A study on the factors affecting customer loyalty in banking industry: a case study in Iran

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ABSTRACT

Regarding the important role of customers in banking industry, this article seeks. Explain "customer loyalty" process in the private banks by submitting a conceptual model and analyzing the effects of the variables of satisfaction trust, commitment and mental image of the bank. It also seeks to investigate the variables of demographic and their effect on customer loyalty. So, along with how the abovementioned variables from loyalty in a bank environment, the managers of the branches of private banks are given the chance to design and perform effective and proper strategies leading to customer loyalty. The statistical populations of the research are the customers of private banks and the data was collected using the questionnaire and also the data has been analyzed using SPSS software. The results of the research show the positive effect of the abovementioned variables on loyalty. Also in this research we came to this conclusion that there is no meaningful difference among customers' loyalty based on the variables of demographic (gender, age, educational degree and job).

Introduction

Customer loyalty is important to banks and service firms because customer defections "can have more to do with a service company's profits than scale, market share, unit costs, and many other factors usually associated with competitive advantage"(Reicheld and Sesser 1990 , p:105). Banks serving private customers seek to reduce defections by building relationship Loyalty is an emotional relationship between the customers and the company. Therefore, loyalty is measured by the customer relationship strength. In competitive, complex & dynamic bank industry setting, only a small distinction in service providing, will cause a great transformation. Traditional banks, according to the principals of Relationship Marketing, that considers the customers loyalty as its main goal, are going to be changed in to customer-based ones. In such dynamic setting, producing & setting strategies, which result in making customers loyal, is so important (Beerli & et al., 2004, 253).

Literature review

Loyalty

According to oliver(1997),loyalty is a dedication on the part of the buyer to maintain a relationship and a devotion to buy the product or service repeatedly. Loyalty thus has a behavioral component which suggests a repurchase intention but also includes an attitudinal component which is based on preferences and impression of the partner (Sheth & Mittal, 2003). trust can create benefits for the customers by decreasing transaction cost ultimately fostering customer loyalty to the relationship(Garbarino and Johnson,1999). Loyalty has been defined as "a deeply held commitment to rebury or repatronize a preferred product/service consistently in the future" (Oliver, 1999, p. 34).According to Jones & Sesser(1995), Customer loyalty has two meanings: long-term and the short-term loyalty. Customers with long-term loyalty do not easily switch to other service providers, while customers with short-term loyalty defect more easily when offered a perceived better alternative. This study focuses on long-term loyalty. It is beneficial for service providers to establish a relationship with customers that customers would like to retain. Trust and satisfaction both are related to both behavioral and attitudinal loyalty (Chiou & Droge, 2006).

Satisfaction is positively related to repurchase intention and customer loyalty (Burton, Sheather and Roberts,2003). In a service context, Hennig-Thurau, Gwinner, and Gremler (2002) found that satisfaction and commitment are both drivers of loyalty.

Additional work by Diek & Basu(1994), finds that perceptions of commitment can lead to word-of-mouth communication, an aspect of attitudinal loyalty , and can result in future purchase intentions, an aspect of behavioral loyalty (Fullerton, 2003).

Relationship between satisfaction and loyalty

According to fornell(1992),Customer satisfaction is an overall attitude formed based on the experience after customers purchase a product or use a ser-vice. It is a refection of being content with such a product or a service. Satisfaction is the assessment of the experience of interacting with a service provider up to the present time, and is used by customers to predict future experience (Crosby et al., 1990).

Satisfaction is a broad feeling, which is affected by service quality, product quality, price, and contextual and personal factors (Zeithaml & Bitner, 2000).

Satisfaction is one of the antecedents of customer loyalty. In prior studies done by de Ruyter & Wetzels, 2000; Deng,Lu, Wei, &Zhang, 2009;Dick & Basu,(1994)satisfaction positively affects customer loyalty. Although the reason that customers remain loyal may not always be satisfaction (Gerpott, Rams, & Schindler, 2001), it is safe to say that satisfied customers are more loyal.

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Relationship between trust and loyalty

Trust has been studied extensively in literature. Trust has been defined as one party believing that the other party wills fulfill his or her needs. According to Anderson &Weitz(1998), In terms of services, trust is the belief held by a customer that the service provider will provide the service that meets customer needs .A more general definition of trust is that a party has confidence in the honesty and reliability of his partner (Morgan & Hunt, 1994). This definition can be applied in different contexts, including exchanges of goods and services. Doney and Cannon (1997) argue that trust consists of two aspects: Perceived credibility and benevolence. according to Rauyruen and Miller (2007),There are two levels of trust, At the first level, the customer trusts one particular sales representative while at the second level, the customer trusts the institution. Trust is an important mediating factor between customer behavior before and after purchasing a product which can lead to long-term loyalty and strengthen the relationship between the two parties (Singh & Sirdeshmukh, 2000). As with loyalty, trust is a special psychological state that can only occur in certain relationships. When a customer trusts an organization, he or she has the confidence in service quality and product quality of the organization.According to Garbarino & Johnson(1999), Customers who trust an organization are more than likely to be loyal to the company (Garbarino & Johnson, 1999). Reichheld and Schefter (2000) point out that the precondition of customer loyalty is customer trust. In prior research, trust has been conceptualized as antecedent of satisfaction (e.g., Palvia, 2009). In this research we are interested in the direct effects of trust on customer loyalty.

