

THE IMPACT OF CUSTOMER SATISFACTION ON CUSTOMER LOYALTY AND INTENTIONS TO SWITCH IN THE BANKING SECTOR IN MALAYSIA

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Abstract

In today's volatile dynamic environment, top performing financial institutions are looking into the demands of their customers avidly in order to survive and compete successfully. Researchers all over the world have relentlessly emphasized on the utmost importance of customer satisfaction, customer loyalty and retention as part of survival in the financial world. This study attempts to find out the impact of customer satisfaction on customer loyalty and their intentions to switch banks. Data were collected over a period of two weeks using survey questionnaire from 165 walk-in customers who had accounts with the banks serving in Ipoh, Perak, Malaysia. The data collected were then analyzed using SPSS. Pearson correlation and multiple regression analysis were used to examine the correlation between independent variables and dependent variable. The results of the study indicated that there is a positive correlation between customer satisfaction and customer loyalty but showed negative correlation with customer intentions to switch. Conclusions and implications of the study are also discussed based on the analysis.

Keywords: Customer satisfaction, customer loyalty, intentions to switch, banking sector.

INTRODUCTION

Banks are competing intensely in a highly competitive environment to offer quality oriented services according to customers' expectations. Researchers are studying various key segments of banking sector like operations, service quality, employee satisfaction, customer satisfaction, financing products, efficiency, financial performance to better understand and serve the community at large. Numerous studies have highlighted the key concept of quality services/products offered by the banks.

Customers became a centre for all banking activities due to increased competition for greater market share. Focusing on customer satisfaction has been the key to increasing service quality according to customers' expectations in the banking sector (Zairi, 2000). Hanson (2000) suggested that service quality shows the organization's ability to meet customers' desires and needs. So organization must improve their services to meet the customers' wants and requirements. It is found that customers' perception of service quality is very important for managers to compete in the market (Hoffman and Bateson, 2002).

Since Malaysia's independence in 1957, its financial landscape has gone through tremendous changes. The first step in the revolutionary process was the gradual deregulation of the financial sector (Bank Negara Malaysia), as at 31 August, 2007, there were 10 domestic commercial banks and 16 foreign owned commercial banks operating in Malaysia. Bank mergers, deregulation and increased competitive pressures have also created dramatic changes in the Malaysian banking industry. Currently, Malaysian banks face the challenges of greater market satisfaction in order to cultivate customer loyalty (Lam & Bojei, 2007).

Importance of customer satisfaction in today's dynamic corporate environment is obvious as it greatly influences customers' repurchase intentions whereas dissatisfaction has been seen as a primary reason for customers' intentions to switch. Satisfied customers are most likely to share their experiences with other four or six people around them. Equally well, dissatisfied customers are more likely to tell another ten people their unfortunate experiences with a particular organization. In order to achieve customer satisfaction, organizations must be able to build and maintain long lasting relationships with customers through satisfying various customer needs and demands which resultantly motivates them to continue to do

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business with the organization on on-going basis (La Barbera & Mazursky, 1983).

According to Portela & Thanassolis, (2006), not only empirically studies of the relationship between service quality and customer loyalty in banking system are limited, but also the existing studies on bank branches efficiency in general do not account for the changing role of bank branches. Excellence in service quality is a key to achieve customer loyalty which is the primary goal of business organizations, due to the advantages of customer retention (Ehigie, 2006). Today, the increasing awareness among bank customers of their rights, changing demands and high competition requires constant progress in service quality from the bank for their customers to stay loyal. The purpose of this study is to examine the impact of customer satisfaction on customer loyalty and intentions to switch in the banking sector in Ipoh, Perak, Malaysia.

LITERATURE REVIEW

Considering the competitive environment, there is a need for banks to plan their strategies that will differentiate them from another. This can be achieved through the delivery of high service quality. The practice of excellent service quality has been proven that customer satisfaction will significantly lead to customer loyalty (Caruana et al., 2000).

Customer Satisfaction

Customer satisfaction is one of the most important issue concerning business organization of all types, which is justified by the customer oriented philosophy and the principles of continues improvement in modern enterprise. For that reason, customer satisfaction should be measured and translated into number of measurable parameter. Customer satisfaction measurement may be considered as the most reliable feedback, providing client' preferences and experiences in an effective, direct, meaningful and objective way. Thus, customer satisfaction may be considered as a base line standard of performance and a possible standard of excellence for any business organization (Gerson, 1993).

