

Received: 28.03.2014.

Accepted: 25.04.2014.

Preliminary communication paper

UDC 658.8

DOES CUSTOMER SATISFACTION LEAD TO CUSTOMER LOYALTY IN BANKING SECTOR?

Hana Šuster Erjavec, PhD;

Faculty of Commercial and Business Sciences, Celje, Slovenia

ABSTRACT

The relationship between customer satisfaction and customer loyalty has been studied in different industries across various geographical settings. Nevertheless the results of empirical studies in banking sector seem to be somewhat controversial. Therefore the aim of our study was to research whether customer satisfaction affects customer loyalty in banking sector. The survey was implemented between Slovene users of banking services. Data was analyzed with SPSS.20. The results show that customer satisfaction leads to customer loyalty. Managerial implications are introduced at the end of the article as well as limitations of the study stressed in light of open questions for future research.

Key words: customer satisfaction, customer loyalty, demographic factors, banking sector, Slovenia.

1. INTRODUCTION

Kotler and Armstrong (2012) emphasize that unfortunately the majority of marketing literature and approaches is still focused on acquiring new customers rather than on maintaining relationships with existing ones. This is especially true in banking sector in Slovenia. Banks step up efforts to acquire new customers rather than invest their concern in satisfaction of existing customers. The reason for such a behavior might lie in the fact that researches do not unambiguously confirm the impact of customer satisfaction on customer loyalty in banking sector. Moreover, the banking sector is reflected in marketing literature as a classic example of an industry where customer satisfaction and loyalty are not significantly positively related.

Therefore, the aim of this study was to research whether customer satisfaction affects customer loyalty in banking sector. Although there are many studies that established empirical link between customer satisfaction and customer loyalty (Bennett, R. & Rundle-Tiele, 2004) the link is not yet well researched in banking sector.

The methodological approach in this paper follows the established principles and trends in the field of marketing research. Based on definitions of individual concepts, we developed measurement scales. The literature review focused on existing studies of customer satisfaction, especially those who have formed the world-famous customer satisfaction indexes. All latent variables were measured through manifest variables. Manifest variables were created to cover the most essential features of the different concepts. Data were analyzed with statistical program package SPSS.20. In addition, we have conducted analysis of Cronbach alpha to confirm the reliability of the latent variables of customer satisfaction and customer loyalty. Further we have implemented Pearson's coefficient of correlation and the regression analysis to analyze whether customer satisfaction in banking sector affects customer loyalty.

Several studies have confirmed the positive link between customer satisfaction and customer loyalty in different industries (Eskildsen et al., 2004; Ciavolino & Dahlgaard, 2007; Türkyılmaz & Özkan, 2007; Faullant et al., 2008, str. 169); also service ones, but studies that would explore the problem in the specific field of banking sector give controversial results.

Therefore our empirical study aims to answer the research question: "Does customer satisfaction affect customer loyalty in the specific field of banking sector". The answer to the question would fill the existing gap in marketing literature in the specific field of banking sector industry.

2. THEORETICAL BACKGROUND

Oliver (1997) defines customer satisfaction as emotional and cognitive evaluation of the experience with the product or service. Customer satisfaction is an assessment that product or service, or the characteristics of products or services achieve the level of performance that inspires a pleasant feeling. The result of comparing expectations with the actual perception may be positive confirmation if actual perception exceeds the expectations, or negative disconfirmation, if the perception is below expectations.

Martin O'Neill et al. (2008, p. 232) emphasize that it is necessary to measure customer satisfaction as cognitive and emotional aspects in order to better understand how customers form their customer satisfaction.

Fornell et al. (1996, p. 10) operationalize customer satisfaction with three manifest variables: customer satisfaction as a whole, as an estimation how ex-

pectations were fulfilled, and as comparison with the ideal service or product. They believe this choice is consistent with the orientation of American consumer satisfaction index (ACSI). We find these operationalizations in many other studies of customer satisfaction (Johnson et al., 2001; Türkyilmaz & Özkan, 2007).

