

Customer Empowerment - A Way to Administer Customer Satisfaction in Indian Banking Sector

Deboshree Chatterjee¹, Savanam Chandra Sekhar^{2*} and M. Kishore Babu³

¹ Research Scholar, KL Business School, Koneru Lakshmaiah Education Foundation (Deemed to be University), Vaddeswaram-522502, Andhra Pradesh, India. Email: deboshreechatterjee1@gmail.com

² Associate Professor, KL Business School, Koneru Lakshmaiah Education Foundation (Deemed to be University), Vaddeswaram-522502, Andhra Pradesh, India. Email: savanam.sekhar@kluniversity.in

³ Professor, KL Business School, Koneru Lakshmaiah Education Foundation (Deemed to be University), Vaddeswaram-522502, Andhra Pradesh, India. Email: kishore@kluniversity.in

* corresponding author

Abstract

The Indian banking sector is one of the foundation pillars of the Indian economy. This sector has entered transition phase from post liberalization period. The banking sector has witnessed high competition, change in demand pattern and modernization in this phase. It has emerged as a complete customer-oriented service sector where customers are the focal point. Nevertheless, all banks are feeling the heat of burning need of increasing the level of customer satisfaction and manage customer churn. A modest attempt is made in this study to perform a descriptive and exploratory research on determining a way on how the banks perform something unique to satisfy and retain customers. The study determines how customer satisfaction depends on relationship marketing dimensions implemented by the banks. The study develops a model to explain the positive impact of customer empowerment on customer satisfaction.

Keywords: Customer churn, customer retention, mediation model, relationship marketing, structural equation model.

Introduction

Banking is not only confined as a service in the economy but also necessity in day-to-day walk of life. The banking sector has transformed through major phases with the passage of time. It was not made any significant development till 1969. However, few initiatives were attempted to phase out modern banking such as merger of small banks and institution of State Bank of India, establishment of Reserve Bank of India, and constitution of Banking Regulation Act, 1949. The process of nationalization was initiated by the Government of India during the second phase after 1969 to ensure economic stability of the citizens. Further, liberalization in post 1991 has taken Indian Banking sector to another level. This phase is earmarked with high competition, change in demand pattern, and modernization. Indian banking sector has emerged as a complete customer-oriented service sector in this phase and all banks are feeling the heat of burning need of increasing the level of customer satisfaction, customer loyalty and manage customer churn.

Customer Empowerment in Banking Sector

Customer empowerment is a new approach of offering excellent experience to the customers so that they can feel that they understand their financial lives better and get more control on it. Banks educate their customers and embed financial inclusion into the system to ensure customer empowerment. Many researchers and academicians have suggested that empowerment of customers is significantly necessary in banking sector too. Customer empowerment has been identified as a major element of marketing which would help the organization to stand in highly

competitive market. The feeling of empowerment among bank customers is that their improved ability to take conscious decisions regarding their financial lives. The experience of empowerment certainly generate satisfaction.

Customer Satisfaction in Banking Sector

A profitable business cannot exist without a satisfied customer base. Especially in the service sector where customers are pivotal and customer satisfaction is major element on which profitable survival of the firm depends. Satisfaction can be summarized as a feeling of customers that they experience with the company. In this modern competitive era, customer satisfaction is determined as a significant measure of the organizational success and long-term survival. The banks are trying hard to understand specific needs of customers as they help in offering increased satisfaction. Many studies revealed that empowerment of customers add significant value to their experience in turn gives them high level of satisfaction.

Customer Retention in Banking Sector

Customer retention refers to the ability of an organization to retain existing customers for a long period of time. Customer retention is an extremely important issue in today's banking sector. The bank market has become highly competitive and dynamic where profitable survival is a matter of concern. Every year, around 15% of customer churn takes place in the banking sector. So, customer retention has become a domain that should be taken care of by the banks. The banks are expected to provide beyond the core banking products and services to their customers as well as to provide the best experience to them. The banks understood the importance of customer retention as retention is less costly affair than new customer acquisition.