Customer satisfaction is a complex construct. It has been defined in various ways (Besterfield, 1994; Barsky, 1995; Kanji and Moura, 2002; Fecikova, 2004). Recently, researchers have argued that there is a distinction between customer satisfaction as related to tangible products and as related to service experiences. This distinction is due to the inherent intangibility and perishes ability of services, as well as the inability to separate production and consumption. Hence, customer satisfaction with services and with goods may derive from, and may be influenced by, different factors and therefore should be treated as separate and distinct (Veloutsou et al., 2005).

Customer satisfaction, for instance, is considered as a necessary condition for customer retention, and assists in realizing economic goals like sales turnover and profit revenue (Zeithaml et al., 1990 ; Berry and Parasuraman, 1991). Customer satisfaction is defined as "the customer's response to the evaluation of the perceived discrepancy between prior expectations and the actual performance of the product/service as perceived after its consumption" (Tse and Wilton, 1988: 204). Indeed, customer satisfaction has for many years been perceived as key in determining why customers leave or stay with an organisation. Organisations need to know how to keep their customers, even if they appear to be satisfied. Reichheld (1996) suggests that unsatisfied customers may choose not to defect, because they do not expect to receive better service elsewhere. Additionally, satisfied customers may look for other providers because they believe they might receive better service elsewhere.

Customer Loyalty

Customer loyalty can only be achieved after consistently meeting customer satisfaction. Time constraint is almost a barrier to customer satisfaction as more and more unique ways are adopted to meet the ever changing nature in the service industry. Organizations are developing advanced methods to keep abreast with technology and how it affects the service industry. Customer loyalty on the other hand is achieved after consistent record of meeting with clients over a period of time and sometimes

even exceeding customer expectations (Teich, 1997). Kotler et al. (1999) states the cost of attracting a new customer may be five times the cost of keeping a current customer happy. Gremler & Brown (1996) stated that the most important definition of customer loyalty relating to this study; the degree to which a repeat customer shows signs of re-patronage behavior, possesses a affirmative temperament toward the service provider, and considers only using a single service provider when the intentions to re-purchase this service exists.

According to Bloemer & Kasper (1995), loyalty is interpreted as true loyalty rather than repeat purchasing behavior, which is the actual re-buying of a brand, regardless of commitment. Zeithaml et al. (1996) states loyalty is a multi-dimensional construct and includes both positive and negative responses. However, a loyal customer may not necessarily be a satisfied customer. Colgate et al. (1996) also noted that it is not always the case that customer defection is the inverse to loyalty, while Levesque and Mc Dougall (1993) suggested that, "even a problem is not solved, approximately half of the customers would remain with the firm". This may be due to switching costs, lack of perceived differentiation of alternatives, location constraints on choice, time or money constraints, habit or inertia which are not related to loyalty (Bitner, 1990; Ennew & Binks, 1996).

Consumers' Behavioural Intentions

To compete successfully in today's competitive marketplace, banks must focus on understanding the needs, attitudes, satisfactions and behavioural patterns of the market (Kaynak and Kucukemiroglu, 1992). Consumers evaluate a number of criteria when choosing a bank. However, the prioritization and use of these criteria differs across countries, and thus cannot be generalized. For example, in a study of Canadian customers in Montreal, Laroche and Taylor (1988) found that convenience is the principal reason for bank selection, followed by parental influence with respect to the status of the bank. In contrast, Kaynak and Kucukemiroglu's (1992) study of the Hong Kong banking market discovered that customers choose their banks because of convenience, long

association, recommendations of friends and relatives, and accessibility to credit.

Social and technological change has had a dramatic impact on banking. These developments, such as internationalization and unification of money markets and the application of new technologies in information and communications systems to banking, have forced banks to adopt strategic marketing practices. These have included offering extended services, diversification of products, entry into new markets, and emphasizing electronic banking (Reidenbach, 1995; Mylonakis et al., 1998). This greater range of services and products, along with improvements in communications efficiency, could have a significant impact on customer satisfaction and consequent behavioural intentions. As changes in the broad financial fields accelerate and business activities converge (i.e., the offering of insurance, financial planning, and share brokerage by a bank), it is imperative to differentiate banking products from other similar or complementary ones that are offered by bank affiliates or non-banks (Mylonakis et al., 1998).

