



## Relevance of Customer Satisfaction in Banking Industry

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### ABSTRACT

*Banking is a customer oriented service industry and Indian banks have started realising that business depends on client service and the satisfaction of the customer. The ability of banks to offer clients access to several markets for different classes of financial instruments has become a valuable competitive edge. Thus it is imperative for banks to get useful feedback on their actual response time and customer service quality aspects of retail banking, which in turn will help them take positive steps to maintain a competitive edge.*

*Modern management science's philosophy considers customer satisfaction as a baseline standard of performance and a possible standard of excellence for any business organization. Satisfaction measurement motivates people to perform and achieve higher levels of productivity. Customer satisfaction is tied directly to profitability. If your customers are happy, they tend to be loyal. Loyal customers are valued to any organization as they always get you business and also spread word of mouth among the people they come in contact with thus increasing the customer base. Losing customer can mean loss of business and hence very critical for any organization.*

*There is obviously a strong link between customer satisfaction and customer retention. If experience of the service greatly exceeds the expectations clients had of the service then satisfaction will be high, and vice versa. Expectations have a central role in influencing satisfaction with services, and these in turn are determined by a very wide range of factors. Lower expectations will result in higher satisfaction ratings for any given level of service quality.*

*Banks need to aim at identifying customer satisfaction variables which lead to relationship building, and developing a conceptual framework of relationship marketing practices by capturing the perspectives of customers with respect to their satisfaction with various services. The main satisfaction criteria consist of Personnel of the bank, Products, Image of the bank, Service and Access. In spite of improvements, there still remains a gap between customer satisfaction and customer service offered to them. Changes in the current market can affect customers' preferences and expectations. Hence customer satisfaction survey is considered necessary for an organization to succeed.*

**Keywords : Customer service, Customer expectation, Customer satisfaction, Profitability**

### Introduction

**H**ow satisfied are our customers? Are they now more or less pleased with our company than before? How does our customer satisfaction level compare with that of our competitors? What impact does it have on our company's profitability?

Guesswork and hunches won't work. We need to measure and monitor customer satisfaction consistently and regularly. We should have a customer satisfaction research strategy and program to help us serve customers better and make them satisfied and to cover up any loop holes or deficiencies which customers are facing, in order to improve our customer service..

### Banking A Service Industry

In today's competitive environment, relationship marketing is critical to corporate success. Banking is a customer oriented

services industry and Indian banks have started realising that business depends on client service and the satisfaction of the customer. This is compelling them to improve customer service and build relationships with them

Banking operations are becoming increasingly customer dictated. The demand for 'banking supermalls' offering one-stop integrated financial services is well on the rise. The ability of banks to offer clients access to several markets for different classes of financial instruments has become a valuable competitive edge. Convergence in the industry to cater to the changing demographic expectations is now more than evident. Bancassurance and other forms of cross selling and strategic alliances will soon alter the business dynamics of banks and fuel the process of consolidation for increased scope of business and revenue. The thrust on farm sector, health sector and services offers several investment linkages. In short, the domestic economy is an increasing pie which offers extensive economies of scale that only large banks will be in a position to tap.

With the phenomenal increase in the Country's population and the increased demand for banking services; speed, service quality and customer satisfaction are going to be key differentiators for each bank's future success. Thus it is imperative for banks to get useful feedback on their actual response time and customer service quality aspects of retail banking, which in turn will help them take positive steps to maintain a competitive edge.

### Overview of Customer satisfaction

Modern management science's philosophy considers customer satisfaction as a baseline standard of performance and a possible standard of excellence for any business organisation (Gerson, 1993). Moreover, customer satisfaction measurement provides a sense of achievement and accomplishment for all employees involved in any stage of the customer service process. In this way, satisfaction measurement motivates people to perform and achieve higher levels of productivity (Hill, 1996; Wild, 1977, 1980). To reinforce customer orientation on a day-to-day basis, a growing number of companies choose customer satisfaction as their main performance indicator. It is almost impossible, however, to keep an entire company permanently motivated by a notion as abstract and intangible as customer satisfaction.

Therefore, customer satisfaction must be translated into a number of measurable parameters directly linked to people's job, in other words, factors that people can understand and influence (Deschamps and Nayak, 1995)

### Why to Measure Customer Satisfaction?

Customer satisfaction is tied directly to profitability. If your customers are happy, they tend to be loyal. And if customers are loyal they not only buy more, they also don't switch to other competitors. Well-established research by Bain & Company found that, for many companies, an increase of 5% in customer retention can increase profits by 25% to 95%. The same study found that it costs six to seven times more to gain a new customer than to keep an existing one.



