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A STUDY ON CUSTOMER SATISFACTION AND LOYALTY IN INDIAN BANKING SECTOR

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ABSTRACT

In the banking industry a key element of customer satisfaction is the nature of the relationship between the customer and the provider of the products and services in banks. This study investigates the impact of customer satisfaction and customer loyalty in Indian banking sector and compare the customer satisfaction and loyalty among the private and public sector banks and to study the demographic profile of the customers. A convenient sample size of 650 respondents from private and public sector banks in Chennai City are taken for the study. Statistical tools like percentage analysis, t test, factor analysis and cluster analysis were taken for the study and the findings reveals that both private and public sector banks need to adhere to the best standards of service quality, that can result in a positive sequential impact on customer satisfaction and loyalty.

KEYWORDS

Indian banking, customer satisfaction, loyalty, service quality.

1.0 INTRODUCTION

The banking industry in India has undergone a number of major changes in the post-independence era. More recently, liberalisation the opening up of the economy in the 1990s and the government's decision to privatise banks resulted in the banking reforms. Like any other financial services, the banking industry too is facing a market that is changing rapidly. New technologies are being introduced and there is always a fear of economic uncertainties. Moreover, service sector such as banks have the responsibility to provide the best services to their customers in order to have sustainable competitive advantages. Furthermore, practitioners in the banking sector face many complex challenges in the global market. Although satisfaction has been defined as the difference between expectation and performance, but there are differences between quality and satisfaction. Therefore, enhancing customer satisfaction should be a key driver for banks in maintaining a long term relationship with their customers.

In the competitive business market, many firms are focusing on their efforts on maintaining a loyal customer base. Most of the retail banks set their strategies towards increasing satisfaction and loyalty of customers through the quality of service. Customer Loyalty and satisfaction are significantly affected by co-operate brand image, and customer loyalty and satisfaction are dependent on each other. If customer is satisfied, his loyalty increases. Customer loyalty plays a very crucial role for achieving competitive advantage in any organisation. The idea of customer's loyalty has been rooted around many years. It has become more important undergoing brisk change in banking sector.

2.0 LITERATURE REVIEW

A review of related literatures can provide the researcher to understand the contributions made by others and in creating a link to the topic.

2.1 CUSTOMER SATISFACTION

In the banking industry, a key element of customer satisfaction is the nature of the relationship between the customer and the provider of the products and services i.e. banks. Thus, both product and service quality are commonly noted as a critical prerequisite for satisfying and retaining valued customers. In this situation, customer satisfaction has been regarded as a fundamental determinant in maintaining long-term customer relationship behaviours (Oliver, 1980; Zeithaml, Berry, & Parasuraman, 1996; Anthanassopoulos Gounaris, & Sathakopoulos, 2001; Anderson, & Sullivan, 1993; Fornel, 1992; Levesque, & McDougall, 1996). Therefore, enhancing customer satisfaction should be a key driver for banks in maintaining a long term relationship with their customers.

Customer satisfaction has been gaining increasing attention from the researchers and practitioners as a recognised field of scholarly study and is a fundamental tool used by financial institutions for enhancing customer loyalty and ultimately organisational performance and profitability. It is also well recognised that measuring service quality is more difficult than to measure good quality because of the unique characteristics of services: intangibility, heterogeneity, inseparability and perishability Bateson (1985) cited in Thakur (2011). In a competitive market place, understanding customer's needs is very valuable. Satisfaction is the main source of attracting customers Patterson et al., (1997). The importance of measurement of customer satisfaction lies in the fact that one key to customer retention is customer satisfaction.

Reichheld and Sasser (1990) considered that raising customer satisfaction can increase their future loyalty. Lovelock (1996) indicated that customer satisfaction stems from a customer's comparison between his/her expectation about a particular product and his/her real experience of using this product. Also, customer satisfaction is the driving force of customer loyalty. Apparently, there is a positive relationship between customer satisfaction and customer loyalty. In other words, products or services with a higher customer satisfaction lead to better customer loyalty and customer maintenance.

Wong and Sohal (2003) discussed about customer satisfaction as often recognised as the future expectations of banks in terms of its profitability and market share, a satisfied customer always shares his or her experiences to others through word of mouth advertising extensively to increase more new customers to bank.

Anderson and Sullivan (1993) believed that customer satisfaction affects customers' repurchase behaviour in a positive way, and a customer's repurchase behaviour and his/her buying intention are one kind of customer loyalty. Furthermore, a satisfied customer is likely to be a loyal customer who will give repeating business to the bank Heskett et al., (1997). It has been proved that organisations need to give more consideration towards customer satisfaction and loyalty Parasuraman & Grewal, (2000).

Customer's satisfaction in turn, is understood as an emotional reaction, related to specific transactions. Also, it is strongly associated with the prior expectations Oliver (1997) and there is sufficient evidence to suggest that customer's satisfaction may be seen as an attitude Levesque and McDougall (1996). According to Chavan et al., (2013) bank business depends very much on the quality of the customer service provided and overall satisfaction of customers.