METHODOLOGY

Research Framework and Hypotheses

A number of studies had identified the links between loyalty customer service, satisfaction and trust. Beerli *et al.* (2004) state that in retail banking sector impact of satisfaction on loyalty is considerably stronger than the cost of switching, and satisfaction is an antecedent of perceived quality. In order to verify the relationship between the independent and dependent variables, two hypotheses were developed. The framework for the study was adopted and modified from the empirical study by Beerli et al., (2004) depicted below. Figure 3.1 illustrates the relationship between customer satisfaction, customer loyalty and intentions to switch.

INSERT FIGURE-1 HERE

Hypotheses of the Study

The hypotheses of the study are developed as below:

H₁: There is a significant positive relationship between customer loyalty and customer satisfaction.

H₂: There is a significant negative relationship between intentions to switch and customer satisfaction.

Population

The target population of the study comprised of customers who had accounts with the banks in the city of Ipoh, Perak. A total of 195 questionnaires were randomly administered to all walk-in customers at the selected outlets at Ipoh Garden, Ipoh over a period of two weeks. The respondents were asked to apprise their ratings with the service rendered by the banks.

ANALYSIS AND INTERPRETATIONS

Table-1 below provides the demographical distribution of the respondents with regard to various categories. From Table-1 below, the sample respondents were relatively equal proportion of males (52.6%) and females (47.4%) respectively. It is also evident that the age group are mainly from 26 to 35 years old (49%), followed by 22% who are above 45 years old, between 36 to 45 years of age (17%) and 12 % were below 25 years old. A majority of the respondents were married (63%) while 33% of them unmarried and a mere 4% engaged to be married. The respondents were predominantly graduates (63%) and post-graduates (18%) with the others mainly have secondary education (15%). This implies that the respondents had high literacy levels. With regard to employment status, the respondents were a mix of professionals (42%), self-employed (16%), salaried employment (28%), students (9%) and others (5%). It is quite obvious that the employment level was high among the respondents. The study had a majority of the respondents earning between 24k to 48k per annum and 21.1% earnings below 24k per annum.

Overall Satisfaction of the Respondents

Majority of the respondents have indicated that they were satisfied (approx. 78%) with the banking services of the selected banks, as shown in Table-2. From the total responses for this section, 97 or 59% of the respondents revealed that they were fairly satisfied with the bank.

Around 31 or 19% of the respondents showed that they were very satisfied with the bank. Conversely, it can also be seen that only about 13% of the respondents reported low levels of satisfaction. To sum up, the data suggests that most respondents have a positive attitude and are satisfied with the customer services of the banks.

INSERT TABLE-1&2 HERE

Descriptive Statistics

Table-3 below provides the descriptive statistics of the independent variables (customer satisfaction) and the dependent variable (customer loyalty and intentions to switch). The mean value of customer satisfaction is 4.17 with standard deviation of .778 indicating that customers are satisfied with their respective financial service providers. The mean values of dependent variables (customer loyalty and intentions to switch) are 3.86 and 3.51 respectively, which is above the threshold of 3. Moreover, standard deviations for these variables are .623 for customer loyalty and .575 for intentions to switch indicating that respondents are loyal customers and any disparity in the financial services provided would never cause them to switch to another bank which offers better financial services.

INSERT TABLE-3 HERE

Table-4 below provides the correlations of the variables used in this study (customer satisfaction being the independent variable whereas customer loyalty and intentions to switch being the dependent variables). All variables are significant at 1% level of significance. The correlation coefficient of customer loyalty for customer satisfaction is .128 which is significant thus we accept H₁ hypothesis which states that customer satisfaction has a positive significant relationship with customer loyalty. For the customers' intentions to switch, the correlation is -.157 which also indicates that we accept the H₂ hypothesis which states that customer satisfaction has a negative significant relationship with intentions to switch. On the whole, the findings indicated that respondents in this study are loyal to their financial service providers and are not thinking of switching to another bank offering varied financial services.

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CONCLUSIONS

This study attempted to find the impact of customer satisfaction on customer loyalty and intentions to switch to other financial service providers. Customer satisfaction does have a positive effect on an organization's profitability. According to Hoyer and MacInnis (2001), satisfied customers form the foundation of any successful business as customer satisfaction leads to repeat purchase, brand loyalty, and positive word of mouth. However, Bowen and Chen (2001) said that having satisfied customers is not enough, there has to be extremely satisfied customers. This is because customer satisfaction must lead to customer loyalty. Bansal and Gupta (2001): "Building customer loyalty is not a choice any longer with businesses: it's the only way of building sustainable competitive advantage. Building loyalty with key customers has become a core marketing objective shared by key players in all industries catering to business customers.

