Effect of Customer Experience in Business and Financial Performance of Banks

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Providing excellent customer service to customers in all aspects will be a challenging task. Excellent customer service leads to customer experience creation, which will affect customer satisfaction and customer loyalty. Nowadays, researchers concentrate on the idea of customer experience in Indian banks, which has a significant customer base. The purpose of this paper is to develop a conceptual framework between customer experience and business & financial performance. The customer experience index (CEI) is adapted for this study. The propositions are developed to understand the cause and effect relationship of customer experience in business and financial performance of the banks in India.

Keywords: Customer Experience, Customer Experience Index, Indian Banks, Business Performance, Financial Performance

1. Introduction

The purpose of doing business to create the customers (Drucker, 1997). Any organization which is want to be successful, it must take care of their customer’s needs before the customer asks about it. Now, the concept of the share of the market had changed to share of customer. The scenario clarifies how customers so valuable to the organization. Interaction between the company and the customer is vital for maintaining relations. Due to the stiff business competition, satisfying the customers is a big problem. Customer service expectations are rising high day by day (Moorthi & Mohan, 2017). So, the firms are developing new strategies to acquire and retain their customers. Customer Experience Management (CEM) is one of the uprising management techniques for customer satisfaction and customer retention. Customer relationship management tracks down the details about the customer’s past transaction and service record in order to provide the excellent quality product or service where CEM focuses “every point of interaction at which the customer conjoins with the business, product or service” (Andajani, 2015).

This study mainly focuses on how customer experience influences the business performance and profitability of the firm in the Indian banking industry because Indian banks consist of a large number of individual retail customers. After “Digital India” implementation, banking the unbanking population increases the banking users (Agrawal, 2017). So, studying the customer experience in the Indian scenario will be useful for understanding the concept of CEM.

1.1 Indian Banking Industry

India is the largest populated country with a population of 1,37,00,99,333 as of 6th August 2019, based on the latest United Nations estimates. Due to this highest population and digitalization of bank services, India is emerging as a world’s third-largest banking industry in 2025 after China and USA (Kant & Jaiswal, 2017). There are 22 private banks, 20 public sector banks, 10 small finance banks, 7 payments banks, 3 local area banks, 56 regional rural banks, 4 financial institutions, and 44 foreign banks operated in India (RBI, 2019). Reserve bank of India (RBI) is an independent body owned by Government of India which regulates and governs the banking system in India. On 1st April 1935, RBI was established with the provision of the particular act named Reserve bank of India Act, 1934.

After digitalization, Banks in India implemented the Core Banking System (CBS), which takes the banking operation into the next level. It provides the fastest and flawless banking service to its customer at anywhere and anytime (Kant & Jaiswal, 2017). It is achieved with the help of Automated Teller Machine (ATM), SMS Banking, Telephonic Banking, Internet banking, mobile banking, and mobile payments. Both Private sector banks and Public sector banks are in the chase to provide an excellent quality service in order to retain their customers (Kaura, 2013). Now new arrivals, namely small finance banks and payments banks, also join the competition in customer acquisition through technology and innovation. As almost all the banks are offering their services through multiple channels, measuring bank customers’ satisfaction and loyalty should consider all the channels collectively. If customer experience cumulatively measured across the channels, it will give a holistic picture of customer experience in banks.
2. Literature Review

2.1 Definition of Experience
Customer experience or consumer experience has been defined in a diverse context in marketing. Grewal et al. see it as “including every point of contact at which the customer interacts with the business, product, or service” (Grewal, Levy, & Kumar, 2009). In the marketing point of view, Pine & Gilmore stated that experience is personal and exclusive for every individual which recollected and memorable over time (Andajani, 2015; Pine & Gilmore, 1998). “The experience may involve emotional, physical, intellectual, or even spiritual aspects of the individual” (Andajani, 2015).

“Customer Experience is a communication between an organization and a customer. It is a blend of an organization’s physical performance, the senses stimulated and emotions evoked, each intuitively measured against customer experience across all moments of contacts” (Shaw & Ivens, 2002). “Customer experience is the stimulation done by the company against the senses of consumers. The company can control the stimuli that have given to the senses of consumers. Therefore, the company can control the reaction of consumers resulting from the stimulation process; thereby, the company can steer the acquisition of the customer experience as expected by the company” (Andajani, 2015).

