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What are banks in customer eyes??? A study to check different factors, on which customers rely on banks.

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Abstract

Banks are include in the services sector of business and being service sector customer loyalty now been realized key aspect in the formation and maintenance of competitive edge in service sectors specially in banking sector. To build long term relationships these days banks are encouraging Relational Marketing among their customers. This paper includes empirical research to study the degree to which Customer Satisfaction with Perceived Service Quality, Switching Cost and Trust effects the Loyalty of Customers in the banking sector. To accomplish our research we distribute questioner among 250 people and 210 questioner were selected to collect data. In accordance of our study we come to know that there is a direct positive and significant relation between Customer Satisfaction among with Perceived Service Quality, Trust and Customer Loyalty. Moreover, Switching Cost has a positive but insignificant relation with Customer Loyalty.

Key words: Switching Cost, Customer Loyalty, Customer Satisfaction, Perceived Service Quality, Trust

Introduction

To get and keep competitive advantage for long time in service industry, customer loyalty is very important and it can say it plays key role. Always already retained customers are more economically beneficent, rather than to grab new ones. Industry researcher's startpay more attention, as with the awareness of customer loyalty. More profits can earn if loyal customers stay longer with the firm. Alternately profits of any company can simply increase if their customers more loyal and longer stay with company. Thus to get distinct competitive advantage customer retention is most important.

For the reasons of technological development, market situation, customer awareness and global competition, in marketing planning customer loyalty is of a prime concern. As to build long term relationship with customers is providing them quality products & services on fair prices, is the organization's preference. These days banks introducing many useful services purpose of which is retain their loyal customers. Most of the banking environment using customer retention as a useful strategy to get competitive advantage.

With the arrival of relational marketing concept which focus on customer loyalty as its main goal, most of banks are becoming customer oriented. To improved implementation of quality in services marketing improved consistency in customer-oriented behavior is essential. Either personal or at remote level, banks need to ensure that on all points of connections they are delivering satisfaction via with banks achieving customer loyalty. To increase customer satisfaction banks ask their customer to let them know if any complain against them, that gives them an opportunity to resolve the mistake as early as possible.

If in any firm complain handling is effective and efficient then relationship with its customer will improve. By the effective and efficient service recovery/problem solving trust, commitment, customer satisfaction and their perception about the service quality and firm enhanced. Customer loyalty and customer satisfaction are result of strong customer relationship and creates positive word of mouth (WOM).

In the competitive market success of a company moreover depends on the long term

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relationships of customer with their service provider. Due to the frequent purchases, through positive word of mouth (WOM), paying premium prices and over time provided new recommendations by the loyal customers business flourish. Valuation process enhance by the relational benefits, when both parties share something valuable to influence loyalty. We decide to test the influence of different variables e.g. Trust, Perceived Service Quality and Switching Cost on Customer Satisfaction and Customer's loyalty, to examine the more close relationships of Customer' Loyalty with its antecedents.

Overall attitude of customer satisfaction based on after purchase experiences of customers. Moreover trust as expected positive results that can be received from the expected action of the other party. When service provided by organization satisfies customer's need then they can define the quality of services. Switching Cost is the cost of changing services in term of time, monetary value and psychological factors. Corporate image is another variable but has not any significant impact on satisfaction and can be define as the behavioral and psychological characteristics of the organization, as its name, infrastructure, products/services verity and the impact of quality communicated by personals communicated by the customers of the firm.

Customer Loyalty: In the servicing and manufacturing industries the mounting importance of relational marketing in current years has been accompanied by a collection of works on customer loyalty there is constructively positive relationship between customer loyalty and business performance. (Sheth, & Parvatiyar, 1995) Generally loyalty has been and continuous to be defined as repeat purchase frequency. But as many definitions in literature face problems they record what customers actually does into the emotional or psychological meaning of loyalty. (Oliver, 1999)**.**

Brand loyalty is the prejudiced behavioral response as it is expressed over time on the part of individual family or company. It is necessary to differentiate between uniqueness and loyalty and a function of psychological process by which using the specific criteria assess the various alternatives. (Jacoby, & Kyner, 1973)

Rather than the marketing efforts and situational influences who have the potential to cause switching behavior, an intensely held promise to re-buy a preferred product continuously in future to cause repetitive same brand purchasing. (Jacoby, & Chestnut, 1978)

Two types could be differentiate of customer loyalty concept:

