CHAPTER 2

REVIEW OF LITERATURE

2.1 INTRODUCTION

Research begins with ideas and concepts that are related to one another through hypothesis that is expected or anticipated relationships. These expectations are then tested by transforming or operationalizing the ideas and concepts into procedures for the collection of data. Results or findings based on these data are then interpreted and extended by converting them into new concepts. Once a topic has been decided, it is essential to review all relevant materials, which have a bearing on the topic. In fact, review of literature begins with a search for suitable topic and continues throughout the duration of the research work.

Hence, research must be based upon the prior work done by experts, which may help to eliminate the duplication of what has already been done and leads to useful hypothesis and provides suggestion for meaningful investigation. So also knowledge of related literature enables the investigator to define the frontiers of his field. With reference to the above, the investigator attempts to survey and review the related studies and is given in the following section. Many theories have been proposed to explain what retains customer. Although the literature covers a wide variety of such theories, this review focuses on nine major themes which are discussed one by one throughout the literature reviewed.
This chapter now reviews the importance of customer retention, customer retention strategy, CRM and customer retention, customer satisfaction and customer loyalty, service quality and customer retention, service failure and recovery and loyalty, switching behavior and barriers to switching, human relations and customer satisfaction and finally comparison between public sector and private sector banks.

2.2 IMPORTANCE OF CUSTOMER RETENTION

Rizal Ahmad and Francis Buttle (2001), discusses key issues pertaining to customer retention management, namely its definition, forms of measure, benefits and potential strategies for application. It uses examples from a variety of contexts. It is proposed that customer retention should be part of the strategic marketing planning process. Customer retention, we envisage, is a potentially potent marketing management strategy. Further research is also recommended.

Stephanie Coyles and Timothy C. Gokey (2002), says that Companies spend millions trying to understand and influence customers — to hold on to them and to encourage them to spend more. But to increase the customers’ loyalty, companies must do more than track today’s typical metrics: satisfaction and defection. For despite all the money invested to promote loyalty among high-value customers, it is increasingly elusive in almost every industry.

Werner Reinartz et al (2005), present a modeling framework for balancing resources between customer acquisition efforts and customer
retention efforts. The key question that the framework addresses is, “What is the customer profitability maximizing balance?” In addition, they answer questions about how much marketing spending to allocate to customer acquisition and retention and how to distribute those allocations across communication channels.

Timothy L. Keiningham et al (2008), explains that to most senior managers, growth is the engine of prosperity and success. Growing companies flourish; shrinking companies die. Good managers understand that the road to growth runs through customers — not just attracting new customers, but holding on to the ones you have, motivating them to spend more and getting them to recommend your products and services to the people they know. However, it is one thing to believe that customers are the driving force for profitable growth. It’s altogether different to know how to measure and manage the customer relationship effectively. Using the right customer metrics is essential to assessing and monitoring how companies deliver for customers and determining customers’ new and unmet needs. Most companies do a relatively poor job of managing their relationship with their customers. It isn’t that they don’t care, but rarely do they have any insightful information they can act upon to make the relationship more valuable.

Timothy L. Keiningham et al (2011), in their studies say that Companies spend a great deal of time and money trying to improve customer loyalty by measuring and managing metrics like satisfaction and Net Promoter Scores. But traditional gauges of loyalty correlate poorly with what matters most: share of wallet. This is the percentage of a customer’s spending within a
category that’s captured by a given brand, or store or firm. Customers may be very satisfied with your brand and happily recommend it to others—but if they like your competitors just as much (or more), you’re losing sales. Making changes to increase satisfaction won’t necessarily help. This doesn’t mean traditional metrics aren’t valuable; it can be very useful to know whether your customers are satisfied and would recommend you to their friends and colleagues. But these measures in themselves can’t tell you how your customers will divide their spending among you and your competitors.

2.3 CUSTOMER SATISFACTION AND CUSTOMER RETENTION

Thorsten Hennig-Thurau and Alexander Klee (1997), in their study customer satisfaction was often viewed as a central determinant of customer retention. However, the few empirical investigations in this area indicate that a direct relationship between these constructs is weak or even nonexistent. It incorporates the customer’s quality perception as a central moderating variable and broadens the traditional simplistic view of quality perception. In addition to these general mechanisms, intrapsychological, contextual, and situational factors exist that may influence the repurchase decision of the customer.

For the banking industry, Bowen and Chen (2001), mentioned that through providing strong word-of-mouth, create business referrals, provide references, loyalty of customers will help bank promote its market performance. These loyal customers will also raise sales volume by purchasing broader categories of the bank’s products by making purchases more frequently. Nevertheless, some banks are only worried about meeting customers’ expectations, in a high level of customers’ satisfaction. These banks think that repurchase will be increased if they satisfy customers’ needs.
Moon-Koo Kim et al (2004), investigate how customer satisfaction and the switching barrier influence customer loyalty. The adjustment effect of the switching barrier on customer satisfaction and customer loyalty is also analysed. Approaches to the study of customer loyalty fall into three broad categories: the behavioural approach, the attitudinal approach and the integrated approach. The integrated approach takes account of both behavioural and attitudinal variables, in order to create its own concept of customer loyalty. The concept of customer loyalty is understood as a combination of customers’ favourable attitude and the behaviour of repurchase. Attractiveness of alternatives means the reputation, image and service quality of the replacing carrier, which are expected to be superior or more suitable than those of the existing carrier.

