CHAPTER - I
INTRODUCTION AND RESEARCH DESIGN

1.1 INTRODUCTION

Customer Satisfaction is the proper scale to assess the level of fulfilment of the needs and expectations of the customers by virtue of the quality of products and services provided by any organization. It varies from person to person and service to service. A customer can be defined as a user or potential user of any service. In banking, a customer would include an account holder, or a person carrying out casual business transactions with a bank. The efficiency of the banking sector depends upon its ability to deliver services to its target customers. In banking business, an increase of just 5 per cent in customer retention can lead to a phenomenal growth of profitability of 35 per cent. Recent changes in banking sector open new avenues for innovative and aggressive financial services which, in turn, create and sustain more variety of products which compel banks to adopt customer-oriented strategies. The banks which provide good services will survive under global competition (Waqar ul Haq and Bakhtiar Muhammad, 2012)\(^1\).

Modern competitive environment necessitates the sustenance of quality service by banks, as any other business organization to the customers for not only immediate success but also survival. The benefits of quality service are manifold. Besides enhancement in the existing customers retention rates and

enrolment of new customers it ensures increased productivity which, in turn, fetches higher market value. It also improves employees’ morale which results in the reduction of operation costs. Above all, it guarantees better financial performance and higher profitability.

The creation and sustenance of a variety of products on account of increasing innovative and aggressive financial services has totally changed the face of banking services which urge the banks to adopt customer oriented strategies. Variation in quality services is the key factor that makes all the difference. The banks which provide good services will survive under global competition (Ugur Yavas, Zeynep Bilgin and Donald J. Shemwell, 1997)².

Like other industries today, banking is also in the tight hold of rapid changes and stiff competition. However, unlike many other industries, banking is selling intangible services - financial services such as checking accounts, credit cards, retirement accounts and automobile loans. Financial institutions acknowledge the irrefutable fact that technical supremacy alone is not sufficient for the success and survival of the banking industry the main aim of which is to reach the customers in need and fulfil their needs and expectations to their utmost satisfaction. That clearly underscores the fact that the supremacy in service, not in technicality, is the key to success.

The Indian banking industry is passing through difficult times. The lowering of entry barriers and blurring product lines of banks and non-banks

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since the financial sector reforms, results in the unprecedent growth of competitive pressures under which the banks have to outdo others to survive. In order to maintain a loyal customer base and improve their marketing and profitability, many retail banks find no alternative than directing their strategies towards increasing customer satisfaction and loyalty through improved service quality. Therefore, the current problem for the banking industry in India is to determine the dimensionality of customer-perceived service quality the identification of which helps service managers improve the delivery of customer perceived quality in the service process and gain greater control over the overall outcome.

The urge to develop and offer new products and services through combined internal and external forces stimulates the banks to perform better. The internal pressure relates to growth opportunities, the need for higher earnings and market share, while the external pressure is the inevitable outcome of the stiff competition posed by other banks and non-banking financial institutions. The new products are especially needed to attract customers from untapped markets, to cross-sell to the present customers and to get the accounts from competitors. The marketing approach in banking involves anticipating, identifying, reciprocating (through designing and delivering customer oriented services) and satisfying the customers’ needs, wants effectively and profitably. Banks have first to identify the needs of the customers and then offer the services to satisfy those needs.
The impact of the world-wide trend change in the business world is strongly felt in the banking sector in the developing countries in general and in India in particular. The adaptability of the changing world trends and the unending encounters with the challenging competitive markets have caused an attitudinal change in the banking sector which makes it focus on customer satisfaction and betterment of quality service. As customers, both at the retail and corporate levels have always been important for banks issues related with customers satisfaction have received growing attention from management and academic circles. Most of the studies till date, have concentrated on customer satisfaction in the United States and European banking industries and only a few studies deal with the customer satisfaction in developing countries.