The first concept is loyalty based on the inertia that means the customer is buying the same brand only to save his or her worthy time and it also prevent him or her from the trouble to search for another brand. A customer who is trying to change the buying pattern based on inertia will definitely do it easily as if there is some appropriate reason then there will be less switching resistance. (Solomon, 1992, Bacon, Boston, Spreng, & Selnes, 1993) Comparatively uninvolved consumer are more likely to be brand switchers and less likely to be brand loyal. (Traylor, 1981) If there is brand loyalty then three decision making phases must point to focal brand preference. (Barroso, & Armario, 1999)

- Firstly the rates associated with particular brand must be preferable to competitive offers.
- The information must be in co-ordination with an affective preference for the brand.
- The consumers must have higher affinity for the brand.

Second is, true loyalty which is created when customer becomes an advocate for the organization, the organization which creates benefits for customer and as a consequences of this they will actively accelerate their buying from organization. (Anderson, & Jacobsen, 2000)

Customer Satisfaction: Customer satisfaction is the factor with which they measure how much is their need, desires have been met or exceeded as loyalty is a behavior and customers openly exhibit their views. As some studies say Customer Satisfaction is not a strong criterion for customer loyalty. (Oliver, 1999) As satisfaction is about to fulfilment of their needs and wishes. Thus recent studies says that switching to other brands is not related to any single dissatisfying event and as of customer loyalty is not the consequence of satisfying purchasing and only loyal customers give profit to brand. (Reichheld, & Sasser, 1990) Moreover it says that satisfaction of customers should be at top extreme to make loyalty sure. As loyal and satisfied customers will recommend others as well and also repurchase from the same place and it will be favorable attitude. Thus it can be say that satisfaction promotes loyalty and in the same way give long term profits to firm. (Bowen, & Chen, 2001)

H1: Customer Loyalty is directly relates to Customer Satisfaction. i.e. high Customer

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Satisfaction high Customer Loyalty will be.

Switching Cost: Because of the switching cost customers go for other brands and this factor is the resultant of multiple factors which could be technical, financial & psychological in nature. (Solomon, 1992)

Switching Cost may defragmented as:

- Customer's personal cost, referring to efforts that a customer may face in time value to reach other brands. By wrong choice many risks could be occur to those economic advantages that the brand offering.
- The cost which is associated with the product includes cost of redesigning and investment. (Alet, & Vilagine's 2000)

Because of the danger alarm of the expenses involve in switching to other brands customer could remain loyal and apparently he/she will not as much attracted towards brand and definitely because of dissatisfaction customer will not recommend others. (Marti'n, Samaniego, & Escudero, 1998)

Many competitors face trouble to catch loyal customers of rival brand when loyalty based on Satisfaction as compared to then when loyalty based on Switching Cost. (Klemperer, 1995)

Some disadvantages also noticed:

- When customers are aware of existence of Switching Cost, companies will face a great difficulty in capturing new customers.
- Switching barriers can be eliminating by external factors. (Fornell, 1992)

H2: Customer Loyalty will be high/greater if perception of Switching Cost is higher/greater.

Perceived Service Quality: Service Quality is the comparison of delivered service value with those of what they perceived. (Rust, & Oliver, 1994) Service performance appraisal metrics or the unconfirmed outlook about the delivery of a service generates this evaluation. (Parasuraman, Zeithaml, & Berry, 1988) Also there is a controversy in these two approaches i.e. is service only the result of customer's thought process differentiation between delivered and perception. Perceived service appraisal relies on customer's expectations of the service delivery in accordance to disconfirmation approach. (Zeithaml, 2000) There are two models of Perceived Service Quality so far.

The SERVQUAL model supports five quality dimensions of service: reliability, responsiveness, tangibility, assurance and empathy to measure Service Quality. (Parasuraman, Zeithaml, & Berry, 1988) These dimensions positively contribute to the SURQUAL model, in the Service Quality measurement particularly as in banking and telecommunication e.t.c. (Caruana, 2002)

There is a positive relationship between Customer Satisfaction from the service delivered and Customer Loyalty. Due to poor service delivery customer switching increase. (Jones, Beatty, & Mothersbaugh, 2002)Perceived Service Quality is the outcome of positive and negative behavioral intentions. Service improved in terms of quality to add profitability. (Fornell, 1992)

H3: Customer Satisfaction will be greater with batter/greater Perceived Service Quality.

