CHAPTER 5

DISCUSSION OF FINDINGS AND CONCLUSION

5.1 INTRODUCTION

The banking sector in India has become highly competitive after liberalization of the financial sector due to the entry of new private sector banks (Maya Lohani & Kamalesh Kumar Shikla, 2011; Uma Sankar Mishra et al, 2010). The private sector banks as a group are growing their business at a higher compounded annual growth rate (CAGR) than the public sector banks. Previous studies which compared the public sector banks and private sector banks have concluded that private sector banks provide greater level of customer satisfaction (Maya Lohani & Kamlesh Kumar Shukla, 2011; Deepak Tandon et al, 2012).

Customer satisfaction is generally viewed as central determinant of customer retention (Thorsten Henning – Thoreau & Alexander Klee, 1997; Gopalakrishnan et al, 2011). However other researchers have identified as other variables such as customer characteristics, (Mittal & Kamakura, 2001), Switching barriers and Attractiveness of alternatives (Moon-Koo Kim et al, 2004) as moderating variables that affect the strength of relationship between customer satisfaction and customer retention. It is generally accepted that
customer retention is an important goal of any business. This is because the cost of acquiring a new customer is more than the cost of retaining an existing one further retention of customers reduces cost and increases profitability.

Considering the fact that public sector banks are achieving a slower growth rate compared to private sector banks and that previous studies have shown that the level of customer satisfaction with public sector banks is also lower the research problem is formulated as follows:
“Can the difference in financial growth performance of public sector banks and private sector banks be explained by difference in customer retention and what are the factors that have an impact on customer retention?”

In order to answer the research question, the research objectives are formulated to analyze the impact of Bank / Branch attributes on customer satisfaction and customer service characteristics on customer satisfaction. Further, the impact of customer satisfaction on customer retention, the role of customer attributes in customer retention and the role of customer’s perception about competitors on customer retention were examined. Finally, evaluating whether there is a significant difference in the likelihood of customers leaving the bank between public sector and private sector banks and to identify the causes of customer’s intention to leave the bank and to suggest strategies to minimize customer defection. A conceptual frame work of the study is formulated linking the constructs of ‘Bank / Branch attributes’ and ‘Customer Service Characteristic’ with ‘Customer Satisfaction’ and then linking ‘Customer Satisfaction’, ‘Customer Attributes’ and ‘perception about Competitors” as predictor variables for ‘Customer Retention’.
The data required for the study is obtained through a structured questionnaire which was administered through face-to-face interaction with the bank customers. The total number of respondents is 975. The survey covered customers of 5 public sector banks and 5 private sector banks. The samples were collected from bank branches in the 5 Taluk Headquarters of Erode district. A total of 41 branches are covered. The questionnaire contains 8 factors measured through 45 variables (Likert type items). The factors are branch, account handling, customer handling, staff, handling complaints, responsiveness, customer friendly policies and image about the bank. These factors are hypothesized as independent variables which determine the dependent variable “customer satisfaction”. Customer attributes are measured through 5 demographic variables and 5 variables pertaining to their relationship with the bank. The customer perception about competitors is measured through 7 variables. The data has been analysed using various statistical tools like Chi-square test, Kruskal-Wallis test, Mann-Whitney U test and logistic regression to make inferences about the research objectives.

5.2 EMPIRICAL FINDINGS

The satisfaction score of customer pertaining to Bank / Branch attributes (2 factors) and customer service characteristics (6 factors) were fitted in a logistic regression model to test their ability to predict customer satisfaction.

5.2.1 Bank / Branch Attributes and Customer Satisfaction.

The analysis reveals that the Bank / Branch attributes made a major contribution to customer satisfaction. Branch attributes such as ‘Convenient Location’, ‘Access’, ‘Parking Space’, ‘Working Hours’ and ‘Comfort’ are a
set of attributes which can readily cause dissatisfaction if they are not provided adequately. These factors are what are called ‘Dissatisfiers’ their presence does not add to satisfaction but their absence leads to dissatisfaction. The continued relevance and importance of bank branches was emphasized by European customer Ernst & Young (2010) and Indian Customers Accenture (2010).

5.2.2 Customer Service Characteristics and Customer Satisfaction

Among the 6 factors of customer service characteristics included in the conceptual framework 3 factors namely ‘Account Handling’, ‘Customer Friendly Policies’ and ‘Customer handling’ contributed significantly to explain customer satisfaction.

