

Understanding Customer Expectations and Perceived Service Value: A Conceptual Study in Banking

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Abstract: The banking industry has undergone a paradigm shift from transaction-based operations to relationship-driven service delivery, making customer expectations and perceived service value central to competitive success. This conceptual paper explores the theoretical underpinnings of customer expectations and perceived service value within the banking context. Drawing from established models such as SERVQUAL and Expectation–Disconfirmation Theory, the study synthesizes literature to identify the dimensions influencing customers’ perceptions of service quality, value, trust and satisfaction. It further highlights how expectation management and value perception jointly shape customer trust, loyalty, and long-term relationships with banks. The paper proposes a conceptual framework linking service quality attributes, expectation levels, perceived value, customer satisfaction and trust offering theoretical insights for future empirical validation and managerial applications in banking environments.

Keywords: Customer Expectations, Perceived Service Value, Service Quality, Customer Satisfaction

INTRODUCTION

Banking, over the last few years, has been reformed radically. Its reliance on mere transactions has been lessened as it now focuses more on relationships, especially personal ones, and on delivering customer-centric services. This shift means that the financial transactions or products are no longer the main sources of competitive advantage. Instead, the advantage lies in the ability to interact with a customer, foresee his/her needs, and satisfy him/her whilst providing him/her with service of the highest quality and value that s/he perceives. Customers in such a market make decisions that are better informed because they are more empowered; also, they express their wants more clearly and in a louder tone. Hence, it is necessary for banks to tailor their strategies in accordance with the behavioural and psychological factors that determine customer satisfaction and loyalty. The present paper is a study about conceptual customer expectations and perceived service value in the field of banking. It takes into consideration the continental theoretical models like SERVQUAL and Expectation-Disconfirmation Theory that help to pool concepts from various studies in order to specify those customer perception areas of service quality, value, and satisfaction which are most influenced by the core dimensions. Also, it highlights the role of trust, emotional connection, and long-term relationships as outcomes of the correct anticipation of customer expectations accompanied by a high perception of service value. This research through building a theoretical structure comprising service features, expectation levels, perceived service value, and customer satisfaction not only conceptualizes the behavioural base of customers in digital and traditional banking but also leaves the door of the empirical research open wide with a map directing to the managerial implications based on which banks might get capable of building more trust-based, customer-responsive, and value-driven service strategies in the technology and competition prevailing financial sector.

REVIEW OF LITERATURE

Customer expectations and perceived service value have long been central to understanding consumer behaviour in the banking sector. Early research by Parasuraman, Zeithaml, and Berry (1988) introduced the SERVQUAL model, emphasizing five dimensions—tangibility, reliability, responsiveness, assurance, and empathy—that significantly influence customers’ perceptions of service quality. Building on this, Zeithaml (1988) defined

perceived value as the consumer's overall assessment of utility based on what is received versus what is given, highlighting the trade-off between quality and sacrifice. In the banking context, Levesque and McDougall (1996) found that service quality and satisfaction jointly influence customer loyalty, underlining the importance of aligning service delivery with customer expectations. Similarly, Siddiqi (2011) demonstrated that reliability and responsiveness are key drivers of satisfaction in retail banking, suggesting that expectation fulfilment leads to stronger customer relationships. The Expectation–Disconfirmation Theory (EDT) proposed by Oliver (1980) provides a foundational understanding of how customers evaluate services, asserting that satisfaction arises from the comparison between pre-service expectations and post-service performance perceptions. Studies such as Kang and James (2004) and Cronin, Brady, and Hult (2000) further confirm that perceived service quality acts as a mediator between expectations and customer value perceptions, ultimately influencing behavioural intentions. In digital banking settings, Ladhari, Pons, Bressolles, and Zins (2011) noted that trust and perceived value are more critical than physical service aspects, indicating a shift from tangible to experiential attributes. Moreover, Amin and Isa (2008) found that electronic service quality dimensions like efficiency, reliability, and system availability significantly enhance perceived value and satisfaction among online banking customers. Recent studies have explored the role of emotional and relational dimensions in shaping perceived service value. Heskett, Sasser, and Schlesinger (1997) argued through the service-profit chain that customer value creation drives satisfaction and loyalty, which in turn enhance profitability. Raval and Grönroos (1996) emphasized that perceived value extends beyond functional benefits to include relational and emotional elements, strengthening long-term trust. In line with this, Choudhury (2013) and Kaura, Prasad, and Sharma (2015) revealed that effective expectation management in banks builds affective trust and retention. Furthermore, Al-Hawari (2015) highlighted that technology-enabled service delivery and personalized interaction enhance both perceived value and loyalty in competitive banking environments. These findings collectively indicate that managing customer expectations and delivering superior perceived value are vital strategies for sustaining trust, satisfaction, and long-term customer relationships in both traditional and digital banking contexts.

