CHAPTER 1

INTRODUCTION

One of the areas of the economy that has received much attention in recent times is the financial sector. Within the broad ambit of the financial sector, it is the banking sector that has been the focus of academia and policymakers alike. With concerns about financial stability coming to the forefront of policy challenges facing central banks worldwide, it is being increasingly realized that promoting healthy financial institutions, especially banks, is a crucial prerequisite for rapid and inclusive growth.

Banking is considered as one of the vital contributors to the economic growth of a country. It serves as the central channel for all economic activities. The banking industry in India has undergone fundamental changes post independence [1]. The opening up of the economy in the 1990s and the government’s decision to privatize banks by reduction in state ownership culminated in the banking reforms based on the recommendations of the Narasimham Committee [2]. Madhok and Zaveri [3] have stated that banking industry has witnessed a sea change since colonial times when profit was the prime consideration. It then moved to the socialist era of seventies and eighties where serving the poor in the remotest corners of India was the sole objective. During this period, nationalized banks operated with a view to give access to organized banking to as many people as possible. Bank policies were solely directed towards achieving the social objectives of employment generation and social welfare. Profit motive took a back seat.

In the last few years, banking as a function, has come full circle. The prime mover for banks today is profit, with clear indications from the government to either ‘perform or perish’ [3]. With the current change in the functional orientations of banks, the entire purpose of banking has been redefined. Therefore, the banking sector in most emerging economies is passing through challenging yet exciting times and India is no exception. As per several studies [3], following are the key challenges of change in the banking industry:

- changing customer needs and expectations;
- impact of technology;
- competition among the banks and from MNCs in the financial sector; and
• accountability towards the government, stakeholders and customers.

These are the major challenges that the banking industry faces today. The present study has been taken up to investigate these challenges and needs. Focus is on three important variables of banking industry namely client satisfaction, work culture and employee satisfaction and the interrelationships among these.

1.1 NEED FOR THE STUDY

A major challenge in banking industry is attraction as well as retention of customers. Customer retention favorably affects the profitability. According to a research by Reichheld and Sasser [4] in the Harvard Business Review, 5 percent increase in customer retention can increase profitability by 35 percent in banking business, 50 percent in insurance and brokerage, and 125 percent in the consumer credit card market. Thus, banks need to focus on customer retention. Retention is more difficult in competitive environments. The former Finance Minister, Mr. Pranab Mukherjee [5] pointed out that in view of the enhanced competition amongst banks, it is customer service which “becomes the sole differentiating factor” that has to be leveraged to stay relevant and forge ahead in the business. “Good customer service is the heart of banking service delivery. Banking is predominantly a customer-oriented business and good customer service is the key to banks' growth and stability,” said Mr. Mukherjee while addressing an inaugural function at the State Bank of India Academy at Gurgaon (Haryana) to mark the golden jubilee celebrations of Hyderabad-based SBI Staff College.

For the last two decades, due to an increasingly competitive, saturated and dynamic business environment, banks in many countries have adopted customer-driven philosophies to address the rapid and changing needs of their customers. As service-oriented entities striving for survival in such challenging marketing milieu, retail banks have tended to offer almost identical products and financial services [6]. Nasserzadeh et al. [7] indicated that customers typically perceive slight differences in offered products and services among retail banks since any new offering would quickly be matched by competitors. A significant implication of this similarity in offered products and services is that banks are no longer able to exclusively depend on their product and service offerings to gain a sustainable competitive advantage in the retail banking market [6]. Banks have come to realize the importance of differentiating
themselves from their competitors on the basis of superior customer service [8] [9] and relying on effective defensive marketing strategies instead of the traditional offensive ones. With this prevailing focus on customers and service quality, banks have been concerned with continuously monitoring how effectively they meet or exceed the needs of their customers [10]. As a result, the notion of customer satisfaction has emerged as a key factor in modern marketing and consumer behavior analysis. Bennett and Rundle-Thiele [11] contended that customer satisfaction is used as a common marketing benchmark for a business performance, almost to the exclusion of other factors. Winning customer satisfaction through superior service has become an effective strategy that service providers in general, and retail banks in particular, diligently strive to pursue. Such a strategy aims at ensuring 100 percent satisfactory performance from a customer’s viewpoint [12], ultimately protecting and retaining the loyalty of existing customers.

