Customer Satisfaction Impact on Banking Services and Relationship Management Innovation

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Abstract

As changing the culture of the organization is one of the main assessments in a global competing environment, this paper has researched the importance of the customer satisfaction and relationship management in corporate policy of an financial institution, bank from Serbia. For that purpose are presented the core values of the customer satisfaction index and theories, on which the framework of the research is based. Customer Satisfaction Survey was carried out throughout the 2014, targeting all client segments and covering geographical regions where bank operates, based on a random sample, including 700 loan clients of the bank. As the part of the survey an investigating of clients’ drop out reasons, has been realized too. Main findings supported the importance and the possible impact of the Satisfaction customer research results on design of future services, innovations in products and relationship management of the bank has adopted Client Experience Standards after the survey, as well as Corporate Social Performance policy as framework documents for further permanent improving of customers conditions, access to financial services, relationship management and social responsibility of the institution, and contribution to the society.

KEY WORDS: Customer Satisfaction, Social Performance, Bank, Loans, Relationship Management

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Introduction

At the time of the harsh global competition and increasing customer demands, there is no simple solution for changing the culture of the organization, especially banks as financial institutions. The organizations have to manage the changes by continually identifying and coordinating all the parts of organizations and functions of their companies according to the increasing new requirements of business environment that would facilitate sustainable change. At the very least, the banks need to build a strong culture of service and their products, which primarily would include: clearly definition of service standards, all employees, management and customers to be about clearly and consistently communicated, with a greater commitment of executive bodies of banks in promoting the culture that strives to provide the best services. According to the trends in customer satisfaction improvement, many banks and other financial institutions have positive experience of other industries that have adopted the so-called “Chief Service Officer” which increases the visibility of the quality of services and their delivery. The customer satisfaction improvement further requires more sophisticated approach to human resources management, to managing people risk, and improvement of critical functions and roles – the areas of the organization with the biggest impact on service delivery. No doubt, banks still face pressures to primarily achieve a high income, but at the same time are increasing the need to strike the right balance between the interests of banks and clients.

Relationship management in banks has more attention to pay on transactions to be based on creating a true partnership with clients, respecting the clients' needs and priorities over all.

Legal entities as clients of the banks, such as SMEs still complain that banks are not interested enough in better understanding their business and industry, and are not willing enough to support their needs proactively.

Financial and economic crisis caused that investment banking almost don’t exist as there is no much evidence of involvement of banks in monitoring the investment cycle of enterprises, in transition countries such as Serbia. There are a lot of not satisfied corporate customers, as well as family, rural with the communication with banks employees, their understanding the problems of certain industries and businesses. The ability and willingness of banks to design products and services that are aligned with the needs of corporate and individual clients and financial ways of solving their problems, indicates that this is a process. KPMG Survey (2014) indicate that only 29% of legal entities was very satisfied with the capabilities of their banks to comply with their needs, willing to tailor financing solutions to them.

Convenience products are assessed more as one of the most important measures of customer satisfaction. The bank interest rate is more significant with individual clients and retail above the index of satisfaction of the services. Researching the customer satisfaction with the services of financial institutions show the improving trends in satisfaction levels, which is mainly caused by quality of electronic payment and billing capabilities. As good example can be seen findings from Banking Industry Customer Satisfaction Survey 2014 provided by KPNG (KPMG Advisory Services, a Nigerian partnership, member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative), covering 28 cities in 27 states across Nigeria. 20,770 retail banking customers, 3,500 SMEs and about 400 corporate/ commercial organizations have been questioned. The survey reflects the perspectives of customers on their preferences, levels of satisfaction and
expectations from their banks. Findings represent the opinions of the customers of each bank, and report about the feelings and broader perceptions of customers with respect to services provided by their banks. The rankings are solely based on the customers’ feedback received from the survey. With the proliferation of digital technology- tablets, bank now encompasses everything from traditional transactions to receiving low-balance alerts to prevent overdraft. Financial technology (‘fintech’) companies have catered to those with ambition through web and mobile apps (e.g. Mint, Personal Capital and BillGuard).

The subject of the research in this paper is connected with the actual trends in corporate banking policy, so treats the qualitative measuring customer satisfaction with the services of the bank from Serbia, which should continue to refer to possible innovations in banking products, as well as in relationship management with an impact on reducing the disloyalty and improving the attractiveness for future clients. The paper is based on theoretical framework of customer satisfaction, emphasizing the performance theory as banks in Serbia particularly are at the very beginning of the corporate social performance philosophy, broader contributions to job creation and poverty reduction with their products and services.