Anders Gustafsson (2005), examine the effects of customer satisfaction, affective commitment, and calculative commitment on retention. The study further examines the potential for situational and reactional trigger conditions to moderate the satisfaction–retention relationship. The results support consistent effects of customer satisfaction, calculative commitment, and prior churn on retention. Prior churn also moderates the satisfaction–retention relationship. The results have implications for both customer relationship managers and researchers who use satisfaction surveys to predict behavior. To understand the complexity of customer loyalty, it is important to understand the evaluations, attitudes, and intentions that affect behavior. The paper focus is on three prominent drivers of retention in the marketing literature: overall customer satisfaction, affective commitment, and calculative commitment.
Customer retention and loyalty are some of the important factors regarding to banking strategy in today’s increasingly competitive market. Bank management must recognize and improve elements that can affect customer satisfaction. These include employee performance, willingness to solve problems, friendliness, level of service quality, communication skills, and selling skills. Furthermore, customer defection can be reduced through adjustments in a bank’s rates, policies and branch locations. Clearly, there are compelling arguments for bank management to carefully consider the factors that might increase customer retention rates. Several studies have emphasized the significance of customer retention in the banking industry. There has been little effort to assess factors that might lead to customer retention. Most of the published research has focused on the impact of individual constructs, without attempting to link them in a model to further explore or explain retention. If retention factors are not well managed, customers might still leave their banks, no matter how hard bankers try to retain them. Mostafa Ghazizadeh et al (2010), assessed the effects of several retentions and loyalty constructs that influence consumers’ decisions to continue their relation with banks or change their banks in Tehran. These constructs were rated by customers as having strong effects on loyalty to their banks. Demographic characteristics (i.e. age, gender, educational level and income) were also assessed for their contribution to intentions of staying with or finding alternative banks. Results suggest that the most important constructs were customer satisfaction, followed by corporate image and changing barriers. There was also evidence that customers’ age groups and level of education contributed to explaining respondents' propensity to stay with their current banks.

Jose Lopez et al (2007), determine whether South Florida’s heterogeneous retail banking customers have differing perceptions of the
importance of service quality dimensions; and to ascertain whether various 
ethnic groups report different levels of customer satisfaction with their retail 
banks. In general, the results of this study offer significant implications for 
retail banks seeking to improve customer satisfaction and striving for better 
retention rates, using customer-oriented processes and training programs 
within an increasingly diverse marketplace.

Gopalkrishnan J et al (2011), empirically examine the potential 
constructs in customer retention by investigating the effects of service quality 
and customer satisfaction. Customer’s levels of satisfaction, perception about 
service quality and loyalty are constructs that influence the customer to remain 
with the present bank. It is assumed that when the customer is completely 
satisfied, then loyalty towards the bank is strengthened. This study examines 
the relationship between service quality, customer satisfaction and customer’s 
retention with a bank in the Indian Banking industry. The respondents were 
398 banking customers who completed the self-administered questionnaire. 
Pearson Correlation analysis indicated that service quality and customer 
satisfaction had a direct positive effect on customer’s retention intentions. 
Multiple Linear Regression highlighted customer satisfaction as a stronger 
predictor of customer retention intentions compared to service quality. 
Possible interpretations, limitations, and implications for marketing 
professionals are discussed.

2.3.1 FACTORS INFLUENCING CUSTOMER SATISFACTION

The topic of measuring customer satisfaction has been the focus of 
many researchers. Different variables have been used to measure customer
satisfaction on different service industries such as retail banking, retail stores, telecommunication services and so on.

Anita Chaurabarty (2004) in her study explains that Customer satisfaction in retail banking in the UK has identified “Speed of Service in the Branch, Helpfulness of Branch Staff, Degree of privacy in branch, Branch opening hours, ATM availability, ATM reliability, level of interest rates, level of bank charges as important items influencing customer satisfaction. The results of her study highlight that in-branch factors, particularly staff, branch location and convenience are the most significant factors influencing customer satisfaction in retail banking.

Statmark\(^8\) group SA identifies processes, customer service staff, infrastructure as factors that are typically measured as part of customer satisfaction measurement.

Michael Conklin et al (2004), classify the attributes as key “Dissatisfiers” and “Enhancers”. Dissatisfies are those attributes whose absence will result in customer dissatisfaction. Enhancers are those attributes that lead to customer delight. Satisfaction with the service performance was identified as most important for customer delight. Satisfaction with retail service was identified as a key dissatisfier.