5.2.3 The Role of ‘Customer Satisfaction’ In ‘Customer Retention’

The analysis revealed that there is no correlation between ‘customer satisfaction’ and ‘customer retention’ in this study. Similar results were also found in an earlier study investigating the moderating effect of customer characteristics on customer satisfaction and repurchase intent and repurchase behavior (Mittal and Kamakura, 2001). The authors has reported that at the same level of rated satisfaction, repurchase rates are systematically different. And in one customer group the rated satisfaction is completely unrelated to repurchase behavior.

5.2.4 The Role of Customer Characteristics in Customer Retention

The customer characteristics do have a role in customer retention and customer repurchase intend and repurchase behavior (Mittal and
Kamakura, 2001). The present study finds that customer characteristics such as Age, Gender, Monthly Income and Educational Qualification do not have any effect on customer’s intention to stay (Retention). However, ‘nature of Employment’, another customer characteristic is found to have significant effect on customer retention. The study reveals that respondents who were in “Business” (trading) have significantly higher intention to leave. Since majority of the “business” customers were with private sector banks, the study shows this association between ‘nature of employment and intention to leave in the case of private sector banks only.

5.2.5 Perception about Competitors and Customer Retention

Perception about competitors and available choices have a major influence on the customer’s intention to leave. In the absence of attractive alternatives, customers may continue with the present service provider (White and Yanamandram, 2007). The study examines the customer's relative perception about the competitor/previous bank in respect of 7 attributes such as physical appearance and facilities, convenience (location), use of latest technology, accuracy and reliability of service, courtesy and helpfulness of employees, fair and consistent method of setting fees and customer related policies.

The study finds that a high percentage (23%) of customers perceive that other bank’s “physical appearance and facilities” are superior. On the other hand 14% of the customers feel that the other banks provide better “accuracy and reliability of service”. This is consistent with the fact that bank branches are the most important channel and the factor “bank/branch” was the most important differentiator in customer satisfaction. Tsung- Chi Liu and Lu Weiwu (2007), have also stressed the importance of locational convenience on both customer retention and cross buying.
5.2.6 Gap Analysis

It has been observed that there is a consistent gap in growth performance of public sector banks (19.15%) and private sector banks (24.55%) over a period of 8 years. Previously, many researchers have postulated that customer retention is an important contributor to a company’s profitability and growth (Arezu Ghavami Alireza olyaei, 2006 and Sally Foster, 2006). The study examines whether there is a significant difference in the parameter “intention to leave” between public sector banks and private sector banks. It is found that there is no significant difference in this parameter between the group of 5 public sector banks (13%) and the group of 5 private sector banks (17%). However the study also finds that there is a significant difference in the proportion of customers with the “intention to leave” among the 5 individual banks within the public sector banks. Similarly there is a significant difference in proportion of customers with the “intention to leave” among the 5 individual private sector banks taken up for study.

5.2.7 Reasons for Customer’s Intention to Leave

The study analyses the reasons for customer’s intention to leave. It finds that there is a significant association between the most likely reason for changing to a different bank and the length of customer’s intention to stay. Change in job / residence is the main reason why customers intend to change to a different bank (41%). The second most important reason is for getting more facilities (credit facilities – 28%). The study reveals that the customers who are likely to leave in the immediate future rarely mention customer service as the reason. However when a longer period of 1 to 5 years is
considered, the need for customer service becomes the third most important reason why customers intend to leave the bank.

The banking customers value trust and convenience. They also experience strong barriers to switching such as switching costs, inter-personal relationships and inertia (White and Yanamandram, 2007). Hence in immediate term, they shift to another bank only due to change in job/residence or because they are not getting the facilities that they need. In the longer period, they evaluate alternatives and may shift to a different bank if it offers better customer service.

5.3 THEORETICAL IMPLICATIONS

The present study examines the role of customer satisfaction, customer characteristics and perception about competitors in customer retention. It investigates the reasons for customer’s intention to leave. Previous studies have not considered the role of customer’s relocation in his decision to change service provider. This is obviously a very important consideration in customer switching behavior. The reason for this omission may be because the service provider can do very little to retain a customer who is moving to a different city. On the other hand with the introduction of core banking solution in India a customer can use bank’s service from any branch in any city. Good customer service can enable a bank to retain the customer even if he moves to a different city. In terms of methodology, the study differs from most other studies in customer retention in banks in India. Previous studies are confined to one city and just one or two banks in each sector (public and private). The present study covers the entire Erode district and bank branches in each of the 5 taluk headquarter towns are included in the study. Further the study includes 5 banks each from public sector and private sector.
5.3.1 Contribution to Knowledge