1.2 STATEMENT OF THE PROBLEM

As the existence of innumerable banks at the disposal of the customer to make his choice makes the contemporary Indian customer market vast and strong through which the Indian banking sector passes today. As such, customer satisfaction through effective and efficient customer care is the only key that ensures the success and survival of the bank. Hence, they are able to make their choice on the basis of their perceptions of quality, service and value. The banks are in a position to understand the determinants of customer satisfaction. Customer satisfaction is the inevitable outcome of banking company's ability and performance in fulfilling the need and expectations of the customers. Satisfied customers remain loyal longer and talk favorably about the bank. Only customer-centered banks that can deliver superior value to their
target customers will win and survive in the market. Such banks will concentrate more on increasing customers than developing products and exercise their skill in market engineering rather than product engineering. The customers’ complete satisfaction is based not only on the product but also on the related customer services that the banks offer.

Hence the survival and success of a bank in the competitive banking environment largely depend upon its ability to satisfy its customers. The global competition and change in the needs of the customers force commercial banks to introduce various innovative products and services to win the confidence and satisfaction of the consumer. But at the same time, the customers’ satisfaction of services offered is also one of the key factors that determine the survival and the success of the banks in the competitive environment.

1.3 SCOPE OF THE STUDY

This study makes an attempt to identify and examine the factors influencing the satisfaction level of the customers in the study area. The findings of the present study would help to identify the strengths and weaknesses of the various dimensions of customer satisfaction. Further, it is believed that the suggestions of the present study would help authorities concerned to make suitable policy decisions that will help them succeed in the years to come by extending excellent services to their customers. The present study entitled “A Study on Customers’ Satisfaction of Bankers’ Services in Ramanathapuram District” has confined itself to study the opinion of the
sample respondents on the various dimensions of the service quality of public and private sector banks in Ramanathapuram District.

1.4 IMPORTANCE OF THE STUDY

As everything revolves around the customer, the banks have to focus on innovative and quality products to suit to the needs and expectations of their clients. The competitive climate in the Indian financial market has changed dramatically over the last few years and so has the expectations of the customers. The rapid growth of the banking industry in India in the past few decades have considerably raised the quality, volume and scope of banks' activities in positive response to the changing social, political and economic scenario and also caused a welcome change in the bank’s approach towards customers and the market. The transformation of banking as a multi service industry makes it not confined to the traditional services of accepting deposits and disbursing funds but extend its services as development bankers. Customer–friendly services, hitherto unheard of, like multi-city cheque facility, trade services, phone banking facility, internet banking facility, credit card, debit or ATM card, mobile banking and Real time Gross Settlement (RTGS), derivatives, leverage financing, doorstep banking facilities, wealth management, equity trading and the like to cater to the needs of their customers are introduced and successfully practiced by the banking sector today.

In a service sector like banking industry as the whole range of activity and generation of income revolves around the customer, it is necessary to
identify the factors that lead to success in terms of customer satisfaction keeping in view the increasing market size and intense competition.

Customer satisfaction, which is the most important concept in today’s world of stiff competition holds the key of success and survival of any organization. Hence, banks today vie with one another to satisfy their customers so as attract new customers and retain loyal customers. Customer service is an integral part of any facet of banking on which rests the future of any banking organization. In India regulatory and competitive forces brought in revolutionary changes in the banking industry since 1991.

1.5 OBJECTIVES OF THE STUDY

The major objectives of the present study are;

1. To study the customers’ perception on the bank account operation of selected public and private sector banks.
2. To study the customers’ opinion on the utilization of various services extended by the study units.
3. To identify the factors affecting the satisfaction level of customers of the selected banks in the study area.
4. To identify and analyze the dimensions that ensures maximum satisfaction to customers.

1.6 HYPOTHESES OF THE STUDY

The hypotheses were framed based on the research objectives to test the significance of selected variables. Twenty-seven hypotheses have been tested,
first fourteen with test of differences through ANOVA and the remaining thirteen through chi-square test for association of selected variables in the study.

