CHAPTER 1

INTRODUCTION AND DESIGN OF THE STUDY

1.1 INTRODUCTION

The term Banking and Financial services has become more vital for the development of an economy. The banking services have a high impact in determining the economic condition of a country. Banking sector, being an integral part of a financial system, plays a predominant role. Especially the contributions of commercial banks towards the development of countries like India prove to be more vital. The mobilization of fund from various sources and their better allocation towards their needful ventures is effectively carried out by commercial banks.

The banks now-a-days focus on attracting the customer by enhancing their services and diversify their activities. Apart from the traditional banking services, the agency services otherwise termed as non-banking and general utility services are gaining its momentum.

After the introduction of globalization policy, services sector has been given much importance and the same is attracted much by the customers. It is a splendid truth to accept the change of a country from the developing status to developed status. It is possible not only by the industrial growth but also the growth of the services sector. Among various services, the banking services prove to be more vital for the development of an economy as well as the living standards of the general public.
In earlier days, the utility of the customer towards banks were very less. But, now -a- days the customer demands for high utility. This lays an emphasis on the banking sectors to multiple their services and schemes according to the expectations of the customer.

The Globalization and Liberalization policies enhanced the scope of the banking sector and also led to major changes by which the banks have undergone the expansion in their range and in their activities like insurance, merchant banking, Investment Banking, Leasing and Foreign exchange. At this juncture the Indian banks can give better deal to the customer by giving them sophisticated services based on the needs, convenience and preference of the customer. This sort of adoption in the marketing strategies of the Indian banks will allow them to compete with the global competitors.

In the Indian scenario, the public and private banks compete with each other in attracting the customers. In the global competition it is more important for the public and private banks belonging to the Indian origin to enhance their service quality which will ensure their business development in the cut throat competition. The healthy competition among the private and public banks will ensure the economic growth of the country. In the changing scenario the public sector banks have to revitalise their marketing efforts and to concentrate more over providing value added services.

On the other hand, the private banks with a compulsion to compete with the global banks have to gallop their services and ensure the satisfaction of the customers. With an intension to satisfy the prospective customers, instead of merely providing the service within their expectations, it is better that the services may be augmented to attract the prospective customers and pull them towards the service.
1.2 IMPORTANCE OF THE STUDY

Until the recent past, majority of the service organisations neglected to accept the marketing efforts. In the earlier day’s services organisations including the banking sector rarely marketed their services. Due to less competition they made their customer to accept their services whatever is available with them. But later due to the complexities in the market scenario, the marketing of services played a predominant role which determines the survival of that organization. Grabbing the majority of shares in the market is the aim of every organization. This thought among the administrators emphasised the marketing of banking services to be gallop towards achieving the global standards. To achieve this, the utility of the existing services and their satisfaction level should be analysed and their perception and expectations have to be found out. This may help the banking sector to attract the new customers, as well as to hold the existing customers and even to compete with the global competitors’.

1.3 STATEMENT OF THE PROBLEM

Due to the deregulations, liberalizations, Privatization and globalization, the banks in various countries are allowed to choose in the market at any country which results in the competition among the banks. The survival of the banks depends upon the way they cope up with the customer expectations. The customer should become the priority and while designing
make them alive in the market. While marketing the banking services, the banks have to shuffle the marketing mix based on the expectations of the customer. The marketing strategies of the banks have to be updated frequently. The cut throat competition in the market has to be addressed by setting the Research and Development and making the potential teams to facilitate the value addition which will allow the Indian banks to compete with the global environment.

To strive for creating new and innovative services should be the mantra for the modern banks which will allow them to succeed in the market. The increasing complexities not only expect the banks to enhance their service but also emphasise on enhancing the non-banking services which provide additional facilities to the customer.

To offer a customized service it is essential that a bank should identify the customer’s expectations towards various augmented services. Augmenting the services will result in adding expenses. Hence the challenge lies in identifying the customer’s opinion and categorising the facilities based on the likes and dislikes of the customer.

Problems exist in the present scenario and based on the issues stated above, the following Research Questions are probed:

1. How do the demographic factors influence the satisfaction of
4. Analyse the customer opinion to identify the augmented services.

1.4 OBJECTIVES OF THE STUDY

1. To examine the existing banking services rendered by various banks in Tamil Nadu.

2. To analyse the customer satisfaction towards the facilities provided by the banks.

3. To identify the customer perception and customer expectations towards the Value added services and Infra-structure facilities offered by banks.

4. To identify the various factors which influence the customer’s loyalty towards the banks.

5. To find out the Customer relationship management service, Customer interaction attributes and Customer retention strategy adopted by the banks.

