

# A REVIEW OF INDIAN BANKS IN SUSTAINING COMPLAINT MANAGEMENT TO ENHANCE CUSTOMER SATISFACTION IN THE COMPETITIVE ENVIRONMENT

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**Abstract:** The improved banking scenario has positively impacted the Indian economy with profound transformation and structural changes in the financial system in India. The introduction of the banking reforms, the emergence of technological advancement coupled with cut throat competition amongst banks are the driving force that have contributed to the growth of the banking sector. The truth is that banks in India have become competitive, dynamic, hopefully, also more efficient and profitable. But in all of these, there is this fundamental question which is repeatedly asked but no absolute answer provided, that is are the customers really satisfied with the services and products as promised by these banks? Are they banks committed to improving their services and products? Are customers experiencing practical scenarios of banks effectively handling their dissatisfaction and also ensuring that systems are instituted to resolve these complains? There is, thus the notion that you cannot talk about improving customer satisfaction and loyalty in the competitive environment without first delivering the quality of services and products to the customers. Consequently, in the process of offering these services and products, there are likelihood of customers experiencing challenges either from the employees or with the available facilities. So it is the responsibility of the banks i.e. public, private and foreign to provide the physical and core services in order to maintain their customer base, market share and profitability. This study seeks to examine the importance of maintaining and improving customer -employee relationship with the view of enhancing service quality and customer satisfaction because the customer is the ultimate recipient of whatever services and products rendered. It is important to note that customer satisfaction should be a strategic and managerial priority for banks if they want to gain and maintain competitive advantage. Service encounter is also critical in modern day banking business and if not given the requisite attention, skills and empowerment can result in failure in a number of ways, which may in turn lead to relationship breakdown. This present study is descriptive, exploratory and literature – review based in nature. Secondary data was derived from past and current literatures in journals, articles, research papers, magazines, newspapers and websites for interpretation and analysis. This study underpins the importance of customer feedback and its implications to sustainability and profitability of banks. Dealing effectively with failed service encounters should be seen as one of the critical success for the banking sector. The result of the study revealed that the Indian banking industry has become highly competitive such that quality service and satisfaction of customers should be seen as a priority and paramount concern if bank institutions are to survive, grow and succeed in the competitive environment. Importantly also, employee relationship with customers is essential for continuous feedback in order to improve customer satisfaction and retention.

**Keywords:** Complaint Management, Customer Satisfaction, Customer Delight, Customer Loyalty, Indian Banks.

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## 1. INTRODUCTION

In this scenario of current and highly competitive marketplace coupled with financial innovation and modern information, communication, technology (ICT) advancement which has characterized the banking industry, the critical point of this study is to examine service quality, customer complaint, and customer satisfaction which have become an important area of interest in service literatures over the past decades. With the intense competition that is prevalent in the banking business, considerable emphasis has been focused on customer service in understanding service quality and its relationship with customer satisfaction and loyalty (Wagar, 2008) (Yoon, Seo, & Yoon, 2004)). There is no doubt that putting in place customer complaint mechanisms can be an effective tool in monitoring customer satisfaction on an on-going basis so that complaints emanating from grievances/dissatisfaction as a result of poor service quality delivery can be minimized.. As part of our objective of undertakes this study, the researcher seeks to examine the extent to which improving on customer service is significant to enhance quality service delivery and customer satisfaction. It is clear that measuring customer satisfaction can provide answers to marketing problems faced by business organizations and create a customer –centric culture. In addition to this, insights from customer satisfaction measurement can enable the business to build strong relationships with customers. Nowadays, with high competition and technological innovation that is prevailing in the market, customers can automatically response to what is offered them. It implies that customers waste no time in responding to products and service offerings. So it is therefore important for business organization to understand the value of customer complaint because it provides customers the opportunities to do so. Customer complaint can specify aspects of the products or services that need improvement. More specifically, it can serve as a platform for constructing dialogue between customers and business organizations- relationship building.