**Literature Overview**

**Definitions**

The marketing and consumer behavior literature has traditionally suggested that customer satisfaction is a relative concept, and is always judged in relation to a standard (Olander, 1977). According to the literature, customer satisfaction is connected with clinging philosophy and as marketing term measures how products or services supplied by a company meet or surpass a customer’s expectation (Grozdanic et al., 2014). It can provide business owners with a metric that they can use to manage and improve their businesses, it is also important indicator of consumer repurchase intentions and loyalty, a point of differentiation, so measuring satisfaction an bank can see how happy its customers really are.

Banking customer satisfaction Index is an indicator connected with the philosophy of growing revenue not come from just new markets or products but rather from the ability to deliver a high quality and differentiated customer experience. The Customer Satisfaction Index (CSI) Framework is the simply a weighted score that assigns importance ratings of banking service measures to the satisfaction ratings of those measures as provided by clients on the loans of their bank. It can be illustrated by the Picture below:
Customer Satisfaction Theories

There are a number of frameworks developed to explain customer satisfaction in the literature. Early researchers, including Engel, Kollat, Blackwell (1968), Howard, Sheth (1969), Cardozo (1965), relied on the dissonance theory developed by Festinger (1957). Subsequent studies (Anderson, 1973; Olshavsky, Miller, 1972) drew on the assimilation-contrast theories proposed by Sherif, Hovland (1961). The theories mostly discussed an used explaining customer satisfaction include mainly ten further theories:

— **The Expectancy-Disconfirmation Paradigm (EDP):** Oliver (1977), drawing on the adaptation level theory (Helson, 1964), developed the Expectancy-Disconfirmation model for the study of consumer satisfaction, which received the widest acceptance among researchers, and proposed the Expectancy-Disconfirmation Paradigm (EDP) as the most promising theoretical framework for the assessment of customer satisfaction. The model implies that consumers purchase goods and services with pre-purchase expectations about the anticipated performance. The expectation level then becomes a standard against which the product is judged. That is, once the product or service has been used, outcomes are compared against expectations. If the outcome matches the expectation confirmation occurs. Disconfirmation occurs where there is a difference between expectations and outcomes. These frameworks generally imply conscious
comparison between a cognitive state prior to an event and a subsequent cognitive state, usually realized after the event is experienced.

— **The Value-Precept Theory:** According to this theory, satisfaction is an emotional response that is triggered by a cognitive evaluative process in which the perceptions of an offer are compared to one's values, needs, wants or desires (Westbrook, Reilly, 1983).

Last decades also saw the development of a number of additional frameworks such as the Attribution Theory, and the Equity Theory for the study of consumer satisfaction.

— **The Attribution Theory:** According to this model, consumers are regarded as rational processors of information who seek out reasons to explain why a purchase outcome, for example dissatisfaction- when the delivery of a service does not match customers’ prior expectations or other standards, customers engage in an attributitional process in order to make sense of what has occurred, has occurred. More useful model for applying in ascertaining customer dissatisfaction and complaining behavior (Folkes, 1984; Weiner et al., 1971; Bitner, 1990).

— **The Equity Theory:** According to the theory, satisfaction exists when consumers perceive their output/input ratio as being fair (Swan, Oliver, 1989; Oliver, DeSarbo, 1988).

— **The Comparison Level Theory:** argues that there are more than one basic determinants of comparison level for a product: consumers' prior experiences with similar products, situationally produced expectations (those created through advertising and promotional efforts), and) the experience of other consumers who serve as referent persons.

— **The Evaluation Congruity Theory:** (Sirgy, 1984; Chon, 1992; and Chon et al., 1998) or the Social Cognition Model treats satisfaction as a function of evaluative congruity, which is a cognitive matching process in which a perception is compared to an evoked referent cognition in order to evaluate a stimulus or action.

— **The Person-Situation-Fit model:** This concept argues that people deliberately seek situations, which they feel match their personalities and orientations (Pearce, Moscardo, 1984; Reisinger, Turner, 1997), mostly used in tourism where individuals make a conscious choice to visit a specific tourist destination.

— **The Performance-Importance model:** This implies that customers’ satisfaction levels are related to the strength of their beliefs regarding attribute importance multiplied by how well these attributes meet their expectations (Barsky, 1992; Martilla, James, 1977; Oh, Parks, 1997).

