banks are diversified banks as on 8th October 2017.

4. Out of 19 public sector diversified banks, State Bank of India, Bank of Baroda, Bank of India, and Punjab National Bank are highly diversified bank. They are highly diversified because all of them have adopted BSD (Broad Spectrum Diversification), NSD (Narrow Spectrum Diversification), and AD (Alliance Diversification).

5. Other public sector banks viz. Allahabad Bank, Canara Bank, Central Bank of India, Corporation Bank, Indian Bank, Indian Overseas Bank, Union Bank, and IDBI have adopted both BSD (Broad spectrum Diversification) and AD (Alliance Diversification) to spread their banking and non-banking financial products and services.

6. Public sector banks such as Bank of Maharashtra, Oriental Bank of Commerce, Punjab and Sind Bank, Syndicate Bank, United Bank of India and UCO Bank have adopted only AD (Alliance Diversification) and hence, they are moderately diversified banks.

7. The researcher has found that out of the 20 private sector banks in India, 15 banks are diversified banks as on 8th October 2017.

8. The highly diversified private banks are Axis Bank Ltd, and ICICI Bank Ltd. These two banks have adopted BSD (Broad Spectrum Diversification), NSD (Narrow Spectrum Diversification), and AD (Alliance Diversification) move to spread their banking and non-banking financial products and services.

9. HDFC Bank Ltd. and Kotak Mahindra Bank Ltd. are also diversified banks as the banks have adopted both BSD (Broad spectrum Diversification) and AD (Alliance Diversification) as on 8th October 2017.

10. Catholic Bank Ltd., City Union Bank Ltd., Development and Credit Bank Ltd., Dhanlaxmi Bank Ltd., Federal Bank Ltd., IndusInd Bank Ltd., Jammu and Kashmir

Bank Ltd., Karnataka Bank Ltd., Karur Vysys Bank Ltd., South Indian Bank Ltd. and Tamilnad Mercantile Bank Ltd. have adopted AD (Alliance Diversification). All these private banks are moderately diversified.

11. Yes bank Ltd. is a private bank which has followed BSD (Broad spectrum Diversification) move.

12. Lakshmi Vilas Bank Ltd., Nainital Bank Ltd., Ratnakar Bank Ltd., Bandhan Bank Ltd. and IDFC Bank Ltd. has followed neither BSD nor NSD and hence they are Non-Diversified Banks as on 8th October 2017.

7.2.2 Findings of the Study based on objective 2 i.e. to examine the nature and extent of product/service diversification of sample banks

To analyse the nature and extent of product/ service diversification of sample banks, Unrelated Business (UB) and Related Business (RB) have been listed on the basis of products/ services offer to their customers. Here, Unrelated Businesses are non-banking activities of sample banks. Selling of insurance products or investment products in bank premises are the example of unrelated business strategy of banks. Sample banks have performed unrelated business in the form of joint ventures or alliances. Adoption of product diversification in terms of Related Business (RB) means number of subsidiaries and associates of sample banks as they perform same banking businesses. The major findings are -

1. 10 (ten) sample banks has been considered for the study of which 7 (seven) are public sector banks and 3 (three) are private sector banks. It is found that all sample banks are diversified banks as they perform either related business or unrelated

business strategy or both. In other words, either the sample banks have number of associates or subsidiaries or they sell insurance or investment products.

2. Out of 7 public sector banks, it is found that, State Bank of India, Bank of India and Punjab National Bank are highly diversified bank. All these sample banks have adopted both Related Product Diversification and Unrelated Product Diversification. These banks have number of subsidiaries and associates. They have also tied-up with non-banking financial institutions to provide non-banking financial services to their customers. These banks are highly diversified banks.

3. Out of 7 public sector banks 4 banks have adopted Unrelated Product Diversification. They are UCO Bank, Central Bank of India, Allahabad Bank and United Bank of India. These banks have alliance with either insurance companies or investment companies.