Review of Literature

Banks serve as the foundation for the financial growth and development of the nation. They play an important role in mobilizing and channelizing the savings of the country's people in a profitable way. So, the financial stability of the country and its people depend on the banking sector [1]. Later, the rise and growth of the digital payment system in India are explained. The digital payment system of the country made it transparent, and people became more dependent on the banking sector. Hence, banking services became the essential services of the economy [2]. The importance of satisfaction and connectivity of customers with their banks were tried to explain in research as banks are completely customer-oriented service sectors. The status of the Indian banking sector is highly competitive and dynamic. So, excellence in customer service is the important policy of satisfying and retaining the customers and sustained growth of banks [3]. Further, it is highlighted that customer satisfaction and loyalty are the core elements of any business. All companies should aim to maintain a long and happy relationship with their customers. For this, it is very important to understand the specific needs of the customers and to meet them. Acknowledging the actual individual needs of customers would ensure satisfaction and loyalty among them [4]. Relationship marketing dimensions are determined in further study. The major dimensions are reliability of the information, responsiveness of employees, competence, access to all kinds of services, courtesy of employees, credibility on the relationship with a banking partner, security of financial transactions, customization, tangibility, etc. The study ascertains the positive impact of relationship marketing on customer satisfaction [5]. Further, it is explained that in the modern era banks are focused on few aspects like interpersonal service, omnichannel experience, effective problem solving which help in increasing customer satisfaction.

The banking sector is trying to offer high customer satisfaction to improve the performance of the banks [6]. There is an attempt to ascertain the innovative banking services which lead to customer empowerment and further customer satisfaction in turn overall performance of banks. All the banking employees should focus on establishing and maintaining sound and healthy relations with their customers with the help of relationship marketing dimensions. The dimensions are timeliness, effective communication, clear and sufficient details, effective services provided by the employees, etc. These dimensions have a positive impact on customer empowerment. Further, customer empowerment is significantly related to customer satisfaction and overall performance of banks [7]. The importance of managing happy relations with customers is essential in a customer-oriented service sector like banking. The efforts put forth by banks in developing healthy relations with customers result into high customer satisfaction which in turn leads to customer loyalty. Loyal customers are the main source of increasing the business [8]. Another study measures determinants of customer loyalty. The study ascertains major determinants as customer satisfaction, trust in the brand, pricing policy, and service quality offered by the banks. Customer loyalty is ascertained as the foundation for successful business [9]. Later studies were advocated the dire need of implementing relationship marketing in the banking sector to acquire and retain profitable customers. The relationship marketing dimensions like trust, commitment, communication, gratitude, etc. play a major role in satisfying the customers and attaining customer loyalty [10]. Added dimensions such as empathy, conflict management by the employees, trustworthiness, perceived value by customers and commitment, etc. were explored by another study. Loyalty is a strong commitment of the customers to stay connected with the organization. So, it is the most significant element of success. Customer loyalty is the most desired element for survival and profitability in a highly competitive banking environment [11]. Another study explained the need of managing customer churn in the banking sector. The present bank market is highly competitive. So, acquiring new customers is not possible always. The study suggested that implementation of relationship marketing dimensions is inevitable to derive customer satisfaction and customer retention [12]. Later, a study on transition of retail banking in India has explored major challenge of banking sector to gain customer satisfaction, trust, and loyalty. It is suggested that banks should focus on the implementation of relationship marketing dimensions to develop the perception of empowerment among customers. Empowered customers always feel more satisfied with their banking partners and desire to be loyal to their banks [13]. It is revealed in the further study that understanding the changing demand of the customers and promptly meeting them by the banks is a must in competitive environment. Understanding the customers in a better way and serving them is a way to satisfy and retain the customers in a profitable manner is highly needed [14]. Innovative marketing strategies to attract and retain the customers, adoption of new technology, and offering value-added services are introduced in all the retail sectors including the banking sector. The main aim of all the retail industries is to satisfy and retain the customers [15]. The paradigm shift in the Indian banking sector is explained in later studies and a model is developed to explain significant impact of relationship marketing dimensions on customer satisfaction with the mediating role of customer empowerment. The study discussed in detail about relationship marketing dimensions such as quality service, tailored products, reliability, personalized communication, problem management, client education, customer participation, and usage of new technology. The study put stress on the implementation of these dimensions to empower and satisfy the customers [16].