According to (Fernandez-Gonzalez & Prado Prado, 2007)) in their study revealed that customer satisfaction would be more if employees are trained in their dealings with customers. Thus, there exist a strong relationship between employee attitudes, performance, and customers' satisfaction (Ekinici, Dawes, & Massey, 2008). Admittedly, though, some banks are yet to come to terms with the reality of satisfying and building a long -term relationships with customers. It becomes more obvious that there is increased number of customers in some banks while other are losing customers. In the context of India, a nation with a population of 1.36 billion people, it was revealed that there is still limited knowledge among the population about service quality delivery of modern banking products/services. It is on the basis of these issues and other related ones that this study is undertaken. Regarding customer complaints, it is interesting to note that some banks have not created credible and special platforms for the logging of all customers' complaints whether verbal or written. However, services firms face challenges in providing customers with exceptionally service quality. Mistakes, failures and complaints are frequent occurrences in service encounters ( Babakus, Yavas, Karatepe, & Avci, 2003).

Customer service is the act of taking care of the customers' needs by providing and delivering professional, helpful, high quality service and assistance before, during and after the customers' requirements are met. With this meaning of customer service in mind, it is necessary to understand that the significance of customer service because it has a direct and positive impact on customer satisfaction, generate business, customer loyalty and competitive edge. According to Richard Branson," the key is to set realistic customer expectation and then not to just meet them, but to exceed them preferably in unexpected and helpful ways"

The main idea why most businesses try to track the attitude, satisfaction, engagement and buying patterns of customers in the current competitive environment is basically because customers we all know drives the overall financial performance and sustainable growth of a thriving ,resilient and successful business. To put it differently, the consequences of measuring customer satisfaction are immeasurable particularly as a result of the keen and fierce competitive in the global banking environment. Having said that, measuring customer satisfaction is a means to determine how well a business entity is meeting the needs of the customers.

The fundamental rationale of this study is to essentially analyze the factors that can pave the way for achieving customer satisfaction and enhance customer relationships for a better, improved and quality customer service which in turn enhances satisfaction.

### 1.1 THE CONCEPT OF COMPLAINT MANAGEMENT

We cannot ignore the fact that the banking sector in India has transformed over time due to the intense competition and technological advancement. As a matter of fact, customers are constantly and continuously on the move and looking for better and improve quality services and products which will enhance their satisfaction. It is obvious that banks are facing

these huge challenges in providing the right and required services. In order to correct or address these inadequacies, banks are compelled to do an assessment and reassessment on how customers perceived services and products delivered which will indicate whether these services offered meet or exceed or below the expectation of the customers. Putting in place a customer appraisal mechanism would therefore go a long way to help to refine and improve the service quality delivery in banks.

It is essential to understand the fact that customer complaints should be treated as a gift and an opportunity to grow the business, because without complaining or receiving feedback from the customers, the service providers may think he /she is providing the excellent services /products which may be on the contrary. With negative complaints from customers, the service provider would be aware of the fact that there are some aspects of the services /products provided that require urgent attention for ultimate customer satisfaction. Complaints are valuable assets (intangible) which if managed well can increased customer loyalty and transformed to increased profitability. Therefore, dealing with customer complaints is a step towards building long-term relationship.

Managing and resolving complaints are therefore essential if dissatisfied customers are to be converted into satisfied and loyal customers (Johnson & Mehra, 2002) (Tax, Brown, & Chandrashekar, 1998) whether public, private and foreign sector banks in India are empowering their frontline employees in that regard is another issue.

## 1.2 CUSTOMER SATISFACTION

Customer satisfaction is the measure of how the needs and responses are collaborated and delivered to excel customer expectation. It can only be attained if the customer has an overall good relationship with the service encounter. In today's competitive environment, customer satisfaction is an important performance component and a basic differentiator of business strategies. Hence, the more is the customer satisfaction; more is the business and the bonding with customer. Customer satisfaction and sustainable profits are fundamental issues that deserve utmost importance in any business endeavour. Customer satisfaction, a term frequently used in marketing expressed through feedback, is a measure of how products and services offered by business organizations meet or surpass customer expectation. According to Jamal and Kamal (2002) considering the highly competitive business environment, customer satisfaction should be seen as the substantial of success, as it can lead to customer retention and therefore to profitability for an organization.

