Importance of Customer Satisfaction in a Community Bank

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ABSTRACT

It is sometimes argued that bigger is better. However, that is not always the case. Smaller, community banks are the lifeline of the towns that span the country. Community banks, where a customer is considered a ‘human being’, understand their local target market better than their larger counterparts, where the customer is just a ‘number’. Moreover, the image of the larger banks has been considerably tarnished because of the recent economic downturn. This research can also help community banks compete with larger banks in niche service areas. In order to investigate whether the bank’s customers 1) were satisfied with the bank’s products and with the image of the bank 2) felt welcome and 3) had any concerns about the bank’s (financial) position during difficult economic times, the author found that customer responses are mixed on these issues. Interesting implications and ideas for further research also emanate from the current study.

KEYWORDS

Banking, Brand Image, Customer Satisfaction, Customer Service, Quality

1. INTRODUCTION

It is well established that satisfied customers are the key to long-term business success. Organizations with superior service quality have been found to be market leaders in terms of sales and long term customer loyalty (Siddiqi, 2011). Customer satisfaction is regarded as a primary determinant of repeat shopping and purchasing behavior. The greater the level of consumer satisfaction with a retailer, the greater the probability the consumer will revisit the retailer (Culberg and Rojsek, 2010; Oliver, 2014). Service performance, which is critically important, brings with it customer satisfaction. After all, customer satisfaction is at the core of the marketing concept.

The purpose of this paper is to study the opinions and perceptions of customers who frequently patronize community banks. This study analyzes and draws conclusions about the customer service, service quality, service reliability and brand image that a typical community bank located in eastern United States provides, as it competes with other community banks to gain market share and to retain a loyal segment of the community bank market. Since community banks represent an important part of the commercial and consumer structure of a neighborhood, the findings of this study can help us identify consumer satisfaction models. Using such models, we can reach customers who often believe that they are not recognized as an important part of the banking business.

The study is all the more critical because of the recent role of several large—both national and international—banks, that have come to light in the wake of the US housing downturn. Such questionable acts by ‘too-big-to-fail’ banks have brought to the limelight the positive role model that smaller banks can play when it comes to ethical business practices (Graham, 2010; Aubuchon and Wheelock, 2010; Wilmarth, 2010).
In this context, the roles of affect and store image have been recognized as key components of consumer choice of shopping location. Thus, these factors influence a retailer’s long term success (Dunne et al., 2011). Moreover, Hook (1989, p.3) states that there are two generally accepted facets of store image:

1. One image is that of functional and psychological factors combined;
2. Another image is based on consumer’s perception, not reality.

The image that a consumer forms of a retail store, therefore, is based on the affective perception of cues internal or external to the store, in addition to the actual physical quality of the store (Chen, 2010; Ryu et al., 2012; Chang and Fong, 2010).

In an environment where many organizations are providing similar products and prices, and where channels of communications face constant clutter, it seems that delivering high level of customer satisfaction can be an important component of a company’s competitive advantage. Substantial marketing literature is devoted to the effects of customer satisfaction on business performance (Barat, 2008). Some studies have proven that customer satisfaction has strong positive impact on customer loyalty and behavioral patterns (Heskett and Sasser, Jr., 2010). Loyal customers tend to consume more, make recommendations to others and thus secure future revenue. Direct link between consumer satisfaction and consumer profitability has also been documented (Clottey et al., 2011; Kassim and Abdullah, 2010; Zhang et al., 2011).

High level of customer satisfaction reduces or eliminates customer complaints (Heskett and Sasser, Jr., 2010). As a result, costs associated with handling problems with field services, defective products and warranties (Anderson and Swaminathan, 2011) are slashed. Higher levels of customer satisfaction can also enhance the company’s reputation (Deng et al., 2010; Heskett and Sasser, Jr., 2010) and brand image (Barat and Paswan, 2005). These, in turn, can lead to creation of instant awareness and ease of acceptance of new product and lower costs of attracting new customers (Shen and Chiou, 2010).

Recent studies suggest that customer satisfaction has a strong relationship with shareholder return (Grewal et al., 2010), and stock prices (Edman, 2011), both of which may be important from the investors’ point of view. A more complex approach presented by Heskett and Sasser (2010) linked customer satisfaction positively to employee satisfaction, and market share to productivity indicators (Williams and Naumann, 2011) …thus, the relevance and potential contributions of the current research can hardly be overemphasized.

This paper is organized into six sections. The first two sections contain the introduction and literature review, which provide an overview of the conceptual framework for the study. The next two sections describe the construct and hypotheses development, and research methodology, with associated findings. The fifth section provides the discussion of the results and presents the conclusions reached from the study. The final section discusses the relevance of this research to the literature and provides implications for consumer satisfaction policies and practices for researchers, practitioners, and teachers.

2. LITERATURE REVIEW

2.1. Customer Satisfaction Definitions

There are several approaches to ‘customer satisfaction’ in marketing literature. Zeithaml and Bitner (2000) describe it as “the customer’s evaluation of product or service in terms of whether that product or service has met their needs and expectations”. This definition is rooted in Oliver’s (1980)
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