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IDENTIFYINGFACTORS AFFECTINGBANK CUSTOMERLOYALTY(CASE STUDY: A SET OF MELLI BANK BRANCHES IN EAST AZERBAIJAN PROVINCE)

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Abstract

The purpose this study is to identifyfactors affectingcustomer loyaltytobanksasone of themost importantmarketing activities. The populationunder study includes allcustomers of Melli Bank in AzarbaijanSharghi Provinceinthe firstquarter of2012. The sample sizewas calculatedusingCochran formula, and randomsampling was used to select the sample; therefore, 350 customers were chosen as the sample to be investigated. A researcher-developed questionnaire has been used to gather data. Independent samples t-test, ANOVA, Tukey, Pearson and some other tests have been performed in order to identify factors affectingbank customerloyalty. The resultsshow that there is a significant and positive relationshipbetweenall these cases: customer satisfaction andcustomer loyalty,supplierswitchingcostsandcustomer loyalty,customercommitmentandcustomer loyalty,perceived qualityandcustomer satisfaction, customer trustandcustomercommitment; there is also a significant differencebetweencustomerloyalty andcustomereducation.

Keywords: customer loyalty, supplierswitchingcosts, customercommitment, perceivedquality, customer satisfaction

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INTRODUCTION

Oneof the most importantprinciplesof management which has been usually ignored today isgetting closer tocustomersto meettheir demands. As each organization is established to produce some products or provide some services, it should follow customer loyalty and act accordingly. Ifit deviatesfrom this route,it is actually getting away from its original purposes; this condition may last only for a short time but it graduallyleads to stagnation and impedes the organization's international activities; Itwill be informed about the problem when there is no customer and time left to compensate (FeqhiFarahmand, 1998).

The secret of organizations' victory lies in the identification ofthe needs of real and potentialcustomersand then meeting these needs better thanthe competitors (Cutler, 1994).

Withincreased competitionin business,rapidtechnologicalchanges, increased power andcustomers' wide choices,saturationofmany markets andcontinuouschangesinthe environment and populationcomposition, those companies will be successful which are able to better identify customers' desired values and expectations and meet them appropriately (WangandLiao, 2007).

Customers' loyalty is of significant importance to the banks; intoday'sperspective,marketinghas been defined as developing customers, as satisfying customer and as meeting the qualityfrom his viewpoint (Graham, 1955). Nowadays, theartof marketingis that an organization's customers support it both insideandoutside workplace; therefore,it is important for the companies to make a commitment to their customers (Kehnett., 2000). Due totheimportance ofcustomer loyalty for organization's development, understanding the concept of loyalty and its pattern is of crucial importance. Having no knowledge of this may result in a situation that the service institutions may choose incorrect indices to measure customer loyalty; this way they are not able to relate customer loyalty to operational indices and they consequently make mistakes in their loyalty plans and identification of appropriate behaviors towards customers (James, 2001).

The main purpose this study follows is to identify factors affecting bank customer loyalty- as an important factor in marketing. The practical significance of this study can be viewed in three general areas;

Investigating the extent to which each aspects of loyalty affects customer loyalty and identifying the shortcomings and possible points to improve customer loyalty; making some changes in factors increasing customer loyalty in such a way that is aligned with achieving organizational goals; and preventing the loss of customer loyalty due to the unawareness about implementing more comprehensive policies with regard to factors affecting customer loyalty.

REVIEW OF THE LITERATURE

According to the definitions given byMajumdar (2005), Larsen & Susana (2004), Kurasi and Candy (2002), customer loyalty is of strategic importance for any organization in customer strategies. Increasing customer loyalty has been the hot topic among managers, consultants and academic scholars (Kininfum et al., 2007; p362). This is of high importance as the customers take it into consideration when making decisions about products and services. Institutions and organizations which are successful in making customer loyalty enjoy a better competitive advantage to their rivals. Anderson and Narus (2004) believe that maintaining customers for an organization is a more practical strategy rather than absorbing new customers to compensate the missed ones (Gee et al, 2008; p359).

