

Effect of Service Capabilities on Performance of Banks – An Empirical Analysis

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Abstract

Drawing upon Resource Based View (RBV) of the firm this study seeks to elucidate how service capabilities affect performance in banking industry. The basic assumption of the study is that performance of banks can be enhanced to the extent that banks are capable to deploy their resources and capabilities effectively for rendering banking services to their customers. Though there are several studies about internal capabilities and performance, this study stands unique by linking service capabilities with performance of banks. In this study a model is proposed that interlinks nine service capabilities with organizational performance based on empirical data collected from 351 managerial cadres of banks operating in India. The results reveal a strong support for the research proposition that service capabilities have significant and positive effect on performance of banks. The relative importance of all nine service capabilities and their effect on performance is also discussed. The findings of the study carry theoretical contributions for RBV based knowledge base and practical implications for banks working in competitive environments.

Keywords: Service Capability, human resources, IT resources, Market Knowledge, Performance.

I. Introduction

Banking sector in India has become more complex and a tough competition persists among public, private and foreign banks. All banks are forced to take necessary steps to sustain their profitability and growth according to the fast-changing environment. Liberalization, Globalization, deregulations and consolidations, technological advancements together have entirely changed whole banking sector in terms of operations, process, people management practices, customer relationship management, and form of products and services. The old strategies and practices have become obsolete and inefficient to retain/attract new tech savvy customers who have greater access to information and are ready to shift between banks for receiving customized services and innovative products from the best in the market. Further, breakthrough development of technology-driven fintech companies, virtual banks and

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payment banks with innovative business models and niche markets, have posed potential threat to market share of traditional commercial banks and raised their bar of excellence. Instead of mere brand loyalty, today's customers are preferring facilitators of all services under one roof at low cost and high speed without compromising security and quality. In this cutting edge competitive environment, only those entities, with innovative strategies to bridge the gap between quality and quantity of products and services that they were offering so far and that actually they were capable to offer with same amount of investment and resources, will exist in long run. These facts uncover the importance of internal capabilities especially service capabilities in banking sector and need for the research in this regard.

Hence, this research work studies how Indian Banks can achieve performance through effective utilization of internal capabilities. Resource Based View (RBV) theory argues that resources and internal capabilities are main source of competitive advantage and performance. This work analyses the effect of nine service capabilities namely Service response time, Information service accuracy, Personnel service assets, Counter staff service capability, Internet service, Information integration, Customer database integration, Learning and sensing market changes, Customer knowledge management, and Marketing training for customer service on performance of public and private banks from India.

II. Theoretical Background

'What is the source of organizational performance' is a much sought-after research question for strategy management researchers. Though, several theories have been developed to answer this question, firm level theories have got prevalence among organizational scholars. Resource Based View (RBV) is a firm level theory which many researchers have applied to explain performance differentials of organizations (Lee et al., 2001). Resource Based View (RBV) of firm which was put forwarded by Wernerfelt in 1984, emphasis that valuable, rent-generating, firm specific resources and capabilities are the source of performance and competitive advantage. Any deviations in resources and capabilities will significantly influence the performance of firms (Barney, 1991; Wernerfelt, 1984). A common view of many authors is that in order to fully exploit business opportunities and address environmental threats, organizations should identify, develop and deploy their unique capabilities within the organization (C. C. Yang et al., 2009).

Resource Based View (RBV) emphasis that ownership and control of strategic resources make firms distinct and heterogeneous from the competitors. It also states that this heterogeneity is a resultant of immobility of resources and market imperfection in terms distinct capabilities and organizations' difficulty to alter their stock of resources (Carroll, 1993). Though the resources are very essential to a firm, they alone do not provide to the performance. However, competitive advantage of a firm is gained through unique bundling and building of all types of resources. The seamless interaction among tangible and intangible resources leads to the creation distinctive capabilities which in turn contribute to the performance of firms (Lumpkin & Dess, 1996). The term 'capability' is defined as "firm's ability to combine, develop and deploy its resources to create value (Amit & Schoemaker, 1993).