4. Out of 3 private sector banks, ICICI Bank Ltd. has adopted both Related Product Diversification and Unrelated Product Diversification strategy. ICICI Bank has foreign subsidiaries. The Bank has also non-banking subsidiaries. Hence, ICICI Bank is highly diversified bank.

5. HDFC Bank Ltd. and Federal Bank Ltd. have adopted Unrelated Product Diversification. They have tied up their businesses with non-banking financial institutions to provide non-banking financial services to their customers.

7.2.3 Findings of the Study based on objective 3 i.e. to examine the Customer Focused Performance on adoption of diversified products and services by the selected commercial banks

To examine customer focused performance, two widely used products or services of three important segments of commercial banks, i.e., general banking, insurance and investment is assessed in terms of, tangibility, reliability, responsiveness, assurance, empathy, convenience and cost effectiveness. Thus, the research work has been carried out for understanding customer focused performance regarding diversified products/ services offered by sample commercial banks operating in Sonitpur district of Assam. The major findings are -

1. Regarding demographic profile of the respondents, it is found that 55.7% are male and 44.3% are female customers.
2. In terms of age-wise distribution of respondents, majority of the respondents (42%) are in the age group of 26 to 40 years followed by 36.2% are in the age group of 41 to 56 years, 12.2% are in the age group of 18 to 25 years and 9.4% are in the age group of 56 and above years.
3. Responded customers of selected commercial banks are highly educated as 53.12% of the customers are post graduate and 28.9% customers are graduates degree holders.
4. Monthly income-wise distribution of respondents shows that 44.8% are having income of Rs.30000 to Rs.50000 followed by 26.6% are having income of Rs.10000 to Rs.30000, 20.6% are having income above Rs.50000 and 8.1% are having income less than Rs. 10000.
5. From the analysis, it is found that all 384 respondents use ATM service of the banks. Thus, it can be said that ATM is one of the most widely used services across the bank. Here, the negative gap score between Expectations and Experiences implies that, respondents' expectations are more from the bank. Here, seven dimensions selected for the study such as Tangibility, Reliability, Responsiveness,

Assurance, Empathy, Convenience and Cost Effectiveness of ATM service show negative gap scores between expectations and experiences.

6. Out of 384 respondents, 143 respondents' have availed online banking service from the banks. Here, all six dimensions (excluding Tangibility) show negative (Experience- Expectation) gap score. This indicates that the online service of the bank has not been able to fulfill the needs of the customers.

7. Regarding two popular investment products such as Mutual Fund and PPF, it is found that only 74 respondents' have invested in Mutual fund and 68 respondents' have kept their money in PPF accounts. The reason for small number of investors in Mutual fund and PPF is that, the Mutual fund and PPF services have not been introduced in many bank branches. Senior officials and managers of the banks opined that these services are available in few bank branches of the Sonitpur district. Here negative (Experience-Expectation) gap score of all seven dimensions are observed which implies that respondents' expect more quality services from banks.

8. Now, all bank branches of Sonitpur district provide insurance services (both life insurance and general insurance) to their customers. In this study, it is found that out of 384 respondents, 143 respondents have availed the benefit of life insurance and 91 respondents have availed the benefit of general insurance. By evaluating expectation and experience of customers, regarding these two insurance services with seven dimensions, it is found that, customers are not satisfied with the insurance services of banks.

9. The overall negative gap score indicates that, the customers' expectations on service quality is more than they actually received, resulting poor product/ service performance of the banks from customer' perspective.

10. In expectation section, the most important dimension is Reliability and the least important dimension is Cost Effectiveness. This implies that, bank should provide reliable, accurate and error free ATM services, online banking services, investment services and insurance services to their customers. Contrarily, customers give less importance on service charges imposed by banks to their customers. They did not seek any cheaper service charges and lower transaction cost from the banks. In experience section also, the most important dimension is Reliability and the least important dimension is Cost Effectiveness. This indicates that banks should gain trustworthy of their knowledgeable customers.