Objectives of the Study

- To ascertain the relationship between relationship marketing dimensions and customer satisfaction.
- To determine the impact of customer empowerment on administering customer satisfaction.

Hypotheses of the Study

- Customer satisfaction is not significantly dependent on implementation of relationship marketing dimensions.
- Customer empowerment does not significantly mediate between the relationship marketing dimensions and customer satisfaction.

Research Methodology

This study is empirical and exploratory in nature. All attempts have been made to understand the significant impact of implementing relationship marketing dimensions on customer empowerment and customer satisfaction in the Indian banking sector. Further, efforts are made to determine the usefulness of customer empowerment in managing customer churn which is a major issue in the banking sector. The customers from select public and private sector banks in Hyderabad have been considered as the population of the study. The designated sample size is 800 (400 from the private sector banks and 400 from public sector banks). Simple random sampling technique is used for the study. A structured questionnaire was administered among 830 respondents through online survey method to collect primary data. However, the information of 791 respondents was used for data analysis as the remaining data were incomplete. The questionnaire contains several closed-end questions such as dichotomous, multiple-choice, Likert scale, and semantic differential scale and one unstructured open-ended question. Initially, a pilot study was conducted with a sample size of 100 respondents. Then questions were improved accordingly before the collection of final data. The secondary data were collected from various sources such as works of individual scholars, annual reports, journals, company profiles, newspapers, e- business lines, websites, magazines, and books of various authors.

Data Analysis and Interpretation

The collected data were analyzed keeping in view the various objectives of the research study. SPSS 25 software was used to do the factor analysis followed by reliability tests for determining the internal consistency for the items in the components. Finally, the overall fitness of the Structural Equation Model (SEM) is performed to estimate the relationship between relationship marketing dimensions, customer empowerment, and customer satisfaction.

Factor Analysis

The Kaiser-Meyer-Olkin (KMO) and Bartlett's Test is used to test suitability of data for factor analysis which is presented in Table 1.

Table 1. Factor Analysis

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.935
Bartlett's Test of Sphericity	Approx. Chi-Square	20331.270
	Df	630

	Sig.	.000
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The calculated KMO value is 0.935 which exceeds the recommended table value of 0.70. Hence, it can be considered as adequate (Kaiser and Rice, 1974) for analysis. Further, Bartlett’s Test of Sphericity reached statistical significance level with Approx. chi- square 20331.270 at 630 degrees of freedom and .000 significance. This signifies that the data is good for conducting analysis.

Reliability Test

Cronbach’s alpha is used to assess the reliability or internal consistency of the data which is presented in Table 2.

Table 2. Reliability Test

S. No.	Measures	Cronbach’s Alpha
1	Relationship marketing dimensions	.936
2	Adoption of new technology	.894
3	Customer empowerment	.897
4	Customer Satisfaction	.895
	Overall Reliability	.947

The reliability of all items in the questionnaire were tested with Cronbach’s alpha. If Cronbach alpha reliability coefficient is exceeding the suggested level of 0.70, it suggests that the questionnaire is having reliability and can be used for further analysis. Here, the calculated alpha value of relationship marketing dimensions is .936, adoption of new technology is .894, customer empowerment is .897 and customer satisfaction is .895 respectively. Therefore, since the calculated alpha value of overall reliability is .947 which is greater than suggested value of 0.70, it is statistically inferred that the reliability of the data is excellent for analysis.

Structure Equation Model

SPSS Amos 22 software is used to perform Path Analysis using SEM. SPSS Amos Graphics has specified path-diagram in Figure 1 which specifies the relationship between the observed variables.