Capability refers to a firm's capacity to deploy and coordinate different resources, usually in combination, using organizational processes, to affect a desired end (Grant, 1996).

Service Capability

Service is defined as means of delivering a valuable action, effort or deed performed by an individual or an entity to facilitate desired needs or demands of customers. The capability to deliver a service is gained by an organization through the effective utilization of physical assets and skills of human resource and technological resources (Carroll & Helfert, 2015). Following the traditional way of defining service capability which emphasis perspectives of managers and employees, Heskett & Schlesinger, (1994) defined service capability as a "perception of employees regarding how well they are able to serve their customers' needs". Yu Kun (2012) proposed a new meaning for service capability from a customers' perspective by stating that "service capability represents how well a service can consistently meet a firm's design requirements, satisfy customers' expectations and further decrease quality loss and deliver quality services and products for customers". Ability to provide different types of services under institutional forces and customer pressure or giving satisfaction according demands and information technology requirements of customers, is generally referred to as service capability. Strength of this capability varies according to the type and age of service provider (K. H. Lai et al., 2004). Based on definitions found in literature for service capabilities of firms from different industries, this study operationally defines service capability of banking industry as "the ability of banks to provide a variety of services utilizing resources and employees to satisfy customers' expectations and meet their all financial and banking needs and further decrease quality loss and generate profit and better performance".

Service Capability and Performance

Service capability is the one of the key capabilities that contribute to the performance and one which rarely explored construct in strategy management literature. A large number of organizational research scholars have concluded that service capability is an input for value chain of organizations and it plays important role in creating competitive advantage for firms (Borella et al., 2017b; Eng, 2008; Pugh et al., 2002).

Service capability is the key factor that enhance customer satisfaction and performance of organizations (Yi-feng Feng Yang, 2012). By analyzing the conjoint and dyadic effects of service capabilities, Yang could expose the possible combinations of HR, IT and Marketing Knowledge capabilities for enhancing the performance of customer relationship management in banking industry (Yi Feng Yang, 2012).

Service capability is a valuable internal resource. Resource Based View (RBV) says that strategic adjustment of certain capabilities will enhance the performance of organizations (Borella et al., 2017a). Carroll & Helfert, (2015) developed service capability sourcing model (SCSM) which helped to determine key service metrics that facilitate assessment of role of service capabilities in enhancing the performance of firms across industries. E-Governance service performance is significantly influenced by e-service capabilities. Hu et al., (2012) contributed a hierarchical e-government service capability model and concluded that regular updating of e-service website contents, IT innovations and new delivery system designs will enhance the e-governance service performance.

The performance of logistic service providing companies is justified by service capability. And service capability is linked with ability to use resources for producing unique services for specific conditions, offer creative solutions, and simplify the systems and procedures (Borella et al., 2017b). In today's service-dominant business environment, implementation of innovative and technology supported applications for enhancing service capabilities is counted as the crucial source of competitive advantage (Heskett & Schlesinger, 1994). The study conducted by C. C. Yang et al., (2009) on effect of resources, logistics service capabilities, innovation capabilities on performance of container shipping firms in Taiwan found that service capability of firms positively effects their performance and innovation capability does affect it indirectly by influencing service capability, which was echoing the findings of other RBV authors (Panayides, 2006) who studied the link between innovation capability and performance.

Kim et al., (2014) has contributed towards explaining the service capability and performance linkage by concluding that the poor market performance of IT companies in Korea were the impact of shortage of service capability and quality services. Further he suggested that telecommunication companies should better utilize technological capabilities in order to improve service performance. Yu, (2012) found that investing time, energy, and money to assess and develop service capabilities of a firm will help to satisfy customer needs and create value for customers and profit for firm. On the other hand, whenever a firm's service capability become insufficient, it will result in poor service, quality drop, and customers' dissatisfaction, and eventually end up in damage to the firm's reputation and financial losses.