6. To suggest better ways and means to improve the existing banking services in the study area.

1.5 CONCEPTUAL FRAMEWORK OF BANKING SERVICES TOWARDS CUSTOMERS

Figure 1.1 depicts the conceptual frame work of banking services with regard to five dimensions namely, customer satisfaction, customer perception, customer expectation, customer loyalty and customer relationship management and their outcomes are namely profit, excellence, sustainable growth and builds image.
1.6 RESEARCH METHODOLOGY

The methodology of research indicates the general pattern of organizing the procedure for gathering valid and reliable data for the purpose of investigation. This study includes the description of the research design, sample size, sampling technique, development and description of the analytical tool, data collection procedure and method of analysis.

The validity of a research depends on the systematic method of collecting the data and analyzing them methodologically. In the present study, both the primary and secondary data which were collected systematically were used extensively. For collecting primary data, field survey technique was used in the study area i.e., in Chennai, Coimbatore, Salem and in Trichy. First-hand information pertaining to awareness, satisfaction, expectations, Loyalty, Retention and problems in using ATM services in the study area were collected from one thousand forty samples from the respondents. Their expectations towards the services from banks and the customers are satisfaction with the current services provided by the banks etc., were also collected.
1.6.1 Sampling Method

A Sample of 1040 respondents were selected from Chennai, Coimbatore, Salem and in Trichy districts, based on the convenience of the researcher through adopting convenience sampling method. It was adopted because, even though the number of banks in the study area was obtained, the information about the customers is not available, as the population is of floating nature. The geographical distribution of the sample respondents is exhibited in the following table:

Table 1.1 Geographical distribution of sample respondents in the study area

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the zones</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Chennai</td>
<td>260</td>
</tr>
<tr>
<td>2.</td>
<td>Coimbatore</td>
<td>260</td>
</tr>
<tr>
<td>3.</td>
<td>Salem</td>
<td>260</td>
</tr>
<tr>
<td>4.</td>
<td>Trichy</td>
<td>260</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>1040</td>
</tr>
</tbody>
</table>

As the population size is infinite. Making use of the sample size calculator (Right size) software, the required sample size was determined as 1040 with the confidence coefficient of 99% and confidence interval of ±4%. Thus the researcher has determined the sample size as 1040.

1.6.2 Sources of Data Collection

Primary data

The researcher has framed the Interview Schedule on the basis of various reviews and personal interviews with the bank customers. Secondary data such as magazines, books on banking sectors, information from the net, past researches and reviews, etc., were used. In order to fulfil the objectives
set out, sample studies were undertaken using structured Interview Schedules. The structured interview schedules were pre-tested with fifty respondents. Data were collected from the sample respondents of varying nature with respect to their Age, Gender, Respondents status in family, Marital status, Education, Occupation, Income, etc. After pre-testing, necessary modifications were made in the Interview Schedule to fit in the track of the present study.

Secondary data

The primary data were supplemented with sufficient secondary source data. The secondary data pertaining to the study were gathered from textbooks, journals, magazines, research reports etc. from well-equipped libraries of Bangalore, Chennai and Coimbatore and as well from various dailies and websites. They were utilized to get the necessary and latest information required for the study.

1.6.3 Discussions and Informal Interviews

In order to know the general working pattern of Banks, several rounds of discussions were held with various officials. For this purpose, a good rapport had been established with the Managers, Assistant Managers and with the clerks.

1.6.4 Tools for Data Collection

By Virtue of a mass of data obtained from the research survey, as well as the data from secondary sources collected and presented in the present report, descriptive and analytical research was considered as most appropriate for this study. The suggestions offered in the final chapter of the present research report emerged from the inferences drawn from the sample
respondent’s information about the Banking services. The researcher used ‘closed’ and ‘open-ended’ questions in the interview schedules to collect the primary data.

1.6.5 Construction of the interview Schedules

The Key aspects of this research were identified from the preliminary interviews (pilot study) with some selected respondents. The interview schedules drafted were circulated among some of the research experts and research scholars for a critical view with respect to wordings, format sequence and the like, of the interview schedules. They were re-drafted in the light of their comments.

1.6.6 Pre-Test

Structured Interview Schedule was prepared with the help of personal interview conducted with various bank officials’ discussion with the guide and through Internet information. Pilot study was made to find the reliability of Interview Schedule and it was found to be good. The Data was collected from 50 respondents and the difficulties faced by them were identified and necessary modifications were made in the questionnaire for easy understanding.

1.6.7 Reliability

The test of reliability is an important test of sound measurement. Reliability has to do with accuracy and precision of a measurement procedure. The test was performed to measure the reliability of the questionnaire and Cronbach’s Alpha value for the services is given in the following Table 1.2.
Thus the internal consistency reliability of the measures used in this study was considered to be very good. Since the Cronbach’s Alpha value is more than 0.6, it is reliable.

### 1.7 ANALYTICAL FRAMEWORK

The core of the study being evaluation of Banking Services, the study enters around the dependent Variables viz., ‘the level of Banking services’ satisfaction perceived by the customers in utilising the Banking Services’ and the relationship between the selected and independent Variables.

