

# ***THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT***

## **‘Customers Satisfaction and Governance – A Factor Analysis in Banking Sector of India’**

**Seema Khanna**

Assistant Professor, Department of Commerce, HMV Jalandhar, India

### ***Abstract:***

*Present research work concentrates on customer satisfaction from the disclosure practices of the banks with an aim to enhance corporate governance practices in Indian banking sector. An attempt has been made to analyze the significant factors affecting the satisfaction of customers from the disclosure practices of banks. The study has been conducted by using factor analysis technique. A sample of 180 respondents has been taken for the analysis. The results of the study indicate that the most significant factors for the disclosure requirements for the customers are social responsibility and grievance handling procedure of the banks. Therefore, Indian banks should give more priority to CSR and complaint settlement of the customers.*

***Keywords:*** Disclosure, governance, social responsibility, grievance handling

### **1. Introduction**

The stakeholders are the principal players in inception, development and growth of any organization. They are the shareholders, employees, customers, lenders, investors, government and community at large. The present research work is based on the Indian banking sector. The major stakeholders considered for the study are customers. These stakeholders look forward for disclosure, transparency and good governance by the banks. Customers i.e. the depositors play an important role in running the banking business. It has become significant to change the bureaucratic character of the banks and convert themselves into more market savvy and customer friendly by determining the market risk and managed in a market oriented environment. Banks have a fiduciary relationship with their customers because they hold the wealth of the depositors and manage it on their behalf. Customer is regarded as the king and sovereign of the market. With the rapid pace of financial innovation and globalization, the pace of banking business is undergoing a sea-change. The customers entrust a very large sum of their hard-earned money to the care of banks. Therefore, banks should play the role of trustees. The objective of the corporate-governance of financial sector should be to protect the interest of the customers. In the present time period, there is a requirement of proper disclosure and transparency to the customers. Many studies have been conducted on the disclosure of Basel norms and financial reporting. Studies have also been undertaken on the satisfaction of customers from the banks regarding on-line banking, e-banking, complaint procedure and other banking facilities. But, there was a need to know about the satisfaction of the customers from the information provided by their banks.

### **2. Review of Literature**

Many studies have been conducted so far to analyse the services rendered by banks to the customers, like a study by Uppal R.K (2010) concluded that due to maximum complaints in public sector banks adversely affected customer's satisfaction and performance. Ahmed J.U (2011) discussed that for better satisfaction in Indian banks there is a need to develop high technology and good service quality. Chaudhury et al (2011) observed that all financial and banking institutions in India are directly or indirectly engaged in social banking. Mehta A. Ronak (2013) analyzed that Indian Banks are lagging behind in introducing modern customized products.

### **3. Objectives of the Study**

An attempt has been made to know the level of satisfaction of the customers from the disclosure practices of Indian banks regarding banking facilities available, follow up of legal norms, customer grievance procedure and social contribution made by the banks. Past studies are reflecting the satisfaction level of customers from banking facilities of specified banks in India, but there is hardly any study regarding factors influencing the satisfaction level of customers from disclosure practices of banking sector in India. Here, an initiative has been taken by the researcher to present the factors influencing customer satisfaction from the disclosure practices of banking sector in India. Moreover past studies have concentrated only on corporate social-responsibility, on-line banking facilities,

mobile banking facilities etc., but the present research work is also emphasizing on the general banking disclosure and disclosure of legal norms by banks also. The customer's perceptions about the disclosure level of customer facilities of their banks have also been studied.

#### 4. Research Methodology

A questionnaire has got filled from 180 customers of various public and private sector banks in India on the basis of convenience sampling from north states of India. Factor analysis has been done to find out the results from data obtained.

##### 4.1. Factor Analysis

It is also important to understand the factors influencing the satisfaction of customers from the disclosure practices of banks as per their relative significance. Consequently, satisfaction of the customers from the disclosure of such factors may facilitate good corporate governance in banking sectors of India. A factor analysis has been applied to identify the factors that affect the customer satisfaction from the disclosure of banks.

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.862
Bartlett's Test of Sphericity	Approx. Chi-Square	3880.999
	Df	351
	Sig.	.000

Table 1

The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is an index used to examine the appropriateness of factor analysis. Higher value between (0.5 and 1.0) indicates factor analysis is appropriate. The ideal ratio is 1:5 which implies that if there is one factor, there should be five samples. As the results in above table indicate sampling adequacy value to be .862, factor analysis is appropriate.

Figure 1-scee plot visualize relative importance of factors. It plots the components on x-axis and corresponding Eigen values on y-axis. The Scree Plot graphs the Eigen values against the factor number. As one moves to right toward later component, the Eigen values drop. When the drop ceases and the curve makes an elbow toward less steep decline then one should drop all further components after the one starting the elbow. It means a sharp drop in the plot signals that subsequent factors are ignorable. The present scree plot in fig.1 depicts that the Eigen value slopes steeply downwards after second variable moving slowly towards the horizon line. Each successive factor is accounting for smaller and smaller amounts of total variance.