- H1 = There is no significant difference between the age group of the respondents and their opinion on the utilization of banking services.
- H2 = There is no significant difference between the sex of the respondents and the opinion on utilization of banking services.
- H3 = There is no significant difference between the marital status of the respondents and the opinion on utilization of banking services.
- H4 = There is no significant difference between the educational qualification of the respondents and the opinion on utilization of banking services.
- H5 = There is no significant difference between the family size of the respondents and the opinion on utilization of banking services.
- H6 = There is no significant difference between the occupation of the respondents and the opinion on utilization of banking services.
- H7 = There is no significant difference between the annual income of the respondents and the opinion on utilization of banking services.
- H8 = There is no significant difference between the type of account of the respondents and the opinion on utilization of banking services.
- H9 = There is no significant difference between the duration as bank customer and the opinion on utilization of banking services.
• H10 = There is no significant difference between the type of loans availed by the respondents and the opinion on utilization of banking services.

• H11 = There is no significant difference between the frequency of operations of bank accounts and the opinion on utilization of banking services.

• H12 = There is no significant difference between the time taken to receive the check book on the opinion on utilization of banking services.

• H13 = There is no significant difference between the usage of ATM facility on the opinion on utilization of banking services.

• H14 = There is no significant difference between the frequency of using ATM facility and the opinion on utilization of banking services.

• H15 = There is no significant association between the age and the level of customers’ satisfaction on banking services.

• H16 = There is no significant association between the sex of the respondents and the level of customers’ satisfaction on banking services.

• H17 = There is no significant association between the marital status of the respondents and the level of satisfaction on banking services.

• H18 = There is no significant association between the educational qualification of the respondents and the level of satisfaction on banking services.

• H19 = There is no significant association between the family size of the respondents and the level of satisfaction on banking services.
• H20 = There is no significant association between the occupation of the respondents and the level of satisfaction on banking services.

• H21 = There is no significant association between the annual income of the respondents and the level of satisfaction on banking services.

• H22 = There is no significant association between the type of account of the respondents and the level of satisfaction on banking services.

• H23 = There is no significant association between the frequency of operations of bank accounts and the level of satisfaction on banking services.

• H24 = There is no significant association between the usage of ATM facility and the level of satisfaction on banking services.

• H25 = There is no significant association between the frequency of using ATM facility and the level of satisfaction on banking services.

• H26 = There is no significant association between the reasons for selecting the banks and the level of satisfaction on banking services.

• H27 = There is no significant association between the source of awareness and the level of satisfaction on banking services.

1.7 METHODOLOGY OF THE STUDY

The methodology employed in this study includes data sources, sampling design, procedure for data collection, tools and techniques used in the data analysis.
1.7.1 Data Sources

The present study is based on both the primary and secondary data. The primary data were collected by administering a well structured interview schedule. The secondary data required for the present study were collected and compiled from both the published and unpublished sources. The important sources include various reports published by the banks and the authorities concerned. The other sources include books, journals, magazines and the like. The required data were also collected from websites and newspapers.

In the first phase of the study, a comprehensive review of the literature pertaining to customer satisfaction was made. Secondly, an in-depth discussion with the banking personnel and banking customers was undertaken to ascertain their views on the various dimensions of customer satisfaction. A preliminary interview schedule consisting of 38 statements based on the review of literature was developed. To identify and eliminate potential problems, the interview schedule was pre-tested by personally interviewing 30 respondents. The primary study was conducted with the bank customers in Ramanathapuram District of Tamil Nadu, India. The primary data required for the present study were collected by the researcher from the sample respondents from November 2011 to April 2012.

1.7.2 Profile of Study Region

Ramanathapuram is one of the coastal districts of Tamil Nadu with a seacoast of nearly 260 kms long. It is bounded on the north by Sivagangai and Pudukottai districts, on the east and south by the Bay of Bengal, and on the
west by Thoothukudi and Kamarajar districts. The district headquarters is Ramanathapuram. The district lies between 90 09’ and 90 98’ north latitude and 780 23’ and 790 45’ east longitude. The general geographical information of the district is simple and flatted. Vaigai River and Gundar River are flowing in the districts which are usually dry in summer. The total geographical area of the district is 3889.62sq. km.

