

FACTORS AFFECTING CUSTOMER RETENTION IN BANKING SECTOR: THE CASE OF KOSOVO

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ABSTRACT The main purpose of this research is to measure customer retention through elements such as switching barriers, customer perception of value, customer satisfaction, online relationships, and trust. Data was collected from 135 customers of banking services in Kosovo using purposive sampling. The statistical software SPSS was used for the analysis. We used multiple linear regression to determine the influence of factors affecting client retention. Based on the research results, we conclude that online relationships, customer satisfaction, and trust positively and significantly influence customer retention. Online relationships, on the other hand, had the most significant influence. Customer retention is negatively impacted by customer value and switching barriers. The research findings provide recommendations for bank managers concerning the services they offer and the technical elements of service delivery. The presented recommendations can be viewed as elements whose implementation enables banks to provide added value to their clients and gain loyal and long-term customers.

KEYWORDS: *retention; satisfaction; online relationship; trust*

1. INTRODUCTION

Today, companies operate in a highly competitive environment. They must keep pace with changing technological trends and business practices. Those adaptable and willing to change in the face of external conditions have a better chance of succeeding. To prevent their customers from migrating to the competition, they need to maintain close relationships with them. The increasing popularity of Internet

banking has presented service providers with opportunities and risks. To minimize the risks and maximize the opportunities, banks should keep their customers in the virtual space to benefit from the Internet banking offering (Yau, 2007). According to Ranaweera and Prabhu (2003), the fundamental aim of firms is to seek to manage and increase customer satisfaction as well as trust and switching barriers, online relationships (Liang et al., 2008), and customer value (Njane, 2013) as important factors that can influence

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customer retention. Customer retention is a reliable source of better performance and competitive advantage (Qadri and Khan, 2014).

To the best of the authors' knowledge, this is the first study on customer retention and its factors to be conducted in Kosovo. On this basis, and given the growing number of consumers using electronic banking in Kosovo, we hope to identify the factors that influence customer retention. According to the Kosovo Banking Association, there were 347,199 electronic banking users in 2020, which increased to 434,658 in 2021. As the number of e-banking users continues to increase, we investigated how commercial banks in Kosovo retain their customers.

2 Our research is motivated by the understanding that the dynamics of customer retention can be very different in different regional and economic contexts. With its particular economic and cultural landscape, Kosovo represents a unique case. The banking sector in Kosovo has developed under specific historical, economic, and regulatory conditions that may influence customer retention differently than in other regions. Therefore, our study aims to fill a notable gap in the literature by providing new insights by applying established theoretical frameworks to this unique context.

The attributes studied, such as customer value, customer satisfaction, trust, barriers to switching, and the online relationship variable, are well-established in the literature. However, few studies focus specifically on these factors in the context of the Kosovo banking sector. Our research addresses this gap by providing empirical evidence and regional insights. This contribution is relevant for local bank managers and policy-makers who can derive specific customer retention strategies and for the broader academic community interested in understanding how global phenomena manifest themselves in different regional contexts.

Our literature review found little research on the online relationship variable in the context of customer retention. This observation prompted us to investigate this factor more deeply, although not exclusively. By examining all these variables together, we aim to provide a comprehensive and unique perspective with significant managerial implications.

2. LITERATURE REVIEW

2.1 Customer retention

Santoso and Dewl (2017) define customer retention as a company's efforts to build and maintain customer relationships for as long as possible. It in-

cludes making customers feel important and communicating to encourage them to return. According to Kagendo (2015), customer retention is a way for companies to manage their customers by creating a need and continuously satisfying it. Ahmad and Buttle (2002) state that customer retention is also about using methods tailored to the buyer-seller relationship's characteristics. In his research, Guna (2013) highlighted some benefits of customer retention. Firstly, growth is one of the benefits that superior customer retention can offer an organization. Secondly, customer retention reduces defections. Satisfied customers are less likely to leave a company than dissatisfied customers. Thirdly, customer retention is very important to create a competitive advantage. Since consumers are constantly communicating, a company that knows how to serve its customers properly is more likely to attract new customers and thus gain a competitive advantage. Furthermore, Rust and Zahorik (1993) found that maintaining market share is the most important factor.