One of the most prominent definitions of loyalty has been introduced by Carolyn in 2002. He has defined loyalty as "customer's positive attitudetoward aparticular brandand his commitment to that brand and alsoplanning tocontinuebuying itin the future; this is referred to a strong commitmenttopurchasea product orservice again in the future in such a way that the same brand or productis purchased despitethepotentialimpactofmarketing effortsof the rivals."

An individual's loyalty to a bank includes: targetedbehavioralresponsesthatis developed in an individualby the effect of psychologicalfactors and causing an individual to choose a particular bank among different available banks which are more compatible him and his expectations (Blomer et al, 1998).

Factors thathavean impactoncustomer loyaltyto bankscan bestatedas follows:

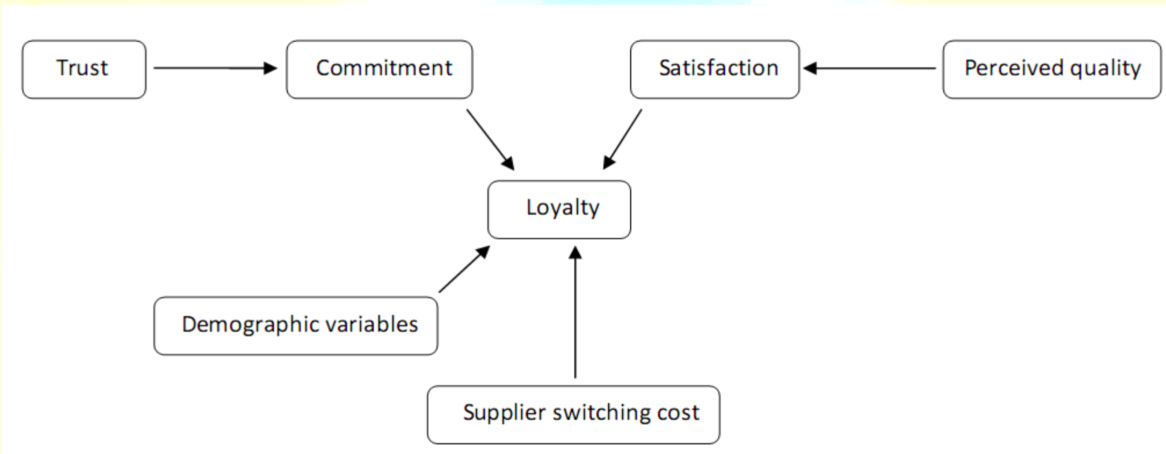
Managementexperts have considered customer satisfaction asthemost important tasksand priorities for businessmanagement; they also believe constantcommitmentof senior managerstocustomer satisfaction isthekey prerequisitetosuccess. Customersatisfaction issomethingbeyondapositive impactontheefforts made by the company. Thisnot onlymotivates employees, but also makesa source ofprofitforcompanies.

Highcustomersatisfactionisa kindof insurance against company's probable errors.Regular customersare moretolerant of such conditions because the goodformer experiencescan make them easilyoverlooksmall mistakes.

Fornell,thefounderof customer satisfactionmeasurement systemsin the U.S., believes that the effect of quality improvementprogramson improvingcustomer satisfactionand organizational profitcan be predicted using customersatisfaction index (Kavousi and Saqayi, 2005). The below model has been derived out of theoreticalinvestigations of Officer and colleagues:

Figure (1) the study theoretical pattern

Officer et al. (2010)



Based onthe components of thismodel,thefollowinghypotheses are proposed:

Considering the definitions provided and with regard to the importanceof satisfaction incustomer loyalty,the firsthypothesisofthestudyis presented as follows:

Hypothesis I: There is a relationship between customer loyalty and customer satisfaction.

Supplierswitchingcosts: the costs a customer has to pay as he changesthe supplier ofgoods or services, so that if he continued cooperating with the current supplier, he wouldn't have to bear these costs (Lee et al., 2001).

The secondhypothesisstates:

Hypothesis II: There is a relationship between supplierswitchingcostsandcustomer loyalty.