Ramanathapuram district has seven taluks, 11 blocks and 2087 Villages. As regards the hierarchy of administrative arrangement, there are two Municipalities, eight Town Panchayats and 444 Village Panchayats in the district. The Community Development Blocks are Tiruvadanai, Rajasingamangalam, Paramakkudi, Bogalur, Nainarkoil, Kamudi, Madukulattur, Kadali, Ramanathapuram, Tiruppullani, and Mandapam (See Chart 1.1).

Chart 1.1
Map of the Ramanathapuram District, Tamil Nadu, India
1.7.2.a. Demographic Details

The district has a literacy of 73.05 per cent, slightly below the average of the state. This district has the highest number of Muslims (in terms of percentage of total population) in the state followed by Vellore District. The religious composition of the district is 72.41 per cent Hindus, 22.40 per cent Muslims, Christians 5.08 per cent and others 0.11 per cent. According to the 2011 census Ramanathapuram district, population is 1,337,560, which gives it the rank of 363/640 in national level and which is roughly equal to the nation of Mauritius or the US state of Maine. The district has a population density of 320 per square kilometre (830 /sq mi). Its population growth rate over the decade 2001-2011 was 12.63 per cent. Ramanathapuram has a sex ratio of 977 females for every 1000 males, and a literacy rate of 73.05 per cent.

1.7.2.b. Banking Profile of Ramanathapuram District.

The district has 145 bank branches out of which 65 are rural branches. There is a scope for opening of bank branches in rural areas by commercial banks as some of the public sector banks do not have any rural branch in this district. The deposit outstanding as on 31st March 2010 stood at Rs. 266.73 cores as against Rs.179.50 crores during 2008-09, showing a growth rate of 15 per cent. Loans and advances outstanding have also increased form Rs. 1525.56 crores during 2008-09 to Rs. 1904.22 crores during 2009-10. The C-D ratio of the district during last three years (2006-07 to 2008-09) was more than 100 per cent which is very high compared to the RBI norm of 60 per cent. The C-D ratio of few commercial banks like PNB, SBI, Corporation Bank, ICICI
bank and KVB was hovering around 50 to 60 per cent. The C-D ratio of TMB has been 25 per cent which makes a significant improvement.

From 2007 - 08 to 2009 - 10 the banks have achieved the targets earmarked in Annual Credit Plans. Further, targets of all the sub sectors of national importance such as priority sector and direct agriculture were also achieved. The share of agriculture advances to total advances was 44 per cent in 2009 - 10 which crosses the RBI mark of 18 per cent while the share of priority sector advances to total advances was 71 per cent in 2009 - 10 as against the RBI norm of 40 per cent. The credit agencies are actively involving themselves in the planning process initiated by NABARD. Credit dispensation by the existing credit delivery system has been smooth in the District. However, post disbursal monitoring and follow up requires closer attention than before. The increase of scheduled commercial banks in Ramanathapuram District, from 107 in 2000 - 01 and 124 in 2009 - 10 shows 15.88 per cent of growth.

1.7.3 Sampling Design

The main objective of the present study is to analyze the customers’ attitude towards the services offered by the public and private sector banks in the Ramanathpuram District of Tamilnadu. For this purpose, the researcher has collected the primary data through a scientifically developed interview schedule. The required data were collected by the researcher from the sample size of 360 chosen on the basis of convenience from the selected banks. There are seven taluks in Ramannathapuram District. The total number of bank
branches functioning in Ramanathapuram District amounts to 145. For the purpose of this study, two taluks Ramanathapuram and Paramakudi were selected on the basis of total number of branches functioning in each taluk of the District. Out of seven taluks, more number of branches are there in two taluks namely Ramanathapuram (51) and Paramakudi (30). To achieve the objectives of the present study, six banks (three banks each from the public and private sectors) were selected from among the branches operating in the selected taluks. The selection of the banks was based on some unique characteristics of the banks like market share, number of customers, size, growth and profitability. Since the study attempts to compare the factors influencing the satisfaction level of customers of one taluk with that of the other, the banks which were functioning in both the taluks only were considered for the present study.