Trust: As U.S State Dept. analyst Francis Fukuyama says: when the inhabitants of a particular community sharing the same norms, having hope from the other members to behave regularly, honestly and in a cooperative manner then there is trust. In business world we can define trust as the belief of one party that the other party who is going to be trusted will act dependably, ethically, and in a social acceptable way for fulfilling the business obligations. (Gefen, Karahanna, & Straub, 2003) In a market transaction, strong relationship of buyer and seller enhanced with trust. (Hawes, Kenneth, & Swan, 1989) Trust on a certain brand influences the customers to repurchase and to be with brand for long term. (Lau, & Lee, 1999)

Trust has gained the importance like repeat purchases and high level of customer satisfaction are also resultant of trust. (Ballester, & Aleman, 2001) A trusted brand delivers whatever it promises in terms of value. This gives rise to brand trust and its reliability. (Ballester, & Aleman, 2005) Trusted organizations get more loyal customers. (Garbarino, & Johnson, 1999)

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This study has been carried out to determine relationships among Trust, Customer Satisfaction and the Customer Loyalty.

H4: Customer Satisfaction will be greater with higher Trust.

H5: Higher the Trust higher will be the Customer Loyalty.

Research Model

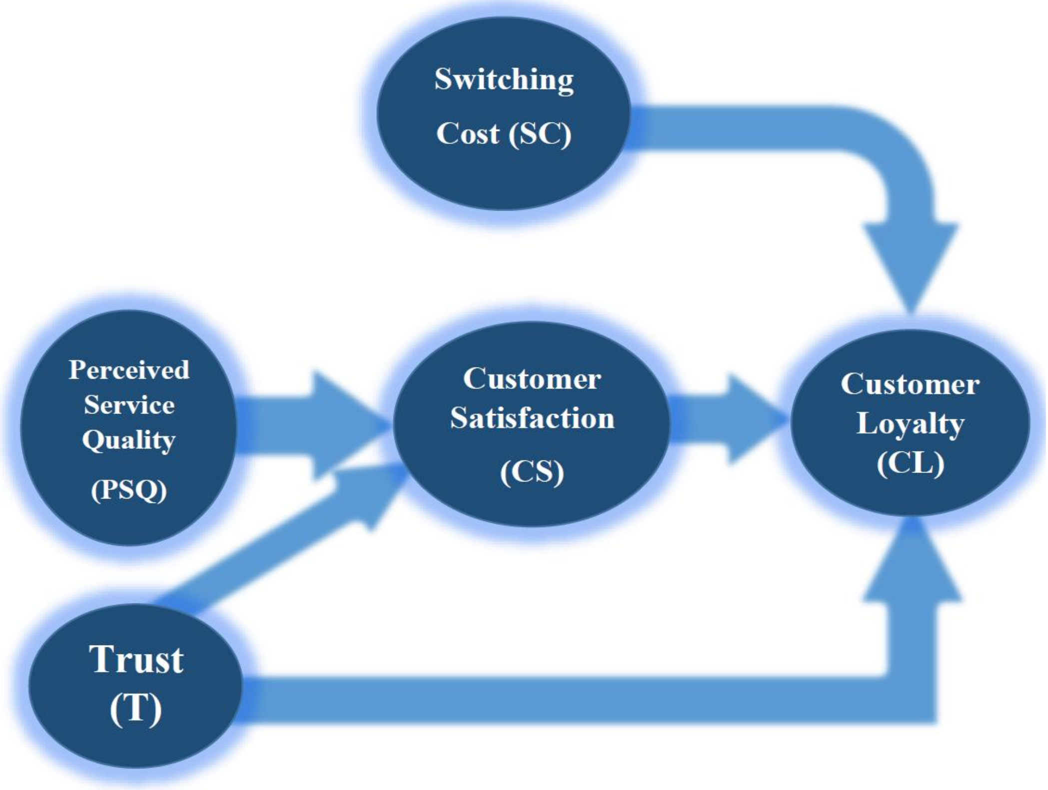

Figure 1. The Conceptual Model of Research

Research Methodology

This research is descriptive in nature. Which can be explain as describing something or any particular situation. In this type of research describes existing situation rather than interpreting and marketing judgment. The main objective of the descriptive research is verification of the development hypothesis that reflects the current situation. This type of research provides information about the current scenario and focus on past and present for example quality of life in a community or customer attitudes towards any marketing activity. The population for this study compromise bank users in Pakistan. Total sample size was 250 and responses were received from 210 respondents. They will ask to participate in a self-administered questionnaire. Non-probability sampling procedure was used in current study that is convenience sampling. Convenience sampling is a sampling techniques that obtains and collects the relevant information from the sample or the unit of the study that are conveniently available. Convenience sampling is normally used for collecting a large number of completed surveys speedily and with economy.