Relationship between commitment and loyalty

Commitment is a pledge of continuity between relational partners (Gundlach et al., 1995).Gruen(2000) points out that It may also be viewed as the attachment that one party perceives towards another party in an situation. Morgan and Hunt (1994) put forward that commitment exists when a party wants to maintain an existing relationship. At its core, commitment is an attitude towards the act of maintaining a relationship with a partner (Bansal et al., 2004; Fullerton, 2003). Over the past fête years of relationship marketing scholarship, our understanding of commitment has significantly expanded. From a construct that had a limited definition (Morgan and Hunt, 1994), it is now regarded as a complex construct that includes multiple components. Many researchers in marketing have borrowed from the organizational behaviour literature where there is a rich tradition of research on the organizational commitment construct (Bansal et al., 2004;Fullerton, 2003; Gruen et al., 2000; Jones et al., 2008).

Relationship between image and loyalty

An organization's image is an important variable that positively or negatively influences marketing activities. Image is considered to have the ability to influence customers' perception of the goods and services offered (Zeithaml and Bitner, 1996).Thus, image will have an impact on customers' buying behavior.According to Normann(1991), Service literature identifies a number of factors that reflects image in the customer's mind. Image is considered to influence customers' minds through the combined effects of advertising, public relations, physical image, word-of-mouth, and their actual experiences with the goods and services. Similarly, Gronroos(1983),using numerous researches on service organizations, found that service quality was the single most

important determinant of image. Thus, a customer's experience with the products and services is considered to be the most important factor that influences his/her mind in regard to image. Heung et al.(1996),found image to be an important factors, and to maintain a relatively high score rating among loyal customers. According to Mazanec(1995) image is positively associated with customer satisfaction and customer preference(a dimension of customer loyalty).

The conceptual model of the research

This model has been taken from the theoretical principles of the research in which the variables of satisfaction, trust, commitment and mental image have been considered as independent variables and the variable of customer loyalty has been thought of as the dependent variable.
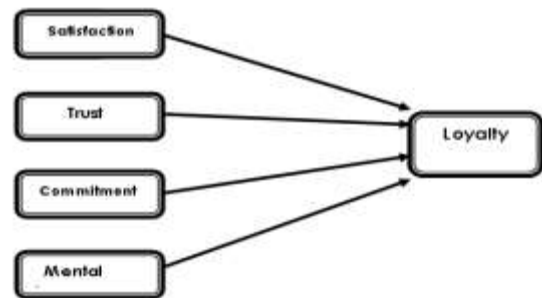

Figure (1): Conceptual model of research

Hypotheses Test

In this research, the hypotheses based on the literature review were formulated .and finally, by conducting a hypothetical statistical test the first four hypotheses were confirmed and and the fifth hypothesis was rejected.

According to the table above, the mean and standard deviation of customer satisfaction are (28/53) and (3/78) respectively. Since the calculated T (13/11) with the freedom degree of (119) is significant at the level (99) percent (P<0/01) and since the mean of job satisfaction (28/55) is larger than the mean of the norm of the questions of the questionnaire concerning customer loyalty (24), customer satisfaction has positive effect on loyalty.

According to the table above, the mean and standard deviation of trustworthiness are (13/89) and (1/90) respectively. Since the calculated t (10/90) with the freedom degree of 119 is significant at the level of 99 percent (P<0/01) and the mean of trustworthiness (13/89) is larger than the norm of the questions concerning the reliability of the questionnaire (12), customer trustworthiness has positive effect on loyalty.

According to the table above, the mean and standard deviation of commitment are (6/80) and (1/55) respectively. Since the calculated t (5/62) with the freedom degree of 119 is significant at the level of99 percent (P<0/01) and the mean of commitment (6/80) is larger than the mean of the norm of the questions (6), customer commitment has positive effect on their loyalty.

According to the table – bove, the mean and standard deviation of mental image are (24/43) and (3/13) respectively. Since the calculated t (12/01) with the freedom degree of 119 is significant at the level of 99 percent (P<0/01) and the mean of mental image (24/43) is larger than the mean of the norm of the questions concerning the mental image of the questionnaire (21), customer's mental image has positive effect on loyalty.

According to the findings of the table male customers have a mean of (13/84) and a standard deviation of (12/2) while the mean and standard deviation of female customers are (14/44)

and (1/86) respectively. Also the calculated t (-1/54) is not significant with the freedom degree of (118) at a level of %95(P>0/05).

The results of the one-way variance analysis test concerning customer loyalties are based on the testees' ages. According to the results statistically there is no significant relationship among customers' loyalty based on age at a level of %95(P>0/05).

The results of the one-way variance analysis test concerning customer loyalties are based on the testees' educational degree. According to results statistically, there is no significant difference among customers' loyalty based on educational degree at a level of %95(P>0/05).