2.2 Online relationship

As far as online relationships are concerned, this component has been less discussed and can hardly be found in previous research. However, given the importance of digital media in today's business world, it was more than appropriate to include it in the study. According to Nuseir (2016), people are primarily influenced by marketing activities conducted through digital media. On the other hand, digital marketing impacts the continuous improvement of products and services, diversification, and customer retention (Kagendo, 2015). However, according to Berry (1995), relationship marketing can help companies to attract more new customers. According to Liang et al. (2008) and Santoso and Dewl (2017), online relationships are crucial in promoting customer retention. Based on the above discussion, the following hypothesis is proposed:

H1: Online relationships influence customer retention in Internet banking.

2.3 Customer value

Value, a central marketing concept, is primarily a combination of quality, service, and price, the so-called customer value triad. The perception of value increases with quality and service but decreases with price (Kotler and Keller, 2016). According to Zeithaml (1988), "perceived value is the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given."

Companies should use demographic, psychographic, and usage-based methods to segment markets to find new customers interested in the company's value proposition. Product application segmentation should be viewed as a tool that adds value. New and old customers want to keep doing business with companies that add value and have a high market value (Weinstein, 2002). According to a study by Njane (2013), customer retention is determined by the perception of the value of products and services. Based on the preceding discussion, the following hypothesis is proposed:

H2: Customer value influences customer retention in Internet banking.

2.4 Customer satisfaction

Companies go to great lengths to provide value and keep consumers satisfied because customer satisfaction leads to higher economic returns (Qadri and Khan, 2014). Skogland and Siguaw (2004) define satisfaction as "an overall evaluation of performance based on all prior experiences with a firm." The longer we maintain the relationship with the client, the more favorable the relationship with the company will be. However, companies must understand the relationship between customer satisfaction and customer retention. Only then will they be able to increase customer retention (Sim et al., 2006). However, research conducted by Qadri and Khan (2014) found that customer satisfaction does not significantly impact building customer retention. However, various studies have found that customer satisfaction directly impacts customer retention (Abareshi et al., 2016; Al-Tit, 2015; Alshurideh et al., 2012; Sim et al., 2006). Based on the above discussion, the following hypothesis is proposed:

H3: Customer satisfaction influences customer retention in Internet banking.

2.5 Trust

Customer trust is important in determining consumers' actions concerning the company (Koufaris and Hampton-Sosa, 2002). To build trust, consumers expect to perceive positive outcomes and receive value from the company. They also need to believe that they will continue to receive value from the company and achieve satisfactory positive outcomes (Yap et al., 2012). Based on the literature review and the findings obtained (Danesh et al., 2012; Ranaweera and Prabhu, 2003), trust is positively related to customer retention despite the findings of Yau (2007), who

shows that trust harms customer retention. Based on the above discussion, the following hypothesis is proposed:

H4: Trust influences customer retention in Internet banking.

2.6 Switching barriers

According to Jones et al. (2000), switching barriers are all factors that make switching providers more complicated or more expensive for consumers. According to Liua et al. (2011), switching barriers are a viable approach to prevent customer defection. Their findings suggest that pull and push-back forces are effective customer retention techniques that companies can employ. To keep their customers, companies should create positive barriers to switching. Companies that create positive barriers to switching have a positive effect on customers (Gunasekara, 2015). As individuals have become accustomed to the characteristics of service providers, switching to another provider is time-consuming, with the risk of negative consequences (Woisetschläger et al., 2011).

Reichheld and Sasser (1990) suggest that companies should continuously improve service quality. This should not be seen as a cost for the company but as an investment for the customers who will generate more profit. As a result, consumers will become more loyal to the company and less likely to switch. Margarena and Auliya (2020) concluded that switching barriers are key to customer retention. Based on the above discussion, the following hypothesis is proposed:

H5: Switching barriers influence customer retention in Internet banking.

3. METHODOLOGY AND CONCEPTUAL FRAMEWORK

The conceptual model for the study was developed based on factors that influence customer retention. The conceptual framework assumes that there are relationships between the independent constructs of online relationships, customer perception of value, customer satisfaction, trust, barriers to switching, and the dependent variable of customer retention. The variables used in this study and the conceptual model were adopted by Ranaweera and Prabhu (2003). The difference between their work and ours is that we have added the variable of online relationships. The digital age we live in has forced companies to go online. They offer products for sale and provide services on social media platforms. Above all, they aim to create added