Instrument:

The survey instrument of this study addresses two major purposes:

- First is to analyze the relationship of different variables with customer loyalty in banking sector.
- Second, to collect information about the different characteristics of the respondents that can be uses to understand the variations in different categories.

The survey instruments contains two sections.

Section 1, was used to collect data on demographic variables such as age, gender, income and the name of bank which they are using.

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Section 2, includes the latent variables. The total number of items that measured the criterion (dependent) variables were 29 and were operationalized using a five-point LIKERT scale, ranging from (1=strongly agree) to (5=strongly disagree).

The scale was useful in measuring the strength of the respondent's responses on these items. The variables include Perceived Service Quality, Trust, Customer Satisfaction and switching cost towards Customer Loyalty. Selected items of each scale ensure completeness in covering all the key aspects of loyalty outcomes behaviors.

The scales of the study were taken from the previous literature and published studies. Customer Loyalty was the first scale which comprises seven items. Next variable is customer satisfaction and having two items. Remaining variables were Trust, Switching Cost and Perceived Service Quality comprises five, five and ten variables respectively.

Table 1: Scales of the study

NO.	VARIABLES	ITEMS	REFERENCES
1.	Customer Loyalty	1. This bank would be my first choice. 2. I consider myself to be loyal to this bank. 3. I will not use other bank's services if the same service is available at this bank. 4. I recommend this bank to someone who seeks my advice 5. I get good value for my money. 6. I say positive things about this bank to other people. 7. I consider this bank my first choice in the next few years.	Chaudhuri and Holbrook, (2001)
2.	Customer Satisfaction	1. Overall I am satisfied with specific experience with the bank. 2. I am satisfied with my decision to use services from this bank.	Ragunathan & Irwin, (2001)
3.	Trust	1. I trust on this bank. 2. I rely on this bank. 3. This is an honest bank. 4. This bank meets my expectations. 5. This bank is safe.	Matzler et al, (2008)
4.	Perceived Quality	1. Materials related with service (Pamphlets, statements) are visually appealing. 2. The behavior of the employee in the bank gives confidence in you. 3. If staff of the bank makes an error, it Apologize for it. 4. You feel safe in your transaction with your bank. 5. Employees of your bank are consistently courteous with you. 6. Employees in banks have the knowledge to answer your question. 7. Employees of bank keep customers informed About when service will be performed. 8. You are satisfied with the bank's response to your complaint. Fornell (1996) 9. Employees of bank clearly understand the needs of customers. 10. The bank provides service at the time it Promises to do so.	Fornell (1996)
5.	Switching Cost	1. Switching to a new bank causes monetary cost. 2. Overall, it would cost me a lot of time and energy to find an alternative bank. 3. I cannot be sure that the new bank can provide better service than the old one. 4. I would lose a lot of information about my transaction history if I change. 5. If I switched to a new bank, the service offered by the new bank might not work as well as expected.	Bayol et al, (2000)

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Procedure:

Total 250 questionnaires were distributed to collect data from customers of bank with an aim to collect usable questionnaires from each category of banks. Non-probability sampling was used and respondents to Bahawalpur. 210 questionnaires were received back and rest of the questionnaire was not included in the further analysis due to incomplete responses. The Software SPSS has been used to analyze the data collected for further analysis.

Results and Findings:

Reliability Analysis, Cronbach's coefficient alpha was used to test reliability or to assess the quality of the measurement. Table 2 indicates that all measurements exhibited high reliabilities with coefficient alphas ranging from, exceeding or approaches the acceptable level of (>0.50) in all cases. Therefor all measurements for 29 items were reliable.

Table. 2: Reliability Analysis

Scales	Items	Cronbach's Alpha
Customer loyalty	7	0.817
Customer Satisfaction	2	0.663
Trust	5	0.772
Perceived Service Quality	10	0.767
Switching Cost	5	0.684

Profile of the respondents:

Personal and demographic information such as gender, age, income and name of bank which customers are using currently are presented in the following Table 3.