The findings of studies reviewed so far, supports the conceptual model of this study, where it uses the RBV approach for explaining the relationship between service capabilities and performance in banking sector. Internal capabilities concept has been developed over the last decades and to the best of our knowledge none of the studies have empirically explored service capabilities of banking industry, though much number of studies are there in manufacturing and logistics industries. Thus, it is sensible to explore the service capabilities of Indian banks and explain their role in enhancing the performance of firms based on RBV theoretical framework. It is conceptualized that banks with a better service capability, such as provision of quick service/response time, two-way interactive service relationships, and the ability to provide service for customers anywhere at any time; would be in a better position to satisfy the needs of customers for various banking services and, therefore, will achieve higher performance. This study extends the RBV based internal capabilities literature to analyze the individual and total effect of service capabilities in banking sector.

Research Gap

Though it was found that the internal capabilities are main sources of performance of organizations, the contribution service capabilities on performance has not been assessed in one study. Despite abundant studies about internal capabilities, research about how service capability influence the banking organizations performance are still scarce. Innovation and Service capabilities have been identified as potential source of strategic performance; however, this was not tested in banking sector. Adding control variables like ownership and firm age to conceptual model and empirically testing it is also the contribution to the extant literature.

III. Methodology

This study is descriptive in nature which analyses the nature of relationship between service capabilities and organizational performance of the public and private sector banks. Data were collected from six Public sector and Private sector banks operating within four districts of Hyderabad, Khammam, Karimnagar, and Warangal of Telangana State. State Bank of India (SBI), Punjab National Bank (PNB) and United Bank of India (UBI) were selected from public sector and HDFC Bank Pvt. Ltd, ICICI Bank Pvt. Ltd and City Union Bank (CUB) were selected from private sector. Stratified random sampling method was used to collect the responses. Different factors were considered for selecting the banks like age, ownership and performance of the banks.

Research Model and Hypotheses

This study proposes a research model that interrelates performance of banks with nine service capabilities: Service response time, Information service accuracy & Personnel service assets, Counter staff service capability, Internet service, Information integration for customer service, Customer database integration, Learning and sensing market changes, Customer knowledge management, and Marketing training (Figure 1).

This study has used two control variables (age and ownership type of banks) which may also account for the variance in the performance of banks other than the theoretical variables studied. Age of banks are thought to effect the performance of firms due to additional legitimacy of long term external networks, of the ubiquity of internal routines, of the staying power in the market (Fichman & Kemerer, 1993; Kalyanaram & Wittink, 1994). On the other hand, the newness and unfamiliarity of environments may confound the performance (Ravichandran & Lertwongsatien, 2014).

According to agency theory public ownership and private ownership causes performance differentials. Because the stake holders' interests and goals of public firms in comparison to private firms are not same. While private firms pursue profit driven goals public firms need to accommodate political and welfare goals in addition to profit making goals. Similarly, managers of public companies are deemed to face two principals; governments, and shareholders while there is only one principal, the shareholders for private players. This has been found as a reason for negative impact of public ownership on performance (Pablo et al., 2000). Studies have found that ownership form has strong influence on economic efficiency of enterprises (Vilanova & Balestieri, 2014). Therefore, this study treated ownership type of banks also as a control variable.

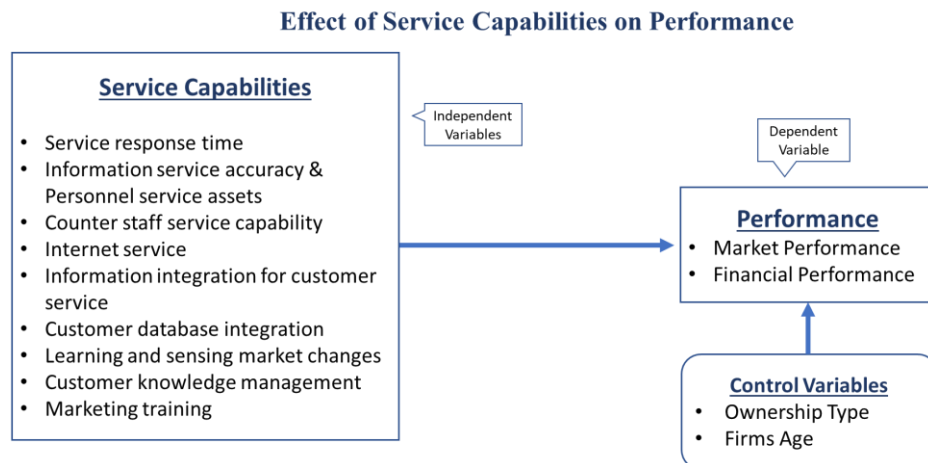


Figure 1: Conceptual Model

Referring to the theories of resource complementarity, this study postulate that banks' ability to achieve greater performance is a function of its capacity to deploy its service capabilities in an efficient way which is better than their competitors. Having more service capabilities will make banks to achieve higher performance. Hence this study proposed following hypothesizes:

Hypothesis 1. There is a positive relationship between service capabilities and performance of banks.

H1a: There is a positive effect for Service response time on performance of banks

H1b: There is a positive effect for Information service accuracy & Personnel service assets on performance of banks

H1c: There is a positive effect for Counter staff service capability on performance of banks

H1d: There is a positive effect for Internet service on performance of banks

H1e: There is a positive effect for Information integration on performance of banks

H1f: There is a positive effect for Customer database integration on performance of banks

H1g: There is a positive effect for Learning and sensing market changes on performance of banks

H1h: There is a positive effect for Customer knowledge management on performance of banks

H1i: There is a positive effect for Marketing training on performance of banks

Measures of Variables

The predictor variables and criterion variables were measured using five-point Likert scales extracted from literature. There are extent of literature which contributes measures for assessing service capabilities. Shum et al., (2008) suggested following factors as metrics of service capability: ability to provide quick service or response, customized offerings, and capacity to deliver services anywhere at any time. C. C. Yang et al., (2009) conducted a special study on logistic services companies and found following dimensions of service capability: ability for

packaging and documentation, tax clearance, consignment tracking, and capacity safe storage and inland transport. Whereas findings of (K. hung Lai, 2004; Murphy et al., 2000) showed that key dimensions for international distribution centers are support services, value-added services, consolidation services, distribution centers, information and transportation capacity, cargo related facilities. This indicates that dimensions and metrics of service capability may vary according to industries and cultures.

Therefore, to assess service capabilities of banks this study adopted the measure used by Yi-feng Feng Yang, (2012) which was particularly designed for banking industry. Yi-feng had classified service capabilities into three categories: Human Resource (HR), Information Technology (IT), and Marketing Knowledge (MK).

HR Service Capability: Humane resource related service capabilities refers to a complex bundle of professional skills and knowledge resulting from the long-term development of human resources. This capability is dependent on skills, competencies, and interpersonal relationships of the bank employees and can be enhanced through professional training and organizational commitment at all levels (Yi-feng Feng Yang, 2012). In the dynamic banking industry, HR service capability is positively correlated with customer satisfaction and financial performance (Herscovitch & Meyer, 2002). The HR service capability is measured with three factors viz. service response time, counter staff capability, and information and personal services accuracy which are contributed by (Ravichandran, T., Lertwongsatien, 2005).

IT Service Capability: The performance of banking industry is heavily dependent on IT service capability. It enables banks to collect, store and evaluate information about customers' needs and the banking operations more easily and efficiently. It refers to the capacity of bank to use IT resources such as software, hardware, core applications to give easy and ready support for coordinating internal and external business functions and hassle-free information flow. IT service capability can create dual support; reliable and quality service for customers and profit and enhanced performance for banks. IT service capability is measured with three factors such as information integration, customer database integration and internet services (Byrd & Turner, 2000).

Market Knowledge Capability: MK service capability is an ability to capture, store, and share each counter staff employees' skills and know-how regarding customer affairs. It can be developed through learning and sensing changes in market and customers' preferences, market orientation and market-based training for employees to capture market's momentum (Yi-feng Feng Yang, 2012). This capability enhances customer satisfaction and performance by facilitating effective marketing and precisely identifying customers' values and needs. Three elements were used to measure the Market Knowledge capabilities viz. learning and sensing marketing changes, customer knowledge management and marketing training which is originally contributed by Tippins & Sohi, (2003).