Farzane Nazemi et al (2013), identify Interaction (measured through 5 items), Price (4 items), Access to bank branches(4 items) Physical features (3 items) and Service features (4 items) as the factors affecting customer satisfaction. They concluded that in Isfahan (Iran), access to bank

\(^8\)www.statmarkgroup.com
branches had little impact on customer satisfaction but on the contrary service features would increase customer satisfaction.

2.3.2 IMPORTANCE OF BRANCH IN CUSTOMER SATISFACTION (IN RETAIL BANKING)

In her blog post “Branch Matters: the Importance of Bank Branches”, Susan Menke (2012) makes the following observations:

- A continuing saga in financial services consumer research is the stubborn consumer preference for choosing banks because a branch is across the street from where they live or work. In Mintel’s *Retail Banking* US October 2012 report, half of consumers state that they chose their bank because there is a branch near to their home—a significantly higher proportion than any other reason listed. And nine in 10 say that it is important to them to have a bank branch nearby.

- People say they leave their bank because of high fees, but then they tend to choose a bank that is close by (has a convenient branch location). This suggests familiarity bias—that people will tend to choose the option that they are familiar with. And seeing a bank branch on every street corner enhances their familiarity with that brand, whether or not that bank charges higher fees.

- In a 2012 study conducted by Novantas Research, 71% of respondents who chose a “well-respected brand” as a reason for their choice of bank state that they would not use a bank without branches. Obviously the branch is inextricably interconnected with their attachment to the brand. And attachment to a brand is an emotional issue.

- Consumer preference for convenient branches indicates that their interaction with the brand has implications for customer retention, as well as adoption of other, less expensive channels such as mobile
banking. In other words, the success of multiple initiatives is impacted by this familiarity and emotional attachment to the brand.

Similar results have been found in the surveys conducted by Ernst&Young in Europe and Accenture in India. Despite the proliferation of channels, Bank branches continue to be the channel of choice for most customers.

The report by Ernst&Young (2010) ⁹, makes the following observations

- The most popular channels used by the customers to access their accounts are clearly ATMs, the internet and branch offices. However, these are not the only channels available to customers and consideration must be taken to the fact that customers will not be aware of the services on offer.

- Where email and mobile phone services are available to customers, they are not regarded as useful. Among the customers to whom online banking is available, some 13% say that they do not use it, while 29% of respondents offered mobile telephone banking are uninterested. Customers are less interested in channels that are currently used only to convey information, but would like to able to use new channels for transactions.

- Service offerings such as these offer clear cost reduction opportunities to banks, but evidence suggests they must improve their transactional capability and their marketing and communication efforts to ensure customers aware of services available to them.

⁹ The report Understanding customer behavior in retail banking: The impact of the credit crisis across Europe
Banks also need to review their transformation programs across channels to ensure they are not spending on channels they are under-valued by their customers.

Another report by Accenture (2010)\textsuperscript{10} also emphasizes the central role played by the Bank branches in Customer Satisfaction. Their findings are as follows.

- ATMs continue to dominate since it offers the most efficient and easy accessible means for cash withdrawals for large segment of retail customers. Preference for the branch is stronger among the customers of public sector banks. A high percentage of retail account holders have three types of banking relationships with their bank – savings account, fixed deposit and debit card. Their basic needs with regards to the primary products are well met through traditional channels. The accessibility of these channels is the key factor for account holders in short listing a bank.
- The preferred channel to transact banking differs by age, gender and location
- Urban respondents have a greater number of users for non-branch channels such as ATM.
- The proportion of ATM users decreases with age in favor of branch.
- Respondents from the older age group value problem resolutions more than the younger generation, while working hours and accessibility are important to the younger generation.
- Women have a greater preference for the branch channel.

\textsuperscript{10}Complex Imperatives- The Indian Banking Customer Experience
The use of internet and phone banking increases with educational level – over 35% graduate and higher educated sample had a preference for internet and mobile versus 9% in the less educated segment.

2.4 SERVICE QUALITY AND CUSTOMER RETENTION

The history explains that the competition between all banks has revealed the situation of a very big threat to all banks. Customer retention is the ultimate successful performance of any banking sector. Customers shall be retained only if their behavior intention is positive towards the bank and their behavior intention will be positive to do more business only if they are satisfied with the service quality of the bank. Sankar Ganesh K (2012), in this research, opinion of the customers about the service quality is assessed by implementing most successful instrument _SERVQUAL_ developed by Parasuram et al (1998) and similarly the Behaviour Battery developed by Zeithaml et al (1996), is used to study the behavioral intention of the customers. Here four more constructs are added in the questionnaire like a) seating space for customers to wait, b) Parking facility in the bank, c) sincere attempts to handle the customers grievances, and d) variety of products / schemes are included so that justification is done by customizing the questionnaire, where the results may help the service provider to understand the perception of customers and to aim at improved level of performance for customer retention.