Based on the definitions given by Devir et al. (1987), Morgan and Hunt (1994), Morman et al. (1992), and Gundelach et al. (1995) commitment is a persistent desiretomaintainvaluablerelations. They introduced commitment having three components:

instrumental component in the form of different investments; Attitudinalcomponentthat canbedescribedasan emotionalcommitmentor psychologicalattachment; and the matter of time which shows this relationship exists over time (HamidiZadeh et al., 1388).Jacoby and Kyner declare that commitment provides a firm basis for thedistinction made betweenloyaltyto a brand andother forms ofrepeatedpurchasing behavioras well asassessingthe degree ofbrand loyalty. On the other hand, repeated purchasing cannot be considered a sufficient reason forbrandloyalty and the assessment of purchasing patternsmayindicatea falseloyalty to a product. Thisis thethird researchhypothesis;

Hypothesis III: There is a relationshipbetweencustomerloyalty and commitment

According to the definitions given by Garvin (1987), Juran et al. (1998) and Krazbi (1980), whatdetermines thequality of product orservice is its compliancewith therequirements, standards andcustomerexpectations. Recently,leadingorganizations andcompaniesdo notrelysolelyoncustomer satisfaction, but theyhave to make their customer "happy" and "delighted" (Riahi, 2002). The fourthhypothesisisdevelopedthisway;

Hypothesis IV: There is a relationshipbetweenperceived qualityandcustomersatisfaction.

Kieh (2009) states that trustoccurs whena personis ensured about reliabilityandhonesty ofhis partner's transactions.Because this isapparentin environments with lack ofconfidence,trustplaysa vitalrole for the service provider. Iftrust occursbetween company andcustomer,a greatpotentialwill be provided to createmutualbenefits. Also, whencustomerswant tojudgeonorganizational performanceand quality, institutions with high reputationcanboostconfidenceandreducetheirperceptional risk (Mo'tamani et al., 2010).

The fifthresearchhypothesisstates that:

Hypothesis V: There is a relationshipbetweencustomercommitmentand customertrust.

METHODOLOGY

A descriptive correlational method of research has been employed in this investigation.By descriptiveit means the study seeks to define and collect information from a specific topic. By correlation it means the study seeks to find the relationship between two variables. The main advantage of this method is that it allows the researcher to measure a lot of variables and calculate the correlation coefficient between them (Hafez Nia, 2007).

This study follows a practical application; this means that all MelliBanks in AzarbaijanSharghi Province and the organizations alike can apply the results of this study. This investigation has been conducted in the firstquarter of2012. The study is a quantitative one regarding the data collection and a questionnaire has been used for this purpose.

The study population consists of all customers in Melli Bank Branches of AzarbaijanSharghi Province. In this study, customerloyaltyto banksis the dependent variable, andfactorsaffecting loyalty such asperceivedquality, customer satisfaction, commitment, trust, supplierswitchingcosts are the independent variable. A researcher-developed questionnaire has been used to collect data; this questionnaire is made up of two parts: partone comprises demographicquestionswith 5 items; in part two, 42 questions have been asked to testthe studyhypotheses.350 questionnaire were also administered randomly among customers of this bank; among them, 347 questionnaire were quite acceptable and were analyzed. The scale for the answers ranged from very low to very high given the values 1 to 5. This questionnaire enjoys an acceptable face validity as it has been confirmedby the supervisor and other professorsas well as those whohave workedinthis field. Thereliabilityof the questionnairewascalculatedusingCronbach's alphawith the value of 0.93.

$n = (Z^2 \alpha / 2 \times p \times q) / d^2$

where

n =sample size

z = 95%confidence level

p =positive percentage

q = p-1

d =accuracy of probability

$n= [(1/96)^2 \times (0.65) \times (0.35)]/(0.05)^2 \approx 350$

SPSS has been used to analysis the data and Excel has been utilized to draw the graphs. The statistical data in this study have been analyzed both in descriptive and inferential level. Some statisticalindicatorssuch as frequency, percentage, mean and standard deviationwere used in descriptive level and in inferential level, as this study follows a correlational model, Pearson correlation coefficient was used. This coefficient is usedto determine therelationship between two variables.