— **The Dissonance Theory:** suggests that a person who expected a high-value product and received a low-value product would recognize the disparity and experience a cognitive dissonance (Cardozzo, 1965; Yi, 1990), and

— **The Contrast Theory:** According to this theory, when actual product performance falls short of consumer’s expectations about the product, the contrast between the expectation and outcome will cause the consumer to exaggerate the disparity. The Contrast theory maintains that a customer who receives a product less valuable than expected, will magnify the difference between the product received and the product expected (Yi, 1990; Oliver, DeSarbo, 1988). This theory predicts that product performance below expectations will be rated poorer than it is in.
Qualitative Research

Empirical Case Study from Serbia

In line with the Methodology of satisfaction index research, in case study concerning the bank from Serbia, has been used that approach to understand the conditions and needs of clients and to follow-up on highlighted issues. Client Satisfaction Survey was carried out throughout the 2014. As the part of the survey an investigating of clients’ drop out reasons, has been realized too.

Bank has adopted Client Experience Standards which mostly present further contents: Commitment: to be sacrificially committed to loving and serving the poor and marginalized; to live out bank’s core values in its client interactions; to feel that the client’s needs and wellbeing are the inspiration looking for lasting benefit to the client; to feel that staff members are serving the client in humility, having personal dignity and uniqueness; having a vision for positive change in the client’s life – economic, personal, spiritual, and social, supporting the client with training to lift the client’s sights from survival to financial success and provision for others, and ultimately to personal meaning and purpose, etc.

Sampling: The survey was targeting all client segments and covering geographical regions where bank operates, based on a random sample, including 700 loan clients of the bank.

Key findings on client satisfaction

Research on the satisfaction levels of bank clients, has been realized by using the approach to understanding the conditions and needs of clients and to follow-up on highlighted issues. For this purpose, we carried out Client Satisfaction Survey throughout the year targeting all client segments and covering all geographical regions where bank operate, based on a random sample. So far in 2014, 57 client satisfaction interviews were carried out across Serbia (45 men vs. 12 women, 41 agro vs. 16 business clients, 54% of interviewees were 45-60 years old while 35% were 30-45 years old). 100% of clients interviewed would work with bank again, while 55 of them (96%) would recommend bank to a friend or family member. Some of the most relevant answers are presented below:

— Have you reached your business goals?
— Did you improve your family’s living standard?
— What are the best features of bank?
— What are the worst features of bank?

The survey results of the clients’ answers are shown in the pie charts of the Figure 1. Analysis of the answers so far show high satisfaction level of bank loan clients with their relationships with bank staff members i.e. quality of service and information received, as well as with the speed of loan approval (Figure 1). While 81% of clients managed to achieve their business goals with BANK loans, majority (56%) do not think that they were able to improve their living standard after loan utilization, meaning that they were not able to increase their family income. Loan terms (primarily interest rate) are the one thing that bank clients would change if they could and the least liked feature of bank loans, but lack of outlets, working hours and lack of payment facilities in bank credit offices have also been mentioned frequently.
As the part of the Customer satisfaction survey the basic reasons of clients stopping co-operating with the bank 12 months after the date of their last transaction has been researched. The internal Client Exit Survey was operated by bank based on the telephone interviews with former clients. Client Retention Rate (we named, in shortly CRR) has a growing trend during for the first six month of 2014, until something more than 74% in June. The CRR growing changes could be seen, in a clear way, in the second column of the Table 1. They are also shown in Figure 2 (left chart), together with the corresponding trend-line, i.e. the third degree polynomial that best approximates this series.

Table 1: Client Retention Rate (CRR), the numbers of client exit interviews and drop-out reasons

<table>
<thead>
<tr>
<th>Month</th>
<th>CRR (%)</th>
<th>Loan conditions</th>
<th>Business reasons</th>
<th>Personal reasons</th>
<th>Unprofessional behavior</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>67.30</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>February</td>
<td>68.30</td>
<td>31</td>
<td>90</td>
<td>21</td>
<td>2</td>
<td>150</td>
</tr>
<tr>
<td>March</td>
<td>68.95</td>
<td>51</td>
<td>78</td>
<td>42</td>
<td>3</td>
<td>174</td>
</tr>
<tr>
<td>April</td>
<td>70.02</td>
<td>61</td>
<td>108</td>
<td>88</td>
<td>1</td>
<td>258</td>
</tr>
<tr>
<td>May</td>
<td>70.60</td>
<td>31</td>
<td>43</td>
<td>32</td>
<td>0</td>
<td>106</td>
</tr>
<tr>
<td>June</td>
<td>74.38</td>
<td>40</td>
<td>56</td>
<td>29</td>
<td>1</td>
<td>126</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>214</td>
<td>375</td>
<td>212</td>
<td>7</td>
<td>814</td>
</tr>
</tbody>
</table>