The results of the one-way variance analysis test concerning customers' loyalty is based on testees' jobs. According to results, statistically there is no significant difference among customers' loyalty based on job at a level of %95(p>0/05).

Methodology

Conceptual model of Research has been taken from the theoretical principles of the research in which the variables of satisfaction, trust, commitment and mental image have been considered as independent variables and the variable of customer loyalty has been thought of as the dependent variable. This study is practical based on the purpose of the study. The statistical populations of the research are the customers of private banks and the data was collected using the questionnaire and also the data has been analyzed using SPSS software.

Validity of the study has been taken based on the forms and criteria of the literature and experts.

Reliability of the questionnaire has been calculated through cronbach alpha. The reliability (%92) shows that questionnaire has reliability.

Conclusion

In this research, the hypotheses based on the literature review were formulated .and finally, by conducting a hypothetical statistical test the first four hypotheses were confirmed and and the fifth hypothesis was rejected. Now we can come to the conclusion based on the conducted research: satisfaction with the bank has the most amount of positive effect on customer loyalty in service business organization the variable of mental image is of most positive effect after satisfaction and following this variable, trust and commitment are most effective on customer loyalty respectively. In this research we also came to this conclusion that there is no significant relationship between customers' loyalty based on the variables of demographic (gender, age, educational degree, and job). As a result ,the supervisors and senior managers of private banks can increase customer' level of satisfaction by increase level of satisfaction, standardizing their bank services, attempting to submit services of higher quality to customers and being placed in a position compared to the ideal situation of customers' expectations. They can also generate a positive mental image in customers as well as their trust and commitment to the bank by decreasing their expert' errors and mistakes, respectful treatment of the personnel with customers and increasing their personnel's specific level. With regard to the significance of customer and his/her significant position in the equivalences of the organization and the existing competitive environment. It is necessary to consider the customer's needs and benefits in the organization .Also submitting helpful and true information to customers by the bank and providing information about the new services of the organization are of great significance in customer satisfaction and attracting his/her trust. Also according to many experimental researches, there is a direct relationship between the satisfaction of organization personnel and that of customers. The personnel who are in direct contact with customers are at a position that can get aware of customers' needs and wants and respond them properly. Satisfied personnel and solve the problems by having positive contact with customers. And finally it can be claimed that the personnel who are satisfied with their job have enough energy to empathize with customers.

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The first hypothesis: satisfaction has positive effect on customer loyalty

Table(1): Statistical analysis for the first hypothesis

variable	N	mean	SD	t	df	T.value	Significant level
satisfaction	120	28/53	3/78	13/11	119	24	**0/000**

The second hypothesis: trust has positive effect on customer loyalty

Table(2): Statistical analysis for the second hypothesis

variable	N	mean	SD	t	df	T.value	Significant level
Trust worthiness	120	13/89	1/90	10/90	119	12	**0/000**

The third hypothesis: commitment has positive effect on customer loyalty

Table(3): Statistical analysis for the third hypothesis

variable	N	mean	SD	t	df	T.value	Significant level
commitment	120	6/80	1/55	5/62	119	6	0/000

The four hypotheses: mental image has positive effect on customer loyalty

Table(4):Statistical analysis for the fourth hypothesis

variable	N	mean	SD	t	df	T.value	Significant level
Mental image	120	24/43	3/13	12/01	119	21	**0/000**

The fifth hypothesis: There is a meaningful difference among customer loyalties based on the variables of demographic (gender, age, degree, job)

Table(5): Statistical analysis for the fifth hypothesis

variable	gender	N	mean	SD	t	df	Significant level
Loyalty customer	men	79	13/84	2/12	-1/54	118	0/12
	women	41	14/44	1/81			

Table(6): The age distribution of respondents

variable	age	N	Mean	SD
Customer loyalty	<25	23	14.30	1.460
	26-35	35	14.09	2.661
	36-46	37	14.08	1.570
	>46	25	13.68	2.174

Table(7):ANOVA

Customer loyalty	Total square	df	Mean square	F	Sig.
Between group	4.982	3	1.661	.393	.758
Within group	489.809	116	4.222		
Total	494.792	119			

Table(8):The educational degree distribution of respondents

variable	Education	N	Mean	SD
Customer loyalty	school education	9	14.00	2.915
	diploma	34	13.94	2.269
	Associate degree	30	14.13	2.161
	bachelor	40	14.00	1.633
	Post-graduate	7	14.43	1.618

Tabble(9):ANOVA

Customer loyalty	Total square	df	Mean square	F	Sig.
Between group	1.728	4	.432	.101	.982
Within group	493.063	115	4.288		
Total	494.792	119			

Table(10): The job distribution of respondents

variable	Job	N	Mean	SD
Customer loyalty	student	9	13.78	2.224
	employee	44	13.91	1.640
	Free job	44	14.02	2.601
	Unemployment	23	14.43	1.409

Table(11):ANOVA

Customer loyalty	Total square	df	Mean square	F	Sig.
Between group	4.970	3	1.657	.392	.759
Within group	489.821	116	4.223		
Total	494.792	119			