Resurgence of Public-Sector Banks vis-à-vis Private Sector Banks: A Study in the Indian Context

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Abstract

The current paper evaluates the contemporary banking sector in India. The financial institutions, particularly the banking industry has come into focus ever since the financial meltdown started in mid-2008. The customers' confidence in them has been well tested under these circumstances. Retail banking has undergone colossal transformation in terms of innovative business models, lucrative product and service offerings, multiple and friendly mode of transactions and greater customer outreach. Both the private and public banks have evolved their business strategies to befit the changing customer needs and forayed into unprecedented avenues to maximize business value. In this context, a comparative study has been undertaken here to assess the customer satisfaction in these banks and find the underlying factors which have impacted the growth of public sector banks vis-à-vis the private-sector banks.

Keywords: Customer Satisfaction, Indian Banks, Public Banks, Private Banks, Retail Banking

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Introduction

India with its vast growing population has a very high demand for financial services. Banks – private and public are fighting out in terms of service quality, promptness, round the clock banking and mobility. The global financial crisis has put the financial institutions at the centre stage. The Indian Banks have not only shown resilience but also have grown in the same period when major banks in the United States and Europe have gone bankrupt. The public-sector banks as well as private sector banks in India have sailed through the storm with only some stimulus from the government side. This entitles us to revisit the factors which have influenced the customers in trusting their banks. Banking services are no longer management-controlled and rather they are customer-oriented. The competition among the public-sector banks and the private-sector banks are evident. The flexibility of banks to offer customized services to the customers at competitive rates across spectrum of different financial instruments has become a key differentiator. With comprehensive understanding of customers' needs, companies can tailor their products and services to suit individual customers and mutually profitable. Those who have successfully mapped the needs of the customers are going to sustain their business in the long run. The advent of Information Technology has brought colossal changes in the manner which banking is being conducted. The laggards have adapted to the changing needs to stay in the business and in several other cases have become innovators.

Objectives

1) To study and analyse the parameters on which the satisfaction among bank customers depend.
2) To contrast and compare the level of satisfaction among the customers of private sector and public sector banks.

Rationale of the Study

The rationale of this study is to understand the parameters which determine the customers' satisfaction and to analyse the current perception of the customers about the public-sector and private-sector banks. This would provide insight on the level of satisfaction of the customers associated with these banks; whether the emergence of new private banks have eroded the value of the public-sector banks or that the public-sector banks have equally evolved to come at par with the customers' expectations.

Literature Review

The outcome of one's experiences and the ability to meet the standards and expectations on the suppliers' part is satisfaction (Dwyer et al., 1987; Fornell, 1992; Oliva et al., 1992). Satisfied customers determine optimal performance and provide the financial returns. Customer satisfaction often depends on the quality of product or service offering. However satisfaction is not the same as perceived quality. Whereas quality perceptions are rational, satisfaction is more of an emotional reflection. Satisfaction is a sense of fulfilment. Expectations are not perpetual and rather vary from one individual to another and may also be different for the same individual at different times. Convenient location is a for business is an important factor which influences the expectations by customers. A convenient bank location ensures that customers can conduct their business comfortably with their banks regularly (Levesque and McDougall, 1996). Accessibility is also an associated factor, which combined with convenience enables customers to transact with their banks with greater ease (Levesque and McDougall, 1996).

Due to liberalization in developing countries, the banking sector has opened up and with the new entrants hailing from several developed countries as well as domestic sphere giving a tough competition to the old banks (Kuada and Buatsi, 2005). The selection of bank is also expected to affect the customer's satisfaction (Levesque and McDougall, 1996). There have been many studies which have investigated the underlying reasons of the customers while choosing a bank (Anderson et al., 1976; Denton and Chan, 1991; Erol and El-Bdour, 1989; Khazeh and Decker, 1992; Kaynak et al., 1991; Laroche and Taylor, 1988; Levesque and McDougall, 1996; Tan and Chua, 1986). Some of the factors identified are location, word of mouth/ recommendations, overall reputation of the bank, credit availability, reasonable interest rates, banking duration, ATM facilities, quality of services, and responsiveness of the bank employees. Implementation of IT in banking has changed the way in which banks deal with its customers. The importance of technology in shaping buyer-seller interactions have been well investigated (Parasuraman and Grewal, 2000).