The following four columns in the Table 1 show, in their headers, the attributive descriptions for clients’ drop-out reasons, as well as the numbers of such clients. From February 2014, when client drop-out started to be monitored until June, 814 client exit interviews were carried out. We can see from the Table above that biggest share (46%) of drop-out reasons refer to the business reasons connected with the clients’ business circumstance (mainly the fact that clients did not need loans, or due to illiquidity or periods of low business activity).
Second most represented cause for clients’ drop-out (27%) are loan conditions, which mostly comprise the interest rate, loan fee or loan amount which some clients considered to be too small. Clients’ personal reasons account for 26% of the clients’ drop out reasons, while unprofessional behavior staff was only recorded in 7 cases (or less than 1%) and in most cases, investigation showed that these complaints were unfounded. Figure 2 (right chart) shows the dynamics of the numbers of drop-out clients during time, for all four mentioned categories. It is obviously that, in contrast to the total number of former clients, these time series do not have such pronounced, growing dynamics.

Figure 2: Growing trend of CRR (left chart) and exit interviews dynamics, break-down per drop-out reasons (right chart).

In order to further statistical analysis, we carried out the distribution and the correlation structure of these series. For this suppose, we investigated the significance and the differences between the numbers of clients with a various drop-out reasons. More precisely, we analyzed the relationship between the different drop-out reasons, using so-called the Pearson's product moment correlation coefficients (r). Table 2 illustrates the overall with the statistical significance of .001.

Table 2: Correlation coefficients between the levels of drop-out reasons

<table>
<thead>
<tr>
<th>Items (drop-out reasons)</th>
<th>Loan conditions</th>
<th>Business reasons</th>
<th>Personal reasons</th>
<th>Unprofessional behavior</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan conditions</td>
<td>1.0000</td>
<td>0.7786</td>
<td>0.8740</td>
<td>0.3667</td>
<td>0.9465</td>
</tr>
<tr>
<td>Business reasons</td>
<td>1.0000</td>
<td>0.6399</td>
<td>0.4466</td>
<td>0.8954</td>
<td></td>
</tr>
<tr>
<td>Personal reasons</td>
<td>1.0000</td>
<td>-0.0974</td>
<td>0.9076</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unprofessional behavior</td>
<td>1.0000</td>
<td>0.2467</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.000</td>
</tr>
</tbody>
</table>
When considering the Loan conditions level, it is found that it is positively related to the all others drop-out reasons. Pearson's product moment correlation coefficients for these five relationships are: \( r = 0.7786 \), \( r = 0.8740 \), \( r = 0.3667 \) and \( r = 0.9465 \), respectively. Therefore, the highest correlation of Loan conditions is with the Total numbers of former clients (94.65%), followed by the correlation with the Personal and Business reasons (87.4% and 77.86%, respectively). After that, follows the correlation with the Unprofessional behavior level, which is a relatively low (36.67%). Similar conclusion can be made in the case of the Business drop-out reasons. They are high positively correlated with Total numbers of former clients (89.54%), then follows correlation with the Personal reasons (approximately 64%), while the Pearson’s correlation coefficients with the Unprofessional behavior level is less than 0.5. The following, Personal reasons level is highly correlated with the Total number of drop-out clients (90.76%), while the correlation with the Unprofessional behavior is a negative, but almost insignificant (less than 1%, in the absolute values). Finally, between the Unprofessional behavior level, related to the Total numbers of drop-out clients, there is a weak correlation (less than 25%).

**Discussion and Conclusions**

In the Paper has been showed the importance and the possible impact of the Satisfaction customer research results on deign of future services, innovations in products and relationship management of the bank. In that purpose the research is based on relevant literature and theoretical considerations on customer satisfaction, measurement models developed for the purpose and implementation of that philosophy in the practice of the bank from Serbia. A survey based on the proposed model was conducted to 700 clients of bank loans in Serbia (Grozdanic, 1977).

Findings support the general applicability of a SEM depends on the reliability and validity of the modeling results. The proposed satisfaction model exhibits strong explanatory power with its satisfactory reliability and validity results.

Research limitations/implications are in the proposed model, as it was tested on half a year data. It should ideally be tested periodically for different banking sectors with more data, and the index results should be compared.

Practical implications of this study provide very important information for the managers in formulating competitive marketing strategies, as well as corporate social performance strategies. The results show the critical points where the limited resources of the bank should be allocated to improve satisfaction and loyalty. Independent and uniform measurement characteristics of the studied model provide a useful tool for tracking performance and systematic benchmarking over time. It also provides information about the weaknesses and strengths of the bank and its services/loans provided from the eyes of its customers.
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[24] Survey 2014, KPMG Advisory Services, a Nigerian partnership, member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative (‘KPMG International’), a Swiss entity


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