2.2 History of Customer Experience
The idea of experience included in marketing and consumption exposed by Holbrook & Hirshman (1982). Customer experience is a critical outcome of the customer’s emotion and behavior towards a purchased product. (Carù & Cova., 2003; Holbrook & Hirschman, 1982). Experience is not something saleable. It is a creation within oneself against the physical facilities and service provided by the organization. Hence the concept of experience is unique to every customer.

Many researchers proposed their theory about customer experience over a period. (Carù & Cova, 2015; Edvardsson, Enquist, & Johnston, 2010; Pine & Gilmore, 1998; Shaw & Ivens, 2002; Verhoef et al., 2009) Moreover, several scholars developed the scale to measure it (Garg, Rahman, & Qureshi, 2014; Gentile, Spiller, & Noci, 2007; Hernández, Jiménez, & Martín, 2010). Some of them measure the industry based customer experience for an example online shopping experience (Hernández et al., 2010; Jaziri, 2018; Rose, Hair, & Clark, 2011), retail shopping experience (Arnold, Reynolds, Ponder, & Lueg, 2005), customer experience in banks (Garg et al., 2014), tourism (Bartlett & Ghoshal, 2002), (Hwang & Seo, 2016), Mobile Application Customer Experience (McLean, Al-nabhani, & Wilson, 2018; McLean & Wilson, 2016) H&T and so on.

Customer experience is unique and personal to each customer. Even though the service is highly uniform and standardized, each customer perceived their own experience. Customer experience creation is two-way. The service provider/organization create part of it, and another part will be created and perceived by the customer to whom the service provided. So the memorable, good experience made them revisit or repurchase their Service/product. (Jaziri, 2018). Customer experience will be a separating factor for every service provided; It serves as a competitive edge ((Gentile et al., 2007) (Shaw & Ivens, 2002). Due to its high individuality to each customer, measuring and providing a unique experience to the customers is quite a challenging job ((Bolton et al., 2018; McLean & Wilson, 2016).

3. Theoretical Framework and Propositions
This paper aims to study the relationship between Customer Experience, business performance, and profitability. The research propositions are developed to examine the relationships among the theoretical constructs. The theoretical model presented in Figure 1.

![Figure 1 Theoretical Model](image)

Based on the existing literature support, the proposed research model has developed. Here, service provided by the bank for its customer’s every transaction will create an impact on the customer experience with the bank. This experience plays a significant role in business performance. Business performance includes customer satisfaction and customer loyalty, which will lead to financial performance. Therefore, the propositions are framed in such a way how customer experience influences business and financial performance of banks. The propositions listed in the following segment. Detailed proposition model is presented in Figure 2.
3.1 Customer Experience
Customer experience constructs adapted for this study have seven dimensions. The construct was proposed by Kim, Cha, Knutson, & Beck, (2011b). The authors initially developed a first-order customer experience construct with seven dimensions, which has 39 items. After the results obtained from the exploratory factor analysis (EFA) and confirmatory factor analysis (CFA), the construct revised as a second-order construct with seven dimensions includes 26 items (Kim et al., 2011). Based on overall indexes, the author ranked the construct namely Benefits, Accessibility, Convenience, Incentive, Utility, Trust, and Environment. Hence, we propose the first proposition as is:

3.1.1 Benefits
This construct in a banking context referred to the benefits or advantages received by the customers who are using banking products. Kim et al. (2011) mentioned that the construct is derived from Maslow's hierarchy and they also stated that consistency in service is a benefit to the customer and customization of products and service is also a benefit to the customer. The literature supports that benefits influence customer satisfaction (Deshwal, 2015; Kim et al., 2011; Knutson, Beck, Kim, & Cha, 2009). The benefit is an essential measure in multi-channel banking perspective. Hence, we propose the propositions:
P1b. Benefits of customer experience will influence Customer loyalty.