Ruth N. Bolton et al (2000), explain that companies that offer loyalty reward programs believe that their programs have a long-run positive effect on customer evaluations and behavior. However, if loyalty rewards programs increase relationship durations and usage levels, customers will be
increasingly exposed to the complete spectrum of service experiences, including experiences that may cause customers to switch to another service provider. Using cross-sectional, time-series data from a worldwide financial services company that offers a loyalty reward program, this article investigates the conditions under which a loyalty rewards program will have a positive effect on customer evaluations, behavior, and repeat purchase intentions. The results show that members in the loyalty reward program overlook or discount negative evaluations of the company wise competition. One possible reason could be that members of the loyalty rewards program perceive that they are getting better quality and service for their price or, in other words, “good value.”

Joseph Cronin et al (2000), synthesizes and build on the efforts to conceptualize the effects of quality, satisfaction, and value on consumers’ behavioral intentions. Specifically, it reports an empirical assessment of a model of service encounters that simultaneously considers the direct effects of these variables on behavioral intentions. The study builds on recent advances in services marketing theory and assesses the relationships between the identified constructs across multiple service industries. Several competing theories are also considered and compared to the research model. A number of notable findings are reported including the empirical verification that service quality, service value, and satisfaction may all be directly related to behavioral intentions when all of these variables are considered collectively. The results further suggest that the indirect effects of the service quality and value constructs enhanced their impact on behavioral intentions.

Sohal and Wong (2003), confirm that service quality is positively associated with customer loyalty, and the relationship between the two is
stronger at company level, rather than at individual level. Customers perceive the employees as part of the company and positive feelings towards the contact employee often carry over to feelings towards the company. Hence when a customer is highly loyal to his /her sales person, he/she will also be highly loyal to the company that employs the sales person. Many companies have also turned to customer loyalty programs aimed at creating life-long customers.

Ming and Ing (2005), pointed out that service quality is an antecedent of customer satisfaction and customer satisfaction is an antecedent of profitability. Their findings show that the degree of customer satisfaction directly affects purchase intention. They also argued that using traditional financial measurements (e.g., traditional financial ratios) is not an appropriate way to measure the improvement of service quality. In addition, goods and service quality is the main factor which can influence business unit performance.

Amy Wong and Amrik S. Sohal (2006), examines consumer perceptions of their shopping experience in a retail environment. The model in this study investigates the effect of service quality, trust, and commitment on relationship strength. The model then seeks to explore the impact of relationship strength on attitudinal outcomes such as relationship quality and behavioral outcomes such as customer loyalty. Interrelationships among these variables are also considered. Empirical support is provided for the relationship between service quality and trust.
According to Portela and Thanassolis (2006), not only empirical studies of the relationship between service quality and customer loyalty in banking system limited, but also the existing studies on bank branches efficiency in general do not account for the changing role of bank branches. Service quality is of utmost importance in analyzing the performance of bank branches, since their survival depends on their service quality levels they provide. Excellence in service quality is a key to achieve customer loyalty which is the primary goal of business organizations, due to the advantages of customer retention, Ehigie (2006). Today, the increasing awareness among bank customers of their rights, changing demands and high competition requires constant progress in service quality from the bank for their customers to stay loyal. The present research intends to test whether the bank customers are happy with the services provided to them, which will eventually lead to customer loyalty.

Dusuki and Abdullah (2007), discovered that customer satisfaction depended on service quality is supported by the case of Islamic banks. In addition, they pointed out a bank is selected by customers based on some critical factors, such as bank size, service convenience, friendliness of bank employees, costs and benefits, and its reputation.

In addition, Godfrey (2008), pointed out a bank’s operational health can be evaluated by six vital signs: “brand awareness, net promoter score, customer experience, service quality, core deposit growth and market share”. He also stated that “customer experience has become a key differentiator, particularly with many consumers viewing banking products as a commodity”.
Customer experience means that most people have plenty of purchase experiences, including bank transaction activities.

2.5 ROLE OF CUSTOMER ATTRIBUTES IN CUSTOMER RETENTION

Vikas Mittal and Wagner A. Kamakura (2001), say that customer satisfaction vary on the basis of consumer characteristics. Results of their study shows that consumers with different characteristics have different thresholds, such that at the same level of rated satisfaction, repurchase rates are systematically different among different customer groups. The authors also finds that the nature and extent of response bias in satisfaction ratings varies by customer characteristics.

2.6 SWITCHING BEHAVIOUR AND BARRIERS TO SWITCHING

As Ganesan (1994), stated that a single transaction producing a statement of satisfaction is unlikely to lead to long-term loyalty. Meanwhile, research in the growing field of relationship marketing using customer satisfaction had focused on a cumulative rather than a transaction-specific conceptualization. It might be too restrictive if we conceptualized satisfaction as the outcome of one single transaction. Because of dissatisfaction with a single transaction is unlikely to cause the customer to switch.

Keaveney (1995), explains that customer may switch service providers when their current provider delivers a core service failure. This is
because customers expects the core service that an organization provides to be delivered without problems. Therefore, core service failures can be very detrimental to an organization’s short and long term profitability. In these cases, the core service failure can be more costly when compared to non-core service failure.