Table 3: Profile of the Respondents

Variable	Category	Frequency	Percentage
Gender	Male	106	50.5%
	Female	104	49.5%
Age	Below 20 years	80	38.1%
	20-30 years	122	58.1%
	30-40 years	01	0.5%
	Above 40 years	07	3.3%
Income	Below 10,000	37	17.6%
	10,000-20,000	81	38.6%
	20,000-30,000	38	18.1%
	30,000-40,000	29	13.8%
	Above 40,000	25	11.9%
Name of bank	HBL	74	35.2%
	Mezan Bank	33	15.7%
	NBP	12	05.7%
	Al-Falah Bank	38	18.2%
	ABL	12	05.7%
	UBL	41	19.5%

Hypothesis Testing:

H1: Customer Satisfaction & Customer Loyalty

The relationship between Satisfaction and Loyalty shows positive statistically significant regression coefficients. Satisfaction has a heavy weight on loyalty (β=0.921) and ($p < 0.05$). Which implies that Customer Satisfaction contributes most i.e. more than 90% to Customer Loyalty in banking Sector. This leads us to accept H1.

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H2: Switching Cost & Customer Loyalty:

As per the results shows there is no significant relation between Switching Cost and Customer Loyalty with (β=0.016) and ($p > 0.05$). According to the results we reject H2 and conclude that the study did not find direct relationship of switching cost on Customer Loyalty.

H3: Perceived Service Quality & Customer Satisfaction:

Results of the research shows a positive and significant relationship between Perceive Service Quality and Customer Satisfaction with (β=0.883) and ($p < 0.05$). So Perceived Service Quality has a direct link with Customer Satisfaction so H3 is accepted.

H4 & H5: Trust, Customer Satisfaction & Customer Loyalty:

There is a positive and significant relationship between Trust and the Customer Satisfaction with (β=0.192) and ($p < 0.05$). Which means Trust has a relationship and contributing to the Customer Satisfaction. Between Trust and Customer Loyalty the relationship is insignificant with (β=0.197) and ($p > 0.05$). Thus as by the regression analysis we accept H4 and reject H5.

Regression analysis: As per by the regression the relationship between independent variables (Customer Satisfaction, Trust, Perceived Service Quality and Switching Cost) and dependent variable (Customer Loyalty) is strong by 70.6%. Which means the Customer Loyalty will be effect/change 70.6% if there is any type of relationship in independent variables.

Discussion and Conclusion:

Customer Loyalty is an effective tool for the banks in today's competitive environment. To attract/grab new customers could be less beneficial then to retain the old loyal customers. This research was conducted to check the factors/variables effecting the Customer Loyalty in banking sector via empirical studies. With the help of this research Customer Loyalty not only defined as repetitive purchases but also through the psychological meanings of loyalty. Two types of loyalty can easily differentiate, first based on inertia and second one is based on the true Customer Loyalty. Also we inspect the effect of Customer Satisfaction among with Perceived Service Quality and Trust on Customer Loyalty.

Research shows that there is a direct and significant relation of Customer Satisfaction among with Perceived Service Quality and Trust on Customer Loyalty. Rather than Trust and Switching Costs are not directly related to Customer Satisfaction due to their insignificance.

Reason for the insignificance of Switching Cost is due to the personal contacts with the employees of banks. Customer loyalty and Switching Cost doesn't impact in Bahawalpur area. Customer Loyalty affects rarely here but it is almost same in all banks.

The results of our research shows that higher the customer trust is followed with higher usage of services provided by the banks. Positive word of mouth (WOM) creates by the trust build by the employees of the bank. Customers will recommend others as well to use the same bank for their financial transaction once if they are satisfied with the services of the bank.

Customers will not switch/attract to the services provide by the other banks if they have rust the services providing by the same bank. Employees of the banks must have to build good relationships with their customers, care about their needs meet their expectations this will be cause of attracting/grab new customers.

Limitations:

Banks needs to find and designed strategic tools to improve the service delivery process because customers favor to drive towards the ease of banking system and procedures. Research could be more reliable as by increasing sample size. As our sample population was the University students and citizens of Bahawalpur area and the sample size we used was not large enough.

Our research is longitudinal and it could be cross-sectional. As in previous researches Switching Cost has a positive and significant relationship with Customer Loyalty. But in this research the variable do not show the direct significance relation with the Customer Loyalty. It might be due to restricted area. Thus we suggest to increase the sample size by distributing Questionnaires in more cities to check the influence of switching cost on Customer Loyalty.

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