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### **“Impact of Corporate Governance on Customer Satisfaction -A comparative study on selected public sector and private sector banks in Karnataka”**

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#### **ABSTRACT**

The main objective of any banking organization is to maximize profits while having minimum risks. Banks are the custodians for people's money, therefore the banking industry requires utmost care and caution in formulating their policies, rules and regulations. The recent propagation of Corporate governance in India especially in the banking sector has increased the trust of the stakeholders of the banks. Customer who is the king of the market receives the benefits of the corporate governance plans. Do customers know about these corporate governance practices? Are they aware of the guidelines followed by the banks? Is there a relationship between corporate governance practices and customer satisfaction? This study aims at answering the above questions through an empirical research. Primary data is collected from N=216 respondents across Karnataka state. The questionnaires were designed to extract the opinions of the respondents using the likert scale of agreement. Corporate governance attributes like bank management with integrity, Complaint management systems, banks corporate reputation attributes, Competent Bank management and Transparency and disclosure are studied. The opinions of the respondents are analyzed using SPSS Tool; Statistical statements are validated using Cross tabulation, descriptive statistics and correlation analysis. The study finally concludes that there exists a relationship between corporate governance attributes and Customer satisfaction.

**KEYWORDS:** Corporate governance, integrity, transparency and disclosure, Complaint management system, customer satisfaction.

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## **I. INTRODUCTION**

Customer satisfaction is known as critical and an significant effect in marketing literature. Its role in the services industry in particular gains more prominence, because of the higher human involvement in comparison to goods This acknowledgement resonates globally in the retail banking sector, which is characterized by serious rivalry amongst competitors and high customer expectations. Customers are becoming more knowledgeable and sophisticated in their approach to banking transactions, demanding greater flexibility, personal service and value.

Thus, it has become pertinent for retail banks to have a good understanding of the drivers of customer loyalty so that proper marketing strategies can be formulated for long-term relationship building and also to secure opportunities for growth and increased profitability. Literature reviews note that banks have undertaken several initiatives to enhance customer fidelity, such as implementing value chain analysis, customer satisfaction and loyalty programmes. This position has been validated in recent studies centred on broader service industry spectrum, particularly in the hospitality business.

The term 'Corporate Governance' which was infrequently experienced before the 1990s has now turned into an all-unavoidable term in the ongoing decade. In the present situation this term has turned out to be a standout amongst the most urgent and vital ideas in the administration of organizations. The foundation of corporate administration goes back to Adam Smith however its prevalence is of ongoing source. The idea of corporate administration can be comprehended as the framework through which investors are guaranteed that their advantage will be dealt with by administration. In an a lot more extensive term, corporate administration was characterized as the strategies by which providers of fund control supervisors with the end goal to guarantee that their capital can't be seized and that they procure an arrival on their speculation (Parekh, 2003).The writing on corporate administration in its wide subtext covers an assortment of perspectives, for example, assurance of investor's rights, enhancing investors esteem, board matters and so on.

In any case, the significance of corporate administration in managing an account part weighs especially because of exceptionally nature of banking. Managing an account is the pivotal factor affecting financial advancement of an economy. It is the life-blood of a nation. It is in charge of the stream of credit and for keeping up the budgetary adjusts of the economy. In India, since the nationalization procedure banks rose as an apparatus of monetary improvement alongside social equity. Corporate Governance has turned out to be vital for banks to perform and stay in rivalry in this period of advancement and globalization.

## **II. LITERATURE REVIEW**

### ***Literature review on corporate governance***

(E.F. Fama, 1983) in their study emphasized the importance of corporate governance on control of activities of any organization, they further discussed that the board should take control decisions and the senior management should be left to take management decisions. the study clearly concludes that the corporate governance of banks is different from other organizations due its uncertain nature

(Obiyo Torbira 2011) in their study defined corporate governance in recent times also specifying that the recent propagations in field of corporate governance are due to the high international competition in field of retail banking. The authors emphasized that the corporate governance practices have to be revised from time to time to get effective results

### **Literature review on Customer satisfaction**

Gummesson (1998) notes that banks have undertaken several initiatives, such as value chain analysis, customer satisfaction and loyalty programmes. Also included in these factors is minimizing switching behaviour, perceived service quality, satisfaction, trust and switching costs amongst others.