## 2. LITERATURE REVIEW

This section in the study is set to review some of the relevant literatures related to the research. According to Abdollahi (2008), satisfaction is a consumer's post-purchase evaluation and effective response to the overall product or service experience. (Luarn & Huilin, 2003) Define customer satisfaction as the outcome of a cognitive and affective evaluation of a comparison between expected and actual perceived performance, which is based on how customers appraise delivery of goods and services. A perceived performance, which is less than expected, leads to an unsatisfied customer. A perceived performance that exceeds expectations on the other hand, leads to a satisfied customer. In an era of keen and intense competitive pressures, many business organizations are focusing their efforts on maintaining a loyal customer base. This is particularly true in the banking industry where deregulation has created an environment that allows consumers considerable choice in satisfying their financial needs. In response, many retail banks are directing their strategies towards increasing customer satisfaction and loyalty through improved service quality (Boshoff & Allen, 1998).

It is also recognized that recovering the customer will have an important impact on customer loyalty and their repurchase intentions (Dewitt & Brady, 2003) ; (Mattila, 2001); (Maxham, 2001); Swanson & Kelley, 2001, (Tax, Brown, & Chandrashekar, 1998)).

(Jones & Farquhar, 2003) Affirmed that the current banking industry has become increasingly competitive and dynamic, with new and emerging banks now pursuing customers with innovative approaches and marketing strategies in order to win them, in such scenario, customer loyalty will play a significant role in the survival and success of banking institutions. However, in the past, a business organization could lose 100 customers a week, but gain another 1000 customers and consider its sales to be satisfactory. Such a service organization is apparently operating on a 'leaky bucket' theory of business believes that there will always be enough customers to replace the defecting ones (Howard & Philip, 1991).

'Customer complaint mechanisms can be a powerful tool in enhancing customer relationship management. Customer retention is important to most companies because the cost of acquiring a new customer is far greater than the cost of maintaining a relationship with a current customer'' (Ro King 2005). Holding on to existing customers costs less than

attracting new ones. One study conducted shows the cost of retaining a loyal customer is only –fifth of attracting a new one (Seller, 1989) documenting the dramatic impact of customer of customer retention on profits in a sample of service-producing firms.

Customer retention has proven to have a direct impact on revenue and profitability. Loyal customers continue to purchase the service, generate long term revenue streams, tend to buy more, and may be willing to pay premium prices, all of which increase revenue and profitable. Further, it has showed that customer loyalty is a more important predictor of profitability than market share. Loyal customers may also lower marketing costs since retaining customers is usually significantly cheaper than attracting new ones (Bove & Johnson, 2001).

### **3. OBJECTIVES OF THE STUDY**

The main objective of this paper is

1. To examine the importance of rendering efficient service to enhance customer relationship in order to create customer loyalty.
2. To investigate how effective complaints handling by banks would have a positive effect on customer satisfaction and
3. To offer feasible suggestions/recommendations on the results of the study.

### **4. RESEARCH METHODOLOGY/APPROACH**

The research procedure and approach employed by the researcher in carrying out this present study and in pursuit of collecting, presenting, analysing and interpreting the relevant data to achieve the stated objective(s) was purely secondary data. Secondary data and materials were utilized extensively in achieving that. Secondary sources and reports were obtained from research papers and journal articles which are related to the review under investigation.

### **5. DISCUSSIONS &RESULTS**

#### **5.1 DISCUSSIONS ON FINDINGS AND IMPLICATIONS**

It has become very challenging for service organizations, especially the frontline employees in banks to provide quality service delivery in the most productive and efficient manner at any point in time. In light of this, therefore, it is important that frontline staffs in Indian banks are empowered with the requisite skills and attitude because; frontline personnel serve as bridge between the customer and the bank to produce revenue and building relationship with the customers. So, frontline staff plays a crucial role not only in service delivery during the so called service encounter but also during service recovery.