2.2 CUSTOMER LOYALTY

Customer loyalty and customer satisfaction are therefore not connected linearly. But even when customer loyalty is controlled optimally, it is no guarantee that satisfied customers will stay or dissatisfied customers will switch to other banks. Customer loyalty can only be achieved after consistently meeting customer satisfaction. Time constraint is almost a barrier to customer satisfaction as more and more unique ways are adopted to meet the ever changing nature in the service industry.

Customer loyalty on the other hand is achieved after consistent record of meeting with clients over a period of time and sometimes even exceeding customer expectations. As customer loyalty is considered a vital objective for a firm's survival and growth, building a loyal customer base has not only become a major marketing goal, but it is also an important basis for developing a sustainable competitive advantage Mandhachitara et al., (2012).

Customer loyalty is one of the most important indicators used to evaluate the quality of services offered by an organisation. Therefore, gaining customer loyalty becomes a key objective for banking organisations which decide to adopt a relationship marketing perspective Filip and Anghel, (2007). Kracklauer, Mills et al. (2004) were convinced that customer loyalty should be viewed as a combination of customer satisfaction and customer trust. In Malaysian banking sector the Ndbubisi (2007) assessed the relationship of four constructs commitment, trust, conflict handling and communication on customer loyalty.

Customer loyalty is an important area to research in services study Gremler (1995). Oliva et al. (1992) state that in the relationship between customer loyalty and customer satisfaction that customer loyalty will increase significantly when satisfaction accomplishes a certain level and at the same time customer loyalty will drop dramatically if the satisfaction level drops to a certain point. Highly satisfied customers tend to be more loyal customer than the customers who were merely satisfied Tepeci (1999).

However, Bowen and Chen (2001) said that having satisfied customers is not enough, there has to be extremely satisfied customers. This is because customer satisfaction must lead to customer loyalty. Building customer loyalty is not a choice any longer with businesses. It is in fact the only way of building sustainable competitive advantage. Building loyalty with key customers has become a core marketing objective shared by key players in all industries catering to business customers.

Sivadas and Baker-Prewitt (2000) examined that there is an increasing recognition that the ultimate objective of customer satisfaction measurement should be customer loyalty. Fornell (1992) found that high customer satisfaction will result in increased loyalty for the firm and that customers will be less prone to overtures from competition. Huber et al (2006) describes 'loyal customers' are satisfied with the service provided by their bank and do not intend to switch.

2.3 OBJECTIVES OF THE STUDY

1. To analyse and compare the satisfaction and loyalty among the customers of private sector banks and public sector banks.
2. To study the demographic profile of the customers of selected private sector banks and public sector banks.

2.4 HYPOTHESES OF THE STUDY

H01: There is no significant difference between private and public sector banks with respect to the customer satisfaction.

H02: There is no significant difference between private and public sector banks with respect to the customer loyalty.

3.0 METHODOLOGY

The study is both descriptive and analytical with multiple objectives. The convenience sampling method is adopted to collect the responses. The data were collected from 24 Public sector banks and 6 Private sector bank customers in Chennai City (Tamil Nadu). 900 questionnaires were distributed and 650 questionnaire collected from the customers were taken into consideration.

4.0 ANALYSIS AND INTERPRETATION

4.1 CUSTOMER'S SATISFACTION OPINION OF PRIVATE SECTOR BANKS AND PUBLIC SECTOR BANKS

The customers of private sector banks and public sector banks expressed their opinion in 11 variables customer (See Appendix). Significant differences between the customers are clearly presented on the satisfaction was analysed using 't' test and the results are given below:

TABLE 4.1 SHOWING 't' TEST INFLUENCING THE SERVICES OF CUSTOMER SATISFACTION

Customer Satisfaction	N	Mean	Standard Deviation	Std.Error Mean	t	Significant
CS1	650	4.0860	0.72662	0.02848	38.135	0.000
CS2	650	3.8449	0.79162	0.03103	27.230	0.000
CS3	650	4.0154	0.77504	0.03040	33.401	0.000
CS4	650	3.8817	0.87696	0.03437	25.653	0.000
CS5	650	3.8065	0.93118	0.03650	22.097	0.000
CS6	650	3.1505	1.17620	0.04610	3.266	0.001
CS7	650	3.7880	0.98508	0.03861	20.411	0.000
CS8	650	3.9908	0.90804	0.03559	27.840	0.000
CS9	650	3.9094	0.95083	0.03727	24.402	0.000
CS10	650	3.7404	0.98068	0.03844	19.263	0.000
CS11	650	3.9263	0.93023	0.03646	25.406	0.000

It is statistically evident that bank provides safe and secured services (4.0860) bank provides fast and efficient services (3.8449) updating of technology are made in the banks (4.0154) value added services (3.8817) staff customer relationship (3.8065) transparent transactions (3.1505) cost and quality of services (3.7880) customer friendly approach (3.9908) effective grievance mechanism (3.9094) periodic feedbacks from customers (3.7404) and (3.9263) customer centric approach.

H01: There is no significant difference between private and public sector banks with respect to the customer satisfaction. The application of independent 't' test on the customer satisfaction of selected private sector banks and public sector banks clearly indicate that the 't' values for all the variables are statistically significant at 5% level. Therefore, the hypotheses is rejected at 5% level and concluded that there is a significant difference between selected private and public sector banks in the customer satisfaction.