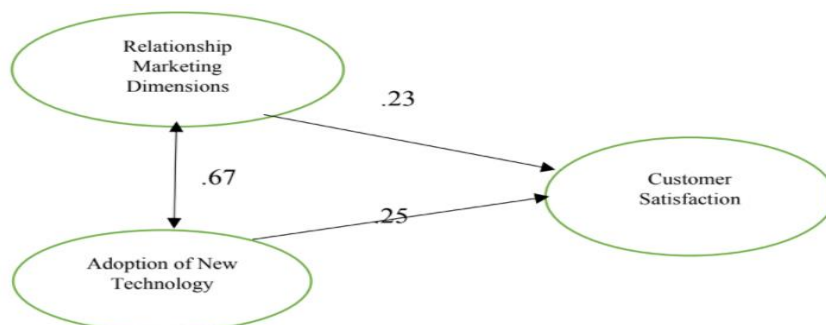


Figure 1. Structure Equation Model

The structure equation model represents the path diagram with standardized parameter estimate using SPSS Amos 22. It is found that the relationship marketing strategy has a significant impact of

0.231 on customer satisfaction. The adoption of new technology has a significant impact of 0.252 on customer satisfaction. Further, the significance of the estimation with P values is presented in Table 3.

Table 3. Unstandardized Regression Weights Estimations

			Estimate	S.E.	C.R.	P
CS	<---	RMD	.170	.037	4.542	***
CS	<---	ANT	.194	.040	4.832	***

The calculated P- values are *** ((i.e., 0.000) less than the suggested table value of 0.05. Then the null hypothesis is rejected. It can be summarized that relationship marketing dimensions along with adoption of new technology has significant effect on the level of customer satisfaction in Indian banking sector.

Mediation Model

SPSS Amos 22 software is used to perform mediation model analysis using SEM. SPSS Amos Graphics have specified path-diagram as shown in Figure 2 which specifies the relationship between the observed variables in the presence of the mediator.