Performance: The assessment of performance of banks is done with performance measurement scale adapted from Gunday et al.'s, (2011) study. Two performance indicators namely financial performance and market performance are taken into consideration for analyzing the performance of banks. Managerial cadre of banks were asked to rate the performance of their respective banks on these two indicators during the last three years compared to their competitors. This study has relied upon subjective measures, which carries the possibility of managers' bias,

for assessing firm performance. It is justified as the usage of such measures are very common practice in empirical researches (Khazanchi et al., 2007). Moreover, getting exact performance records of banks are very difficult and managers are reluctant to disclose such type internal data regarding performance (Gunday et al., 2011). Conversely, the experienced managers who are well aware of performance status of their respective banks are capable to provide precise objective ratings (Choi & Eboch, 1998).

Scale Validation

The measurement scales used in this study has been validated with standard methods and techniques recommended for scientific studies in literature (Kothari, 2004; Marczyk et al., 2005; Zikmund et al., 2013). Items on service capability scales is factor analyzed with PCA and Varimax Orthogonal Rotation to assess its discriminant and convergent validity. As shown in the table (1), adequate loadings of items (>0.5) on corresponding factors indicated convergent validity and the low cross loadings showed the discriminant validity of the measure. During the factor analysis, four items with low loadings have been dropped. Consequently, reliability of the scale was tested to assess the degree of consistency between the factors. The scales with Cronbach's alpha coefficient values greater than 0.70 is considered as reliable, however values near to .6 are also acceptable especially while number of items on factor is very less (Hair et al., 2006). The Factor loads, Eigenvalues and Cronbach's alpha scores are given in Table (1).

Table No 1: PCA of Service Capability

Factors	Factor Loads	Eigenvalues	Cum. % variance explained	Cronbach Alpha
Information service accuracy & Personnel service assets (6 items)	>.537	6.172	21.28	.810
Service response time (3 items)	>.697	3.655	33.88	.714
Counter staff service capability (2 items)	>.579	2.497	42.49	.692
Internet service (3 items)	>.522	1.910	49.08	.696
Information integration for customer service (3 items)	>.499	1.795	55.27	.690
Customer database integration (3 items)	>.665	1.578	60.71	.515
Learning and sensing market changes (3 items)	>.507	1.450	65.71	.643

Customer knowledge management (4 items)	>.535	1.255	70.04	.719
Marketing training (2 items)	>.624	1.086	73.78	.531

KMO measure of sampling adequacy= .759; Bartlett's Test of Sphericity=5213.3; $p < .001$; overall $\alpha = .849$

IV. Data Analysis and Results

To empirically examine the effect of service capabilities on performance of banks this study has collected data from 351 managerial staffs working in Indian public and private sector banks. Samples were obtained by following stratified random sampling method. To ensure that sample is adequately representing the population, sample units were randomly selected from a pool of banks which includes public and private banks, new and old banks, and low performing and high performing banks.

A preliminary analysis was performed to ensure no violation of basic assumptions of parametric tests. From skewness and kurtosis tests and scatter plots, it was found that the assumptions of normality, linearity are not violated. Six cases with missing values and outlier values have been replaced with fresh cases. A Correlations analysis is done prior to doing regression of service capabilities and performance to know the direction and strength of the relationship between them. Karl Pearson's correlation coefficient showed that there was a significant positive correlation between the service capabilities and performance (overall $r = .739$, $n = 351$, $P < .01$) see table 3. The small correlation coefficients between independent variables which are less than .7 indicates the absence of multicollinearity issue (Pallant, 2007).

Table 2. Correlation Matrix and Descriptive Statistics (N=351)

Variables	Mea n	Std. Deviation	1	2	3	4	5	6	7	8	9	10
			SR T	ISAS A	CS	INTS	INFI	DBI	LS	KM	MTR	PER F
Service Response Time	3.86	.607	1	.297**	.322* *	.354* *	.297* *	.111* *	.268* *	.314* *	.111* *	.425* *
Information Accuracy & Service Assets	3.83	.542		1	.244* *	.185* *	.026	.204* *	.280* *	.302* *	.380* *	.441* *