4.2 FACTOR ANALYSIS OF FACTORS INFLUENCING THE CUSTOMER SATISFACTION

The factor analysis of the principle component method is used to find the exact level of satisfaction of customers in both private and public sector banks.

TABLE 4.2.1: SHOWING KMO AND BARTLETT'S TEST OF FACTORS INFLUENCING THE CUSTOMER SATISFACTION

Kaiser-Meyer-Olkhin Measure of Sampling Adequacy		0.891
Bartlett's Test of Approx. Sphericity	Chi-Square	2191.484
	Df	55
	Sig.	0.000

From the above table it is found that KMO measures of sampling adequacy are found to be 0.891. Bartlett's Test of Sphericity with approximate chi-square value is 2191.484 are statistically significant at 5% level. Therefore, it can be concluded that 11 variables are normally distributed and suitable for factor segmentation.

TABLE 4.2.2: SHOWING FACTOR ANALYSIS

Components	Factor 1	Factor 2	Factor 3	% of Variance
V7	0.766			24.402
V10	0.725			
V9	0.702			
V6	0.637			
V8	0.611			24.055
V1		0.750		
V2		0.739		
V5		0.675		
V3		0.645		
V4		0.606		11.246
V11			0.882	

From the above table it is found that 11 variables are reduced into 3 predominant factors with cumulative variance 59.704%. The first factor consists of five statements high efficiency, quality of service to customers and improve better customer relationship and satisfaction. The second factor consists of five statements

training to improve relationship with customers and to create strong customer bondage. The third factor consists of only one variable the bank needs a dynamic customer focus strategies and adapts to satisfy the needs of the customer.

4.3 CUSTOMER'S LOYALTY OF PRIVATE SECTOR AND PUBLIC SECTOR BANKS

The customers of private sector banks and public sector banks expressed their opinion of 4 variables customer loyalty (See Appendix). Significant differences between the customer's satisfaction are clearly presented and it leads to loyalty in banks was analysed using 't' test and the results are shown below:

TABLE 4.3 SHOWING 't' TEST INFLUENCING THE SERVICES OF CUSTOMER LOYALTY

Customer Loyalty	N	Mean	Standard Deviation	Std. Error Mean	t	Significant
CL1	650	3.8833	0.92581	0.03629	24.432	0.000
CL2	650	3.7450	1.00741	0.03948	18.869	0.000
CL3	650	4.0430	0.81410	0.03191	32.689	0.000
CL4	650	4.0906	0.82802	0.03245	33.607	0.000

The mean value indicates that customers intend frequently to visit the banks due to efficient service (3.8833) level of satisfaction makes the customers to recommend to others (3.7450) customers does not have the intent to change the bank (4.0430) and demand augmented services to increase the reputation of banks (4.0906).

H02: There is no significant difference between private and public sector banks with respect to the customer loyalty.

The application of independent 't' test on the customer loyalty of selected private and public sector banks clearly indicate that the 't' values for all the variables are statistically significant at 5% level. Therefore, the hypotheses are rejected at 5% level and concluded that there is a significant difference between selected private and public sector banks in the customer loyalty.

4.4 ANALYSIS OF DEMOGRAPHIC PROFILE

TABLE 4.4.1 FREQUENCY DISTRIBUTION OF DEMOGRAPHIC PROFILE

Demographic	Category	No. of Respondents	Percentage
Gender	Male	336	51.6
	Female	314	48.4
	Total	650	100.00
Type of the Bank	Public	445	68.4
	Private	205	31.6
	Total	650	100.00
Educational Background	Higher Secondary	116	17.8
	Graduate	231	35.5
	Post Graduate	159	24.4
	Professional	114	17.5
	Others	30	4.8
	Total	650	100.00
Occupation	Student	33	5.1
	Salaried	474	72.8
	Business	88	13.5
	Others	55	8.6
	Total	650	100.00

From the above table out of 650 respondents, 51.6% respondents are male and 48.4% are female. The male respondents are more when compared to female respondents. 68.4% of the customers are account holders in the public sector banks and 31.6% are the customers of private sector banks and it is inferred that public sector banks are used by more respondents. It is found that 35.5% customers are graduates, 24.4% are post graduates, 17.8% have completed higher secondary, 17.5% are professional people and 4.8% belongs to other category. It shows that irrespective of varied educational background, banking services are availed by many respondents. 72.8% are salaried, 13.5% having own business, 8.6% belongs to other category and 5.1% are students.

5.0 CONCLUSION

The research study was conducted to find the impact on customer satisfaction and loyalty in Indian banking sector. The major insight gained from this study suggests that the banking sector, both private and public need to adhere stick on to the best standards of quality service which can produce a positive sequential impact on satisfaction and loyalty.

6.0 SCOPE FOR FURTHER RESEARCH

Customer satisfaction and loyalty is a vast area which tends to change with change in time. Hence, in future researchers can include foreign banks also. The scope of studying customer's perception and employee perception of service quality also can be considered.

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