According to literature review we have therefore operationalized Customer Satisfaction with three manifest variables:

- "All in all, I am pleased with this Bank."
- "This Bank corresponds to the idea of ideal Bank."
- "This Bank exceeds my expectations."

Sirdeshmukh and Singh (2000) identified customer loyalty as a marketing currency of the 21st century. Marketers wish to build relationships with their customers, but they are aware of difficulties doing it. Customer loyalty is seen as a deep commitment of customer to certain product that he or she buys and intends to prefer it in the future, regardless of the marketing efforts of the competitors (Oliver, 1997).

Customer loyalty is a long-term attitude and a long-term pattern of behavior that is stimulated by a variety of experiences, acquired by the customer over time (Gee et al., 2008, p. 360).

Despite the diversity of definitions of customer loyalty, two major approaches have been developed over time: behavioral and emotional (Walsh et al., 2008). Operationalizations may include: "Customer speaks positively about the company" (Boulding et al., 1993); "Customer recommends company to others" (Parasuraman et al., 1988) or "Customer remains loyal to the company" (La-Barbera & Mazursky, 1983; Rust & Zahorik, 1993).

We have therefore operationalized Customer Loyalty according to literature review with three manifest variables:

- "I speak only positively about this Bank."
- "I will recommend this Bank to my friends and family."
- "If I were to choose the Bank again, I would have re-chosen this."

3. RESEARCH

3.1. DESCRIPTION OF THE SAMPLE

Our sample consists of 643 individual customers, users of services in banking sector. 62.5% of them are women and 37.5% are men. The average age of our respondent is 38.0 ± 11.44 years. Academic degree completed of our respondents is elementary school or less (2.6%), secondary school (36.7%), high school (21.5%), college (14.6%), university degree (11.2%), masters or

more (3.1%). Given the status the majority is employed (64.2%), followed by students (12.9%), self-employed (10.0%), unemployed (6.7%) and pensioners (6.2%). The majority (47.9%) of respondents lives in a small town, a bit less in rural areas (41.7%), others (10.4%) live in two largest Slovenian cities Ljubljana and Maribor. Most households (33%) receive income between 1201 and 1800 EUR net, slightly less (27.4%) between 600 EUR and 1200 EUR net and further (19.8 %) between 1801 EUR and 2400 EUR net per household. Most respondents (32.7%) live in households with four members, slightly less (29.4%) in households with three members. The average number of household members is 3.2 ± 1.2 .

3.2. DESCRIPTION OF VARIABLES

First we have calculated descriptive statistics of all measurable variables separately and after we have calculated the average of all three measurable variables for each latent variable. Therefore we have calculated the average of all three measurable variables for customer satisfaction and the average of all three measurable variables for customer loyalty. This new calculated variables present the latent variables of customer satisfaction and customer loyalty. Their descriptive statistics are shown in table 1.

Table 1: Descriptive Statistics of Latent Variables Customer Satisfaction and Customer Loyalty

	N	Mean	Std. deviation
Customer Satisfaction	155	3.69	0.757
Customer Loyalty	154	4.06	0.774
Valid N (listwise)	152		

Note: Listwise deletion based on all variables in the procedure.

Source: Customer satisfaction survey, 2014

3.3. RELIABILITY OF MEASUREMENT

Reliability refers to the stability of measurement instrument. If the instrument is used by the same individual in two different occasions, the result should be the same (Easterby-Smith et al., 2005). We have operationalized constructs of customer satisfaction and customer loyalty with three different variables each. Each of these variables measures a specific aspect of the construct. Certain consistency must exist among those variables. We measured the consistency by coefficient α (Cronbach's α), which is the average of the individual coefficients that are calculated from half of the items. To evaluate the reliability we will consider the criterion of Ferligo et al. (1995).

Table 2: Cronbach's α reliability coefficient for the concepts

Latent Variable	Cronbach's Alpha
Customer Satisfaction	,914
Customer Loyalty	,899

Source: Customer satisfaction survey, 2014

Both calculated Cronbach's α coefficients are higher than 0.80 which is considered a very high internal consistency. Both latent variables measured with selected measurable variables point to good reliability of measurement and we can therefore proceed with analysis.

