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# *Customer Satisfaction in Public Sector Banks of Tamilnadu With Reference to Erode District*

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## **Abstract**

*The Private sector banks in India have achieved a higher growth rate compared with Public sector banks over a seven year period (2004~2011). Data is collected through a questionnaire from 975 customers at 41 branches of 5 public sector banks and private sector banks each, located in the 5 taluks of Erode district. Data on Bank/Branch attributes, Customer Service Characteristics, Customer attributes, Perception about Competitors, the period of holding the account, the reason for choosing a particular bank, the likely period for which the customer will maintain the account and the likely reason for changing the bank were collected and analysed. Logistic regression model is used to identify the factors that contributed to Customer Satisfaction. The study finds that Bank/ Branch attributes such as convenient location, access, and parking space and working hours have the greatest impact on Customer Satisfaction. Customer service characteristics like account handling, customer friendly policies and customer handling also influence Customer Satisfaction. However, Customer satisfaction itself does not have an effect on the length of period the customer will continue to maintain his account. The most important reason why customers intend to change the bank is "Change in job/ residence" followed by the "Need for more facilities (credit)". "Customer service" is given as a reason for leaving only over a longer period of 1 to 5 years.*

**Key Words :** *Customer Service, Credit Facilities, Private Sector Banks.*

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## **1. INTRODUCTION**

Customer satisfaction is a term frequently used in marketing. It is a measure of how products and services supplied by a company meet or surpass customer expectation. Customer satisfaction is defined as "the number of customers, or percentage of total customers, whose reported experience with a firm, its products, or its services (ratings) exceeds specified satisfaction goals." In a survey of nearly 200 senior marketing managers, 71 percent responded that they found a customer satisfaction metric very useful in managing and monitoring their businesses. It is seen as

a key performance indicator within business and is often part of a Balanced Scorecard. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. "Within organizations, customer satisfaction ratings can have powerful effects. They focus employees on the importance of fulfilling customers' expectations. Furthermore, when these ratings dip, they warn of problems that can affect sales and profitability.... These metrics quantify an important dynamic. When a brand has loyal customers, it gains

positive word-of-mouth marketing, which is both free and highly effective.”

Therefore, it is essential for businesses to effectively manage customer satisfaction. To be able to do this, firms need reliable and representative measures of satisfaction.

### Statement of Problem

- ❖ The main problem is to review the service quality levels in public and private sector banks and study the relationship between service quality and the intention of the customer to remain with the bank.
- ❖ Private sector banks have deployed new technologies in providing quality service to their customers.

It is necessary for the public sector banks to make and exceed the service levels achieved by the private sector banks. Service quality is a multi-dimensional variable and it is necessary for public sector banks to compare their service offerings with those of private sector banks. This will enable them to identify their areas of weakness so that they can take steps to eliminate their weaknesses and ensure that their customers do not leave them.

## 2. OBJECTIVE OF THE STUDY

The objectives of the study are as follows:

1. To find out the opinion of the customers towards services rendered by the public sector banks.
2. To find out the opinion of the customers towards services rendered by the private sector banks.
3. To analyze the variables determining the customer satisfaction and loyalty.

## 3. METHODOLOGY

Erode District is purposively selected for this study. With the choice of Erode District as the study area, all the customers of selected public and private sector banks in the five taluks of Erode district

constitute the universe for the study. A sample of the universe is selected and studied. This study has been confined to the public sector banks as well as private sector Banks operating in India.

**(a) Randomising the selection of customers :** Randomization is done on the basis of time of visiting the bank.

Let the number of working hours of the banks in a week by  $5 \times 5 + 1 \times 3 = 28$  hours.

If the sample size is  $x$  for that location, then this may be randomized in the following manner.

The interval time between two visits should be  $28/x$  hours.

The time of the first visit may be chosen at random using random number table. ( say  $t_1$  )

All subsequent visits should be at intervals of  $28/x$  hours.

**(b) Data Collection :** The study made use of both secondary data and primary data. Secondary data were collected from the records of the Taluks and population size has been collected from [http://erode.nic.in/dist\\_profile\\_201112.pdf](http://erode.nic.in/dist_profile_201112.pdf).

**(c) Primary Data :** The sample of 1000 customers was selected by the method described above. They were personally contacted and the required information was collected by personal interview method with a well designed questionnaire.

## 4. SCOPE OF THE STUDY

The present study mainly focuses on customer satisfaction of public sector banks and Private Sector Banks. A comparison in respect of the above aspects of public sector banks has been made with Private Sector Banks operating in India.

## 5. LIMITATION OF THE STUDY

The study suffers from the following limitations:

- ❖ The study is confined the respondents of erode district only.
- ❖ Since the customer data cannot be acquired from banks, sample size and methodology has

been decided based upon the total population in the project area.