Ghazizadeh et al. (2010) assert that, to accomplish the customer satisfaction goal, banks have to adopt a market-orientation approach that identifies consumer needs, designs new corporate governance policies and practices and redesigns the old ones

## **III. STATEMENT OF THE PROBLEM**

Corporate governance is an important aspect of the banking system as it is embedded with the financial responsibilities of it stakeholders. The recent propagation of corporate governance in India especially in the banking sector has increased the trust of the stakeholders of the banks. Customer who is the king of the market receives the benefits of the corporate governance plans. Following are the research questions

- ✓ Do customers know about these Corporate Governance practices?
- ✓ Are they aware of the guidelines followed by the banks?
- ✓ Is there a relationship between corporate governance practices and customer satisfaction?

## **IV. OBJECTIVES**

- To evaluate the awareness level of customers in relation to corporate governance of the banks.
- To study relationship between corporate governance practices and Customer satisfaction

## V. HYPOTHESIS

H1: There exist a statistically significant relationship between corporate governance practices and Customer satisfaction

H2: There exist a statistically significant difference in Awareness levels of customers of public sector banks and private sector banks

## VI. RESEARCH DESIGN

An empirical study consists of both qualitative and quantitative techniques. A structured questionnaire was used for data collection. The study was conducted by using survey method to gather necessary information from the primary data. Secondary data was gathered from previous studies, journals, papers and books. The data collected by the study was compiled, classified and tabulated for the purpose of analysis. Analysis of the data was done by using simple and complex statistical tools such as frequency, percentage, averages, chi-square test using SPSS. Based on this analysis the data was interpreted which enabled the various findings through discussions made about the findings before offering suggestions and strategies formulated in this research.

## DATA COLLECTION

Primary data was collected through questionnaire having open ended as well as closed ended questions. Likert scale questions were designed to extract the opinions of the respondents the responses were tabulated as 1= Strongly Agree, 2= Agree, 3=Neutral, 4=Disagree, 5=Strongly disagree.

Secondary data was collected from Journals, articles, text books, websites etc

## SAMPLE DESIGN

### A. Determination of sample size

the sample size is determined using statistical tool (Z Score). the confidence level chosen for the study is at 95% hence Alpha is 0.05. The standard deviation is the expected deviation and biases in the responses which is taken as 35 points. Error refers to the statistical errors that may occur in validation of the statements derived from responses. Since the study is widely related to study the consumer behaviour the error for Consumers is 2.15 points which is least compared to others.

Formula:

- n- Sample size
- Z - Z score
- E- Error

$$n = \left( \frac{Z\sigma}{E} \right)^2$$

**Table : Determination of Sample size**

Determination of sample size Z-score	Farmers
Confidence level	95%
standard deviation	30
Error	4
Alpha divided by 2	0.025
Z-score	1.959964
Sample Size	216.33
	<b>216</b>

Source: Author Calculated/ SPSS

### B. Sampling Techniques

The population under study - Karnataka State is classified into different strata and samples are selected proportionately from the given strata. Probability sampling technique - Stratified Proportionate sampling is used to derive the above sample.

### C. Classification of sample size

Bank name	No of Branches	No of customers	Total
<b>SBI</b>	32	2	64
<b>Canara</b>	18	2	36
<b>Vijaya bank</b>	1	2	2
<b>Corporation Bank</b>	8	3	24
<b>Syndicate Bank</b>	7	2	14
<b>South Indian Bank</b>	2	3	6
<b>ICICI</b>	9	2	18
<b>AXIS</b>	4	3	12
<b>Kotak Mahindra</b>	5	2	10
<b>HDFC</b>	10	3	30
Total respondents			<b>216</b>

### STATISTICAL TECHNIQUES:

- *Correlation analysis*- to test the correlation between various variables
- *Chi square*- To study the difference between various variables