3.1.2 Accessibility
Accessibility in banking refers to the physical accessibility of banks as well as digital platforms. According to Lemke, Clark, & Wilson (2011), accessibility is “Ease of finding and accessing people, premises, transactions, and/or information whenever needed.” Accessibility combined the factors: cost of service/product, speedy delivery of the service/product, and availability of the product/service (Kim et al., 2011). Ramadan & Aita (2018) studied accessibility in mobile banking. They concluded that accessibility influences customer satisfaction. Thus, it can be extended to all other channels. Hence the propositions are:
P2a. Accessibility of customer experience will influence Customer satisfaction.
P2b. Accessibility of customer experience will influence Customer loyalty.

3.1.3 Convenience
Mclean et al. (2018) claimed, “Convenience refers to the ability to efficiently complete tasks, in a way that suits the customer's situation.” Convenience plays a remarkable role in multi-channel banking. The concept of alternative channels emerged to provide convenience to customers. According to Garg, Rahman, Qureshi, & Kumar (2012), Convenience is a vital factor affecting the customer experience of bank customers. It will be useful to study a holistic perspective convenience in multi-channel customer experience. Hence the propositions are:
P3a. The convenience of customer experience will influence Customer satisfaction
P3b. The convenience of customer experience will influence Customer loyalty

3.1.4 Incentive
Kim et al. (2011) defined Incentive as the offers provided to the customers by the service provider. According to Malik, Suresh, & Sharma (2017), “Incentives are termed as the promotional offers or discount coupons or any
benefit in financial terms.” They also mentioned that they found Incentive as a significant factor-based focus group study. Consumers’ expect to receive a promotional bonus, or monetary coupon will positively motivate them to adopt and use the internet banking (Marafon, Basso, Espartel, de Barcellos, & Rech, 2018), mobile banking app (Garg et al., 2014), and mobile payment services (Ramadan & Aita, 2018). Incentive plays a significant role in customer loyalty in the hotel industry (Kim et al., 2011; Knutson et al., 2009). Furthermore, Incentive influence customer loyalty (Lemke et al., 2011) and customer satisfaction in bank customer (Garg et al., 2014). It is a vital factor in the Indian context because Indian customer is price sensitive (Malik et al., 2017) so, the factor will be suitable to study in the Indian context. Hence, we propose the propositions

P4a. The incentive of customer experience will influence Customer satisfaction

P4b. The incentive of customer experience will influence Customer loyalty.

3.1.5 Utility

Feather man & Pavlou (2003) mentioned Utility is measured from convenience and efficiency. It can be classified into the utilitarian utility (Xu, Peak, & Prybutok, 2015) and hedonic utility (Lemke et al., 2011). Here utilitarian context has been studied. Utility referred to the perceived usefulness getting out of service/product. It is a relevant predictor of using a technology-related service/product. As this study focus on multi-channel customer experience, the utility will be an essential factor. Hence the propositions are:

P5a. The utility of customer experience will influence Customer satisfaction.

P5b. The utility of customer experience will influence Customer loyalty

3.1.6 Trust

Trust is the base factor of any financial services. AS we discussed earlier, the Indian market is a price-sensitive market, building trust on the bank or financial business (Nilashi, Ibrahim, Reza Mirabi, Ebrahimi, & Zare, 2015). According to Kim et al. (2011), “Trust in experience is at the basic level of human interaction in providing that service.” Trust has been widely studied in different concepts because trust in service/product leads to the long-term relationship between the consumer and service provider. Trust and risk are always interlinked; each affects other vice versa (Hampshire, 2017). Trust is an essential factor in technology adoption (Malakiius & Hwang, 2016). Tingchi Liu, Brock, Cheng Shi, Chu, & Tseng (2013) stated that Trust is an initiator for any service adoption. Hence studying about the trust factor will give a significant outcome in the Indian banking industry. Therefore, we propose the proposition,

P6a. Trust of customer experience will influence Customer satisfaction

P6b. Trust of customer experience will influence Customer loyalty.

3.1.7 Environment

A right environment creates an excellent customer experience. Environment affects the customers’ decision making (Baker, Parasuraman, Grewal, & Voss, 2002). Present-day environment classified into the physical environment (Baker et al., 2002; Jain, Aagja, & Bagdare, 2017) and the virtual environment (Bapat, 2017). The environment in banking concept includes all alternative channels, namely internet banking, mobile banking, mobile payments, and physical branch environment. Hence, the propositions are:

P7a. The environment of customer experience will influence Customer satisfaction.