Demographic findings

- Due to thescatteredpopulationof the province andrandom sample ofbranches' customers, mostoftherespondentsin thesample were males which include 55.33 percent of the respondents.Also,44.67 percent of the respondents, which include 155 individuals, were females. Therefore, most ofthebank'scustomersaremen.
- Given theassumptionsstated, the largest number ofrespondentswas160and44/11% were aged between30 to 50years. 138 individuals were between 18 to 30 years old and ranked second with the percentage of 39.77 and the age group over 50 years old was ranked the third.
- Most respondentsconsisting of 167 (48.13%) had some secondary education;87 persons (25.07%) had a bachelor degree; 75 persons (21.61%) had a low level of literacy; and 18 persons (5.19%) had an M.A or a higher degree.
- Most respondents with a number equal to 184 persons (53.04%) havebeen using the bank services for one to three years; 87 persons (25.07%) have been using the bank services for three to five years and only 30 persons have been a bank customer as long as five years.
- 36.31 percent of the respondents (126 people) were using two banks simultaneously for their financial affairs; 29.1 percent of the respondents (101 people) were using three banks, 17.01 percent one bank, and only 12 people were simultaneously using five banks.

Testing research hypotheses

Assessing factors affectingcustomerloyalty

Some former studies have been used inthisstudy to assess factors affectingcustomer loyalty. Based on available theoreticalexplanationsforloyalty,some factors such as supplierswitchingcosts, customercommitment, perceivedquality, customer satisfaction and trust were used to assessfactors affectingcustomer loyalty. On the whole, 42 questions with a 5-point Likert scale (1= very low to 5 = very high) have been utilized to assess the mentioned factors. The results are represented in table 2.

Two preliminarytestswere used tocheck thesuitabilityofdata forfactor analysis. The result for measuringsampleadequacywas 0.742 (KMO=0.742) andfor Bartlett'stest was2666.237, which is significant in the level of p=0.0000001 with a degree of freedom equal to 861.Threemainindicatorswerealsoused in order to determinehow many significant saturated factors the questionnaire have utilized: (1)the special amount(2) theproportionof varianceexplainedbyeach factor, and (3)the special graphfor valueswhich is called scary test.

Table1:results for factors' mean test

factors	Test Value = 3					
	mean	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval	
					Lower	Upper
Perceived quality	2.215	371	0.000	- 0.784	- 0.833	- 0.736
Trust	2.299	371	0.000	- 0.700	- 0.757	- 0.644
Customer satisfaction	2.347	371	0.000	- 0.652	- 0.710	- 0.595
Commitment	2.420	371	0.000	- 0.579	- 0.631	- 0.528
Supplierswitchin gcost	2.436	371	0.000	- 0.563	- 0.631	- 0.512
Customer loyalty	2.572	371	0.000	- 0.427	- 0.477	- 0.377

Measuringcustomerloyalty

Toassess the dimensionsofcustomerloyalty inthisstudy,both attitudinaland behavioralloyaltyhas been investigated through library research. Some questions with a 5-point Likert scale were considered in the questionnaire. The coefficientsobtained inthisstudyindicate that themodelsare suitable formeasuringcustomer loyalty.

RESULTS OFPEARSONTEST

Results ofPearsontestbetweenthe main variables are shown in Tables2, 3, 4, 5, and 6.

Table (2)Results ofPearsontestforHypothesis I

variable	Customer loyalty (Y)

(X) Customer satisfaction	Pearson correlation coefficient Sig. (2-tailed) number	0.287 0.000 372

Table (3)Results ofPearsontestforHypothesis II

variable		Customer loyalty (Y)
(X) Supplier switching cost	Pearson correlation coefficient Sig. (2-tailed) number	0.376 0.000 372

Table (4)Results ofPearsontestforHypothesis III

variable		Customer loyalty (Y)
(X) Commitment	Pearson correlationcoefficient Sig. (2-tailed) number	0.352 0.000 372

Table (5)Results ofPearsontestforHypothesis IV

variable		Customer loyalty (Y)
(X) Perceived quality	Pearson correlation coefficient Sig. (2-tailed) number	0.331 0.000 372

Table (6)Results ofPearsontestforHypothesis V

variable		Trust (Y)
(X) Commitment	Pearson correlation coefficient Sig. (2-tailed) number	0.494 0.000 372

Asthesignificant value for all thesix factorsis smallerthan 0.050 and also regarding 0.95 confidence interval, it can be concluded the factors' mean score are in an acceptable level.