### Approach to Assess the Extent of Utilisation

The difference in the extent of the utilization of services by different types of respondents based of their Age, Gender, Respondents status in family, Marital status, Religion, Education, Occupation, Income, awareness and level of satisfaction perceived by the customers were studied by means of percentage analysis, Garrett ranking, ANOVA, t-Test, two-way tables, chi-square test, Inter- correlation, Factor analysis, multiple regression, Cluster Analysis and Discriminant Analysis. The different tools of analysis and the variables studied were as follows.
1.7.1 Garrett Ranking Technique

This technique was used to evaluate the most influencing factor towards the services provided by the banks. In this method, the respondents were asked to rank the given services according to the magnitude of the services. The orders of merit given by the respondents were converted into ranks by using the following formula.

\[
\text{Percentage Position} = \frac{100(R_{ij} - 0.5)}{N_j}
\]

where \( R_{ij} \) = Rank given for \( i^{th} \) item for \( j^{th} \) individual

\( N_j \) = Number of items ranked by \( j^{th} \) individual

The percentage position of each rank thus obtained was converted into scores by referring to the table devised by Henry Garrett. Then, for each factor, the scores of individual respondents were added together and divided by the total number of respondents for whom the scores were added. These mean scores for all the factors were arranged in the order of their ranks and inferences were drawn.

1.7.2 Cross Tabulation

Cross tabulation analysis is used to find out the highest and lowest satisfaction level of the customers towards banking services with respect to Front Office services rendered by banks, Deposit Oriented services rendered by banks, Infra-structure facilities provided by banks and Customer interaction attributes rendered by banks.
1.7.3 t-Test

The Independent-Samples t test procedure is used to compare the mean scores of two groups. The procedure assumes that the variances of the two groups are equal and it was tested with Levene’s test statistics. The significant difference between the mean scores is tested with respect to the level of satisfaction towards customer retention strategy adopted by banks with the demographic variables like Gender & Marital status were analysed.

1.7.4 ANOVA

ANOVA is the analysis of the variance which is the “Separation of variance ascribable to one group of causes from the variance Ascribable to other group”. The mean score analysis (ANOVA) test procedure is used to compare the mean scores of more than two groups of demographic variables such as Age, Marital status, Educational qualification, Occupation status and Monthly income with respect to the opinion of the customers towards bank charges for its services.

1.7.5 Chi-Square Test

The degree of influence of the following independent variables pertaining to the respondents on the utilization of their preferred Banking services is:

i) Respondent’s Age

ii) Respondent’s Gender

iii) Respondent’s Status in family

iv) Respondent’s Marital status

v) Respondent’s Education
vi) Respondent’s Occupation

vii) Respondent’s Income

In order to identify the factors influencing the respondents and their level of satisfaction in utilizing the preferred Banking services, chi-square ($x^2$) test was used, and the formula of Chi-square test is furnished below:

$$X^2 = \frac{E(O-E)^2}{E}$$

With Degree of Freedom (D.F) = (c-1) (r-1).

where

- $O$ = Observed frequency,
- $E$ = Expected frequency,
- $C$ = Number of Columns,
- $r$ = Number of Rows.

1.7.6 Karl- Pearson's Correlation

Statistical relations between two or more variables such as systematic changes in the value of one variable are accompanied by systematic changes in the other. Correlation analysis typically gives us a number result which lies between +1 and -1. The + ve or –ve sign denotes the direction of the correlation. The positive sign denotes direct correlation whereas the negative sign denotes inverse correlation. Zero signifies no correlation. The closer the number moves towards 1, the stronger the correlation is. Usually for the correlation to be considered significant, the correlation must be 0.5 or above in either direction.
1.7.7  Factor Analysis

It is quite obvious that every marketer likes to know what influences their customers to use the banking services and moreover, what are the factors that make the customers to stay back along with the service. With reference to this, the use of factor analysis, an analytical tool helps the researcher to identify the important factors which influence them and the factors that they are satisfied with the banking services. The factor matrix has been plotted out in a way to select the most appropriate factors.