## 6. REVIEW OF LITERATURE

Thorsten Hennig-Thurau and Alexander Klee (1997) in this study customer satisfaction is often viewed as a central determinant of customer retention.

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.

Moon-Koo Kim, Myeong-Cheol Park, Dong-Heon Jeong (2004), investigates how customer satisfaction and the switching barrier influence customer loyalty.

Anders Gustafsson, Michael D. Johnson, & Inger Roos (October 2005), examine the effects of customer satisfaction, affective commitment, and calculative commitment on retention

Mostafa Ghazizadeh, Ali Soleimani Besheli, Vajihah Talebi (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.

PROF J.Gopalkrishnan, Dr.B.B.Mishra, Dr.V.K.Gupta, PROF.A.Vetrivel (2011), empirically examines the potential constructs in customer retention by investigating the effects of service quality and customer satisfaction.

## 7. AN OVERVIEW OF PUBLIC SECTOR AND PRIVATE SECTOR BANKS

The Indian Banking System has witnessed significant transformation in recent years. Indian banks, before the institution of financial sector reforms, operated in a highly regulated environment with regard

to different parameters, such as branch location, deposit and lending rates and deployment of credit, to mention a few. Further, in view of the social responsibility placed on the banking sector, profitability was not considered as a important yardstick of their performance. Form the time of the nationalization of 14 major scheduled commercial banks in 1969 followed by 6 more banks in 1980 and until the early 1990s, the main thrust of banking operations was on social banking.

Accordingly, the emphasis was placed on enhancing the branch network in rural and semi-urban areas. Further, banks had to undertake several other responsibilities, which included the fiscal deficit and facilitating the development of certain specific sectors.

### Logistic Regression - Backward LR (Likelihood Ratio) Method

: Backward stepwise regression appears to be the preferred method of exploratory analyses, where the analysis begins with a full or saturated model and variables are eliminated from the model in an iterative process. The fit of the model is tested after the elimination of each variable to ensure that the model still adequately fits the data. When no more variables can be eliminated from the model, the analysis has been completed. The variables taken for study are as follows

Y – Customer satisfaction index (dependent)

X<sub>1</sub> - Branch attributes

X<sub>2</sub> - Customer friendly policies

X<sub>3</sub> - Image about the bank

X<sub>4</sub> - Account handling

X<sub>5</sub> - Customer handling

X<sub>6</sub> - Staff

X<sub>7</sub> - Handling complaints

X<sub>8</sub> - Responsiveness

**Table 1 : Variables in the Equation from Block 1**

		<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
Step 1 with all 8 variables	X <sub>1</sub>	1.557	.214	53.084	1	.000	4.743
	X <sub>2</sub>	.594	.193	9.456	1	.002	1.811
	X <sub>3</sub>	1.508	.216	48.905	1	.000	4.518
	X <sub>4</sub>	.727	.172	17.813	1	.000	2.069
	X <sub>5</sub>	.530	.203	6.848	1	.009	1.699
	<b>X<sub>6</sub></b>	<b>-.056</b>	<b>.271</b>	<b>.043</b>	<b>1</b>	<b>.835</b>	<b>.945</b>
	<b>X<sub>7</sub></b>	<b>-.248</b>	<b>.246</b>	<b>1.015</b>	<b>1</b>	<b>.314</b>	<b>.780</b>
	<b>X<sub>8</sub></b>	<b>.201</b>	<b>.251</b>	<b>.646</b>	<b>1</b>	<b>.422</b>	<b>1.223</b>
	Constant	-19.634	1.372	204.827	1	.000	.000
Step 2 after removing variable X <sub>6</sub>	X <sub>1</sub>	1.557	.214	53.052	1	.000	4.744
	X <sub>2</sub>	.594	.193	9.471	1	.002	1.812
	X <sub>3</sub>	1.499	.210	50.912	1	.000	4.475
	X <sub>4</sub>	.726	.172	17.733	1	.000	2.067
	X <sub>5</sub>	.513	.187	7.559	1	.006	1.671
	<b>X<sub>7</sub></b>	<b>-.263</b>	<b>.236</b>	<b>1.249</b>	<b>1</b>	<b>.264</b>	<b>.768</b>
	<b>X<sub>8</sub></b>	<b>.190</b>	<b>.244</b>	<b>.605</b>	<b>1</b>	<b>.437</b>	<b>1.209</b>
	Constant	-19.655	1.369	206.153	1	.000	.000
Step 3 after removing variable X <sub>6</sub> , X <sub>8</sub>	X <sub>1</sub>	1.561	.214	53.308	1	.000	4.764
	X <sub>2</sub>	.634	.186	11.655	1	.001	1.885
	X <sub>3</sub>	1.534	.206	55.568	1	.000	4.637
	X <sub>4</sub>	.738	.172	18.491	1	.000	2.091
	X <sub>5</sub>	.527	.187	7.980	1	.005	1.694
	<b>X<sub>7</sub></b>	<b>-.159</b>	<b>.193</b>	<b>.675</b>	<b>1</b>	<b>.411</b>	<b>.853</b>
	Constant	-19.750	1.366	208.986	1	.000	.000
Step 4 after removing variable X <sub>6</sub> , X <sub>8</sub> , X <sub>7</sub>	X <sub>1</sub>	1.551	.214	52.606	1	<.001**	4.714
	X <sub>2</sub>	.609	.185	10.889	1	.001**	1.839
	X <sub>3</sub>	1.479	.194	58.294	1	<.001**	4.388
	X <sub>4</sub>	.724	.170	18.065	1	<.001**	2.063
	X <sub>5</sub>	.460	.169	7.411	1	.006**	1.584
	Constant	-19.669	1.359	209.491	1	.000	.000