Peter Drucker stated that the purpose of business is to create and keep a customer. Thus, relationship marketing aims to build a long-term bond, a formidable relationship between the buyer and seller and satisfy the needs of the customers wholesomely which would be mutually beneficial (Rapp and Collins, 1990). Gummesson (1993) stressed on the need to manage customer interactions, relationships and networks.

Research Methodology

A total of 73 customers' data was collected out of which 35 belonged to public banks and 38 belonged to private banks. The questionnaire was administered to all customers at places, not necessarily during banking hours or in the vicinity of the banks, where they can comfortably answer them. Banks covered are, namely, SBI, PNB, Bank of India, IDBI, UCO Bank, and HDFC. These banks are present throughout the country and has strong customer base. The questionnaire included 19 questions out of which 16 main questions were formulated in the Likert Scale to determine the satisfaction of the customer with the banks chosen for the study. The questionnaire was divided into three sections – Location, Customer service and Products and services. The questionnaire was randomly administered to the customers.

1.The first part consisted of the satisfaction level with the location (accessibility) of the bank, its hours of operation and kind of area the bank is within.

2.The second part of the questionnaire dealt with variables involving Customer service like employee behaviour, responsiveness, problem handling and solving, telephonic services.
3.The third part of the questionnaire dealt with satisfaction with respect to the quality in products and services viz. deposit and loan products, account opening, online banking services, debit card facility and ATM services.
Sampling Element: Individual respondents were the sampling element.
Sampling Technique: Purposive sampling technique was used to carry out the research study.

The following methods were used for data analysis (Using SPSS 16.0):
a) Reliability test to check the reliability of the questionnaire.
b) Factor analysis to find out the dominant factors affection customer satisfaction and thereby reducing the redundant ones.
c) Z-test to compare the level of customer satisfaction among public sector banks and private sector banks.
Null hypothesis – $H_0 : \mu_{public-\sec tor} = \mu_{private-\sec tor}$

i.e. to state that there is no difference in the satisfaction among the customers of public-sector and private-sector banks.

Level of significance, α = 0.01 for all the tests conducted here.
The mean was tested for each of sub-totals of the three broad categories – Location, Customer service and Products and services independently and then the mean with the total scores was computed and compared. The descriptive statistics for the two groups was computed. Next, the Levene's Test for Equality of Variances was observed. This test reflects whether the two groups have approximately equal variance on the dependent variable. If the Levene's Test is significant (the value under "Sig." is less than 0.01), the two variances are significantly different. If the Levene's test is not significant, we can conclude that the variances have not shown enough deviation and hence the variances are approximately equal. Finally, we see the results

of the Independent Samples T Test. The conclusion can be derived from these results.

Results and Discussions

Table 1: Reliability Test for Public and Private Sector Banks

Reliability Statistics (For Public-sector Banks)		Reliability Statistics (For Private-sector Banks)	
Cronbach's Alpha	No. of Items	Cronbach's Alpha	No. of Items
.891	16	.800	16

The reliability values derived for both are high. So it can be said that all the items in the questionnaire are highly reliable.

Table 2: Factor Analysis for Public-Sector Banks

Factor Name	Eigen Value			Variable Convergence	Loading Value
	Total	% of variance	Cumulative % of variance		
Internal Marketing	6.408	40.048	40.048	1. Location 2. Hours of Operation 4. Prompt & Efficient Service 5. Feel	0.721 0.648 0.675

				welcome 6. Responsive to request 7. Problem solving 8. Business ease 10.Deposit products 11. Loan products 12. Opening deposit	0.621 0.762 0.793 0.729 0.664 0.734 0.663
Multi-channel Banking	3.340	20.874	60.922	14. Online Banking 15. Debit card 16. ATM Services	0.777 0.836 0.741
Loan Feasibility	1.127	7.045	67.967	2. Hours of Operation 3. Professional appearance	-0.375

				of the office 9. Telephone call 11. Loan products 13. Opening Loan Account	-0.628 0.337 -0.303 0.388

Internal Marketing

The principal role of internal marketing is to ensure everyone within the organisation not only understands why the organisation exists but also its key outputs and metrics, and most importantly, how every person and department contributes to the delivery of the proposition. This factor is mainly considered with the behaviour of the employees and the environment of the bank. The manner in which the bank handles the requests and problems of the customers also can be categorised under this.