1.7.8  Multiple Regression Analysis

Regression is a statistical relationship between two or more variables. When there are two or more independent variables, the analysis that describes such a relationship among the variables is called the Multiple Regression Analysis. This analysis is also adopted when one dependent variable is performing the function of two or more independent variables. In multiple regressions, a linear composite of explanatory variables is formed in such a way that it has the maximum correlation with an active criterion variable. The main objective for using these techniques is to predict the variability of the dependent variable based on its co-variants with all the other independent variables. It is useful in predicting the level of the dependent phenomenon, if the levels of independent variables were given. The linear multiple regression problem is to estimate the coefficients $\beta_1, \beta_2, \ldots, \beta_j$ and $\beta_0$ such that the expression,

$$ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_j X_k $$

Provided a good estimate of an individual Y score based on the X scores.
where, \( Y \) = Customer’s level of satisfaction on banking services
\( X_1 \) = Age
\( X_2 \) = Gender
\( X_3 \) = Respondent’s status in family
\( X_4 \) = Marital status
\( X_5 \) = Monthly Income
\( X_6 \) = Educational Qualification
\( X_7 \) = Occupation

\[ \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_j X_j \] are the parameters to be estimated

1.7.9 Multi Discriminate Analysis

The objective of Multi Discriminate Analysis is to predict an object’s likelihood of belonging to a particular group based on several independent variables. The Multi Discriminate analysis reveals the specific variables which account for the largest proportion of inter-group differences. It is a simple scoring system that assigns a score to each individual or object. This score is a weighted average of the individual’s numeric value of the independent variables. The individual is assigned to the ‘most likely’ category on the basis of this score. The model is represented as:

\[ Z_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_j X_j \]

where \( X_{ik} \) is the \( i^{th} \) individual’s value of the \( K^{th} \) independent variable, \( \beta_j \) is the multiple discriminate coefficient of the \( K^{th} \) variable. \( Z_i \) is the \( i^{th} \) individual’s multiple discriminate score.
1.7.10 Cluster Analysis

Cluster analysis is a multivariate statistical technique which group’s unknown number of persons / objects / occasions into groups such that the members of each group are having similar characteristics / attributes. The primary objective of Cluster Analysis is to define the structure of the data and identifying the most similar observations to place them into groups. The different groups to be determined in Cluster Analysis are not pre – defined as in Discriminant Analysis. This analysis is ideally suited for segmentation applications in marketing research like financial service selection, understanding buyer behaviour and media selection etc., The method of clustering may be either hierarchical or non-hierarchical or both. The outcome of this analysis is much superior when the results from the hierarchical order are used for the analysis along with the non- hierarchical. Thus hierarchical and non- hierarchical techniques should be viewed as complementary clustering techniques rather than as competing techniques. In this study the researcher has used, both the clustering techniques.

Cluster analysis is typically applied to data recorded on interval scale or continuous scaled variables. This analysis is applied to a large set of data which may consist of many variables. Cluster analysis determines internal homogeneity. i.e., similarities exist among the respondents or items and external heterogeneity i.e., the differences exist between different groups of respondents or items. This analysis helps in grouping the objects or persons based on the variables considered in this analysis.

1.8 SCOPE OF THE STUDY

The study will bring to lime light the factors influencing the respondents in their choice of selecting the Banks. It will also identify the problems faced by the banks to retain the customers and in sustaining their business and expectations of the customers towards the bank services.
This study will give certain strategic implications for the effective marketing of banking services. Appropriate remedial measures have also been given for the effective and profitable functioning of banking services.

1.9 PERIOD OF THE STUDY

The time span required for the study was four years. The data collected from the primary sources took fifteen months. The conceptual framework and literature review were collected from secondary sources, which took twelve months period. Preparing the master table, data analysis and interpretation consumed about six months. To present the data in the form of the report took another three months.

1.10 LIMITATIONS OF THE STUDY

The study suffers from the following limitations:

1. The survey was conducted only in four Zones like Chennai, Coimbatore, Salem and Trichy in Tamil Nadu state. Hence, the results arrived from the study may or may not be applicable to other Zones.

2. Out of the total population, only one thousand and forty respondents were selected for eliciting first-hand information. In view of time and monetary constraints, it was not possible to contact more than the selected number of respondents.

3. The findings and results are based on the respondent’s opinion only.

4. Most of the respondents had given information about their economic backgrounds like annual income, occupation and the like from their memory as they had no specific verifiable account of them.
Hence, the generalization of the findings of the study is subject to these limitations.

1.11 CHAPTER SCHEME

The present empirical study has been divided into four chapters. **Chapter 1 - Introduction and design of the study**, includes Introduction, importance of the study, Statement of the problem, Objectives of the study, Methodology used, Frame work of analysis, Period of the study, Scope and Limitations of the study.

**Chapter 2 – Review of Literature** presents review of related literature available in this field. The review of literature lists the researches done by the previous researchers in India and other countries.

**Chapter 3 – An overview** of banking sector services has been provided in this chapter.

**Chapter 4 – Data analysis and Interpretation**, it deals with the analysis of Customer Satisfaction, Customer perception, Customer expectation, Customer loyalty and Customer Relationship Management with respect to demographic variables. The association between demographic variables and various banking services has been examined. Moreover the analysis of ATM services and augmented services rendered by banks are dealt with.

**Chapter 5 – Summary and findings, suggestions and conclusion**- highlights the summary of the findings and suggestions to improve the existing banking services. At the end of the chapter, conclusions have been derived.