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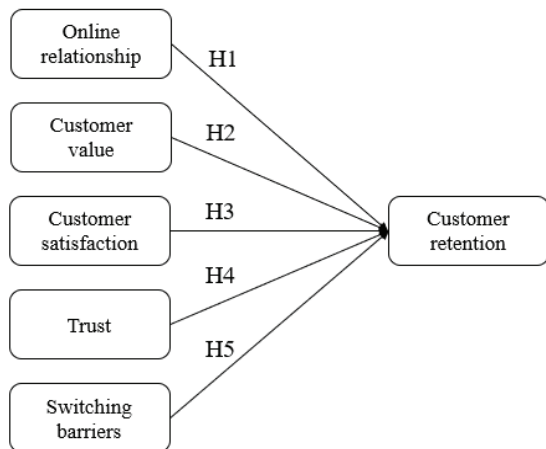


FIGURE 1. Conceptual framework
SOURCE: Author's illustration

value for their customers. With this in mind, we wanted to find out how effective online relationships are in building customer relationships and what impact they have on customer retention. It was, therefore, necessary to include the variable of the online relationship. Figure 1 illustrates the conceptual framework.

The study's main objective is to determine the impact of the factors selected for this study on customer retention in the banking sector in Kosovo. Both qualitative and quantitative data were used to determine this impact. Secondary sources were used to obtain background information on the topic through the literature review. In contrast, the primary data collection source was a questionnaire adopted from previous studies. Purposive sampling was used for data collection in this study. Respondents were first asked whether they used banking services. If the answer was yes, respondents took part in the survey. The questionnaire was divided into two parts. The first part collected demographic data about the participants, including gender, age, education, occupation, and income (Table 1).

We used the Statistical Package for the Social Sciences (SPSS) as the primary statistical platform to analyze the collected data. We conducted a multiple linear regression analysis to examine the relationship between the variables and gain insights into the factors influencing customer retention of Internet banking. In our regression analysis, we used key statistical measures such as R-squared, analysis of variance (ANOVA), and coefficients.

TABLE 1. Respondent profile

Variables	Frequency	Percentage	Variables	Frequency	Percentage
Gender			Education		
Male	66	49.3	High school	7	5.2
Female	68	50.7	Bachelor degree	45	33.6
			Master degree	75	56.0
Age			PhD	7	5.2
18-24	33	24.6	Income (euro)		
25-30	52	38.8	0-250	20	14.9
31-40	39	29.1	260-500	50	37.3
41-50	7	5.2	500-750	33	24.6
51+	3	2.2	760-1000	14	10.4
Occupation			1000+	17	12.7
Student	16	11.9			
Home duty	2	1.5			
Self-employed	17	12.7			
Private sector	81	60.4			
Public sector	18	13.4			

TABLE 2. Variables and measures

Variable	Number of items	Cronbach’s alpha	Source
Customer retention	3	.920	Yau (2007)
Online relationship	5	.855	Liang et al. (2008)
Customer satisfaction	4	.837	Qadri and Khan (2014)
Customer value	8	.790	Njane (2013)
Switching barriers	4	.839	Qadri and Khan (2014)
Trust	5	.814	Qadri and Khan (2014)

The second part of the questionnaire consisted of the variables used for the study and contained 29 questions (see Appendix I). Table 2 shows the variables and the internal consistency of the questionnaire. The questions were formulated on a Likert scale (from 1 - strongly disagree to 5 - strongly agree).

influence customer retention in Internet banking. As shown by Table 3, 50.1% of the variance in the dependent variable (retention) has been explained by the independent variables (switching barriers, customer value, trust, online relationship, and customer satisfaction).. The Durbin-Watson value indicates that there is no autocorrelation in the model. In the other hand Table 4 shows that the regression model is statistically significant.

4. RESULTS AND DISCUSSION

In this section, we present the outcomes of our study and provide insights into the factors that

TABLE 3. Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.708	.501	.481	2.27370	2.132

PREDICTORS: (Constant), Switching Barriers, Customer Value, Trust, Online Relationship, Customer Satisfaction
 DEPENDENT VARIABLE: Retention

TABLE 4. ANOVA

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	664.159	5	132.832	25.694	.000 ^b
	Residual	661.722	128	5.170		
	Total	1325.881	133			

Dependent Variable: Retention
 Predictors: (Constant), Switching Barriers, Customer Value, Trust, Online Relationship, Customer Satisfaction

TABLE 5. Coefficients

Hypothesis	Sig	Beta	Outcome
Online relationship influences customer retention in Internet banking (H1).	.000	.351	Supported
Customer value influences customer retention in Internet banking (H2).	.870	-.013	Not supported
Customer satisfaction influences customer retention in Internet banking (H3).	.025	.201	Supported
Trust influences customer retention in Internet banking (H4).	.002	.292	Supported
Switching barriers influence customer retention in Internet banking (H5)	.619	-.034	Not supported