Multi-channel banking

This factor is related to providing convenience to the customer without actually going to the bank. Apart from the traditional banking services, in this Information Technology era, Customers’ expectations have raised and it is felt that demand for banking services through Mobile, Internet and ATM services has become vital in satisfying the customers. Today multi-channel business imperatives and vision has become inseparable; the recommended IT strategies, in turn, help banks reduce operating costs while supporting fully integrated operations and core building blocks for multi-channel banking.

Loan feasibility

Flexible loans are those which have been designed or customized keeping in views every aspect of the borrowers and their financial feasibility. These loans are flexible, versatile and save money. They allow a borrower to enjoy the advantages of low repayment, capital repayment holidays, choice of repayment amount and frequency and freedom of making payment according to your convenience. Thus, procuring flexible loans is highly beneficial to the customers

Table 3: Factor Analysis for Private-Sector Banks

Factor Name	Eigen Value			Variable Convergence	Loading Value
	Total	% of variance	Cumulative % of variance		
Interaction with the Bank	4.970	31.065	31.065	2. Hours of Operation 6. Responsive to request 7. Problem solving 8. Business ease 9. Telephone Call 13. Opening Loan A/C 15. Debit card 16. ATM Services	0.689 0.725 0.684 0.726 0.629 0.654 0.734 0.625
Products and Internal	2.814	17.588	48.653	4. Prompt & Efficient	

Marketing				Service 5. Feel welcome 11. Loan products 12. Opening deposit A/C 14. Online Banking	-0.537 -0.541 0.548 0.782 0.673
Professional Appearance	1.425	8.909	57.562	3. Professional appearance of the office	0.650
Location	1.172	7.327	64.889	1. Location	0.794
Deposit Products	1.132	7.076	71.965	10. Deposit Products	0.724

After Factor analysis, the following factors have been identified for the private-sector banks which determine customer-satisfaction.

Interaction with the Bank

Despite infusion of IT and banking services available at the desktop, the retail bank customers still emphasise on direct and face-to-face interaction. The implications of this finding are that if banks want to encourage widespread customer satisfaction, they must better understand customer attitudes towards the delivery channels.

Products and Internal Marketing

As already mentioned previously that the principal role of internal marketing is to ensure every person and department contributes to the delivery of the proposition. Similarly the products that are being made available to the customers play a steering role in deciding customer satisfaction.

Professional Appearance

It is noteworthy out that the customers of a private-bank consider professional appearance of the bank as a major factor for their satisfaction. Private Banks have been known for their professionalism and the manner in which they conduct their operations and business. Team management and collective responsibility form an integral part of the private banks.

Location

The location of the bank and its surrounding areas gives a sense of security and ease for transaction of business. The private banks are usually located at major public spots and which can be reached comfortably.

Deposit Products

The deposit schemes or products being offered by the bank is a major attraction for the customers. If the products provide higher rate of interest, there would be more return on their investment. Current accounts, Savings bank account, Recurring Deposit account and Fixed Deposit accounts provide different facilities and remunerations for the customers.

Z-Test Results

The Z-test (Independent samples T-test) gave the following results:

In the following outputs "VAR00002" stands for the type of bank i.e. 1 corresponds to public-sector banks and 2 corresponds to private-sector banks. "VAR00001" consists of the total points given by every respondent.

Table 5 : Descriptive Statistics for Public and Private Sector Banks

Group Statistics

	VAR00002	N	Mean	Std. Deviation	Std. Error Mean
VAR00001	1	35	51.8286	10.24260	1.73132
	2	38	61.7105	6.73397	1.09239

First, the descriptive statistics for the two groups is observed. It is observed that the mean for the "Private-sector" group (61.7105) is higher than that of the "Public-sector" group (51.8286). That is, customers of private sector banks are overall more satisfied, on average, than the public-sector bank customers.