STATEMENT OF THE PROBLEM

In the modern banking landscape of increased competition and fast-paced digital transformation, knowing and managing customer expectations is critical to maintaining long-term relationships. Although service quality research has been greatly enriched, many banks are still unable to realize quality service in accordance with changing customer expectations for both functional and emotional purposes. Research to date has examined service quality, satisfaction, and loyalty as independent constructs, despite the lack of understanding on the interconnectedness of customer expectations and perceived service value. Next, the traditional banking space to digital banking has also changed perceived value for customers moving past earthy aspects of value for reliability and assurance, to trust, convenience, personalization, and technology. Service quality and customer satisfaction models such as SERVQUAL and Expectation–Disconfirmation Theory are well documented, but they do not lend meaning to expectation formation, perceived value and satisfaction in both offline and online banking service situations. The theoretical gap limits banks in developing customer-centered strategies to enhance trust, loyalty, and long-term engagement. Thus, it is necessary to conceptualize and integrate to dimensions of customer expectations, perceived service value, and satisfaction to create a comprehensive framework of client experience in modern banking service.

RESEARCH GAP

Despite a significant amount of research on banking service quality, customers' satisfaction, and loyalty, there still appears to be a major gap in our understanding of the integrated connection between customers' expectations and what service value is perceived in the context of both traditional and digital banking. Much of the earlier studies such as the work by Parasuraman et al. (1988), Zeithaml (1988), or Levesque and McDougall (1996), have either been cantered on the dimensions of service quality or on the outcomes of customer satisfaction, viewed as separate variables rather than examining the synergetic effects on values creation regarding service value perception as well as of long-lasting trust. Furthermore, although the SERVQUAL and Expectations–Disconfirmation models provide solid theoretical lenses, the empirical evidence connecting expectation

management, the process of perceived value formation, and loyalty in the banking context remains limited. In addition, much of the research in the current literature, has focused on the tangible, functional sides of service quality, whilst little or not enough attention has been paid to emotional, relational, and experiential aspects that emerged from individual services and now increasingly contribute to creating perceptions of value in the contemporary service landscape. With the rapid digitalization of banking, the nature of customer expectations has also transformed—from reliability and responsiveness to personalization, transparency, and technological trust—yet this shift has not been adequately captured in conceptual models. Therefore, a comprehensive framework that links expectation levels, service quality perceptions, perceived value, and satisfaction outcomes across traditional and digital platforms is still underdeveloped. This study aims to bridge this gap by synthesizing theoretical insights to propose a conceptual model explaining how expectation management and perceived value jointly influence trust, satisfaction, and loyalty in the contemporary banking sector.

OBJECTIVE OF THE STUDY

To examine the interrelationship between customer expectations and perceived service value in the banking sector and to develop a conceptual framework linking service quality attributes, expectation levels, perceived value, and customer satisfaction across traditional and digital banking contexts.

CONCEPTUAL FRAMEWORK EXPLANATION

The proposed conceptual framework is grounded in the principles of SERVQUAL and Expectation–Disconfirmation Theory (EDT), aiming to explain how customer expectations and service quality collectively shape perceived service value and customer satisfaction in the banking industry. In this framework, customer expectations and service quality dimensions act as the independent variables, while perceived service value functions as the mediating variable that connects expectations to customer satisfaction and loyalty, which serve as the dependent variables. Customers enter a banking relationship with certain pre-service expectations based on prior experiences, word-of-mouth, brand image, and marketing communications. According to the Expectation–Disconfirmation Theory, when actual service performance meets or exceeds these expectations, customers experience positive disconfirmation, which enhances perceived value and satisfaction. Conversely, when performance falls short, perceived value and satisfaction decline. The service quality dimensions—tangibility, reliability, responsiveness, assurance, and empathy—further determine how customers evaluate their interactions with the bank. Tangibility relates to the physical facilities and technology used; reliability reflects the bank's ability to deliver promised services; responsiveness concerns timely assistance; assurance deals with employee competence and courtesy; and empathy involves personalized care and understanding of customer needs. Together, these dimensions influence the customer's overall perception of value, balancing what they receive in benefits (such as convenience, trust, and personalized service) against what they sacrifice (time, cost, or effort). The framework posits that perceived service value serves as a critical bridge between service quality and customer satisfaction. When customers perceive high value, their level of satisfaction increases, leading to the development of trust and loyalty toward the bank. This relationship is particularly relevant in the digital banking era, where customer expectations are shaped by technological efficiency, security, and personalized experience rather than merely by physical service encounters. Hence, managing expectations and enhancing perceived value are central to sustaining customer satisfaction and fostering long-term relationships in both traditional and digital banking contexts.