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Table 5 provides an overview of the model coefficients and related hypotheses. The results show that online relationships have a positive influence on customer retention. Hypothesis 1 is, therefore, accepted. The times we live in have forced companies to focus their activities online. In such an environment, building customer relationships has never been more important. Based on the data obtained, we can see that the participants in the study highly value building and maintaining effective relationships with their respective banks. From the data obtained, we can also conclude that commercial banks in Kosovo prioritize online customer relationships. They are continuously working to provide the best possible services to their customers through Internet platforms and to fulfill their needs and wishes. Banks are also constantly endeavoring to increase the loyalty of regular customers through online relationships. Consequently, the online relationship component has a major impact on customer retention. Our findings align with previous findings (Liang et al., 2008; Santoso and Dewl 2017).

In contrast to the expectations formulated in Hypothesis 2, the results indicate that customer value does not significantly influence customer retention in Internet banking. Even though Njane (2013), Weinstein (2002), and Octavia (2023) found that customer value influences customer retention, we found that customer value does not influence customer retention. Thus, our results align with Simanjuntak et al. (2020). This can be explained by the fact that customers did not value some components. From the questionnaire, customers do not appreciate their bank's lack of flexibility in banking policies. Another misconception is that banks do not have many branches in favorable locations. The negative perception of customers is also because banks do not use a fair method in setting fees and do not have long working hours. This is because many customers finish their working hours at

the same time as the banks. So, the inability to physically visit the bank branches has affected the customers' negative perceptions. Therefore, customers' perception of value has no impact on customer retention. According to the results, customer satisfaction influences customer retention in Internet banking. Hypothesis 3 is accepted. According to the report, consumers place the highest value on the quality of regular banking services. In addition, consumers are satisfied with the performance of bank employees and the professional expertise of banks. From this, it can be deduced that the quality of services is a crucial aspect of customer satisfaction. In this form, customer satisfaction, therefore, influences customer retention. Our results align with previous findings (Al-Tit, 2015; Abareshi et al., 2016; Octavia, 2023). However, it is noteworthy that our results differ from those reported by (Rahmatulloh and Melinda, 2021; Simanjuntak et al., 2020), indicating nuanced differences in understanding the factors that influence customer retention.

The results show that trust influences customer retention in Internet banking. Therefore, Hypothesis 4 is accepted. We found positive values for the influence of trust on customer retention, in contrast to Eppie (2007), who assumes that trust negatively influences customer retention. Our results can be explained by the fact that banks offer very secure services, which leads consumers to trust the banking systems. In addition, consumers value the services offered by banks. Our findings are consistent with those of Qadri and Khan (2014).

The most unexpected result from the data is that switching barriers harm customer retention. Therefore, Hypothesis 5 is not accepted. The results show that users do not see switching from one bank to another as involving much effort. They also do not consider the time it takes to switch to the bank

they use to be a problem. They also did not think that changing the bank they use could be associated with technical difficulties.

Interestingly, customers did not perceive any difficulties when switching banks. This could be because customers are satisfied with some of their bank's services but are not loyal to the bank they use overall. As a result, our results differ significantly from previous findings in the literature (Gunasekara, 2015; Liua et al., 2011; Simanjuntak et al., 2020; Margarena and Auliya, 2020).

5. IMPLICATIONS

The results show that online relationships, customer satisfaction, and trust positively and significantly impact customer retention, while the perception of customer value and barriers to switching have a negative impact. We have compiled a list of the most important points, practical implications, and management recommendations. One of the most important factors is that banks should offer their services through extended working hours, as respondents perceive this as a negative aspect of the banks they use. Another factor is applying a fair method of setting tariffs, as banks in Kosovo offer the same services but at different prices, which customers perceive as unfair and believe that the tariffs are manipulating them. Therefore, banks should set tariffs using the most efficient, objective, and measurable methods and argue in favor of them so that their customers are not confused. Banks must, therefore, offer a flexible banking policy to provide greater added value to their customers, leading to satisfaction and loyalty. Above all, banks need to improve their services to offer their customers the most efficient and highest quality services. Even though customers seem satisfied with the online service, we all know that some things cannot be done online and require a physical

presence, such as signatures, contracts, and other services. Consequently, banks should focus on enabling services because providing quality services for the benefit of customers can lead to loyalty. Consequently, banks should endeavor to add value to their customers by making them feel valued and satisfied, which leads to loyalty to the banks they use.

