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CUSTOMER LOYALTY AND ITS DETERMINANTS IN A BANKING SERVICES ENVIRONMENT

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Abstract:

The present paper presents the methodology and the main results of a quantitative study applied on a sample of 1010 respondents, in the Romanian banking industry. The aim of the study was to research the customer level of loyalty toward Romanian organizations acting in the retail banking sector. According to similar researches in the field, loyalty is a complex construction, which comprises both psychological and behavioural components, fact also proved by the results of the present research. As the survey results show, Romanian customers remain in relationships with banks due to the existence of both favourable attitudes or positive motivations (representing 46,36% of the total retention motivations) and constraint factors or inertia (representing 52,44% of the total retention motivations). At the same time, the results prove that the level of loyalty stated by customers is supported not only by the level of satisfaction, but also by factors like: bank's attitude towards its own customers, the level of customer trust toward the organization or its employees in ensuring the financial interests of clients, and also by the level of customer commitment. Customer switching behaviour is determined in 58% of cases by the high level of dissatisfaction toward the banks' policy of price.

Keywords: research, banking services, customer behaviour, customer loyalty, relationship marketing.

JEL Classification: M31

Introduction

Customer loyalty is one of the most important indicators used to evaluate the quality of services offered by an organization. Therefore, gaining customer loyalty becomes a key objective for banking organizations which decide to adopt a relationship marketing perspective (Filip and Anghel, 2007). According to the results of numerous researches published in the relationship marketing literature, a loyal customer may bring many benefits to the organization, contributing both to the improvement of the growth rate and to the increase of the safety degree or organizational stability (Reichheld and Sasser, 1990; Grönroos, 1994; Rust and Oliver, 1994; Berry, 1995, Heskett, 1995; Diller, 1997; Gummeson, 1999 etc.). Similar international researches regarding the importance and economic benefits of customer retention in the banking industry show that: customer retention on a period of five years leads to greater prosperity in comparison with that derived from customers won by the bank in the previous year (Sheth and Parvatiyar, 1995);

there are possibilities of increasing the customer profitability three times over by extending the relationship with them over a period of five years (Mitchell, 1995); banks must wait an average of six years in order to retrieve the initial cost of acquiring individual customers (Murphy, 1996). Concerns in the field are highlighted in numerous prestigious international journals, such as: Journal of Marketing, International Journal of Bank Marketing, The Journal of Services Marketing, the Journal of Financial Services Marketing etc. A short overview of the content of these publications demonstrates the constant interest showed to the subject until the present period of time, due to its approach by numerous other researchers (Foscht et al., 2009; McMullan and Gilmore, 2008; Martenson, 2008; Bloemer and Dekker, 2007; Lees et al., 2007; Molina et al., 2007; Santonen, 2007, Ehigie, 2006 and many others).

The results of the researches mentioned above can be considered a strong argument for the orientation of managerial efforts toward the adequate management of customer relationships and the achievement of customer loyalty. Given these considerations, the present research aimed to investigate the customer level of loyalty toward Romanian organizations acting in the retail banking sector. The theme of research was selected due to the importance of the customer loyalty objective in the relationship marketing literature, due to its character of novelty for the marketing theory and practice in Romania and also due to the possibility of using the research results to improve the marketing activities undertaken by the banking organizations acting in the Romanian market. With the results of this study, banks will have a starting point for understanding the loyal or disloyal customer behaviour, and also for finding out the factors that influence customers' actions in the relationships with banking institutions.

The statistic target of the research was composed of people aged over 18 years, users of banking products and services. Therefore, the unit of observation and survey unit were represented by individuals. The process of information collection was carried out by applying the survey method using the structured interview techniques and the questionnaire

The sample size, of 1010 subjects was established by using the following statistical formula:

$$n = \frac{t^2 * p * (1-p)}{\Delta\omega^2}$$, here

„n" is the sample size or the total number of respondents;

"t" is the coefficient associated with the probability of results guarantee (in the present study the value of t was 1,96 which correspond with a probability of results guarantee of 95%);

"p" refers to the percentage of those sample components which present the researched characteristic (the value of p was established at 0,5);

„Δω" is the margin of error (the value of Δω was established at ±3,08%).

The authors used a stratified random sampling method; layers were composed according to demographic variables, the most important being considered gender, age and income level.