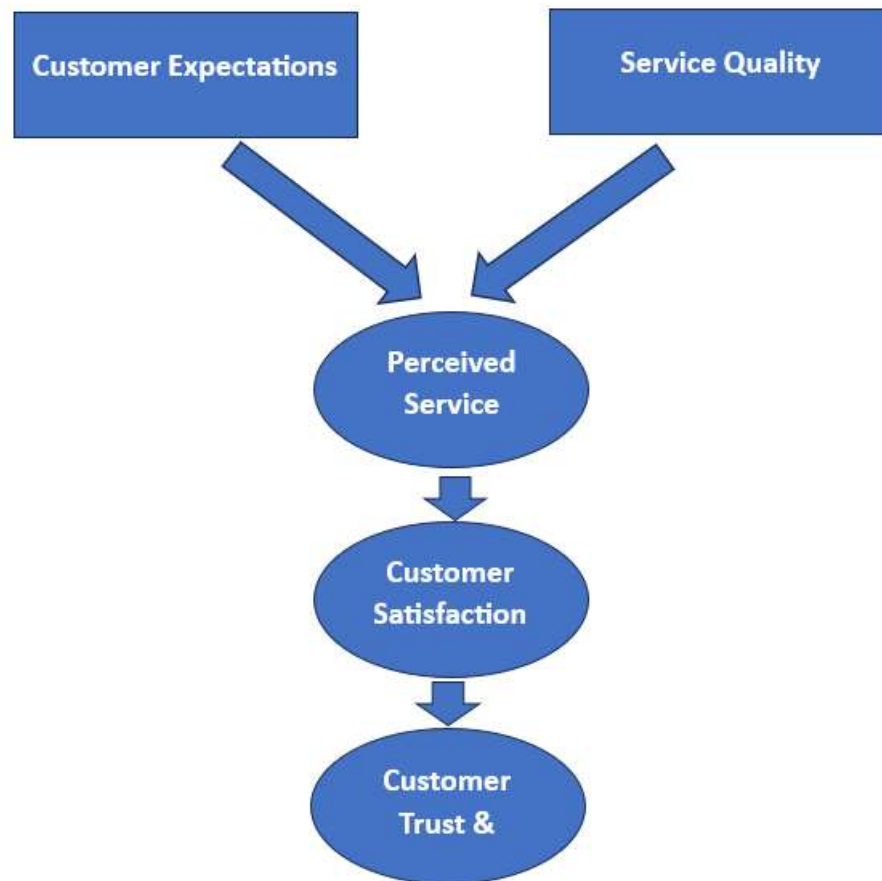


Fig 1 – Conceptual Framework

RESEARCH DISCUSSION

The connection between what customers expect and the value they perceive from a service has been a subject of research for a long time. The results of these studies are, however, a bit confusing as they show a mixture of both positive and negative views. Many research works have proven that the very act of meeting or surpassing customer expectations is what makes the perceived service value to go up and this will, in turn, lead to higher satisfaction and loyalty. Using the SERVQUAL model, Parasuraman, Zeithaml, and Berry (1988) were able to prove that when the service aspects such as reliability, responsiveness, and empathy are at the level that the customers expect, the overall perceived value gets a substantial increase. Likewise, Zeithaml (1988) saw perceived value as the balancing act of what customers get against what they give, and stressed that top service performance is what makes the value perception stronger. Levesque and McDougall (1996) as well as Siddiqi (2011) went along with this opinion by disclosing that the continuous high quality of service and the meeting of expectations cause customers to have positive emotional states, be satisfied and loyal to retail banking. These outcomes embody a positive viewpoint, thus implying that banks that are proficient in handling customer expectations and services tend to elevate the perception of customer value and trust. On the contrary, a few other studies, meanwhile, have revealed contradictory or cautionary results. Using Expectation–Disconfirmation Theory, Oliver (1980) argued that customer satisfaction depends on factors other than merely the fulfilment of expectations; in fact, if expectations are set too high, it will result in disconfirmation even when the service is objectively good. In the same way, Johnston (1995) and Kang and James (2004) have argued that customer expectations may in some cases be far-fetched or highly changeable, particularly in rapidly changing service environments such as digital banking, where both technological advances and consumer preferences happen at an equally fast pace. Hence, a good service performance may still not be able to meet perceived expectations, consequently causing dissatisfaction even if the quality is acceptable. What is more, Ladhari et al. (2011) pointed

out that perceived service value might drop in cases where customers put the emotional and experiential aspects of the service above others and these aspects are not sufficiently provided for by the standardized service models. This means that the banking industry has to not only deliver the best in terms of functions but also invest in emotional involvement if they want to keep their perceived value high. Looking at it through the technology angle, research made by Amin and Isa (2008) and Al-Hawari (2015) suggested that although digitally offered banking services are fast and reliable, they may give rise to an impersonal feeling, hence lowering the relational value side of the customer even though the functional one is at a high level. On the other hand, Kaura, Prasad, and Sharma (2015) discovered that implementing the aspects of convenience, fairness, and empathy into the digital user interface can pave the way for both perceived value and satisfaction to increase. The debate around such issues reveals that even though technology is a great tool in making things quicker, at the same time, it has to enable the emotional side of the relationship as well as trust-building if the value