6. LIMITATIONS AND RECOMMENDATIONS

In this study, a purposive sample was used to collect data from 135 customers of banking services in Kosovo. While this approach allowed for targeted data collection, it may limit the generalisability of the results. While the sample size is sufficient for an initial analysis, it cannot fully capture the diversity and breadth of customer experiences in the banking sector. In addition, the use of self-report data could lead to biases, e.g., due to social desirability or recall errors.

The research was anchored on specific theoretical constructs such as switching barriers, customer value, satisfaction, online relationships, and trust. Although these elements are important for understanding customer loyalty, there may be other relevant factors that were not considered in this study. Future research could investigate additional factors influencing customer retention, such as economic trends, technological advances, or regulatory changes. The inclusion of these aspects could lead to a more holistic understanding of the dynamics of customer loyalty.

The focus on the banking sector in Kosovo provides valuable insights into this specific context. However, Kosovo's unique economic, cultural, and regulatory environment may mean these insights are not readily transferable to other regions or countries. Different banking markets may have different customer retention dynamics.

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FAKTORI KOJI UTJEČU NA ZADRŽAVANJE KLIJENATA U BANKARSKOM SEKTORU: SLUČAJ KOSOVA

10

SAŽETAK

Glavna svrha ovog istraživanja je mjerenje zadržavanja klijenata kroz elemente kao što su prepreke za prelazak, percepcija vrijednosti klijenata, zadovoljstvo klijenata, online odnosi i povjerenje. Podaci su prikupljeni od 135 korisnika bankarskih usluga na Kosovu korištenjem svrhovitog uzorkovanja. Za analizu je korišten statistički softver SPSS. Koristili smo višestruku linearnu regresiju kako bismo odredili utjecaj faktora na zadržavanje klijenata. Na temelju rezultata istraživanja, zaključujemo da online odnosi, zadovoljstvo klijenata i povjerenje pozitivno i značajno utječu na zadržavanje klijenata. Online odnosi su, s druge strane, imali najveći utjecaj. Zadržavanje klijenata negativno je pogođeno percepcijom vrijednosti klijenata i preprekama za prelazak. Rezultati istraživanja daju preporuke menadžerima banaka u vezi s uslugama koje nude i tehničkim elementima pružanja usluga. Prezentirane preporuke mogu se smatrati elementima čija implementacija omogućava bankama da ponude dodatnu vrijednost svojim klijentima i steknu lojalne i dugoročne korisnike.

KLJUČNE RIJEČI: *zadržavanje; zadovoljstvo; online odnosi; povjerenje*

APPENDIX I. Research instrument (Questionnaire)

Customer Perception of Value:
1 - Strongly disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, 5 - Strongly agree
Please indicate your perception of the banking service:
Efficient service
Offers the latest electronic products
Listens and is sensitive to customers' needs
Convenient branch location
Flexible banking policy
Many branch locations
Fair method of setting fees
Extended banking hours
Customer satisfaction: 1 - Strongly disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, 5 - Strongly agree
I am satisfied with the overall service quality offered by this operator.
I am satisfied with the professional competence of this operator.
I am satisfied with the performance of the frontline employees of this operator.
I am comfortable with the relationship with this operator.
Trust: 1 - Strongly disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, 5 - Strongly agree
This operator is reliable because it mainly concerns consumers' interests.
This operator's billing system is trustworthy.
The reputation of this operator is trustworthy.
The policies and practices of this operator are trustworthy.
The service process provider by this operator is secure.
Switching barriers: 1 - Strongly disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, 5 - Strongly agree
It would cost me much effort to switch to another service provider.
It would cost me a lot of time to switch to another service provider.
In general, switching to a new service provider would be a hassle.
There are technical difficulties associated with changing my service provider.
Retention: 1 - Strongly disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, 5 - Strongly agree
If I had to do it all over again, I would choose the same Internet banking service of my bank.
In the future, I will continue to use the Internet banking at my bank.
In the future, I will continue to recommend the Internet banking service of my bank to my friends and acquaintances.
Online relationship: 1 - Strongly disagree, 2 - Disagree, 3 - Neutral, 4 - Agree, 5 - Strongly agree
The electronic banking I use makes efforts to increase regular customers' loyalty.
The electronic banking I use makes various efforts to improve its tie with regular customers.
The electronic banking I use cares about keeping regular customers.
I believe that the electronic banking I use puts some effort into maintaining the relationship with me.
I believe that the electronic banking I use cares about satisfying my needs.