"It's six to seven times more expensive to gain a new customer than it is to retain an existing customer."

"A 5% increase in customer retention can increase profits by 25% to 95%."

(Source: Bain & Company study in Harvard Business Review, 2001)

Moreover, one bad experience can outweigh a whole lot of good experiences. Because of e-mail and instant messaging, that bad experience can quickly be broadcast to dozens, hundreds, or thousands of other customers, magnifying its impact. So if any business is doing something that frustrates customers, the Management need to know right away before it is too late.

It is critical to give customers the opportunity to provide feedback about their overall satisfaction level and specific likes and dislikes. It is equally important to consistently measure and monitor that input. Without an effective customer satisfaction research program in place, the Bank may be losing business, missing opportunities, and putting itself at a competitive disadvantage.

### Service Quality and Customer Satisfaction

There is a great deal of discussion and disagreement in the literature about the distinction between service quality and satisfaction. The service quality school view satisfaction as an antecedent of service quality - satisfaction with a number of individual transactions "decay" into an overall attitude towards service quality. The satisfaction school holds the opposite view that assessments of service quality lead to an overall attitude towards the service that they call satisfaction. There is obviously a strong link between customer satisfaction and customer retention. Customer's perception of Service and Quality of product will determine the success of the product or service in the market. If experience of the service greatly exceeds the expectations clients had of the service then satisfaction will be high, and vice versa. In the service quality literature, perceptions of service delivery are measured separately from customer expectations, and the gap between the two provides a measure of service quality.

### Expectations and Customer Satisfaction

Expectations have a central role in influencing satisfaction with services, and these in turn are determined by a very wide range of factors. Lower expectations will result in higher satisfaction ratings for any given level of service quality. This would seem sensible; for example, poor previous experience with the service or other similar services is likely to result in it being easier to pleasantly surprise customers. However, there are clearly circumstances where negative preconceptions of a service provider will lead to lower expectations, but will also make it harder to achieve high satisfaction ratings - and where positive preconceptions and high expectations make positive ratings more likely. The expectations theory in much of the literature therefore seems to be an over-simplification.

The ISO Guideline: Measurement of Customer Satisfaction is a new and significant addition to the new ISO9000: 2000 standard. Organizations certified to this standard are now required to identify parameters that cause customer satisfaction or dissatisfaction and consciously measure them. We cannot create customer satisfaction just by meeting customer's requirements fully because these have to be met in any case. However falling short is certain to create dissatisfaction.

Clause 8.2.1 in ISO9000: 2000 states: "As one of the measurements of the performance of the Quality Management System, the organizations shall monitor information relating to customer perception as to whether the organization has met customer requirements. The methods for obtaining and using this information shall be determined".

The requirement has been there in the QS9000 standard clause 4.1.6 which says: "... Trends in customer satisfaction and key indicators of customer dissatisfaction shall be documented and supported by objective information. These trends shall be compared to those of competitors, or appropriate benchmarks, and reviewed by senior management."

### Relevance of Customer Satisfaction in Banking:

The working of the customer's mind is a mystery which is difficult to solve and understanding the nuances of what customer satisfaction is, a challenging task. This exercise in the context of the banking industry will give us an insight into the parameters of customer satisfaction and their measurement. This vital information will help us to build satisfaction amongst the customers and customer loyalty in the long run which is an integral part of any business.

The customer's requirements must be translated and quantified into measurable targets. This provides an easy way to monitor improvements, and deciding upon the attributes that need to be concentrated on in order to improve customer satisfaction. We can recognize where we need to make changes to create improvements and determine if these changes, after implemented, have led to increased customer satisfaction. "If you cannot measure it, you cannot improve it." - Lord William Thomson Kelvin (1824-1907).

Banks need to aim at identifying customer satisfaction variables which lead to relationship building, and developing a conceptual framework of relationship marketing practices in Indian banks by capturing the perspectives of customers with respect to their satisfaction with various services. It should also identify whether demographics have a role to play in customer satisfaction.

Surveys already conducted suggest that while private banks have been able to attract the younger customers with higher educational levels, who are comfortable with multi channel banking, the customers of the nationalized banks are older and comparatively more satisfied with the traditional facilities.