Loyalty is vulnerable because even if the customers are satisfied with the services rendered by the financial institutions, there is always an element of defect if they think they can get better value for money in other institutions. Satisfaction is essential but not enough to gauge loyalty among customers. In other words, we can have customer satisfaction without loyalty but it is difficult to comprehend having loyalty without satisfaction. Therefore, all organizations should try and satisfy their customers and to ensure their loyalty. Customer satisfaction and loyalty is perhaps the most talk about topic in the 21st century.

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Figure 3.1: Proposed Theoretical Model

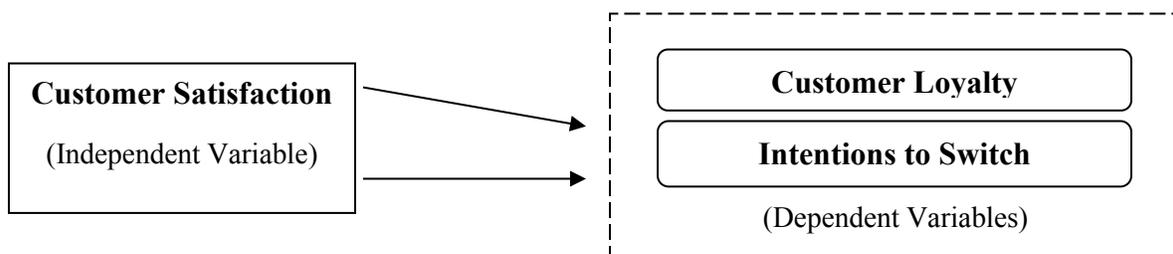


Table-1: Demographics Profile of the Customers

| No. | Demographics | Frequency | Percentage |
|-----|---------------------|-----------|------------|
| 1 | Gender: | | |
| | Male | 87 | 52.6 |
| | Female | 78 | 47.4 |
| 2 | Age/years: | | |
| | Below 25 | 20 | 12 |
| | 26-35 | 81 | 49 |
| | 36-45 | 28 | 17 |
| | Above 45 | 36 | 22 |
| 3 | Marital Status: | | |
| | Married | 104 | 63 |
| | Not married | 55 | 33 |
| | Engaged | 6 | 4 |
| 4 | Monthly Income: | | |
| | Below 24k per annum | 35 | 21.1 |
| | 24k - 48k per annum | 115 | 69.6 |
| | 48k - 60k per annum | 11 | 7 |
| | Above 60k per annum | 4 | 2.3 |
| 5 | Employment Status: | | |
| | Self-employed | 26 | 16 |
| | Salaried employment | 46 | 28 |
| | Professionals | 70 | 42 |
| | Students | 23 | 9 |
| | Others | 8 | 5 |
| 6 | Education Levels: | | |
| | Secondary school | 25 | 15 |
| | Tertiary | 104 | 63 |
| | Postgraduate | 30 | 18 |
| | Others | 6 | 4 |
| | total | 165 | 100 |

Table-2: Overall Satisfaction Levels

| Satisfaction Levels | Frequency | Percentage |
|------------------------------------|-----------|------------|
| Very dissatisfied | 9 | 5 |
| Fairly dissatisfied | 13 | 8 |
| Neither satisfied nor dissatisfied | 15 | 9 |
| Fairly satisfied | 97 | 59 |
| Very satisfied | 31 | 19 |
| Total | 165 | 100 |

Table-3: Summary of Means & Standard Deviations

| Variables | Mean | Std. Deviation |
|-----------------------|------|----------------|
| Customer Satisfaction | 4.17 | 0.778 |
| Customer Loyalty | 3.86 | 0.623 |
| Intentions to Switch | 3.51 | 0.575 |

Table-4: Correlations

| | | Customer Loyalty | Intentions to Switch |
|-----------------------|---------------------|------------------|----------------------|
| Customer Satisfaction | Pearson Correlation | .128** | -.157** |
| | Sig. (2-tailed) | .003 | .001 |
| | N | 165 | 165 |

Note: ** sig at level 0.01