Jaishankar Ganesh et al (2000), suggest that customers differ in their value to a firm, and therefore customer retention and loyalty-building efforts should not necessarily be targeted at all customers of a firm. Given these sentiments, it is becoming increasingly necessary for firms to have a thorough understanding of their customer base.

The issues examined in this study include (1) the influence of time (tenure as a customer with the current firm) on the hypothesized difference among the groups in terms of their overall satisfaction with the service provider, (2) differences within the switcher groups in terms of their prior switching experiences, and (3) differences within the three groups in terms of other relevant variables, such as commitment, dependence, and risk aversion. The model proposed and tested in this study might be applicable to services that reflect the following traits: (1) switching is largely initiated by the customer, either because of dissatisfaction or other reasons (e.g., job related relocation), and not by the industry (i.e., competitive poaching is relatively uncommon); (2) switching costs are relatively high and/or consumer involvement with the product/service is high; (3) customer contact and personal relationship issues take precedence over other aspects of the service in terms of selection, satisfaction, and switching; and (4) local presence of the service provider is desirable.
The study of Mark Colgate and Rachel Hedge (2001), concludes that there will be a determinal effect on a bank’s market share and profit while it lose its customers. The study provides a more comprehensive understanding of the process of switching retail banking services by investigating the problems that influence both switching behaviour and complaints made prior to exit. Empirical evidence was drawn from 694 mail surveys collected from banking customers in Australia and New Zealand. Three main problem areas (reasons) for switching banks were classified into: service failures, pricing problems and denied services. Results showed that problems with pricing had the most important impact on switching behaviour, customers tended to complain more often about service failures prior to exiting the firm. This paper suggests that customers may be staying silent about the problems that are most important in their decision to exit the firm.

Zhilin Yang and Robin T. Peterson (2004), in their article examine the moderating effects of switching costs on customer loyalty through both satisfaction and perceived-value measures. The results, evoked from a Web-based survey of online service users, indicate that companies that strive for customer loyalty should focus primarily on satisfaction and perceived value. The moderating effects of switching costs on the association of customer loyalty and customer satisfaction and perceived value are significant only when the level of customer satisfaction or perceived value is above average. In light of the major findings, the article sets forth strategic implications for customer loyalty in the setting of electronic commerce.
Moon Koo Kim et al (2004), discuss that the Korean mobile telecommunication services industry is entering a new transition period. This has been brought about by the market for mobile telecommunications reaching maturity, the launching of the IMT-2000 service and the scheduled introduction of mobile number portability. In response, the industry is shifting its strategic focus away from attracting new customers, towards retaining existing customers through the promotion of customer loyalty. This paper investigates how customer satisfaction and the switching barrier influence customer loyalty. The adjustment effect of the switching barrier on customer satisfaction and customer loyalty is also analysed.

Mahesh S. Bhandari and Michael J. Polonsky (2005), examine how organizational activities of compensation and empowerment impact on consumers switching intentions and also whether these differ based on the speed of service recovery. Data is collected using hypothetical scenarios in a situation of process failure. It is found that there is no direct effect of either compensation or empowerment on switching intent, although the interaction effect is significant when recovery occurs quickly.

Juan Pablo Maicas Lopez et al (2006), shows how relationship marketing has recognized the importance of building long-term relationships in increasing firms' profitability and guaranteeing their future viability. Owing to the damaging effects that customer switching behavior could have on the development of successful relationships, understanding customers’ switching decisions can represent a key step in the process of establishing, developing and maintaining successful relational exchanges. The current study aims to contribute in this direction by introducing the heterogeneity of customers in
their relationship characteristics (depth, length and breadth) into the analysis of customers’ propensity to switch service providers. This research shows that the heterogeneity observed in the depth, length and breadth of customer-firm relationships explains the differences in the propensity to switch service providers. Customers who maintain a long-lasting relationship with the firm (length), use the service more (depth), and invest in complementary services (breadth) will be less predisposed to switch.

Gavin Lees et al (2007), argue that losing customers to another bank tends to worry bank executives. Understanding the reasons why customers switch banks helps these executives plan their customer retention (including customer recovery) and customer acquisition strategies. This paper improves the understanding of switching by applying a categorisation of switching behaviour observed in stock markets to subscription markets. This allows them to make predictions about the content of customers’ post-switch brand repertoires, or consideration sets. They also test their predictions with a large commercial data set and find that switching antecedents pertaining to utility maximisation (‘moving for a better offer’) and expectation disconfirmation (usually service failures) confirm previous research findings. However, they make the new discovery that stochastic reasons (those beyond the bank’s control) account for a considerable amount of switching and lead to greater post-switch consideration. Their study shows that construction of customers’ post-switch consideration sets is therefore antecedent specific, and concludes that while the previous main bank brand may have been forsaken, it is certainly not forgotten. Enough goodwill for the previous main bank brand resides in these results to warrant bank executives reconsidering their customer-recapture strategies.
Lesley White and Venkata Yanamandram (2007), present a theoretical framework of the factors that potentially influence dissatisfied customers to continue purchasing from their existing service provider in the business-to-business (B2B) services sector. This paper synthesises the findings from previous studies on switching barriers, and relationship variables, dependence, and calculative commitment. They found five major factors deter customers from switching to an alternative service provider: switching costs; interpersonal relationships; the attractiveness of alternatives; service recovery; and inertia. These factors are mediated by dependence and calculative commitment.