Due to the complexity of the research theme, the objectives were numerous; they highlight the main issues debated in the relationship and financial services marketing researches, from European countries. Some of these imply: investigating the level of global customer satisfaction and also the customer satisfaction regarding different aspects of customer-bank

relationship, determining customer perception regarding bank's attitude toward its customers, determining the level of loyalty stated by customers and the reasons of customer retention, finding the levels of customer trust, customer commitment and the estimated duration of customer-bank relationship resulted from the intentions stated by the customer, finding the customer willingness to favourable refer the bank, as well as customer intention to contract additional products and services, and also determining the reasons which are the basis of customer switching behaviour. In the process of information analysis important correlations between research variables were highlighted.

1. Customer Loyalty in a Bnaking Envyronment

The strategic objective which is the basis of the relationship marketing approach consists of achieving customer loyalty. A comprehensive definition of bank loyalty views the construct as "the biased (i.e. non random) behavioural response (i.e. revisit), expressed over time, by some decision-making unit with respect to one bank out of a set of banks, which is a function of psychological (decision-making and evaluative) process resulting in brand commitment" (Bloemer et al., 1998).

An important statement which has to be remarked is the distinction between customer loyalty and customer retention. According to Dick and Basu, loyalty is a complex construction, which comprises both psychological and behavioural components; different loyalty types are supposed to form a combination of repeated purchasing and relative attitude towards business firms (Dick and Basu, 1994). Therefore, customer loyalty can be defined both in terms of customer behaviour, which will be synonymous with customer retention, and in terms of customer attitudes. In the first case, retention or behavioural loyalty is evaluated with the help of different quantitative indices like: the number of purchases made by the customer from the product portfolio of a company, the frequency of acquisition, the percentage from the total expenditures made by a customer for a certain product or service, with regard to a certain organization, the cross-buying potential of the customer. This type of loyalty or customer retention may be called spurious loyalty, if the repeated customer behaviour happens without a strong attitude or a clear preference of the customer toward the current bank. In cases of spurious loyalty, customers continue to patronize a certain bank due to familiarity or habit, inertia, passivity, deals, low income or lack of others alternatives, but do not have a corresponding positive relative attitude. In terms of attitudes, customer loyalty incorporates consumer preferences and their affective disposition toward the bank, which combined with repeat purchasing, describes the ideal situation of true loyalty. Thus, the value of psychological variables cannot be underestimated, because behaviour reflects a current situation or, even more probably, a series of events from the past, whereas attitudes offer details regarding the customers' future behaviour. Due to the reasons mentioned above, simply repetitive customer behaviour is not enough for them to be considered loyal towards the respective banks; repeated acquisitions or visits need to be doubled by a favourable attitude towards the company (Filip and Constantinescu, 2007).

2. Determinants of Customer Loyalty Toward Bank

Loyalty determinants are used in the present paper to describe the principal factors which have a positive or a negative influence on customer-bank relationships. The first mentioned

are those factors that contribute to relationship maintenance or enhancement, while the second relates to such factors that decrease customer behavioural loyalty (customer retention) or customer attitudinal loyalty. Regarding the factors with a positive influence on the loyalty construct, it has to be highlighted that customers stay loyal to a service provider either because they want to, or because they do not perceive any other options (Bendapudi and Berry, 1997). Therefore, the factors that support relationships may be classified in two distinct categories:

a). Factors that contribute to the customer willingness to be involved in a relationship based on a high level of customer satisfaction, good service quality, customer feelings of trust and affective commitment toward bank, the positive image of the company, the relational benefits perceived by the customer that enhance the value of the core products and services, and

b). Factors that constrain the customer to maintain the relationship due to some negative bonds which prevent customer switching behaviour. The main exit barriers perceived by the customer are considered to be: legal bonds (contractual arrangements), economic bonds (financial penalties or the loss of some monetary rewards), costs of searching information and evaluation, learning costs, uncertainty costs, a small number of attractive alternatives in the market, and also geographic bonds (there is no other bank in the geographical location of the customer). Habit, inertia or customer passivity cannot be included in the first category because they prove a neutral or a lack of attitude rather than a positive feeling toward the current bank. In this situation, the customer maintains the relationship with the current bank due to habit or convenience and not because of a high level of satisfaction.

Although, both categories of factors have a favourable influence toward customer relationships, there is a difference regarding their impact on the behavioural and attitudinal dimensions of loyalty. Constraining factors may act like obstacles for relationship ending and prove a positive influence on customer retention, but may have adverse effects on customer attitudes. Thus, banks have to deal with significant risks of losing customers, once switching barriers have disappeared. On the other hand, factors which contribute to customer involvement in or dedication to bank relationships are more likely to determine a positive change in both customer retention and attitudinal loyalty. According to Bendapudi and Berry (1997), factors which affect favourably customer dedication will determine whether a relationship will grow, while constraints will only determine whether it will persist. Constraints have a short-term favourable effect on customer retention, but on long term may negatively affect customer loyalty in terms of both attitude and behaviour (at one moment in time this will translate into relationship ending).