**Survey of Customer satisfaction**

**Satisfaction criteria**

The assessment of a consistent family of criteria representing customers' satisfaction dimensions is one of most important stages of the research methodology. The main satisfaction criteria consist of:

- Personnel of the bank: This criterion includes all the characteristics concerning personnel (skills and knowledge, responsiveness, communication and collaboration with customers, friendliness, etc.).
- Products: This criterion refers mainly to the offered products and service (variety, refund, cost, special services, etc.)
- Image of the bank: Credibility of the bank (name, reputation), technological excellence, as well as ability to satisfy future customers' needs are included in this criterion.
- Service: This criterion refers to the service offered to the customers; it includes the appearance / ambience of the branch, the waiting time (queue, telephone, etc.), the complexity of service processes and the information provided (informing customers in an understandable

way, explaining the service and other relevant factors, informing for new products, etc.).

- Access: Network extension of the bank, branches location, as well as observed troubles in the service system (strikes, faulty/damaged ATMs, etc.) are included in this criterion.

(Hierarchical structure of customers' satisfaction dimensions)

Customer satisfaction represents a modern approach for quality in enterprises and organizations and serves the development of a truly customer-focused management and culture. Measuring customer satisfaction offers an immediate, meaningful and objective feedback about client's preferences and expectations.

The Customer Survey must answer the following important queries:

- Which are the satisfaction parameters and what are their impact on customer behaviour?
- Which is most important of these factors?
- How many customers are satisfied or dissatisfied?
- Which is the satisfaction level according to the characteristics of provided service?
- Which is the average satisfaction level according to customers' preference and expectations?
- Which are the weak and the strong points of the bank?
- Which are the satisfaction dimensions that should be improved and how this improvement can be achieved?

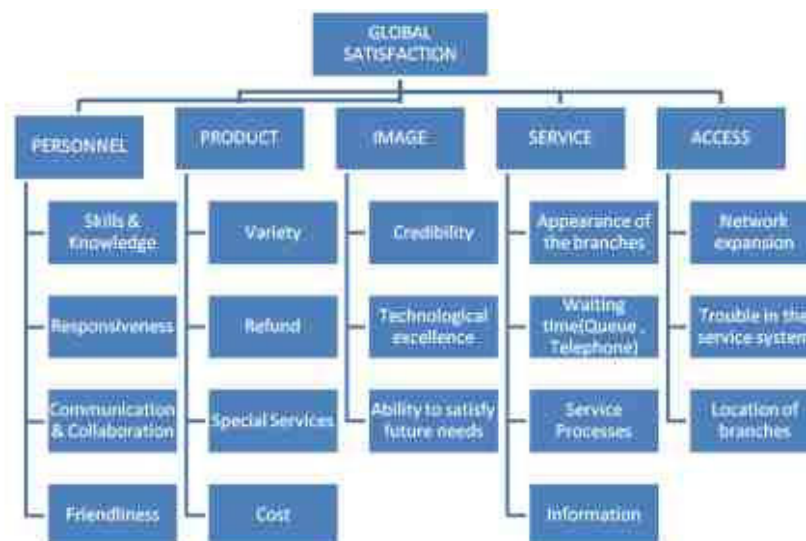
In this way, Bank's performance may be evaluated in relation to a set of satisfaction dimensions that indicate the strong and the weak points of a business organisation.

**Conclusion**

The service standards of Indian Banks have improved with the entry of Private Sector Banks and introduction of technology driven delivery channels. This has resulted in continuous rise of expectations of the customers. The product features and technology are not the only differentiators anymore and the service attitude of the frontline staff plays a vital role in differentiating Banks amongst themselves. However, customer expectations and services offered still remain to meet at a logical point and there remains a gap between them.

It should be noted that customer satisfaction is a dynamic parameter of any business organization, including banks.

Hierarchical structure of customers' satisfaction dimensions



(Ref.G.Miheliset al./European Journal of Operational Research 130 (2001) 347±360)

Changes in the current market can affect customers' preferences and expectations. For example, some satisfaction dimensions may become critical in the near future if customers give more importance to them. For this reason, the installation of a permanent customer satisfaction barometer is considered necessary. The main advantages of a permanent customer satisfaction measurement system are:

- The Bank will have the ability to analyse customers' behaviour for different regions in the Country, taking into account special regional characteristics.
- An interior benchmarking system can be established, based on customer satisfaction evaluation in each branch. By this, the most "weak" branches of the bank may be identified and improved.
- Competition analysis will be performed for different regions of the Country.
- The effectiveness of marketing plans will be evaluated through customer satisfaction measurement.
- The establishment of a motivating system for employees may be directly related to customer satisfaction measurement. This will help in improvement of productivity & efficiency measured.
- A permanent customer satisfaction barometer can assist Total Quality Management and Continuous Improvement concepts in every business organization. (Edosomwan, 1993).

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