Several studies have focused on the influence of switching barriers on customer loyalty, but there has been no consensus on their findings. Fredy Roberto Valenzuela (2012), propose that the mixed conclusions are due to there being two types of switching barriers - rewarding and punitive - and two types of customer loyalty — attitudinal and behavioral. The direction and strength of the association between switching barriers and customer loyalty depends on the type of switching barriers and the type of loyalty being considered. Using a sample of dissatisfied customers in an emerging economy, Chile, this paper shows that the more rewarding switching barrier dimensions are positively related to the loyalty of dissatisfied retail banking customers and that the punitive ones are negatively related to loyalty. The investigation also shows that the influence of switching barriers is greater for behavioral loyalty rather than attitudinal loyalty, particularly when dealing with punitive switching barriers. These findings may allow banks to devise mechanisms that have a positive effect on customer retention and loyalty and enhance the banks’ bottom line.
2.7 CUSTOMER RETENTION STRATEGIES

Lawrence Ang and Francis Buttle (2006), investigate the associations between customer retention outcomes and a number of management processes including customer retention planning, budgeting and accountability and the presence of a documented complaints-handling process. The major contribution of this paper is the clear link that it establishes between customer retention performance and the presence of a documented complaints-handling process. This research emphasises the importance of developing and implementing documented complaints-handling processes. It was found that excellence at customer retention is positively and significantly associated with the presence of documented complaints-handling processes.

Jacqueline Urquizo (2006), in his article discusses the need to fully understand the causes of desertion to develop an effective customer retention strategy. Ways in which industry structure can cause desertion include:

a) The existence of a fragmented market where competitors are diverse in size and character which creates fierce competition that can cause current customers to become overly indebted, threatening their sustainability in the long term.

b) The mismatch between products that have been designed for underdeveloped markets and the experienced clients who now are more sophisticated in their financial needs, credit knowledge and usage.

c) Regional economies that restrain renewal loans for certain client segments.
Causes of desertion due to the performance can be organized into four factors, which in combination determine customer satisfaction levels:

- Satisfaction with the product;
- Quality of Customer Service;
- Image and
- Emotional involvement

Careful analysis of each of these factors reveals major dissatisfaction with product features. Quality of customer service is a complementary source of dissatisfaction, but to a lesser extent. This article shows the importance for a deeper understanding of customer behavior through data segmentation based not only on demographic variables but also with respect to factors that cause desertion such as entrepreneurship intensity, or others described in the article. Segmentation is also necessary to better focus the retention efforts and to identify customers that would truly need to retain. Finally, the article outlines the main steps to developing a retention strategy, namely identifying the causes of desertion, isolating those 20% of causes that cause 80% of desertion, segmenting the customer base, and prioritizing solutions.

Most previous studies have focused on customer retention and have ignored the importance of customers’ cross-buying behaviour. Customer retention seems to be the result of a kind of repetitive decision by the customers, but their decision to cross-buy involves a more complicated process. Tsung-Chi Liu and Li-Wei Wu (2007), in their paper examine the effects of locational convenience, one-stop shopping convenience, firm reputation, firm expertise, and direct mailings on both customer retention and cross-buying. The mediating roles of satisfaction and trust in the relationships
between service attributes, customer retention, and cross-buying are also examined. The results indicate that banks can use different service attributes to influence customer retention and cross-buying. Trust and satisfaction play different mediating roles in the relationships between service attributes, customer retention, and cross-buying.

Michele Gorgoglione and Umberto Pannillo (2011), argue customer churn may be a critical issue for banks. The extant literature on statistical and machine learning for customer churn focuses on the problem of correctly predicting that a customer is about to switch bank, while very rarely consider the problem of generating personalized actions to improve the customer retention rate. However, these decisions are at least as critical as the correct identification of customers at risk. The decision of what actions to deliver to what customers is normally left to managers who can only rely upon their knowledge. By looking at the scientific literature on CRM and personalization, this research proposes a number of models which can be used to generate marketing actions, and shows how to integrate them into a model embracing both the analytical prediction of customer churn and the generation of retention actions. The benefits and risks associated with each approach are discussed. The paper also describes a case of application of a predictive model of customer churn in a retail bank where the analysts have also generated a set of personalized actions to retain customers by using one of the approaches presented in the paper, namely by adapting a recommender system approach to the retention problem.

Ernst & Young (2010) makes the following observations,
• Banks must address service levels and pricing for key customers using sophisticated customer segmentation to identify target beneficiaries of enhanced offerings.

• Banks also need to personalize and transform the customer relationship as customer satisfaction is not reliant on price. A personalized relationship program is a true differentiator which cannot be easily copied by the competition and protects margins.