3.4. RESULTS

First, we have calculated Pearson Correlation Coefficient between the concepts of Customer Satisfaction and Customer Loyalty.

Table 3: Pearson Correlation between Customer Satisfaction and Customer Loyalty

		Customer Loyalty
Customer Satisfaction	Pearson Correlation	.875**
	Sig.	.000
	N	643

Note: ** Correlation is significant at the 0.01 level.

Source: Customer satisfaction survey, 2014

Correlation between variables was preliminary measured using the Pearson Correlation Coefficient which proved to be statistically significant. Coefficient is very strong.

We have continued with Regression Analysis. The value of F-test regression model for the concept of customer loyalty in banking sector is statistically significant (Sig. = 0.000). The model explains 76.5% of the variance of the concept of customer loyalty in banking sector and can be written using the following regression equation:

Customer loyalty in banking sector = 1,025 + 0.896 × customer satisfaction

Customer satisfaction is an important variable in the prediction of customer loyalty in banking sector.

Table 4: Results of Regression Analysis

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	
					R Square Change	F Change
1	,875 ^a	,765	,765	1,11545	,765	2087,912
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,025	,135		7,613	,000
	CUSTOMER SATISFACTION	,896	,020	,875	45,694	,000

Source: Customer satisfaction survey, 2014

4. MANAGERIAL EMPLICATIONS AND FUTURE RESEARCH

The Regression Analysis offers a very good model as it explains as much as 76.5% of the variance of the concept of customer loyalty in banking sector with only one concept, customer satisfaction. We can answer our research question: customer satisfaction does significantly affect customer loyalty in the specific field of banking sector. Managers in banking sector should try to achieve high customer satisfaction of their existing customers since customer satisfaction impacts customer loyalty. This answer definitely fills the gap in marketing literature in the specific field of banking sector industry.

The results show that customer satisfaction is an important variable in the prediction of customer loyalty in banking sector but do not show what is the strength of the relationship at different levels of customer satisfaction. We can assume that low customer satisfaction does not automatically lead to customer loyalty. Rather the connection between customer satisfaction and customer loyalty is established at higher levels.

Another interesting question that arises through our research is whether demographic factors affect the link between customer satisfaction and customer loyalty. Differences might appear according to gender, age, economic status and place of residence (urban / rural). Careful examination of demographic characteristics of customers and their impact on customer satisfaction-customer loyalty link should therefore be examined. But since the issue is beyond the scope of this research it opens a new topic for the future.

Since academics note that the relationship between customer satisfaction and customer loyalty is unique and that customer loyalty in service industries is affected by other factors, such as for example quality of services, image of the service provider, perceived price or quality of staff, it would be useful in future to include other factors in research and look for connections between them in banking sector. This is beyond the scope of this paper and opens further paths of research in this area.

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VODI LI ZADOVOLJSTVO KUPACA LOJALNOSTI KUPACA U BANKARSKOM SEKTORU?

SAŽETAK RADA

Odnos između zadovoljstva i lojalnosti kupaca proučavan je u različitim industrijskim granama u raznim geografskim područjima. Ipak rezultati empirijskih istraživanja u bankarskom sektoru pokazuju određene kontroverze.

Cilj je naše studije bilo istražiti utječe li zadovoljstvo kupaca na lojalnost kupaca u bankarskom sektoru. Istraživanje je provedeno među slovenskim korisnicima bankarskih usluga. Rezultati su analizirani pomoću SPSS.20 alata.

Rezultati pokazuju da zadovoljstvo kupaca izravno utječe na lojalnost kupaca. Menadžerske implikacije prikazane su na kraju članka kao i ograničenja studije u svjetlu otvorenih pitanja koja mogu biti podloga za buduća istraživanja.

Ključne riječi: zadovoljstvo kupaca, lojalnost kupaca, istraživanje, bankarski sektor, Slovenija.