Counter Staff capabilities	3.539	.881	1	.172*	.388*	.166*	.469*	.531*	.005	.329*
Internet Services	3.66	.717		1	.006	.306*	.108*	.062	.182*	.394*
Information Integration	3.84	.669			1	.299*	.466*	.318*	-	.373*
Data Base Integration	3.60	.653				1	.392*	.290*	.084	.549*
Learning & Sensing Market Changes	3.54	.636					1	.444*	-	.602*
Knowledge Management	3.59	.686						1	.091	.448*
Marketing Training	3.77	.693							1	.145*
Over all Service Capability	3.71	.37								.739*
Performance of Banks	3.539	.881								1

** Correlation is significant at the 0.01 level; * Correlation is significant at the 0.05 level; (2- tailed)

This study has used a hierarchical multiple regression method to examine the effects of service capabilities on performance of banks after controlling for the effects of age and ownership type of banks. The first block of hierarchical model with only control variables is treated as a benchmark against which the effects of independent variables on dependent variable is examined. The second block includes both control variables and service capabilities to compare with first block.

Table 3 provides two regression models explaining the performance of banks. The age and ownership type in first model though explained 3% variance in performance, it wasn't statistically significant. In the second model after the entry of service capabilities the model explained 63% as a whole, $F(11, 339) = 63.7, p < 0.001$. The nine service capabilities together explained an additional 62% of variance in performance after controlling for age and ownership type, $R^2 \text{ change} = .627, F \text{ change}(9, 339) = 63.7, p < 0.001$. In the final model eight service

capabilities (Service Response Time, Information Service Accuracy, Counter Staff Capability, Internet Services, Information Integration Database Integration, Sensing & Learning Market Changes, and Knowledge Management) were statistically significant predictors of performance where marketing Training capability and control variables were found as insignificant predictor ($p>0.05$). On comparing standardized Beta Coefficients, it can be seen that Learning and Sensing market changes (Beta=0.35) is the most influencing service capability dimension followed by Database integration (Beta=0.24) and Internet services (Beta=0.20) dimensions. Information Service Accuracy (Beta = 0.17) Service Response Time (Beta = 0.14), and Knowledge Management (Beta = 0.13) are moderately influencing service capability dimensions. And the remaining two capabilities ‘information integration’ and ‘counter staff capability’ were found as least influencing factors (Beta = 0.11 & 0.10).

Table 3. Results of Hierarchical MLR models, (N=351)

Variables	Model 1		Model 2	
Intercept	3.923**	(0.240)	1.163**	(0.202)
Age	.060	(0.083)	-.001	(0.052)
Ownership Type	.084	(0.083)	.008	(0.052)
Service response time			.088**	(0.026)
Information service accuracy & Personnel service assets			.128**	(0.029)
Counter staff service capability			-.047*	(0.0190)
Internet service			.109**	(0.021)
Information integration for customer service			.059*	(0.024)
Customer database integration			.145**	(0.024)
Learning and sensing market changes			.215**	(0.027)
Customer knowledge management			.075**	(0.024)
Marketing training			.031	(0.021)
Tolerance	> 0.29		> 0.28	

VIF	< 3.5	<3.6
R ²	.003	0.630
Adjusted R ²	-.003	0.618
F-Change	-	63.787**

Note: Standard errors are in parentheses; Tolerance > 0.1 and VIF < 10 indicates no multicollinearity;

p < 0.05; *p < 0.01

Table 4. Summary of Hypothesis

Hypothesis	Decision
<i>Ha: Service Response Time has positive effect on performance of banks</i>	Accepted
<i>Hb: Information Service Accuracy has positive effect on performance of banks</i>	Accepted
<i>Hc: Counter Staff Capability has positive effect on performance of banks</i>	Accepted
<i>Hd: Internet Services has positive effect on performance of banks</i>	Accepted
<i>He: Information Integration has positive effect on performance of banks</i>	Accepted
<i>Hf: Database Integration has positive effect on performance of banks</i>	Accepted
<i>Hg: Sensing & Learning Market Changes has positive effect on performance of banks</i>	Accepted
<i>Hh: Knowledge Management has positive effect on performance of banks</i>	Accepted
<i>Hi: Marketing Training has positive effect on performance of banks</i>	Rejected

Therefore, after multiple regression analysis alternative hypotheses from Ha, Hb, Hc, Hd, He, Hf, Hg, and Hh are accepted whereas last hypothesis is rejected see table (4). Therefore, main hypothesis “*Service capability has positive effect on Performance of Banks*” is accepted.