A large number of research papers have identified customer satisfaction as a *sine qua non* for customer loyalty, retention, behavioral intention, market share and profitability [8] [13] [14] [15] [16] [17]. A satisfied customer is expected to be more likely to form future purchase intention, engage in positive word of mouth advertising [19] and be more tolerant of price increases [13]. Measuring customer satisfaction has great potential to provide the bank managers with information about their actual performance and the expectations of their customers. The availability of such information allows these managers to fine-tune their efforts in a manner that improve the quality of their services or deliver the services that appear attractive to customers [20]. With that view in mind, this study attempts to measure the overall customer satisfaction with retail banking services in Delhi and NCR in India.

It is also a recognized fact that employees of a bank also occupy a unique and sensitive position in banking sector. No meaningful change is possible without the involvement of the employees. If banks have to undertake some significant changes to adapt themselves to the new competitive environment, one of the most crucial initiatives lies in organizing and preparing their employees to the requirement of competitive banking. No longer can an organization striving for success afford to devalue and demoralize its workforce to succeed at the expense of those who help and make this success possible. The level of employees’ satisfaction will decide the quality of services the customer receives. One cannot expect excellent result/service from an unsatisfied employee. An employee’s frustration with his work will obviously get reflected in the way he treats the customers.
A Gallup survey [21] reports that highly satisfied groups of employees often exhibit above-average levels of the following characteristics: customer loyalty (56% more), productivity (50%), employee retention (50%), safety records (50%), and profitability (33%). A study done by Daniel [22] also examined whether positive employee behavior and attitude influenced business outcomes. Findings from the study support the idea that employee satisfaction is a good predictor of the following year’s profitability, and that this aspect has an even stronger correlation with customer satisfaction. Sears [23] used an “employee-customer-profit chain” and found that a 5 percent increase in employee satisfaction drives a 1.3 percent increase in customer satisfaction, which results in 0.5 percent increase in revenue growth. PNC Bank Corporation [24] found a strong correlation between branches’ levels of customer satisfaction and employee satisfaction. Professionals and academics have long asserted that the way in which an organization manages people can influence its performance.

Work culture is also an incredibly powerful force that determines how the employees treat problems, opportunities and all the people that the organization comes in contact with: vendors, subcontractors, and, most importantly, clients. Work culture is like the mood of the bank - it can be upbeat or depressing, respectful or belligerent, empowering or stifling - with many shades in between. One can design processes to make clients happy, but if those processes are out of sync with the work culture one will miss the desired result every time.

The past three decades have witnessed a number of studies and research initiatives in the area of work culture, client and employee satisfaction. However, these three variables have not been studied together in the banking industry, particularly in Delhi and NCR. The present study is an attempt towards bridging this gap by investigating the organizational ethos of banks in Delhi/NCR, gauging the impact of work culture on the satisfaction level of employees in the banks and studying the relationship between employee satisfaction and client satisfaction.

Delhi, besides being the political capital of the country, is also a very big financial hub. It has the presence of almost all the banks, national and international. People are aware of the practice of banking and have certain expectations from it. Last, but not the least, if seen demographically, Delhi and other towns in NCR represent a microcosm of India as the people who live here come from every region of the country and are engaged in all type of business / services. This makes the study relevant in the national context as well. Thus, it is viable to
study client satisfaction, work culture, employee satisfaction, and their nexus in the banks in Delhi and NCR as these three variables have not been studied together in Delhi and NCR. This is the primary motivation behind this study.

1.2 CONCEPTUAL MODEL OF RESEARCH

A conceptual model of research has been proposed which incorporates the dimensions of client satisfaction, employee satisfaction, work culture and reflects their interrelationship. Work culture plays a very important role in the smooth functioning of banks and ultimately making employees satisfied. Similarly satisfied employees deliver good services to clients and make them satisfied and client satisfaction also leads to employee satisfaction. Thus, the model shown in figure 1.1 clearly demonstrates the direct and indirect effect of work culture on employee satisfaction, and the relationship between employee satisfaction and client satisfaction.

![Figure 1.1: Conceptual Model of Research](image)

1.3 OBJECTIVES OF THE STUDY

The major motivation of this thesis is derived from several studies. It is clear from the review of earlier research that client satisfaction and employee satisfaction are required for the profit and growth of banks. The broad objective of this thesis is to gauge the satisfaction level of clients and employees and also to see the impact of work culture on the level of employee satisfaction and study the relationship of employee satisfaction and client satisfaction. The specific objectives of this study are:
1. To study the satisfaction level of clients of the banks