• There is a need to better harness customers during their first few years, again using customer analytics to identify and nurture key relationships.

• Customer analysis must be improved to allow banks to understand which customers are leaving and why, and to then take a view on the best way in which to address attrition.

• Incentivizing the sales force should be used not only to encourage the selling of new products, but also to reward renewals and retention of key customers.

• Our findings clearly indicate that customer service delivered via multiple channels is driving the Bank of Choice’, Indians are most likely to consider good customer service as the main factor for choosing a bank. Cited by over 66% percent of the respondents. While the customer has a variety of expectations for good service, they care most about how well informed and personable their customer service representative is, how fast and efficiently they receive service and how long it takes for their issues to be resolved.

• Customer service is the key factor for a continued relationship with the primary bank. The level of recommendation is high, but varies substantially by the bank. For one bank 80% of respondents were very likely to recommend their primary bank to a relative/friend/coworker. In another case only 35% of respondents were very confident of recommending their primary bank.
Better customer service standard is also the key reason for customers to switch to another bank. The bank will need to focus on customer retention as gaining new customer is subject to fierce competition and pricing pressures, adding to the cost of acquisition. There is little difference between basic products and services being offered by banks today. In this highly commoditized market, customer experience will be the key source of differentiation.

2.7.1 CRM AND CUSTOMER RETENTION

Kalyani Menon and Aidan O’Connor (2007), argue that retail banks need to focus more strongly on components of their Customer Relationship Management (CRM) strategy that will generate customer affective commitment and lead to an increase in customer retention, share of wallet, and advocacy. It is suggested that affective commitment is generated during ‘moments of truth’ or episodes of interpersonal interaction between customers and bankers. As shown in social psychology, effective interpersonal interactions are a function of the assertiveness and affiliation demonstrated during the interaction. Applying this to retail banking, bankers should mine their databases to identify customers in terms of their levels of profitability and longevity, and should deliver levels of assertiveness and affiliation appropriate to each customer. Testable research propositions are developed regarding how affective commitment might evolve during a customer’s tenure with a retail bank, when bankers should deliver assertiveness and/or affiliation to customers of differing longevity and profitability, and how these strategies to increase affective commitment will impact retention, share of wallet development, and advocacy. Overall, the call is to complement the emphasis on the use of high-tech CRM strategies that generate huge databases
with a more high-touch strategy that will indicate to bankers how to interact with each individual customer.

Nelson Oly Ndubisi and Christian N. Madu (2009), aims to examine the association of relationship marketing variables (namely trust, commitment, communication, and conflict handling) with overall firm-customer relationship quality between male and female customers of Malaysian banks. The results show that relationship marketing explains a significant amount of variance in overall firm-customer relationship quality. Except for communication, all the independent variables are significantly associated with perceived firm-customer relationship quality. No significant gender differences were observed. The quality of firm-customer relationship is important in customer retention and loyalty. There are efforts to understand the relationship marketing variables that drive overall relationship quality, but whether this relationship is generic or differs between males and females is unknown. The paper provides this insight.

Rootman et al (2011), provides an insight into the extent to which selected independent variables (relating to banks’ activities, actions and methods) influence banks’ relationship marketing and customer retention, and into practical strategies that can be learned from successful international banks. The fees of banks were viewed by respondents as the most significant variable. Thereafter changes in the banks’ ethical behaviour and personalization efforts were regarded as most important. The study revealed that it is important for South African and other developing banks to partner with Canadian and UK banks and to regularly benchmark themselves against these banks in order to develop as institutions and to discover how to adapt
their banking aspects. If banks follow these strategies, their relationship marketing would improve, and relationships with clients would be better maintained. As the study showed, this would also increase banks’ customer retention rates, which is crucial in the competitive environment in which these institutions operate.

According to Mornay Roberts-Lombard (2011), organisations such as banks and short-term insurance organisations become more aware of the importance of customer relationship management (CRM) and its potential to help them acquire new customers, retain existing ones and maximise their lifetime value. A close relationship with customers will require a strong coordination between information technology (IT) and marketing departments to provide a long-term retention of selected customers. The primary objective of this study is to investigate the influence of selected independent variables, two-way communication and conflict handling on intentional customer loyalty via CRM as the intervening variable at a South African short-term insurance organisation. Primary data were gathered using a questionnaire, with items referring to CRM, customer loyalty, two-way communication and conflict handling. The sample consisted of 254 customers in four major centres in South Africa. Data were factor-analysed. One independent variable, conflict handling exerted a statistically significant positive influence on the intervening variable (CRM), while two-way communication exerted a statistically significant negative influence on the intervening variable (CRM). The intervening variable (CRM) positively influenced the dependent variable (Customer Loyalty). If short-term insurance organisations communicate in a timely manner and accurately, and are skilled in conflict handling, greater loyalty will be created among customers.
2.8 COMPARISON BETWEEN PUBLIC SECTOR AND PRIVATE SECTOR BANKS