\*\* Reject null hypothesis at 1% level of significance

❖ **B**-These are the values for the logistic regression equation for predicting the dependent variable from the independent variable. They are in log-odds units. Similar to OLS regression, the prediction equation is  $\log(p/1-p) = B_0 + B_1 * X_1 + B_2 * X_2 + B_3 * X_3 + B_4 * X_4 + B_5 * X_5$

where p is the probability of customer being satisfied. Expressed in terms of the variables used in this example, the logistic regression equation is  $\log(p/1-p) = -19.669 + 1.551 * X_1 + .609 * X_2 + 1.479 * X_3 + .724 * X_4 + .460 * X_5$

**X<sub>1</sub>** - For every one-unit increase in X1 (so, for every additional point on the Branch factor), researcher expects a 1.551 increase in the log-odds of **customer satisfaction**, holding all other independent variables constant.

**X<sub>2</sub>** - For every one-unit increase in X2, researcher expect a .609 increase in the log-odds of **customer satisfaction**, holding all other independent variables constant.

**X<sub>3</sub>** - For every one-unit increase in X3, researcher expect a 1.479 increase in the log-odds of **customer satisfaction**, holding all other independent variables constant.

**X<sub>4</sub>** - For every one-unit increase in X4, researcher expect a .724 increase in the log-odds of **customer satisfaction**, holding all other independent variables constant.

**X<sub>5</sub>** - For every one-unit increase in X5, researcher expect a .460 increase in the log-odds of **customer satisfaction**, holding all other independent variables constant.

**Table 2 : Impact of predictor variables on the equation from Block 1**

	Number of variables in the equation	Predicted percentage of customer satisfaction	Variable(s) removed in every step	Significant p value for the removed variable (s)
Step 0	Only constant	53.8	-	-
Step 1	8	84	-	-
Step 2	7	84	X6 dropped	.835
Step 3	6	84.2	X6 and X8 dropped	.437
Step 4	5	83.4	X6,X7 and X8 dropped	.411

The significant p value given in the table above indicates the probability that the coefficient for variables X<sub>6</sub>, X<sub>7</sub>, X<sub>8</sub> in the logistic regression equation is equal to zero. Hence the variables X<sub>6</sub>, X<sub>7</sub>, X<sub>8</sub> are not included in the final logistic regression equation.

**8. DISCUSSION OF FINDINGS AND CONCLUSION**

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

the public sector banks and private sector banks have concluded that private sector banks provide greater level of customer satisfaction (Maya Lohani & Kamlesh Kumar Shukla , 2011; Deepak Tandon et al, 2012).

**(a) Bank/Branch Attributes and Customer Satisfaction :** The analysis reveals that the Bank/Branch attributes made a major contribution to customer satisfaction. Branch attributes such as ‘Convenient Location’, ‘Access’, ‘Parking Space’, ‘Working Hours ’and ‘Comfort’ are a set of attributes which can readily cause dissatisfaction if they are not provided adequately. These factors are what are called ‘Dissatisfies’ their presence does not add to satisfaction but their absence leads to dissatisfaction. The continued relevance and importance of bank branches was

emphasized by European customer Ernst & Young (2010) and Indian Customers Accenture (2010).

**(b) Customer Service Characteristics and Customer Satisfaction :** Among the 6 factors of customer service characteristics included in the conceptual framework 3 factors namely 'Account Handling', 'Customer Friendly Policies' and 'Customer handling' contributed significantly to explain customer satisfaction.

**(c) The Role of 'Customer Satisfaction' In 'Customer Retention' :** The analysis revealed that

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



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