V. Conclusion and Suggestions

This study has investigated the effect of service capabilities on performance of banks from resources and capabilities perspective (RBV). The study employed a quantitative and descriptive method and collected data from 351 managerial staff working in Indian banks. The collected data were checked for errors, missing values, normality, linearity, and multicollinearity and then analyzed by statistical techniques, such as factor analysis, correlation, regression and Hierarchical Multiple Regression. This work is a first attempt to study the influence of service capabilities on performance in the context of banking industry. Service capabilities were tested as an outcome of strategic deployment of human, IT and Market Knowledge resources. The performance was assessed based on indicators of market share and financial performance suggested by Gunday et al., (2011).

Study results showed that service capabilities are positively associated with performance of banks. It was found from the analysis that all service capability factors, except marketing training, are significantly influencing performance of banks. This study has observed that out of nine service capability dimensions the capability of banks for Sensing & Learning Market Changes is the most influencing service capability dimension. The service capability attributes such as Database Integration, Internet Services, Information Service Accuracy and Service Response Time also were identified as important influencing factors of performance. Rest of the three Service Capability dimensions i.e. Knowledge Management, Information Integration, and Counter Staff Capability were identified having less effect on performance. The Marketing Training dimension is found not having any significant effect on performance of banks. Hence it is concluded that service capability significantly effects performance of banks.

This study revealed that ownership type and age of banks, which were controlled for, are not having significant influence on the relationship between capabilities and performance. This supports the claim by Pablo that the added efficiency of private firms than their public counterparts are not conclusive for well-regulated sectors (Pablo et al., 2000), and no doubt that banking industry is a highly regulated sector. It is also inferred that new banks in India have well managed to overcome the disadvantages of newness and lack of long term experience and have reached in par with age old banks in performance.

This work contributes to knowledge bank of strategic management literature. Initially, it has revealed the importance of internal capabilities especially service capability in enhancement of performance. This study has employed RBV theory which is considered as central towards explaining competitive advantage in literature. This study successfully established an internal capabilities assessment model for Banking organizations both from public and private sector, and contributed to bridge the gap between theory and practice.

Based on the findings, this study presents some suggestions and practical implications for practitioners. First, banks should continue investing in service capability development activities because they have significant influence on the performance of banks. Second, for the enhancement of service capability, banks should give highest importance for improving the capacity to learn and sense the market changes. Next importance needs to be given for developing and integrating data bases in such a way that will enable employees to store, quickly search and analyze the information regarding target customers' needs, expectations and preferences. Third, this study also suggests that

for providing better services banks need to invest adequately in enrichment of internet services, Information Service Accuracy and Service Response Time. For example, develop sophisticated websites and applications with multifunctionality and higher efficiency and adopt advanced technologies for making banking services fast and secure. Fourth, study recommends practitioners to invest for developing the essential capabilities of counter staffs so that they can efficiently provide banking services and that will inspire trust and confidence in customers.

VI. Future Research Scope

This study has several limitations which provide directions for future research. This research has collected responses of employees at one point of time to study the effect of innovation capabilities. Hence there is a scope for a longitudinal study by collecting data at different points time to know how the relationship between internal capabilities and organizational performance of banks will change over time. Future studies can investigate interaction effects of service capabilities so that any significant joint effects can be identified. This study also recommends to examine whether there exist any moderating factors that influences the effect of internal capabilities on performance other than age and ownership type, to explore under what market conditions and environments those factors are significant. Finally, in this research the service capabilities and performance were assessed depending upon the perceptions of employees on Likert scale which is subject to inherent biases of respondents towards their organization. Hence future researchers should incorporate other methods also such as qualitative methods of focus group, case study etc. and carry forward the findings of this study.

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