Today, it is the most common question and challenge for banking institutions and employees as well to deliver quality service in a timely manner to make them satisfied with their offering. Based on the results in this study it is clear that improving service quality delivery between the frontline employee and customer is critical and mechanisms and strategies should be put in place to manage and handle complaint effectively and efficiently bearing in mind the challenges faced in customer complaints handling. The under- mentioned challenges according to a study carry out as reported by Engel et al (1993) highlighted the customer complaint process;

- ❖ Banks that suffer from a lack of systematic approach to complaints handling.
- ❖ Banks that do not recognize the importance of customer complaints at a strategic level.
- ❖ Banks that are ill-equipped in terms of systems and processes for logging in complaints, processing them, etc.
- ❖ Banks that are not proficient with measurement and in particular in non-financial areas such as customer satisfaction and complaints.
- ❖ Banks that have adverse cultures and too much of ‘‘blame and reprimand’’ practises.
- ❖ Banks have not embraced the concept of quality management and its related concepts.

It is however, necessary for banks in India to review, re- examine and address the aforementioned challenges against the backdrop that most successful banking institutions in addressing customer complaints matters tend to have all above plus much more. The fundamental and most profound question that may arise is who should handle complaints -frontline or top management?

## **5.2 THE NEED TO EMPOWER FRONTLINE STAFF TO DELIVER SERVICE QUALITY**

In building public confidence and instil trust in order to enhance corporate image, the bank is as good as its frontline people and that service encounter is the face of the bank. The attitude and competence displayed by the trusted employee is critical because being polite to the customer is the best way to grow a community of loyal customer. Added to that, banks may have the best products, services, technology and ambience, but if their frontline employees are not courteous and polite to their customers, it will be extremely difficult for the bank to grow, endure and progress. It is in this regard that empowerment of frontline employees and complaint resolution is necessary because being polite to customer is what builds a great bank.

Service encounter is critical and if not given the requisite attention, skills and empowerment can result in failure (as perceived by customers) in a number of ways, which may in turn lead to relationship breakdown. Some causes of service complaints include unavailability of a service, slow service and errors in delivery, failure to perform services when promised, inefficiency, rudeness, delays, failure to keep customer informed of changes and inflexibility on the part of the service providers.

## **5.3 SERVICE ASSURANCE IN THE BANKING ENVIRONMENT**

In order for banks to quickly regain customer confidence and to enhance loyalty and revenue, continuous monitoring is necessary to avoid adverse impact of service disruption. With the competitive environment coupled with modern technological innovation, customers expect services and products offered them to be safe, available and swift rather than service disruptions which are prevalent.

Customer complaint management needs to be seen as a value-added resource rather than a nuisance, or an extended overhead. If complaints are handled well and resolved to mutual satisfaction, happy customers are a powerful marketing tool. If the customers of an organization are satisfied by their services the result is that, they will be loyal and consequently be retained which is positive for the organization because it could also mean higher profits, higher market share, and increasing customer base. Understanding customer expectation is therefore vital for any organization in order to keep customer satisfied.

## **5.4 BENEFITS OF COMPLAINTS MANAGEMENT IN BANKS**

Past studies have clearly showed that a key benefit of complaint management can be used to support the drive for continuous improvements by focusing managerial attention and action on specific problem area. The fundamental issue under review is how bank managements in India over time overlooked the potential of complains. This study underpins the underlying issue that banks need to retain existing customers while targeting non –customers. Complaints, they say, are a crucial form of communication between the buyer and seller. They offer business an opportunity to correct immediate problems and they frequently provide constructive ideas for improving products, adapting marketing practices, upgrading servicing, or modifying promotional material and product information. In as much as complaints may sometimes seem undesirable they nevertheless service as a source of significant feedback for any organization.

Furthermore, dealing effectively with failed service encounters should be seen as one of the critical success for service organizations such as that of the banking sector. As a result, managers today must be encouraged to seek and maintain long- term, mutual beneficial relationships with customers. Therefore, managers are expected to be receptive to customer complaints and deal with such issues in an effective way that will delight the customer.

It is important to note that, there is a substantial body of empirical and theoretical literature that establishes the benefits of customer satisfaction for firms against which the researcher is conducting this study for the benefit of the Indian banking industry as any business ideally is continuously seeking feedback to improve customer satisfaction. Complaints should lead to identification of problems and actions to ensure that such failures do not happen again. Although, they should also be viewed as opportunities to make improvements that will ultimately result in more satisfied customers, and also lead to cost – reduction through those improvement preventing future service failures (Bove & Johnson, 2001).