Thus, the opinions of bank customers imply that bank should provide better service to keep pace with the quality of their customer services. The result comes from the product/ service performance may be helpful for the management to plan in a better way to improve the performance the banks wherever it is required. The high scored dimensions may help the management to find out the attributes that are doing well and the low scored dimensions may help the management to find the attributes where improvement is to be targeted.

7.2.4 Findings of the Study based on objective 4 i.e. to assess the relationship between product and service diversification and performance of selected commercial banks

To assess the relationship between product diversification and performance, 10 commercial banks have been selected for analysis. The selected banks have adopted product diversification in terms of related business, unrelated business in the form of joint ventures or alliances. Commercial banks through its various ways, offer diversified products and services, which are relatively new. Commercial banks' main concern is to

satisfy diversified needs of the customers and for that they offer range of financial services including investment consultation and insurance services. In order to gain more fees and commissions and strengthen the market competitiveness, banks offer innovative and new financial products and services to their customers. Thus, commercial banks have moved from traditional interest income to non-interest (fee based) income. The major findings are -

1. The banks earning depend on net interest income and non-interest income.
2. It is found that, non-interest income of banks has shown an increasing trend during the study period.
3. By analysing individual bank, it is found that some of the sample bank has negative growth while some of them have positive growth in terms of their earnings and other financial components such as NII, NONII, NOI, ROA and ROE.
4. By observing individual bank interrelationship between independent variables and other dependent variables i.e., EBIT and NII, EBIT and NONII, EBIT and NOI, EBIT and ROA and EBIT and ROE of State Bank of India, Central bank, Allahabad bank, Bank of India, United Bank of India and Punjab National bank, it is found that there is negative relationship either at 0.05% level or at 0.01% level of significance.
5. Bank earnings and other financial components such as EBIT and NII, EBIT and NONII, EBIT and NOI, EBIT and ROA and EBIT and ROE of UCO bank and Federal bank Ltd., shows a positive relationship either at 0.05% level or at 0.01% level of significance.
6. However, the relationship of EBIT with NII, NONII and NOI of HDFC Bank Ltd. shows a positive correlation while, relationship of EBIT with ROA and ROE shows negative correlation either at 0.05% level or at 0.01% level of significance.

7. The relationship of EBIT with NII, NONII and NOI of ICICI Bank Ltd. shows a negative correlation. On the contrary, relationship between EBIT with ROA and EBIT with ROE of ICICI Bank Ltd. shows positive correlation.

8. It is observed by the researcher that, relationship between EBIT and NII, EBIT and NONII, EBIT and NOI, EBIT and ROA and EBIT and ROE of all sample banks as a whole shows negative correlation either at 0.05% level or at 0.01% level of significance.

9. The interrelationship between product diversification and profit of commercial banks are more or less negatively correlated. In other words, though diversification strategy has been adopted by all the commercial banks but overall profit of the banks has been decreasing.

10. It is also observed that non-interest income of all the sample banks during that period has been increased but the effect of non-interest income on performance of the banks is negatively correlated. Thus, banks are able to increase its fee based income due to diversification but the financial statements and reports show that there is a reduction of banks' profit.

The study finds that there is negative correlation between diversification and banks' profit. The correlation focuses less diversification benefits as the banking industry steadily shifts its sources of revenue from interest income to non-interest income. The findings of the study shows varied degree of interrelationships and all are statistically significant either at 0.05% levels or at 0.01% level of confidence. Thus, it can be concluded that banks' strategy of diversification has not improved the performance of commercial banks and the banks' performance is actually negatively correlated.