Customer switching behaviour is determined by those factors that are likely to cause a disloyal behaviour and/or a decrease in customer attitudes. In a critical incident study conducted among more than 500 service customers, Keaveney identified eight general categories of customer reasons to switch service providers: pricing (high price, price increases, unfair pricing and deceptive pricing), inconvenience (location/hours, wait for services), core service failure, service encounter failure (uncaring, impolite, unresponsive and unknowledgeable personnel), response to service failure (negative response, no response or reluctant response), competition (found better service), ethical problems (cheat, hard sell, unsafe, conflict or interest) and involuntary switching (customer moved or provider closed) (Keaveney, 1995).

These categories are also relevant in a banking environment. For example, the pricing issues are considered to be important reasons for customers to switch banks. Customers are often dissatisfied with aspects like high loan interest rates, or a lack of bank transparency regarding fees and commissions. Specific factors which can lead to a switching behaviour in a banking context are service denial (Colgate and Hedge, 2001) and buying a new apartment. Service denial is the result of the banks' fiduciary responsibility, which means that banking companies cannot provide services to all type of individuals in terms of age or level of income. Buying a new apartment is often related to changes in customer's life cycle, which usually implies also a change in customer's financial needs. Being related to a high financial risk, contracting a housing loan is an important reason to accurately evaluate alternatives and if necessary to switch to another service provider.

3. The Level of Customer Loyalty inthe Romanian Retail Banking Industry

The fundamental concepts highlighted in the present paper have been implemented in the context of the Romanian banking industry by realising a complex direct research using a sample of 1010 respondents. The aim of the study was to research the customer level of loyalty toward Romanian organizations acting in the retail banking sector.

This purpose was established due to the fact that many European but also Romanian banks have known, in the past years, higher rates of customer migration and this is a phenomenon with a negative influence on organizational profitability. Moreover, the number of customers who don't switch the current bank, but decide to try another bank's services is higher. These problems must be considered as question marks for banking organizations regarding the manner they should manage customer relationships and establish the future market strategies. The present research may be considered a point of start in giving answers to these aspects. This is done by finding the level of customer loyalty towards banking companies, as well as finding the supporting factors for loyalty development.

As the research results show, Romanian customers remain in relationships with banks due to the existence of both favourable attitudes or perceptions and constraint factors (fig. 1).

A percent of 46,36 of the total retention motivations are represented by factors which support the willingness of customers to get involved in business relationships. In this situation the loyalty results from customer's desire and is supported by factors as: the quality of banking services, a high level of satisfaction, a feeling of trust in banking employees etc. At the same time, a percent of 52,44 of the total retention motivations are determined by negative bonds which lead to a form of behavioural loyalty based on constraints or inertia (these factors stem from different sources: from the banking organization – contractual or legal bonds, from the customer – habit, the low level of expertise in the banking field, family influence, as well as the external environment: the lack of differentiation in alternative banking offers).

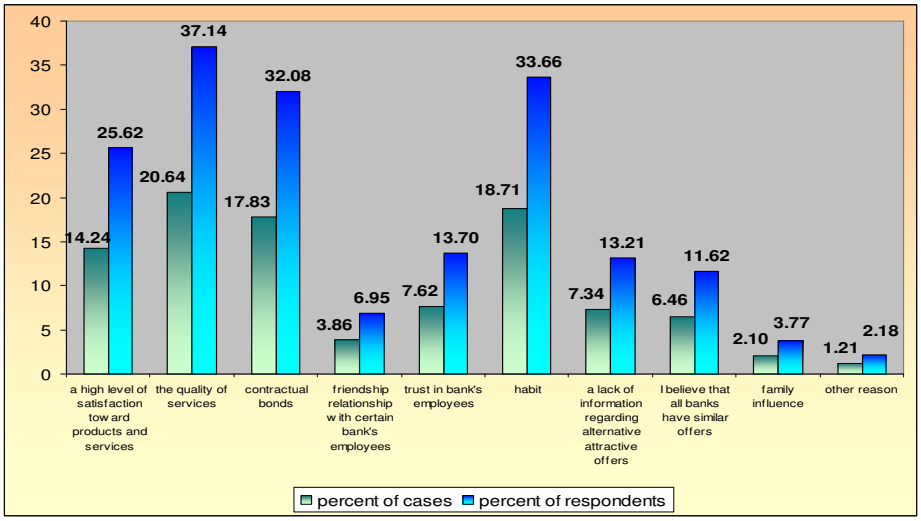

Figure 1 The reasons for customer retention

Moreover, the research results show that: the persons who state a low level of loyalty mention contractual bonds as the main retention motivation; the persons who state a medium level of loyalty mention first of all the habit, and loyal or very loyal customers have as special reasons the services quality and the high level of satisfaction (table no. 1).