Table 6: Two Sample t-test for Equality of means of Private and Public Sector Banks

Levene's Test		t-test for Equality of Means						
F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	99% Confidence Interval of the Difference	
							Lower	Upper
3.591	.062	-4.908	71	.000	-9.88195	2.01359	-15.2114	-4.5523
		-4.827	58.012	.000	-9.88195	2.04714	-15.3340	-4.4299

From the Levene's Test for Equality of Variances it is found that the significance is 0.062, which is higher than 0.01. Thus the variances are equal. It means that there is no vast difference in the satisfaction among the customers of the public-sector and private sector-banks. Hence we accept our null hypothesis viz. $H_0 : \mu_{public-\sec tor} = \mu_{private-\sec tor}$

Discussions

Both public-sector and private-sector banks have been competitive when it comes to customers' perception and satisfaction. Though on the average, customers of private banks are more satisfied by their respective banks but, there is no vast difference. On our selected criteria viz., Location, Customer Service and Product and Services, private banks had a slight edge over the public banks. However, there was no considerable difference in their variances. The public-sector banks are not much behind the private-sector banks despite some preconceived notions that private-sector banks are more customer-friendly and responsive. This might be due to the fact that the public-sector banks have revamped their policies and have created a brand image for themselves at par with the private-sector banks. The raised customer expectations, apart from the traditional banking methods, have been incorporated to a great extent in the philosophy of public-sector banks. Multi-channel banking like ATM, debit cards and internet banking have become indispensable for the banks. The phenomenal success of the PSU banks in the current context is a definite indicator to this.

It is suggested that these results indicate that customer satisfaction is based not only on the judgement of customers towards the reliability of the delivered service, but also on customers' experiences with the service delivery process. These findings are similar to those reported earlier (Levesque and McDougall, 1996; Naser et al., 1999).

To enhance the bank-customer relationship, the bank employees should be imparted proper training so that they can synchronize themselves with the needs of their customers and not just limited to their behavioural aspects with the customers. This is in line with the findings of Parasuraman et al. (1991). However, managers must lay equal emphasis on the tangible dimensions of service quality as customers are likely to infer regarding the overall service quality on the basis of tangibles delivered to them (Dabholkar et al., 1996; Wakefield and Blodgett, 1999).

One of the primary objectives of this study was to identify the factors responsible for customer satisfaction in public-sector and private sector banking. Features such as convenience also contributed to customer satisfaction, as did flexible loan and interest rates and skilled employees. The notable part of these findings is that service quality elements such as employee-customer relationship, service offerings drive the customers’ attitude towards the banks.

Banks should probably consider the value or contribution to customer satisfaction of each dimension of the total service offering and allocate resources accordingly. Findings suggest that banks can create customer satisfaction by exhibiting trustworthy behaviour, showing genuine commitment to service, communicating information to customers efficiently and accurately, delivering services competently, handling potential and manifest conflicts skilfully, and improving overall customer relationship quality.

Current Limitations, Implications and Future Scope of Study

This study was conducted in a bank setting, and may not be generalised in other industries. The most important limitation is the difficulty in conducting interviews with the respondents for a longer period. The questionnaire prepared and used consisted of limited number of questions to bring out all the aspects of customer satisfaction. The sample size was unexpectedly smaller and a larger sample can only suffice this limitation. Since convenience sampling was used for data collection, homogenized sample in terms of gender, income levels, education and other demographic factors could not be obtained.

Concerning future investigations, researchers should consider taking a broader view towards identifying the factors impacting customer satisfaction among the bank customers. Future investigations in this area might segment the banks as well as their customers. Banks could be segmented on the basis of their reputation, cash reserves, and period of operation. Customers may be segmented and profiled on the basis of their income levels, age, and gender and then each segment co-related against each other. This approach might provide useful insights into the composition of the service from the customer's viewpoint who are at different stratum of the society.

Conclusion

Despite the global financial meltdown, banks in India have not only resisted but also made growth in the same period. The current findings assess and compare the underlying factors behind customers’ trust and loyalty. Banks which maintain high quality relationship with customers will end up with more satisfied customers. By having a wholesome understanding of the customers, banks can tailor their offerings as per the customers’ needs which in turn would build quality relationships with the customers. Besides building quality relationships, banks should have strong in-built value system, commitment towards customer service, active communication or information channel for customers. In order to differentiate themselves and to build customer satisfaction, banks need to understand the drivers of satisfaction and rapidly remove any impediments in customer satisfaction. The findings of this study clearly establish the influence of the major factors for customer satisfaction in banking, reaffirming the importance of the products and services as a main factor followed by customer service of the banks in improving or maintaining customer satisfaction in public-sector and private-sector banks. The findings also shed the primitive view towards public-sector banks and with the development of new working models they have become sensitive and proactive towards the customers' needs.

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