2. To study the work culture of the employees of the banks

3. To delineate the satisfaction level of the employees of the banks

4. To study the impact of work culture on employee satisfaction in the banks

5. To study the relationship between employee satisfaction and client satisfaction in the banks

1.4 RESEARCH QUESTIONS

Based on the objectives set for the research, a set of research questions were formulated. These questions are nothing but translation of objectives into questions, so as to gather the required data from the respondents. The study has five components. First is the analysis and interpretation of the clients’ primary data in order to find out the satisfaction of clients in banks. This involves identification of client satisfaction attributes through a literature review and then clubbing them into dimensions, drawing personal profile of the client respondents and then comparing these dimensions across the various personal characteristics and bank characteristics. This component also deals with correlates and determinants of client satisfaction by calculating Pearson correlation coefficients and regression analysis. Second is the analysis and interpretation of employees’ primary data to gauge work culture as perceived by the employees of the banks. This also starts with a literature review and factor analysis to find the factors/dimensions of work culture. Personal profile of the employees is drawn. The dimensions of work culture are then compared across the personal characteristics of the respondents and a few bank variables. The third component targets employee satisfaction using background variables and bank characteristics. It also includes the comparison of employee satisfaction dimensions across demographic characteristics of employees and a few bank variables. The fourth component highlights the correlates and determinants of employee satisfaction through Pearson Correlation Coefficients and Regression analysis. The fifth component deals with the relationship of employee satisfaction and client satisfaction. With the five dimensional purpose of the study, the following research questions were addressed:
PART I: Exploring the satisfaction level of clients/customers of banks

1. What are the dimensions that impact the satisfaction level of clients in banks?

2. How much do these dimensions vary across the demographic profiles of clients and bank characteristics?

3. How much do the demographic characteristics and bank variables affect client satisfaction in the banks?

PART II: Exploring work culture as perceived by the employees of banks

4. What are the dimensions of work culture in banks?

5. How much do the work culture dimensions vary across the demographics and bank characteristics?

PART III: Exploring employee satisfaction as perceived by the employees of banks

6. What are the dimensions of employee satisfaction in banks?

7. How much do these employee satisfaction dimensions vary across the demographics and bank characteristics?

PART IV: Correlates and determinants of employee satisfaction.

8. What is the correlation of the dimensions of work culture and demographic profiles of employees with the dimensions of employee satisfaction?

9. How much do the work culture dimensions, demographic profiles and bank characteristics affect employee satisfaction in the banks?

PART V: Relationship of employee satisfaction and client satisfaction

10. What is the correlation of the dimensions of employee satisfaction with the dimensions of employee satisfaction in banks?
1.5 RESEARCH METHODOLOGY

A systematic and organized methodology was used for the research study. First and foremost, based on an in-depth discussion and exhaustive literature review, the objectives of the study were chalked out. This was followed by in-depth interviews and discussions with clients, employees and bank officials to gauge the client and employee satisfaction variables and work culture variables that affect employee satisfaction in banks.

Based on the literature review and perception of the clients and bank employees in the interview and focus group discussion, 27 client satisfaction items, 27 work culture items and 29 employee satisfaction attributes were identified. Two tools were constructed to obtain the data according to the objectives. The first tool looked at satisfaction level of the clients of various banks in Delhi and NCR. It had two sections. Section A dealt with general and personal information of the respondents/clients and the characteristics of the banks and type of accounts. Section B was meant to capture information regarding the satisfaction of the clients as perceived by the customers. The second scale was meant to examine the work culture and employee satisfaction in the banks as perceived by the employees. It had three sections. Section A dealt with general and personal information of the respondents/employees and the characteristics of the banks. Section B was meant to capture information regarding the work culture of the banks as perceived by the employees and Section C was designed to capture the data pertaining to employee satisfaction.

In total, eight hundred questionnaires were distributed personally to clients and eight hundred to employees. From clients, 720 were received, out of which 679 were usable. From employees 700 were received out of which 661 were usable. The information of the questionnaires were coded and entered in the computer using Microsoft Excel Software. Data analysis was done with the aid of Statistical Package for Social Sciences 17.0 Version. The variables were coded in SPSS and certain statistical methods (t-test, one way ANOVA, correlation and regression) were applied to get the results which were then analyzed.

In order to have good representation of the bank branches in the sample, 15 percent of the total branches operating in Delhi and NCR were selected as a sample. It came to 120 from the total population of 842. Then from each selected bank, number of branches was selected proportionately with the help of a formula. The formula of proportionate sampling for calculating the number of units (branches) per bank (strata) is given as:
(Population of Strata x Sample size) ÷ Total Population

Care was taken to see that the minimum number of branches to be selected should not be less than 6 and maximum not more than 18. In this study, State bank group and the nationalized banks have been labeled as public sector banks and other banks have been named as private sector banks. From each selected branch of bank, 5 clients and 5 employees were selected randomly. The total number of selected employees is 661 and clients are 679. From these ultimately selected sampling units, the requisite information was gathered with the help of structured questionnaires. The number of ultimately selected respondents for sampling units is given in Table 3.5. Main data collection began in the month of July 2010 and continued till September 2011.