According to Uma Sankar Mishra et al (2010), the banking industry of India is now running in a dynamic challenge concerning both customer base and performance. Service quality, customer satisfaction, customer retention, customer loyalty and delight are now the major challenges gripping the banking sector. Service quality plays a major role in getting customer satisfaction and creating brand loyalty in banking sector. Most of the literature reviews referred in the paper reveals that as compared to public sector, private sector bank customers’ level of satisfaction is comparatively more in India. Human element acts an important role in perceived service quality as well as satisfaction. Public sector banks need to redefine the customer service parameter in order to compete with the private sector banks both in profitability and corporate image. This study is just a small step in understanding the multi dimensional construct of service quality and its implications in competitive environment. This paper attempts to extract few dimensions of service quality as perceived by bank customers and compares with five major dimensions already extracted in past literature.

According to Maya B. Lohani and Kamlesh Kumar Shukla (2011), with the advent of liberalization policy and RBI’s easy norms, several private and foreign banks have entered in Indian banking sector which has given birth to cut throat competition amongst banks for acquiring large customer base and market share. In the competitive market, every customer demands better services. In this new customer era banks need to deliver a more efficient, customer-focused and inventive offering than ever before to reconnect with
their clients. Like other industries, even banking sector is striving hard to become increasingly customer-centric in order to survive and grow. Most of the literature review referred in the present paper reveals that as compared to public sector, private sector bank customers’ level of satisfaction is comparatively more in India. In this paper, the customer perception towards services provided by Bank of Baroda (BoB) and ICICI bank of Lucknow region has been discussed. The attributes like Internet banking, ATM service, timing, attitude of staff, etc. of both the banks have been compared. The study reveals that ICICI bank is providing better services to its customers than Bank of Baroda.

Deepak Tandon et al (2012), say that the Indian Banks do not have an option apart from learning and actively responding to the customer’s needs and requirements. Banks in turn have had to re-orient their strategies and become more customer – centric. Their intent now has been to attract and retain more profitable customers and high net worth individuals. With the growth of private sector banks in India, public sector banks are also striving hard to render myriad of services to their existing customers and attracting new clients. Now banks aim to enhance the customers’ profitability and look forward to make healthy customer relationship. In banking sector, CRM assists banks in making prolific business strategies that facilitate banks to acknowledge pool of lucrative customers and prospects. Ensuring good customer service at all ends is an imperative as it is the only thing which will drive customer acquisition and promote customer retention. The objectives of this paper are multifold – ranging from studying perceptions to expectations and extrapolating this to find improvement areas for banks. For this purpose of the same, 3 banks were selected – SBI, the Public behemoth; ICICI & HDFC, the Private counterparts who are pioneers in being techno – savvy. It is
concluded that SBI can thus be summed up as a utilitarian bank. ICICI Bank though tops in IT enablement and performance still lags in Customer Delights and satisfaction.

2.9 CONCLUSION (RESEARCH GAP)

The review of past literature indicates that
- Retention of customers is very important for survival and growth of organizations.
- The cost of generating a new customer can substantially exceed the cost of retaining the present customer.
- There is a need to have a clear strategy to retain customers and it should not be left to chance.
- The customer retention strategy should be based on building and nurturing relationships.
- The high-tech CRM software by itself is not enough and high-touch strategy of dealing with individual customers is also important.

The review also reveals that while customer satisfaction is often viewed as central determinant of retention, few empirical investigations indicate that a direct relationship exists. Many studies have confirmed that customer satisfaction depends on service quality and customer loyalty is positively associated with service quality. Customer experience at each service encounter has a bearing on customer loyalty and his repeat purchase intentions. However, the literature also reveals that one isolated service failure will not result in deserting the firm. In fact, the studies reveal that excellent service recovery after a failure leads to greater customer loyalty.
Previous studies indicate that customer satisfaction is not the only determinant of customer retention. These studies describe the various barriers which discourage the customer from switching banks. Switching costs, inter-personal relationships, the attractiveness of alternatives, the service recovery and inertia have been identified as important switching barriers. Past studies emphasis importance of inter-personal relationship and the role played by human resources management and training in successful implementation of Customer Relationship Management. Studies conducted earlier though limited in scope have shown that private sector banks provide higher level of satisfaction to their customers than the public sector banks.

Thus the survey of literature clearly establishes the importance of customer retention strategy for all industries, more so for public sector banks which are seen to be lagging behind the private sector banks in India.

However previous studies do leave a gap in understanding and explaining the difference in performance of different banks. The previous research in banking sector in India have not adequately considered the following important factors:

- They have assumed all public sector banks are similar in performance
- Similarly they treat all private sector banks are similar in performance
- They also implicitly assume that all branches of a bank perform similarly

These are untested assumptions and overlook the fact that in a vastly diversified country such assumptions may not hold true. Further most of the previous study have been conducted in one single city. They overlook the fact
that the performance of branches located in rural/ suburban area could be different from the performance of an urban branch due to a variety of reasons.

The present study attempts to fill this gap studying the performance of 41 branches of both public and private sector banks.