Table (7) hypothesis testing results

Hypothesis	Sample size	Level of significance	Pearson Correlation Coefficient	Result
There is a relationship between customer satisfaction and customer loyalty.	372	0.000	0.287	confirmed
There is a relationship between supplier switching cost and customer loyalty.	372	0.000	0.376	confirmed
There is a relationship between supplier switching cost and customer loyalty.	372	0.000	0.352	confirmed
There is a relationship between perceived quality and customer satisfaction.	372	0.000	0.331	confirmed
There is a relationship between commitment and trust.	372	0.000	0.494	confirmed

The relationship between a pair of variables is confirmed in the 0.001significant level if the value is smaller than 0.001

CONCLUSION

Based on the data analysis and appropriate statistical tests conducted, it can be concluded that there is a relationship between customer satisfaction, supplier switching cost, commitment and customer loyalty. There is a relationship between perceived quality, satisfaction, commitment and trust as well; this relationship is significant and positive. Therefore, based on the conceptual framework and testing research hypothesis, the proposed pattern for identifying factors affecting bank customers' loyalty is presented in table (7).

Regarding the results of hypothesis I, it is suggested to bank managers to take seriously into consideration identification of factors affecting customer loyalty in order to both succeed in competitive field and achieve organizational goals.

Customer satisfaction nowadays is more than just having a positive impact on the efforts made in the organization. This not only motivates the staff, but it can also make profits for the organization. The customers who are highly satisfied with the organization will share their positive experiences with others. Highcustomersatisfactionisa kindof insurance against company's probable errors. Thus, it is recommended to the mentioned bank to give priority to customer satisfaction.

On the other hand, the best way to satisfy customers is by asking themselves. The variety of customers should also be taken into account; each customer may have some desires and needs different from the others. Accordingly, service providers and product suppliers should be aware of customers' culture, age, gender, occupation and so on; they should provide each group a specific plan. Hence, a systematic approach should be established betweenall thecomponents in order to be effective in satisfying customers. In other words,all factorsinvestigated in customer loyaltyshouldbe practiced coordinately; if any ofthese componentsisinconsistentwith theothers, the whole set would be inefficient and this will impede the organization to achieve its goals.

The results of some studies about bank customer loyalty is in consistent with the results obtained in this study; some of them are represented as follows:"Identifying factors affecting customer loyalty" by Officer Billa et al., (2010); "Investigating factors affecting private bank customer loyalty" by Fez and RajabiMianDoabi, (2007); "Investigating and presenting a model for organizational impact factors and the cost of switching for customer loyalty in bank systems"by Norouzi, (2009); "Comparing factors affecting customer loyalty in private banks and state banks in Iran" by VariNafari, (2009).

This consistency indicates the importance of the role supplier switching cost plays in customer loyalty. It seemsthatthecost ofservices, profit rate, administrative procedure feesis reasonable and even low; also, customersbenefit fromthe ongoingcollaboration and ceasing this cooperation willlead tocustomers' economic losses. The logicaldifference betweenthe cost ofthis bank'sservicestoother banksand thenewrelations being costly and time consuming will lead topermanent customersandcustomer loyalty.

According to the results presented in table (7), the correlation coefficient corresponding to this hypothesis is 0.352 and as the two-tailed significant level is smaller than 0.001, the null hypothesis is rejected. In the other words, it can be said with 99% confidence that there is a relationship between commitment and customer loyalty.

It should be mentioned that commitmentdefines theintensive link betweenconsumer and a specific brandand in the same way, it tends to define loyalty as a concept beyond a simple behavior based on repeated purchase.