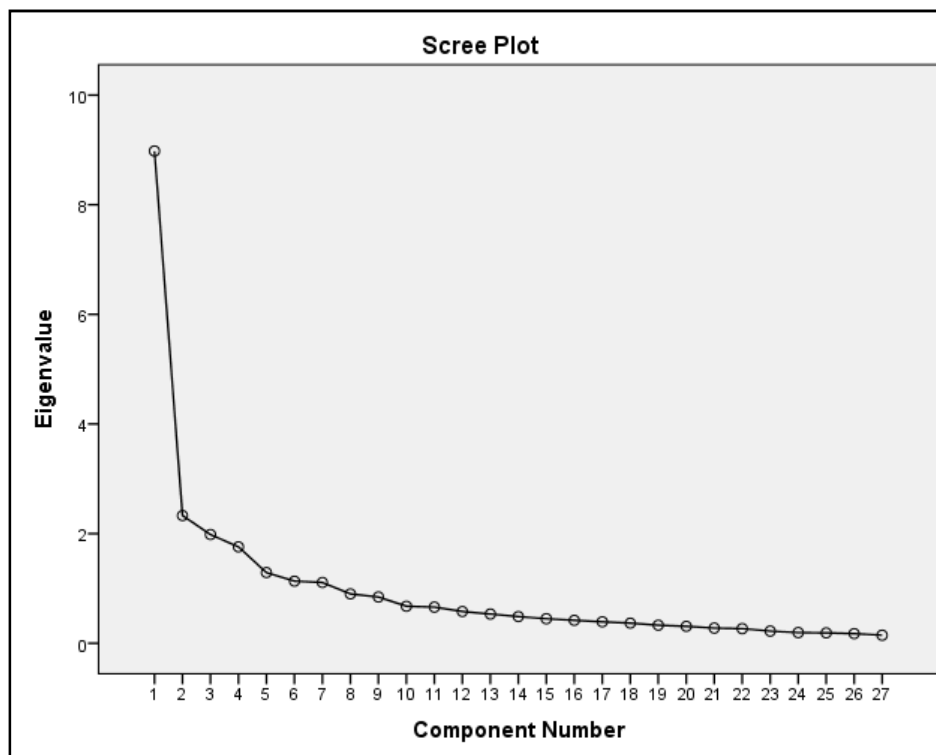


Figure 1

Factors	F1	F2	F3	F4	F5	F6	F7	Communalities
Variables								
V36	.799							.735
V35	.796							.753
V34	.748							.795
V37	.730							.686
V38	.472							.501
V31		.801						.813
V32		.792						.764
V30		.790						.720
V33		.581						.614
V16			.797					.794
V14			.750					.664
V15			.743					.646
V17			.620					.717
V22				.776				.787
V23				.682				.697
V21				.660				.706
V20				.515				.565
V29				.477				.580
V26					.786			.766
V19					.620			.607
V27					.601			.583
V25					.465			.622
V11						.808		.775
V12						.750		.731
V13						.619		.663
V24							.741	.708
V18							.488	.604
Eigen Value	8.979	2.329	1.983	1.758	1.289	1.134	1.109	
% of variance	12.373	11.628	11.145	9.843	9.636	7.265	6.932	
Cummulative % of variance	12.373	24.001	35.146	44.990	54.626	61.891	68.823	

Table 2: Rotated Component Matrix

Source: Primary Data

Extraction Method: Principal Component Analysis. Rotation Method: varimax with Kaiser Normalization. A rotation converged in 80 iterations.

Variables under above factor analysis are-V36 contribution towards education, V35 contribution towards health, V34 welcoming customers' suggestions, V37 contribution towards environment, V38 contribution towards sports. V31 formulation of customer grievance committee, V32 procedure of filing complaints, V30 disclosure of customer charter on its websites, V33 redress of complaints, V16 schemes for senior citizen and pensioners, V14 bank products and plans, V15 bank deposit schemes, V17 insurance facilities, V22 international banking facilities, V23 core banking solution, V21 online banking facilities, V20 money transfer facility, V29 compliance of RBI norms, V26 compliance of RTI act, V19 locker facility, V27 code of ethics or values, V25 debit card and credit card facility, V11 official address/web address, V12 details of branch locations, V13 location and address of ATMs, V24 mobile banking, V18 loans and overdraft facility. Communality is the amount of variance a variable share with other variables considered. This is also the proportion of variance explained by the common factors. The table shows the extracted information after data reduction. It can be inferred from the results of communalities in the above table that V31 (formulation of customer grievance committee) after reduction represents 81.3 percent of information. The above table provide insight into how many variables can be clubbed together to make a single factor. Eigen value represents the amount of variance associated with the factor. Only factors with Eigen value greater than 1.0 are retained. Factors with variance less than 1.0 are no better than single variable.

Seven factors are derived from 27 variables affecting the satisfaction of customers from bank disclosure. The percentage variance indicates the total variance attributed to each factor. The cumulative variance in the above mentioned problem is accounted for 68.82. The following seven factors are identified as key determinant factors influencing the satisfaction of customers from the disclosure level of Indian banks.