P7b. The environment of customer experience will influence Customer loyalty.

3.2 Customer Satisfaction

Customer satisfaction is the goal of every business because satisfied customers are profit-making customers and excellent referrals for a brand. Customer satisfaction is a critical outcome of positive customer experience (Maklan & Klaus, 2011; O’Loughlin, Szmigin, & Turnbull, 2004). Furthermore, Arnold et al., (2005) stated that “Customer satisfaction has been linked to several important outcomes, including increased market share, profitability, customer retention and loyalty, purchase intentions, usage rates, and the benefits associated with positive word-of-mouth effects.” Moreover, in the multi-channel banking context, customer satisfaction is a crucial factor for continued use of technology-related banking channels like online banking (Chaouali & El Hedhli, 2018) and mobile banking (Hussain, Mollick, Johns, & Rahman, 2018). Hence, we propose


P9. Customer satisfaction will influence Profitability.

3.3 Customer Loyalty

Loyal customers are the backbone of a business. Companies are offering many initiatives on customer loyalty programs, namely loyalty points, revisit or repurchase points. However, these offers do not build loyalty, but the experience gained out the initiative will affect customer loyalty (Garrett, 2010). Customer loyalty is a consequence of positive experience (Jain et al., 2017; Maklan & Klaus, 2011) and Customer satisfaction. Arnold et al. (2005) claimed that a higher level of customer satisfaction would result in unshakeable customer loyalty.
Trust is an essential driver in creating customer loyalty (Akhgari, Bruning, Finlay, & Bruning, 2018). So a study on customer loyalty in a financial institution is vital. Hence, we propose the propositions are **P10. Customer loyalty will influence Profitability.**

4. **Discussion**

This study aims to develop the theoretical framework for measuring business performance and financial performance banks in India using Customer experience. The theory is developed based on the existing concepts; namely, Customer experience constructs adapted from Customer Experience Index(CEI) proposed by Kim et al.,(2011), and the concept of business and financial performance is extended from (Mbam & Ezepue, 2018). This variance of this idea has been studied differently in online banking and mobile banking. This emphasis is not studied in holistic customer experience gained from multi-channel banking. Thus, the study focuses on customer experience gained from all banking channels and its effect on business and financial performance of banks.

5. **Managerial Implications**

Customer experience theory is a widely discussed concept in recent decades on different dimensions. The goal of every business is to increase its performance. This research will let the readers understand the impact of customer experience in business performance and financial performance of the Indian banks. Overall, this research framework will help bankers to understand their customer expectations and the importance of the customer experience in a better way.

5.1 **Implication for Practice**

If the proposed research model tested empirically by future research, the study would offer the following outcomes
- Customer perceived experience will lead to customer satisfaction.
- Satisfied customers will start to prefer other products or services from the same provider.
- Satisfaction will lead to customer loyalty.
- A satisfied customer will spread the positive word of mouth.
- Customer satisfaction and loyalty will increase the company’s profitability.

Based on the empirical results, it will help the bankers to understand the customer preference regarding banking service. From that, banks can use market opportunities to tap the untapped market.

6. **Limitations and Future Research Directions**

By developing the theory for studying the effect of Customer Experience in Business and Financial Performance of Banks will provide another perspective for understanding customer behavior towards multi-channel banking context. Even though the study offers new perception regarding the business and financial performance of banks through customer experience; the study is not free from limitations. First, the study is not empirically validated. Future research may extend this model in an empirical study. Another limitation is that the study has included the dimensions for Customer experience from Customer experience Index (CEI). There are many other dimensions that may include in the second-order customer experience construct to measure experience effectively. Future research may include performance expectancy, ease of use, social influence, and other related measures. Moreover, a final limitation of the study is that the research focuses on the profitability of banks. Whereas the study does not conclude the monetary benefits of individual customers out of using a service, but it only talks about the Incentives. So, future studies may detailly include customer benefits. Also, the final future scope of the study is that the researcher may go for a longitudinal study of the framework because it will provide more insights regarding business and financial performance.

7. **References**


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