Some other investigations in this area have obtained some results similar to the current one; these are as follows: "Identifying factors affecting customer loyalty" by Officer Billa et al., (2010); "The effects ofsystematicmarketingoncustomerloyalty" by Ranjbarian and Barari (2009); "Designing aprocess model toexplain thefactors affectingcustomerloyalty" by HamidiZade et al. (2009); "Aspectsofmarketingethicsand its impact oncustomer satisfactioninIslamic BankingIndustry" by Abdul Qader et al. (2008); and "Impact ofbrandcredibilityoncustomer loyaltyinIran banking industry" by HeidarZade et al. (2011). Therefore,itcan beconfidently claimedthatthere is a significantpositive relationshipbetween thesetwo variables and it can be expectedthat the increasein supplier switchingcost leads to increasedcustomer loyalty. The consistency of the current study resultwiththoseof the others'indicates thecentralrole ofcommittedtocustomer loyalty.

It seems that the organization's reputation, trusting behavior of the staff and its special advantage over the other banks have caused its customers remain loyal to the bank.

Regarding the results shown in table (7), Pearson correlation coefficient corresponding this hypothesis is 0.331 and as the two-tailed significant level is smaller than 0.001, the null hypothesis is rejected. In the other words, it can be said with 99% confidence that there is a relationship between perceived quality and customer satisfaction.

Based on the definition given by International Standards Organization (ISO), satisfaction is a set of states and characteristics of a product or a service that is able to satisfy the overt and covert needs of a customer. Therefore, organization should provide good quality services to satisfy the customers.

The results of some other investigations are to some extent in consistent with the results found in this study; some of them includes: "Identifying factors affecting customer loyalty" by Officer Billa et al., (2010); "The effects of systematic marketing on customer loyalty" by Ranjbarian and Barari (2009); "Investigating factors affecting Tejarat Bank customer loyalty in Tehran" by TajZadeNamin et al. (2009); and Rolley, (2005) who investigated customer loyalty in four levels according to Rick and Basou model and also by distinguishing the loyalty among customers from the point of view of stability. Based on the models presented in other studies and the results obtained in this study, it can be stated that an increase in perceived quality by customers leads to an increase in customer satisfaction. These results indicate the importance of perceived quality components on customer satisfaction and this can be due to attractive exterior and interior design, preserving priority to provide services to customers, informing through technology, considering customers' needs in providing services and accurate and timely performance by the staff.

According to the results presented in table (7), the correlation coefficient corresponding to this hypothesis is 0.494 and as the two-tailed significant level is smaller than 0.001, the null hypothesis is rejected. In the other words, it can be said with 99% confidence that there is a relationship between commitment and trust.

Trust is a marketing service necessity to maintain the relationship between customers and service providers; because customers are often forced to take the decision to buy, before any actual experience of the service. In general, it can be said that trust is an important factor in the development of marketing relationships and this relationship occurs when one side trusts the integrity and credibility of the other. Consequently, this is a key factor for making a commitment.

The results of some investigations, to be mentioned in the following, are in consistent in some cases with the results found in this study; this is so because people are sensitive to their financial issues and they like to keep their financial issues secret; therefore they need some trustful bank staff; the more trustworthy the staff, the higher the customer loyalty. The studies with similar results includes: "Identifying factors affecting customer loyalty" by Officer Billa et al., (2010); "The effects of systematic marketing on customer loyalty" by Ranjbarian and Barari (2009); "Designing a process model to explain the factors affecting customer loyalty" by HamidiZade et al. (2009); "Impact of brand credibility on customer loyalty in Iran banking industry" by HeidarZade et al. (2011); "Studying the relationship among supplier, customer and customer loyalty" by Dubisy (2007); and "Aspects of marketing ethics and its impact on customer satisfaction in Islamic Banking Industry" by Abdul Qader et al. (2008).

These results may be due to some factors such as staff's appropriate behavior towards customers, keeping customers' financial affairs as secret, having an honest relationship between the manager and staff in order to solve problems and provide customer demands, staff's taking immediate action in case of any mistakes on their part and providing some services such as giving loans, checkbooks, revealing the winners of bank lottery and other services on the due time.

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