### LIMITATIONS OF THE STUDY:

- The study covers only Five Public Sectors and Five Private sector Banks which cannot be generalized to other banks or organizations.
- The relation between the corporate governance and customer satisfaction is based on the questions formulated

- The study is limited only to Bengaluru City

## V. ANALYSIS AND INTERPRETATION

Profile of the respondents

### Demographic profile of the employees

Customers are the most important assets of any banks. the corporate governance is established to safeguard the interest of all the beneficiaries of the banks. Customers are the major portion of the beneficiaries who are affected by the corporate governance policies. This chapter deals with study the impact of corporate governance practices on customer satisfaction. The chapter also aims at analyzing the difference in corporate governance awareness among customers who belong to public sector and private sector banks.

### Type of bank

Table 3

Graph 1

		Type of bank			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	PublicSector	140	64.81	64.81	64.81
	Private Sector	76	35.19	35.19	100.00
	Total	216	100.00	100.00	

Table 3 shows the banking sector to which the customers belong. Indian banks are broadly classified into Public sector banks, Private sector banks, Foreign Banks and Government owned banks. 140 customers who amount to 65% of the total respondents are from Public sector banks and the remaining 35% Customers operate from Private sector banks. The type of bank plays a major role in understanding the corporate governance as a broad topic.

### No of years as Customer of the bank

Table 4

Graph 2

		No of years as customer			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0 to 3	56	25.93	25.93	25.93
	3 to 6	48	22.22	22.22	48.15
	6 to 9	35	16.20	16.20	64.35
	More than 9	77	35.65	35.65	100.00
	Total	216	100.00	100.00	

Table 5.3.3 presents the No of years the respondent is the customer of bank. Customer loyalty has a great impact on the awareness of the customers about the happenings of the banks. and also the banks are benefited by such customers. This study has taken a mix of all types of customers who are customers of the banks from different range of years. 56 Customers who amount to 26% of the total respondents were new customers of the banks, 48 customers who amount to 22% of the total respondents are the customer of a particular bank from 3 to 6 years. 77 customers who are a greater percentage of 36% are the loyal customers of the banks for more than 9 years.

**Awareness levels of customers**  
**Table 5**

<b>Type of bank * Are you aware of the term corporate governance Cross tabulation</b>					
			CG_AwarenessC_1		Total
			Aware	Not aware	
Type of bank	Public sector	Count	65	81	146
		% within Type of bank	44.5%	55.5%	100.0%
	Private Sector	Count	32	38	70
		% within Type of bank	45.7%	54.3%	100.0%
Total		Count	97	119	216
		% within Type of bank	44.9%	55.1%	100.0%

Table 5 shows the cross tabulation of the opinions of the respondents on Awareness in field of corporate governance and their bank type. 97 customers of which of 65 public sector banks Customers and 32 private sector bank customers agreed that they are aware of corporate governance policies at their bank. A majority of 119 respondents accounting to 55% of the total respondents, 55% public sector customers and rest of the private sector customers opined that they were not aware of corporate governance.