The study highlights the role of customer’s relocation in his decision to change service provider. Further, the reason for the customer’s intention to leave the bank in the longer term is the need for better customer service. Thus the study adds a time dimension to the customer retention problem where the reason for defection may be different in the short-term and long-term. Also it demonstrates that in the Indian context, it would be incorrect to assume that all the branches of a single bank provide uniform customer service. The bank branches are spread far and wide and it is not surprisingly that there is a wide variability in the quality of service provided by different branches of the same bank.

It is also a widely held view that private sector banks are uniformly superior to public sector banks. This view has been supported by a few studies conducted with a limited number of banks and in urban areas. However, the present study covers 5 banks each from public and private sector and data has been gathered from 41 branches located in semi urban and rural areas. The study demonstrates that the customer service provided by the 5 private sector banks is significantly different. It also demonstrates that different branches of the same bank perform differently. This strongly suggests that uniformity of performance of all branches of a bank should not be routinely assumed. Similarly generalizing the performance of one bank (either public or private) as representing all the banks in that sector is also not valid. The study strongly points the need to be cautious about generalizing performance of banks and
branches, particularly in the area of customer service and customer satisfaction.

5.4 POLICY IMPLICATIONS

The wide variation in branch performance identified in the study points to the need for standardizing customer handling procedures and also provide training to the employees in handling customers. So far, employee training in banks have focused on imparting functional and technical knowledge. However, in the face of strong competition, it is extremely important for the banks to focus on training their staff in customer handling.

5.4.1 Recommended strategies for Customer retention

The three main reasons for customers having an intention to leave have been identified as ‘Change in job/ residence’, ‘Facilities’ and ‘Better customer service’. Customer retention strategy must resolve these present concerns and also anticipate future needs of customers and address them.

- Providing more ATMs and popularizing ‘Any-branch-banking’ can minimize the need for changing banks whenever the customer changes his residence or job

- Private sector banks have more Business customers and the inadequacy of facilities (credit) is the main concern of these customers. The banks may review their credit appraisal policies so that deserving requests are sanctioned expeditiously, not sacrificing the need for due diligence.

- Customer service is the most important long term strategy to retain customers. The banks should train their staff in customer handling and
make the customer’s every visit and experience a positive and pleasant one.

- Bank branches dominate the customer usage at present. However, as the number of young customers increase, the use of alternate channels like internet and mobile banking is likely to see a significant increase in usage. Banks must make these channels easier to use and also more versatile so that the customer’s need to visit the branch is minimized.

- The great reach provided by mobile banking and internet should be exploited by the bank to keep the customer engaged with the bank so that his emotional involvement with the bank is strengthened. This will increase customer loyalty and retention.

- Customer relationship is the only attribute that cannot be copied by competitors. Therefore banks must focus on customer needs and anticipate them and take actions to meet those needs. The use of technology such as Customer Relationship Management can help personalize the services to individual customers and win their long term loyalty.

5.5 RECOMMENDATIONS FOR FUTURE RESEARCH

Many challenging problems remained untouched because of the limitation of the Study during the development of this thesis work. Some of the aspects that can be investigated in future using this thesis work as the basis are summarized below.

- The study is confined to the respondents of Erode district only. The generalizations to a wider population (State wise or national wise) can be done.
• This study has been confined to the five public sector banks and five private sector Banks operating in Erode district only which can be expanded to all the rest of public and private sector banks.

• Advanced tools like Structural Equation Model (SEM) can be used to get more specific and better results.

• The study can also be done by including foreign banks operating in India.

5.6 CONCLUSION

The study has attempted to examine whether the observed difference in financial growth performance between public sector and private sector banks is related to difference in customer retention rates. The reason for customer’s intention to leave have also been explored. Customer’s relocation, has been identified as main reason for choosing a different bank in the short run. The reasons for changing the bank in the longer period of time is the search for better customer services. Thus the study adds the dimension of time in evaluating customer retention. The continued importance of bank/branch attributes in determining customer satisfaction is identified. The study does not support the view that all private sector banks provide better customer service than public sector banks. The study has identified variability in performance and customer satisfaction between the different branches of the same bank. The study has identified areas of future research and recommended measures to achieve uniformity in customer service among all the branches of the bank.