#### 4.1.1. Social Responsibility Factors

The variables contained in the component includes contribution of banks towards education, health, welcoming customer suggestions; contribution towards environment and sports. These CSR factors highly influence the satisfaction level of the customers from the disclosure practices of their banks. CSR plays a pivotal role in the corporate sector to seek good governance practices. It is a commitment to improve community well being through discretionary business practices and contribution of corporate resources.

#### 4.1.2. Grievance Handling Factors

This component contains four variables they are formulation of customer grievance committee, procedure of filing complaints, disclosure of customer charter on its websites and redressed of complaints. This reveals that customers have high expectations from their banks regarding the disclosure of grievance handling procedure. A good grievance handling mechanism suggests the ways in which their overarching grievance itself can be improved and fine tuned. The root cause of grievances can be determined. Similar problems should not occur as experienced from previous outcomes. There may be a need of systematic change in the corporate to avoid such problems. It raises the corporate governance standards of a company.

#### 4.1.3. Factors relating to General Banking Facilities

Variable contained under this factor include schemes for senior citizens and pensioners, bank products and plans, bank deposit schemes and insurance facilities. It is evident that customers are influenced by the disclosure of various banking schemes and plans. Banking sector has to provide integrated services to customers from all the segments of the society. A wide range of services to customers may enhance their utility and satisfaction leading to value enhancement of one of the stakeholders of banks. Therefore, it may further step towards best governance practices.

#### 4.1.4. International and E-Banking Factors

Variable contained under this factor include international banking facilities, core –banking solution, on line banking facilities, money transfer facilities and compliance of RBI guidelines. It shows that customers are keen towards these modern banking facilities. It is the prime responsibility of banks to combine innovations and quality of services. This may be ensured only when banks strictly follow their legal norms as prescribed by RBI.

#### 4.1.5. Legal and Routine Factors

This component contained four variables that are compliance of RTI, locker facilities of banks, code of ethics/value ;debit and credit card facilities. Presence of the disclosure of these variables raise satisfaction level of the customers from bank disclosures. Banks have to satisfy the spirit of the law, not just the letter of law. So banks must comply with the informational needs of their customers by adopting a good RTI system in actual practice. They must adopt a value system along with providing routine facilities to their customers. Such an environment can only be found in a good corporate structure following good governance practices.

#### 4.1.6. Location Factors

The present factor constitutes three variables—official /web address, details of branch locations, and address of ATMs. Such basic information is required to be disclosed by the banks for easy approach of the customers. Convenience is the significant factor in satisfying the customers' expectations. A proper disclosure of location factors may provide lots of convenience to the customers. It may lead to time-management for the customers.

#### 4.1.7. Other Factors

This component includes two other variables that are mobile banking and loan/overdraft facility provided by the banks. These two variables are significant for the customers to attain satisfaction from the banks disclosure. Mobile banking technique in the present scenario is must to come up to the expectations of customers. A good loan/overdraft facility also attracts the customer. So it is required on the part of banks to provide full disclosure of these factors so capture more customers.

Thus, the above factor analysis extract seven factors from the whole study conducted by the researcher regarding the variables responsible for the satisfaction of the customers from the disclosure practices made by the Indian banks. The most significant factor for the customers preferences for a bank may be social responsibility of the bank. After that they consider the complaint handling procedure of the banks and various facilities provided by them to the customers. Afterwards, customers also look for international banking and E-banking facilities. Legal factors like compliance of legal norms and ethical values are the next priority. They then give importance to location of branches and ATM's etc. Least significance has been given to mobile banking facilities and overdraft facilities. Therefore, it may be summed up that social responsibility of the banks should be enhanced to attract more customers and moreover, modern banking techniques should be used by Indian banks. The analysis done by this study may evaluate the real scene of disclosure of the Indian banking sector. The evaluation of banks in India may also motivate them to ensure more disclosure and transparency to one of their stakeholders i.e. customers.

**5. References**

- i. Hussain Mohammad (2008).” The extent of disclosure in annual banking companies: The case of India”, European Journal of Scientific Research, Vol 23, No. 4,pp 659-680
- ii. Uppal R.K (2010),Customer Complaints in banks : Nature, extent and strategi to mitigation, journal of Economics and International Finance,vol2(10),pp212-220
- iii. Chaudhury et all (2011), Practices of Corporate Social Responsibility In Banking Sector in India: An Assessment, www.research journal.co.uk,vol 4,pp76-81
- iv. Ahmed J.U(2011),Services Rendered by Commercial Bank: A Customer Oriented Empirical Evidence from State Bank of India, Management Convergence,vol1,no2.,pp63-83
- v. Mehta A Ronak(2013),Banking Services and Customers Satisfaction- A Study of Public and Private Sector banks in Navsari City, Indian Journal of Research, vol 2, pp 225-228
- vi. Cheema C.S and Aggarwal Monika (2003), “Corporate governance in banks”, Corporate Governance by AK Vashisht, Deep and Deep Publications
- vii. Fernando .A.C(2013)Corporate Governance Principles ,Policies and Practices, New Delhi, Pearson Publications.
- viii. Kishore .M.Ravi (2013) Financial Management, New Delhi, Taxman Publications