## **5.5 STRATEGY TO RETAIN AND ATTRACT CUSTOMERS**

It is imperative to underscore the fact that banks survives and thrives on good customer retention. This has literally compelled bank authorities to understand the relevance and importance of effective and efficient complaint management as the best customer retention tool. Invariably, the cut throat competition has made banking business more dynamic and

changing and the need to foster and enhance employee and customer relationship in understanding service quality and its relationship with customer satisfaction and loyalty (Wagar, 2008); (Yoon, Seo, & Yoon, 2004). We should bear in mind also that the strategy of retaining and attracting customers in the current market trend can be realized, when products and services are delivered to customers with great 'quality' the presumption is that such defect free products and services help to build and improve the prestige, trust, loyalty, understanding, confidence, satisfaction and corporate image of the business entity. In such circumstance, the customer will become thrilled, happy and satisfied. Hence, the more the customer is satisfied; the better is the growth in revenue of the business and the bonding with the customer. (Zeithaml & Bitner) noted that satisfaction or dissatisfaction is a measure or evaluation of a product or service's ability to meet a customer's need or expectation.

## **6. CONCLUSION**

The purpose of this study is to examine the effects of positive service encounter in improving customer service and to offer important suggestions that will assist the Indian banking industry to deal effectively with customer complaints and not to be making unfulfilled promises to customers. Managerial responses should be seen as paramount and critical to the complaints management process. Besides, a good service quality can contribute to customer satisfaction. The researcher was able to establish that convenience and competitiveness also influence customer satisfaction. It was further revealed that bank's viability is derived from the quality of services which leads to customer satisfaction as well as retention. So, it is imperative for bank managements to provide a more comprehensive and holistic picture of an efficient and effective complaint management mechanism which will help banks to identify those situations in which the bond between the employee and the customer is particularly strong and healthy in order to enhance customer satisfaction, market share and profitability. Finally, frontline employees should be empowered so that they can have the latitude over their service activities and abilities to address specific customer needs to act in a more fully customer-centric manner.

## **7. RECOMMENDATIONS/IMPLICATIONS**

The researcher believes that the following recommendations/implications would not only be beneficial to the banking industry but also to other service sectors in India.

1. Efforts should not be relented in educating and encouraging customers to complain when things go wrong.
2. Complaints should be regarded as research data that is as a stream of (inexpensive) market research information highlighting where improvements are needed.
3. There should be a single point of contact for complaints rather than sending customer complaints to various departments /units to be resolved.
4. All employees, especially frontline employees, need to be empowered to effectively deal with different types of problem that management thinks only they can handle, so as to improve the complaint recovery time and thus customer satisfaction. Furthermore, they also need to work on the recovery time for problems relating to cash retraction caused by ATMs and other related machines.
5. Efforts on follow-up procedures regarding complaints resolving process should be improved.

## **8. IMPLICATION TO FUTURE RESEARCHERS**

The discussions of this study have revealed that effective handling of complaints could have an impact on customer loyalty and retention, since customer retention is strategic process to retain existing customers and a critical factor for organizational success in business. When customer retention strategies of trust, motivation, confidence, service, understanding, loyalty, happiness, partnership, support and satisfaction are fully in existence, customer satisfaction which is an important performance component and a basic differentiator of business strategies can be achieved. It is however, the conviction of the researcher that a comprehensive study on a similar topic relating to another a service setting should include a more empirical and quantitative analysis so as to add more relevance and impetus on the subject matter which will ultimately contribute to the body of knowledge.

## **9. SCOPE FOR FURTHER STUDY**

This study specifically chose banks in India. Further research is to explore the possibility of having a critical look in other service setting. Also, future research is needed to find out the causal relationship between service quality, customer complaint and customer satisfaction in different service setting. In this study, it was revealed that the banks in India

should seriously step up their research into the primary reason why customers are breaking up the continued loyalty with banks. Another important issue that could also be of significance for future researchers is to investigate to what extent customer grievance has been managed in a better and efficient way to enhance customer retention.

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