Graph 3

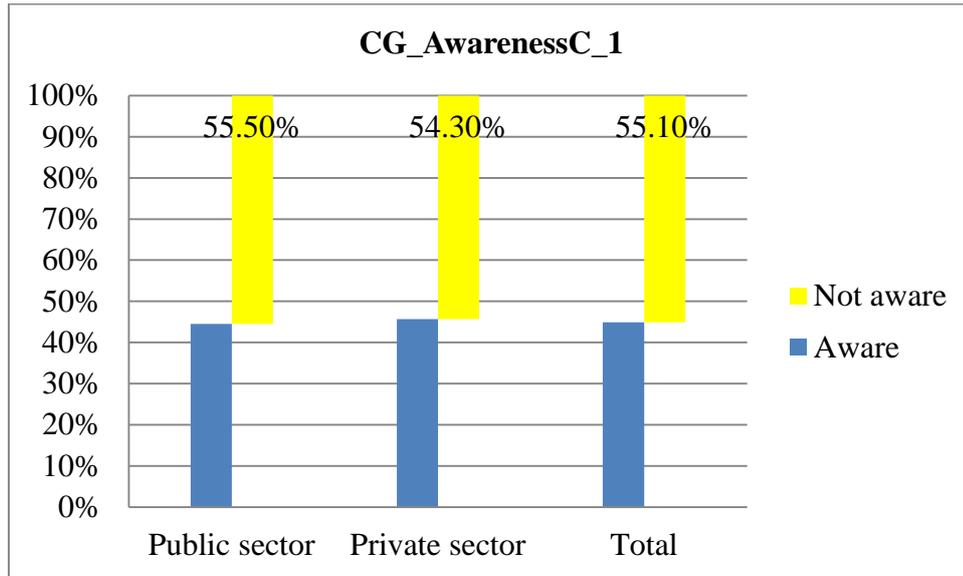


Table 6

Chi-Square Tests					
	Value	df	Asymptotic Significance (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	.027 <sup>a</sup>	1	.869		
Continuity Correction <sup>b</sup>	.000	1	.985		
Likelihood Ratio	.027	1	.869		
Fisher's Exact Test				.885	.492
Linear-by-Linear Association	.027	1	.869		
N of Valid Cases	216				
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 31.44.					
b. Computed only for a 2x2 table					

Chi square test gives result on the dependence or association of one variable on the other variable. here the Type of bank is an independent variable and the awareness levels of customers on corporate governance is a dependent variable. since the p-value .885 is greater than the chosen significance level ( $\alpha = 0.05$ ), it is concluded that there is no sufficient substantiation that there is an association between type of bank and awareness levels of Customers on corporate governance practices of the banks.

**Correlation analysis- Customer satisfaction and corporate governance attributes**

**Table 7**

Customer satisfaction and Corporate governance attributes							
Description	Item Name	SA	A	N	DS	SDS	Total
I feel happy and satisfied with my bank	Cus_satisfaction_1	85	26	10	74	21	216
		39.35	12.04	4.63	34.26	9.72	100
Bank provides best services	Cus_satisfaction_2	74	36	52	33	21	216
		34.26	16.67	24.07	15.28	9.72	100
Assistance to customers is given utmost priority	BMI_1	36	41	74	51	14	216
		16.67	18.98	34.26	23.61	6.48	100
Fair treatment is given to all customers	BMI_2	67	121	22	3	3	216
		31.02	56.02	10.19	1.39	1.39	100
Clear banking vision and mission	CBM_1	67	127	18	4	0	216
		31.02	58.8	8.33	1.85	0	100
The bank is committed to problem solving	CBM_2	21	28	51	74	42	216
		9.72	12.96	23.61	34.26	19.44	100
Clear information is displayed regarding rates, rules and regulations	TnD_1	175	21	13	4	3	216
		81.02	9.72	6.02	1.85	1.39	100
Bank information is easily accessible	TnD_2	91	45	23	41	16	216
		42.13	20.83	10.65	18.98	7.41	100
Bank provides attention to customer complaints	CMS_1	15	49	28	68	56	216
		6.94	22.69	12.96	31.48	25.93	100
Bank arranges for faster resolution of complaints	CMS_2	31	72	26	71	16	216
		14.35	33.33	12.04	32.87	7.41	100

Table 7 represents the satisfaction of the customers derived from corporate governance functions and activities of the banks. Customer satisfaction is the most significant factor that affects any business, organization or banks. Customer satisfaction leads to customer loyalty which is the whole purpose of formulating and devising Corporate governance at all levels. The customer satisfaction is measured with help of likert scale of agreement. Item Cus\_satisfaction\_1 is designed to extract opinions of the respondents on whether they feel happy and satisfied with my bank. A contrasting results were seen where 85 respondents amounting to 39.5% strongly agreed and 74 customers amounting to 34.26% disagreed with the same. Cus\_satisfaction\_2 is intended to obtain assumption on whether the Bank provides best services. 74 respondents amounting to 34.26% strongly agreed and 52 who sum up to 24.07% of the total customers neither agreed nor disagreed to the statements.