perception is to be sustained. To sum up, the debate has brought out the fact that customer expectations are akin to double-edged swords for banks. On the one hand, when expectations are well handled and are in tune with the dependable quality of service, both perceived value and customer satisfaction get a boost. On the other hand, the moment customers have unrealistic expectations or the service meeting emotionally disengaged, perceived value will go down even if the technical quality is still high. Therefore, the overarching take-home message is that banks need to implement a concerted strategy - integrating service reliability, emotional interaction, and expectation handling - to achieve the highest perceived service value and be able to keep their customers satisfied in the traditional as well as in the digital world.

FUTURE SCOPE OF THE STUDY

The study can be extended in future by empirically validating the proposed conceptual framework through primary data from banking customers; by comparing customer expectations and perceived service value between traditional and digital banking environments; and by incorporating emerging factors such as artificial intelligence, personalization, and fintech innovations influencing customer perceptions and satisfaction.

LIMITATIONS OF THE STUDY

The study is conceptual in nature and does not include empirical validation through primary data; it relies on existing literature, which may limit the scope of contextual variations across different banking environments; and the dynamic nature of customer expectations and technological advancements in banking may affect the long-term applicability of the proposed framework.

CONCLUSION

The study highlights that in today's banking world, which is characterized by sharply increasing competition and customer awareness, the understanding and management of customer expectations are crucial in influencing the perceived service value. The users are no longer evaluating banks based on the services only; rather, they measure how those services meet or even exceed what they had expected. Therefore, when banks offer a seamless, trustworthy, and tailored experience, the customers 'perceive' higher value, which is a result not only of satisfaction but also of loyalty. Similarly, the argument points out that if expectations happen to be unreasonably high or wrongly managed, then, even a good performance in service may lead to the generation of dissatisfaction. Therefore, it is strongly emphasized the necessity of always keeping in touch with the customers, being transparent, and establishing a connection on an emotional level. The factors determining the 'perceived' value of a service extend far beyond the functional side, for instance, fast or efficient service delivery, to the relational and emotional sides as well, e.g., trust, empathy, and care. Summing up, the research propounds that banks are required to implement a customer-centric approach that is balanced and takes into account the aspects of service quality, relationship building, and expectation management equally. It will result in enhanced 'perceived' value of the service, the elevation of customer satisfaction to a higher level, and the occurrence of customer loyalty for a longer period. The insights of this conceptual study bear the characteristics of a roadmap,

assisting both practitioners and researchers, in the understanding of how customer expectations and perceived value interrelate to create sustainable relationships in the banking sector.

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