7.3 Limitations of the Study

The following are the limitations of the study:

1. To achieve the second, third and fourth objectives, the study is restricted to 10 (ten) commercial banks. Out of 10 (ten) commercial banks, 7 (seven) are public sector commercial banks and 3 (three) are private sector commercial banks.
2. Secondary data has been collected from the banks' Annual Reports. Hence, study is limited to the degree of precision of the data received from the secondary source.
3. The study is limited to determine the nature and extent of diversification, effect of diversification on the financial performance and customer focused performance of commercial banks only. There are number of financial institutions. The present study has not incorporated the other financial institutions such as investment companies, Insurance companies, mortgage companies, brokerage firm, etc.
4. Diversification is relatively new concept in India, thus, to obtain nature and extent of diversification, this study has considered a period of 10 years only i.e. from 2007-08 to 2016-17. Whereas, to examine the customer focused performance the study has considered a period of one year only i.e. 2017-2018. But, to assess the relationship between product diversification and bank performance the researcher has considered the period of 5 years i.e. from 2013-14 to 2017-18.
5. Last but not the least, the study has been conducted on commercial banks only and this might limit the generalizations of the study to other financial institutions.

7.4 Recommendations

Based on the study, the researcher has put forward the following recommendations which may be helpful for the management of the bank for policy recommendations:

1. In order to make profit, management of the bank should understand its market segmentation i.e., investment and insurance, so that different criteria can be used in decision-making processes of the banks.
2. While taking any decisions, authority of the bank should consider the changing market environment which is mostly influence customer taste and preferences.
3. There is a significant relationship between product diversification and financial performance of commercial banks. Hence, management of the bank should give importance in adoption and implementation of diversified products and services.
4. The study also recommends better customer service and customer care, improvement of quality of services of commercial banks so that customer satisfaction levels can be raised.
5. As a service providing institution, bank staff should be good communicator, polite, trustworthy, friendly and helpful. They should aware and responsive towards customers' needs.
6. Last but not the least, it is recommended that customers' feedback should be taken and based on the analysis of the feedback, appropriate steps may be taken.

7.5 Scope for Further Research

The present study examines the nature and extent of diversification, diversification and performance consequences and customer focused performance of the

commercial banks. With major findings of the present investigation, it facilitates substantial space for further investigation on this area.

1. Study can be designed to find out challenges facing by the banks in India in order to ensure sustainability of banks.
2. This study focuses on diversification in banking sector only. Similar study can be conducted on other financial Institutions.
3. Further study can be conducted on cost and benefits associated with product/service diversification of commercial banks.
4. This study focuses on diversification in banking sector in India only. One more interesting study of diversification may be across different geographic regions.
5. Investigation can be done on diversification strategies adopted by various banks.
6. Future study can be designed on impact of non-interest income on the risk and profitability of the banks.
7. Comparative study can also be designed to evaluate diversification and performance consequences between public sector banks and private sector banks.
8. Another study can be conducted on the rationale of related and unrelated aspects of diversification.
9. To generalize the findings, similar studies can be conducted in other district too.

7.6 Conclusion

The emergence of diversification in financial sector, as a global phenomenon, has given rise to a new scope of competition for the banking sector. Majority of the banks in India have adopted Broad Spectrum Diversification for diversifying their operations that

is diversifying through non-banking subsidiaries and alliances, joint ventures etc. After adopting the strategy of diversification the non-interest income of diversified banks has been increased. It is seen that the non-interest income of these banks has increased relative to net interest income, and has been increasing continuously. The researcher has found that diversification has an impact on non-interest income of the banks. Again, it is found that diversification strategy has a negative and significant impact on the performance of the banks. Thus, both public sector and private sector banks are offering multiple products and services to their customers by introducing new products and services through diversification for their sustainability and profitability. It is a prime duty for the bank to fulfill the expectation of the customer.

The main challenge for the banking sector is to increase satisfaction of customer through advance quality services. Diversification will be successful only when customer accepts such diversified products and services. To remain competitive, the strategy of the banks is to retain as many customers as possible and customer retention is possible through customer satisfaction only. Thus, customer satisfaction is considered as the key of success in today's competitive environment. Thus, it can be concluded that the delivery of good quality service to customer has long been treated as most important business strategy. Hence, it is necessary to understand the customers' needs better in order to provide better services.

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