Bank management with integrity is one of the foremost aspects a customer looks for from a bank. Integrity refers to maintaining the clear terms and undue respect and priority to customers. Item BMI\_1 A majority of 74 respondents amounting to 34% neither agreed nor disagreed when enquired whether assistance to customers is given utmost priority at their bank. Item BMI\_2 87% customers on an average strongly agreed and agreed that Fair treatment is given to all customers. a

small percentage disagreed for the above statement. item CMB-1 was designed to extract information on Banking vision and mission. A majority of 58.8% agreed that the bank had Clear banking vision and mission, 67 respondents strongly agreed to the above statements. None of the customers showed strong disagreement. Item CBM\_2 was intended to acquire opinions on whether the bank is committed to problem solving. 74 and 42 customers who amount to 35% and 19% disagreed and strongly disagreed. TnD\_1 which has 175 respondents who were about 81% of the total strongly agreed to the above statements. a very small 3% of the respondents were on the scale of disagreement. 91 respondents amounting to 42% and 45 customers estimating to 21% strongly agreed and agreed respectively that bank's information is easily accessible.

Table 8

Correlation analysis- Customer satisfaction and Corporate governance attributes										
	Cus_s atisfac tion_1	Cus_s atisfac tion_2	BMI_1	BMI_2	CBM_1	CBM_2	TnD_1	TnD_2	CMS_1	CMS_2
Cus_sat_1	1.000									
Cus_sat_2	0.468	1.000								
BMI_1	-0.134	0.354	1.000							
BMI_2	0.002	0.310	-0.030	1.000						
CBM_1	0.019	0.287	-0.037	0.999	1.000					
CBM_2	0.018	-0.465	0.388	-0.725	-0.702	1.000				
TnD_1	0.656	0.866	-0.148	0.349	0.333	-0.646	1.000			
TnD_2	0.799	0.795	-0.075	0.485	0.484	-0.524	0.927	1.000		
CMS_2	-0.101	-0.901	-0.244	-0.324	-0.287	0.654	-0.767	-0.570	1.000	
CMS_3	0.287	-0.192	0.219	0.428	0.464	0.267	-0.221	0.160	0.492	1.000

**Hypothesis:** There exists a statistically Significant relationship between Corporate Governance attributes and Customer satisfaction (customer trust building)

*Null hypothesis rejected* as all the Pearsons correlation results ( Table 8) among Corporate governance attributes \_ items and customer satisfaction\_ items show that *there is a negative or no relationship between Corporate Governance attributes and Customer satisfaction( customer trust building)*

## VI. FINDINGS AND SUGGESTIONS

- The statistical test reveals a negative relationship between Corporate governance attributes and customer satisfaction. It is clear that the customer is not influenced by the corporate governance activities of the banks. Their satisfaction is directly related service quality
- Public sector banks are more bound to government rules and regulation by Nationalized banks act. the private sector bank enjoy a limited freedom in all decisions. the study reveals that there is no significant difference in awareness levels of public sector customers and private sector customers.

## **VII. CONCLUSION**

Corporate governance plays a major role in the overall functioning of the companies and financial institutions. Banks being the custodians of money of the public have to follow the rules of corporate governance as issued by the country Regulators. The trust of the customers lies in the banks and hence the regulators constantly review the acts related to the Corporate governance. Various committees have worked on improving the laws and compliance of Corporate Governance in India. The rules and regulations are slightly different for banks and financial institutions as they are associated with the financial risks. Customer perception and satisfaction are two main indicators of customer loyalty. Any business will be profitable when they have a large valuable customer base. It is important for all banks to design and formulate its corporate governance practices as per the needs of the customers. As furnished in the above chapter customer awareness of corporate governance is same to all consumers irrespective of which ever sector of bank they belong to. Customer satisfaction is correlated with various other corporate governance attributes and the results seem that in some cases there is correlation like Customer satisfaction and consumer complaints, some cases have a negative correlation like customer satisfaction and bank management with integrity.

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