For the banking organization, an important objective consists of the evaluation of the profitability level of different customer segments and the investigation of the factors which sustain the business relationship, particularly in regard to customers with high profitability. The existence of constraint factors can cause the loss of some profitable customers in the moment when negative bonds will disappear or will decrease in importance (the end of the contractual relationship, the penetration of important competitors in the market and the focus of their market strategy on the same customer segment, financial incentives offered by others competitors that reduce customers inertia or the habit behaviour). The current organization can thus try to regain the trust and commitment of customers before they make the decision of migrating to another bank. However, although the importance of customers with a low level of profitability is significantly reduced from the bank perspective, the eventual termination of business relationships with them should be carefully monitored, because the negative messages sent by these clients may affect bank's relationships with other customer segments or prospects.

The correlation between customers declared loyalty and the reasons for customer retention

Table 1

Level of loyalty / Reasons of retention	Low or very low level of loyalty		Medium level of loyalty		High or very high level of loyalty		Total
	Frequency	%*	Frequency	%*	Frequency	%*	
A high level of satisfaction with products and services	16	13,1%	32	8,4%	210	41,8%	258
The quality of services	22	18%	82	21,5%	270	53,8%	374
Contractual bonds	51	41,8%	132	34,6%	139	27,7%	322
Friendship relationship with certain banks' employees	8	6,6%	16	4,2%	46	9,2%	70
Trust in banks employees	3	2,5%	31	8,1%	104	20,7%	138
Habit	40	32,8%	143	37,5%	155	30,9%	338
A lack of information regarding alternative attractive offers	21	17,2%	60	15,7%	51	10,2%	132
I believe that all banks have similar offers	14	11,5%	64	16,8%	38	7,6%	116
Family influence	7	5,7%	16	4,2%	15	3%	38
Other reason	3	2,5%	10	2,6%	9	1,8%	22
Total	122		381		502		

*Note: percent of respondents on each level

The relationship issues on which customers show the highest degree of satisfaction are: the confidentiality of transactions, the functionality of automated teller machines and the operativity. On the other hand, the lowest degree of satisfaction regards aspects as: the level of banking commissions, the efficiency of complaint management system, the level of banking rates, the complexity of loan documentation, the banking transparency regarding its offer and the duration of granting loans. The existence of this information is absolutely necessary to the organizations, because it offers an overview, from a customer perspective, on the strengths and weaknesses relative to the banking activity. Thus, improving the satisfaction for the issues which proved to have a lower score (such as the efficiency of complaint management system) will, in time, lead to an increase of the global satisfaction expressed by the customer. The banks' motivation for such an approach is relatively simple

and may be explained as follows: although satisfaction is not a guarantee for customer loyalty (the research results show that the level of loyalty is overall relatively high, but significantly lower compared with the level of global satisfaction), the variable has influence on the level of customers declared loyalty, and the intensity of the association between the two variables is of a medium intensity (fig. no. 2).

Figure 2 The influence of the global level of satisfaction on the customers declared loyalty toward banking organizations

However, between satisfaction and loyalty there isn't a linear relationship. This is highlighted by the fact that 50% of the customers who are dissatisfied or less satisfied with the bank relationship show a medium or even a high level of loyalty (this situation reflects the existence of many contractual bonds imposed by the bank or other switching barriers). Also, 10,3% of the customers who are generally satisfied and 2,3% of those fully satisfied declare a low or very low level of loyalty, fact which translates into low commitment to the relationship or an opportunistic behaviour, customers choosing each time the bank which offers the best deal.

The results show as well that the level of loyalty stated by customers is supported not only by the level of satisfaction, but also by factors like: bank's attitude towards its own customers, the level of customer trust toward the organization or its employees and the level of customer commitment. Another important conclusion is that between loyalty supporting factors can be identified different association bonds as follows: bank's attitude towards its own customers has a favourable influence on the levels of customer satisfaction and customer commitment, both the level of global satisfaction and customer satisfaction regarding different aspects of bank-customer relationship support the level of trust and the level of commitment. Moreover, the level of trust has a favourable influence on the level of commitment.