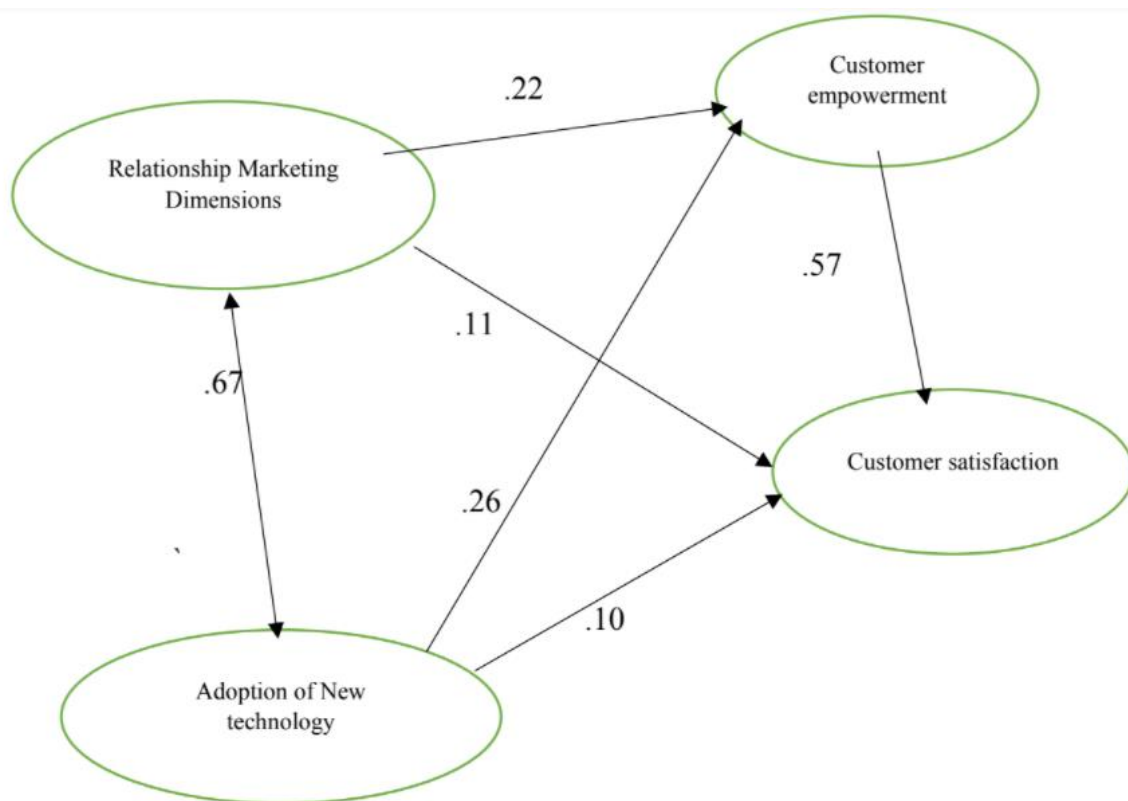


Figure 2. Mediation Model

The mediation model represents the path diagram with standardized parameter estimate. In mediation model, relationship marketing dimensions and adoption of new technology are independent variables, customer empowerment is mediator, and customer satisfaction is

dependent variable. Further, the direct and indirect effects of independent variables on dependent variable are summarized in Table 4.

Table 4: Standardized Estimation and Significant Values

Variables	Total Effect of RMD and ANT on CS without Mediation Variable CE	Direct effect of RMD and ANT on CS - With mediation variable	Indirect effect RMD and ANT on CS- With mediation variable	Conclusion
RMD relationship with CS	Standardized Estimation is 0.230 and it is Significance (P value is 0.008)	Standardized Estimation is 0.106 and it is not Significance (P value is 0.098)	Standardized estimation is 0.124 and it is significant (P value is 0.016)	CE is Mediating the relationship between RMD and CS
ANT relationship with CS	Standardized Estimation is 0.252 and it is Significance (P value is 0.011)	Standardized Estimation is 0.103 and it is not Significance (P value is 0.095)	Standardized estimation is 0.149 and it is significant (P value is 0.006)	CE is Mediating the relationship between ANT and CS

RMD-Relationship Marketing Dimensions; ANT-Adoption of New Technology; CE-Customer Empowerment; CS-Customer satisfaction.

With the presence of the mediation variable the direct effect of customer empowerment became insignificant, and the indirect effect is significant. So, null hypothesis is rejected. It can be summarized that the mediation variable customer empowerment is significantly mediating between the relationship marketing dimensions and customer satisfaction.

Findings

- Customer empowerment plays the role of a key mediator between relationship marketing dimensions and customer satisfaction.
- Satisfaction of customers significantly depend on implementation of relationship marketing dimensions and adoption of new technology by the banks.
- Customer satisfaction leads to retention of loyal customer base.
- It is suggested that there is an acute necessity to pay heed to the approach of customer empowerment in Indian banking sector due to its highly competitive and dynamic market profile.

Discussion and Conclusion

The development of country’s economy largely depends upon the sustainable development of its banking sector. The Indian banking sector has passed through various important phases and reached to the liberalized and modernized era where profitable survival has become a matter of concern. The customers have become the focal point for all banks. The market profile has emerged as highly competitive and dynamic. All banks feel the heat of burning need of increasing the level of customer satisfaction and to manage the customer churn. Many surveys suggest that there is an acute necessity of implementing innovative relationship marketing dimensions such as

employee responsiveness, customization, reliability, effective communication, problem management, client education, customer participation along with adoption of new technology. The attempt of the banks to establish and develop sound and healthy relation with their customers will give birth to the feeling of empowerment. The experience of empowerment leads to increased level of satisfaction among the customers. Customer satisfaction is significant element which assists in managing customer churn as satisfied customers in turn become loyal customers. Therefore, it is inferred from the study that all the private and public sector banks are in dire need to implement relationship marketing dimensions to present the experience of empowerment to their customers. Empowered customers feel highly satisfied and wish to stay connected with their banking partners for a long run. This approach is mutually beneficial as banks can secure profitable survival and the customers get stable financial lives.

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