1.6 SIGNIFICANCE OF THE STUDY

The significance of the research lies in the explosion in the size and significance of the banking industry in the last two decades. Apparently, it seems that the banking industry is growing well and will be sailing smoothly in the years to come. Yet there are growing challenges before it and it will not only have to introspect but to formulate the policies which could help it in growing consistently. Both public sector banks and private sector banks are facing different challenges. The work culture in an organization scripts the formula of success by involving the employees and creates a bonding between employees and organization and thus delivers quality service to its clients by understanding their changing needs and provides greater customer satisfaction. The study of the nexus of the three variables namely client satisfaction, work culture and employee satisfaction will be an addition in the body of existing knowledge and significant for the banking industry which is striving to increase its profit in order to survive in this competitive scenario. Besides that, several notions about banking in general and the relative performance of public sector banks vis-à-vis their private counterparts are part of popular discourse. This study empirically tests some of these notions and lends credence to the right ones.

1.7 SCOPE OF THE STUDY

The research gauges the level of client satisfaction and employee satisfaction in banks. It also explores the work culture in banks and its impact on the level of employee satisfaction in
banks. However, the study is limited with respect to a number of dimensions. First, only banks in Delhi and NCR have been studied. The sample size could be made larger as in this study only five employees and five clients per branch have been taken. Client satisfaction has been studied in relation to employee satisfaction. It can be studied in relation to work culture also. The impact of work culture on employees’ satisfaction has been studied. There is further scope for studying the impact of work culture on client satisfaction.

1.8 ORGANIZATION OF THE THESIS

The study has been organized in seven chapters. A brief outline of the various chapters is as follows:

Chapter 1 is an introduction to the thesis. It briefly explains the historical perspective of banking industry starting with the pre-independence period and thereafter. It underlines the need for the study, significance of the study and also emphasizes on the scope of the study. The chapter throws light on the various research questions that have been addressed in the thesis and clearly delineates the objectives.

Chapter 2 contains an exhaustive and comprehensive literature review of the subject. It illustrates the research work taking place globally with reference to client satisfaction, work culture and employee satisfaction and their inter-relationships. It also discusses the various dimensions of the three variables of the study, client satisfaction, employee satisfaction and work culture.

Chapter 3 highlights descriptions of sampling i.e. types of respondents, number of respondents and technique of sampling. It also describes tools of data collection, content and constructs validity, reliability, tools of data analysis and research design.

Chapter 4 intends to accomplish the first objective of the study i.e. to examine the extent of satisfaction level of clients of the banks. This chapter mainly deals with the data analysis, interpretation and discussion of clients’ data. Chapter 4 is divided into four sections. The first section describes the demographic characteristics of the respondents. The second section aims to identify the variables affecting client satisfaction in banks through a literature survey. This section also discusses the dimensions of client satisfaction extracted through factor analysis. The third section lays out the comparison of the client satisfaction dimensions between two
groups and across the various demographic characteristics of client respondents. The last section deals with correlates and determinants of client satisfaction with respect to personal profile of the respondents and a few bank characteristics.

**Chapter 5** explains in detail data analysis, interpretation and discussion of employees’ data. This chapter also has been divided into four sections. The first section describes the demographic characteristics of the respondents. The second section aims to identify the constructs of work culture and the variables affecting employee satisfaction in banks through literature survey. This section also discusses the dimensions of work culture and employee satisfaction extracted through factor analysis. The third section details out the comparison of the work culture dimensions and employee satisfaction dimensions between two groups based on characteristics of employee respondents and bank variables. Comparison of these dimensions has also been done across the various demographic characteristics of employee respondents where the groups were more than two. Last section deals with correlates and determinants of employee satisfaction with respect to the work culture and employees’ demographic and bank’s characteristics.

**Chapter 6** deals with the relationship between employee satisfaction and client satisfaction. This chapter also has been divided into three sections. The first section describes the correlation between the dimensions of employee satisfaction and client satisfaction of the total sample including all the selected banks in Delhi and NCR. The second section explains the correlation between the same dimensions in the public sector banks and the third section deals with the correlation in private sector banks.

**Summary and Conclusion** is devoted to the objective wise summary and findings of the study. Implications, limitations and scope of the study are also narrated in this chapter.

### 1.9 CONCLUSION

In this chapter, a brief overview of the banking industry, the different variables of the study, need of the study, objectives of the study, significance and scope of the study, and a brief outline of the research methodology, followed by an outline of the organization of the thesis are presented.