An important result of the research shows that the level of commitment has an influence on the estimated duration of business relationship, according to the intentions stated by customers. It is noted that most customers who manifest a low or very low level of commitment do not intend to continue the relationship in the future or estimate a possible migration in less than 1 year. At the same time, customers who declare high or very high levels of commitment have the intention to maintain the relationship for periods ranging from [6-10) years or over 10 years. From a managerial perspective, banking organizations should identify methods to increase the level of commitment among profitable customers, by increasing the relational benefits perceived by them. The results of the present research

are, also, confirming the advantages debated in the specialty literature regarding customer satisfaction and loyalty, namely: customers who show a high or very high level of satisfaction, commitment and loyalty manifest a high willingness to recommend the organization among relatives, friends or other persons, from their own initiative or in the situation when their relatives require references (fig. no. 3). Moreover, if in the near future they need a new banking product, they will intend to focus rather toward the current organization and in a significantly lower percent toward another banking institution.

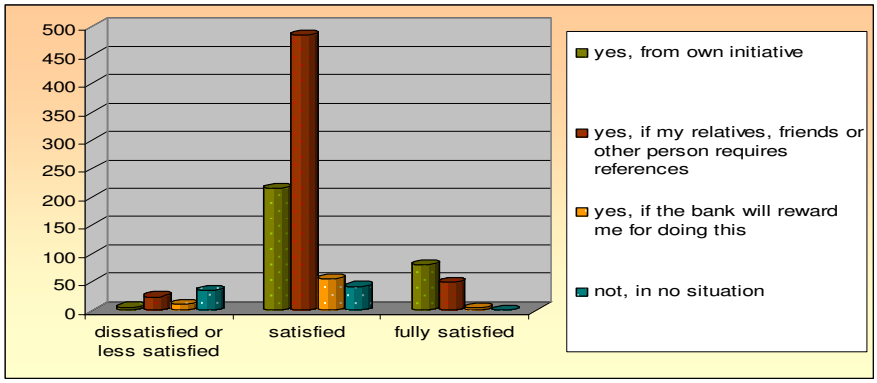

Figure 3 The influence of the global level of satisfaction on customer willingness to favourably recommend the banking organizations

Customer switching behaviour is determined in 58 percent of the cases by the level of dissatisfaction toward the banks' policy of price (fig. no. 4). From the Romanian customer perspective this translates into high loan interest rates and a lack of transparency with regard at banking commissions. Other factors that are likely to cause a disloyal behaviour in the Romanian retail banking market are related to a high level of bureaucracy in the banking operations and also to the reduction of the range of products and services. The situation is, however, an expected one, since these reasons are among the most important selection criteria taken into account by customers when choosing a banking organization.

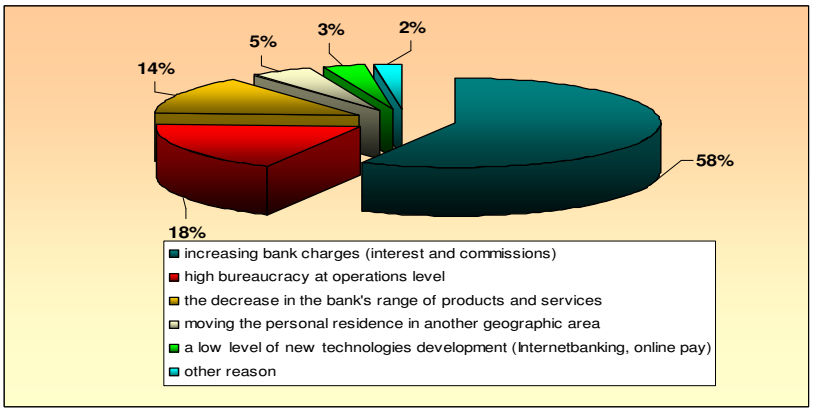

Figure 4 The reasons for customer migration

Conclusion

Factors that cause loyal or disloyal customer behaviour in a banking services environment may result from a variety of sources. Some factors are considered to stem from the banking organization, the interaction between the parties or the core service characteristics and they can be controlled by the company; at the same time a series of factors which affect customer loyalty stem from the external environment or the customer's life situation and they can be only researched to estimate the relationship duration.

As an overall conclusion, Romanian banking organizations need to base their managerial decisions on relevant marketing researches and to find out the complexity of customer behaviour, the positive or negative motivations underlying business relationships, the links between customer loyalty determinants and the potential reasons for migration. By analysing this information, banks have the possibility to identify critical factors for the process of customer relationships development, to estimate customer lifetime value and to develop different strategies and relational marketing tools according to customers profile, their future profitability and relationship longevity.

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