The sample banks selected from the public sector include Indian Overseas Bank (IOB), State Bank of India (SBI), and Canara Bank (CB) and from the private sector include Industrial Credit and Investment Corporation of India (ICICI Bank), Tamilnad Mercantile Bank (TMB) and the City Union Bank (CUB). The convenient sampling technique has been adopted to select 360 customers from these six banks. The total number of respondents selected from each bank is 30 which make a total of 180 in each taluk. The list of sample taluks, sample banks and the number of respondents selected from each bank are presented in Table 1.1.
### Table 1.1

**Sample Taluks, Sample Banks and Number of Selected Respondents**

<table>
<thead>
<tr>
<th>Bank Group</th>
<th>Names of the Bank</th>
<th>Number of Respondents</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Ramanathapuram</td>
<td>Paramakkudi</td>
</tr>
<tr>
<td>Public Sector</td>
<td>Indian Overseas Bank</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>State Bank of India</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Canara Bank</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td><strong>Total (A)</strong></td>
<td><strong>90</strong></td>
<td><strong>90</strong></td>
</tr>
<tr>
<td>Private Sector</td>
<td>ICICI Bank</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Tamilnad Mercantile Bank</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>City Union Bank</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td><strong>Total (B)</strong></td>
<td><strong>90</strong></td>
<td><strong>90</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Grand Total (A+B)</strong></td>
<td><strong>180</strong></td>
<td><strong>180</strong></td>
</tr>
</tbody>
</table>

### 1.7.4 Data Collection Instrument

After a pilot study with 30 respondents, the instrument was shortened from 38 statements on level of customers’ satisfaction to 30 in order to make it respondents friendly. The customers were required to mark their response for each statement on the Likert scale (range 1 to 5) where “1” referred to “Strongly Disagree” and “5” meant “Strongly Agree”. Secondly, the list of items included in the interview schedule were refined through a number of discussions with senior bank executives and a number of senior academic faculty members in the consumer behaviour field. Thirdly, the interview schedule was subjected to extensive pre-testing and refinement through a pilot
study among the 30 respondents. Finally, the interview schedule was prepared with questions on demographic details, bank account and operation details, opinion on utilization and the level of satisfaction of the customers on banking services for the final study. The data thus collected from the respondents were considered for the analysis.

1.7.5 Data Processing and Tools for Analysis

The collected data were processed with the use of Statistical Package for Social Sciences (SPSS) and tabulated for further analysis. The data were analyzed using relevant statistical techniques like Percentile analysis, growth rate analysis, Mean scores, ANOVA and Chi-square test. Besides, advanced multivariate statistical techniques such as Factor Analysis and Multiple Regression Analysis were also applied. A brief note on the tools used for data analysis along with its purpose is as follows:

1.7.5.a. Percentage Analysis: The percentage analysis was used to compare the respondents of public sector banks and private sector banks on their demographic details and bank account operation of the bank customers selected for the study.

1.7.5.b. Mean Score Analysis: Mean Score Analysis is used to identify the mostly utilized banking services on five point scale and the highest level of customers satisfaction on banking services on three point scale.

1.7.5.c. ANOVA: An attempt has been made to examine the variances between the demographic variables and opinion of respondents by applying one way ANOVA. When two or more means of independent samples are involved the
analysis of variance (ANOVA) technique is used to test the difference among such mean opinion. ANOVA is used to test hypotheses of significant difference between the groups based on the demographic variables of the respondents opinion on utilization of banking services. The test of significance of differences was applied with the selected sample groups based on age, sex, marital status, educational qualification, family size, occupation, annual income, type of account, duration of customership, type of loans availed, frequency of operation of accounts, time taken to receive the cheque book, usage and frequency of usage of ATM facility on their overall opinion on utilization of banking services.

1.7.5.d. Chi-Square Test: In order to examine the relationship between sample respondents, sixteen independent variables and level of customers’ satisfaction of the sample respondents, a chi-square test has been used. A chi-square test represents a useful method of comparing experimentally obtained data with those expected theoretically. The selected independent variables for testing are Age, Sex, Marital status, Educational qualification, Family size, Occupation, Annual income, Type of account, Duration of customership, Type of loan availed, frequency of operations of bank account, Time taken, Usage of ATM, frequency of usage of ATM, Reason for selecting the bank and Sources of awareness about the bank. The significance of relationship among all the above sixteen variables with the opinion of the sample respondents on their level of satisfaction has been analyzed by applying statistical technique namely Chi-square Test.
1.7.5.e. **Factor Analysis**: Factor analysis (FA) attempts to identify underlying variables or factors that explain the pattern of correlation within a set of observed variables. Factor analysis is often used in data reduction to identify a small number of factors that explain most of the variance observed in a much larger number of manifest variables. Factor analysis can also be used to generate hypothesis regarding causal mechanisms or to screen variables for subsequent analysis. In this study, factor analysis is used to identify the factors influencing the level of customers’ satisfaction on banking services.

1.7.5.f. **Multiple Regression Analysis**: Multiple Regression Analysis (MRA) is used to predict the value of a variable based on the value of two or more variables. The variable used to predict is called the dependent variable (or sometimes, the outcome, target or criterion variable). The variables that predict the value of the dependent variable are called the independent variables (or sometimes, the predictor, explanatory or regressor variables). Multiple regression also allows to determine the overall fit (variance explained) of the model and the relative contribution of each of the predictors to the total variance explained. In this study, multiple regression analysis is used to analyze the most influencing factor identified on the level of customers’ satisfaction on banking services.

1.8 **LIMITATIONS OF THE STUDY**

- The study is confined to selected banks of public and private sector in Ramanathapuram District in Tamil Nadu.
• The study is based on the data collected through interview schedule. So the limitations of the interview schedule are inherent in the study.

• The findings of the study represent the current thinking and stated affairs which may change over a period of time.

• Even though the selection of final respondents is based on convenient sampling, every effort has been made to make the sample adequate and representative of the area studied.

1.9 CHAPTER DESIGN

The thesis comprises of the following seven chapters:

• **Chapter I - Introduction and Research Design:** Besides introducing, the opening chapter records the history of the Indian banking industry, statement of the problem, scope of the present study, objectives of the study, hypotheses of the study, methodology of the study, profile of study area, sample design, instruments for data collection, data processing and tools for analysis, limitations of the study and chapter design.

• **Chapter II - Review of Literature:** The chapter makes an in-depth review of studies both foreign and Indian studies in customer satisfaction in banking sector.

• **Chapter III - Customer Satisfaction in the Banking Industry – An Overview:** This chapter describes the development of banking in India, importance of customer satisfaction in the services sector, common
elements of service excellence, relationship between service quality and customer satisfaction, impact, models and measurement of customer satisfaction.

- **Chapter IV - An Analysis of Customers’ Perception on the Bank Account Operation:** This chapter deals with profile of the respondents and analysis of details of bank account and operations.

- **Chapter V - An Analysis of Customers’ Opinion on Utilization of Banking Services:** In this chapter, an extensive analysis is made on customers’ opinion on utilization of banking services and hypothesis testing – test of significant differences - selected demographic variables on their opinion on utilization of banking service.

- **Chapter VI - An Analysis of Factors Influencing Level of Customers’ Satisfaction on Banking Services:** In a microscopic analysis, this chapter examines the level of customers’ satisfaction on banking services, hypothesis testing - factors influencing level of customers’ satisfaction on banking services.

- **Chapter VII - Summary of Findings, Suggestions and Conclusion:** This chapter concludes with the summary of findings, suggestions and recommendations, conclusion and scope for further research.