International Journal of Advance Research in Computer Science and Management Studies

Research Article / Survey Paper / Case Study
Available online at: www.ijarcsms.com

Determinants of Customer Loyalty: (Experience from Dashen Bank Adigrat area Branch)

Tsigab Aregawi
Dean,
College of Business and Economics,
Adigrat University,
Ethiopia.

Abstract: The primary objective of this research work is to exploring the practice of Dashen bank in measuring customer loyalty and identifying the factors that affect loyalty. Customer loyalty is determined by service quality, customer satisfaction, customer complain handling, and commitment. The growing charisma of relationship marketing efforts has led to augmented competition among service providers. To attain the enviable customer to the business, for this purpose Relationship marketing efforts would have to be placed into practice to determine whether customers are loyal to the particular bank or not. This research attempts to analyze the determinants of customer loyalty and their relationships with banking industry in the case of Dashen Bank at Adigrat area branch. In order to address the research objective, 5 point linket scale type questionnaire is designed and validated and distributed to sample 384 respondents' selected by using the Cavalho (1984) samples size determination sample and analyzed by using descriptive statistics like mean and std. deviations and SPSS software version 20 used to analyze the primary data gathered from the respondents.. Perceived service Quality, customer Satisfaction, customer and Complaint Handling were the factors that influence customer Loyalty of the bank customers. It is recommended that the give due attention for expectations management as the result indicated that customers are not delighted by the services offer.

Keywords: Customer Loyalty, Banking Sector, Relationship Marketing.

I. INTRODUCTION

The recent developments in information technology have led major changes in the way banking services are delivering to customers (Frederickson, 2003). Now-a-days, customers are using more and more self-service options, which are convenient and fast. As we already know, Marketing exists because of unfulfilled needs and wishes of individuals (Kotler, 2015). The customer loyalty is one of the key areas in this regard. A business must obtain goodwill, high performance, consumer need fulfillment, innovation, creativity through consumer satisfaction and ways for quality assurance and advancement. In the real business environment, Customer loyalty defined as a deeply held commitment to rebuy a most popular product or service consistently within the future, despite situational influences and promoting efforts having the potential to cause switching intention (Oliver, 2007). Banking industry customer loyalty would represent a competitive advantage, Dick and Basu (2004). According to Hansemark and Albinsson (2004) satisfaction is an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfillment of some need, goal or desire. Thus, customer satisfaction is the condition of feelings of acceptance, happiness, relief, excitement, and delight on the product or services.

Customer satisfaction is positively influenced by perceived value. Among the determinants of satisfaction perceived value is the important one (Chen and Chen, 2010) and perceived value plays mediating role between service or product quality and customer satisfaction (Chen and Tsai, 2008). Service quality and fair service charge both have significant, direct effects on perceived value. Then, perceived value influences on customer satisfaction that lead to positive behavioral intentions, i.e. customer loyalty (Lai et al., 2009). Quality and satisfaction concepts always linked with customer behavioral intentions/loyalty like repurchase and willingness to spread positive word of mouth, referral, and complaint intention (Kandampully, 2007). Therefore, Customer loyalty in the banking industry is complex a task as they are not only compete with each other but also with other financial institutions, (Hull, 2002). Different authors have stated that customer retention is up to ten times cheaper than acquiring new customers (Heskett et al.1990). The cost of acquiring customers occurs only in the initial stages of the business to customer relationship (Reich held & Kenny, 1990). This is supporting the idea of working on how customer loyalty is cheaper for firms and gaining profit. Therefore, the prime purpose of this research is to identify and analyze the determinants of customer loyalty in Dashen bank Adigrat area and to determine the level of impact on the loyalty of the customers. This study is focused at exploring the practice of Dashen banking in measuring customer loyalty and identifying the factors that affect loyalty.

II. RESEARCH QUESTIONS

1. What are the factors that determine customer loyalty of Dashen Bank?

2. What is the level discrepancy of the determinant factors on customer loyalty

3. To what extent the determinant factors affect customer loyalty?

III. RESEARCH OBJECTIVES

A. General Objective

The overall objective of the study is to exploring the practice of Dashen bank in measuring customer loyalty and identifying the factors that affect loyalty.

B. Specific Objectives

1. To identify the factors that determine on Dashen bank customer loyalty in the area under study.

2. To see the variance of the determinant factors on customer loyalty.

3. To examine the relationship between determinant factors and customer loyalty.

IV. REVIEW OF RELATED LITERATURE

The Concept of Customer Loyalty

Business leaders are making concerted efforts at driving customer loyalty through various loyalty schemes; customer relationship management is also regarded potent weapon to drive loyalty. The concept of loyalty has been interpreting in several ways such as customer repeat buying behavior, customer referrals to friends, customers' emotional commitment to the relationship, high customer satisfaction, and customer trust based on high value and customer spending more overtime (sharp 2008). According to Aaker (1991), expressed that to win in a competitive environment, banks have designed a technique that focuses on annoying to inspire, build, and maintain customer loyalty. Loyalty could be a philosophy of leadership that identifies mutually helpful management of the connection between the business and its customers or stakeholders (Hart and Johnson, 2008).

In sum, the concept of customer loyalty is saying that in the most dynamic, complex and technologically advanced environments companies must work beyond customer satisfaction because satisfaction by it self is not enough or may not show the clear cut for attaining customer loyalty (Anderson & Sullivan, 2003).

Determinants of Customer Loyalty

The following are the determinants of customer loyalty directly and indirectly.

A. Perceived Quality

In a test to clarify the distinction between satisfaction and perceived quality, Anderson & Sullivan, (1993) argue that satisfaction requires previous consumption expertise and depends on worth, whereas quality is perceived while not previous consumption expertise and does not normally depend upon worth, Caruana, 2002).

B. Customer Satisfaction

The extent of satisfaction is usually high when the customer provides minimum value and gets most of usage and profit (Jamal & Kamal, 2004). Dissatisfaction sometimes happens when the value do not seem to be suiting the wants of the consumers. If a customer is happy, the loyalty injects automatically, the customer remains with this suppliers for an extended, and longer amount of his/her time. (Giese and Cote, 2000)

C. Customer Complaint Handling

A major reason why customers switch service suppliers is unsatisfactory complaint resolution (Hart et al., 1990). Some evidences suggest that when the service supplier accepts responsibility and resolves the matter, the customer becomes "bonded" to the organization (Hart et al., 1990).

D. Commitment

Commitment typically expressed as a desire to continue a relationship (Moorman, et al. (1993); Morgan and Hunt (1994). Dwyer et al. (1987) describe it as a willingness of continuity, and Pritchard et al. (1999) explained it as a resistance to alter in an exceedingly conceptualization and study of employees' commitment to a company that has a greater impact for customer to be loyal.

Research Methodology

While completing this research both quantitative and qualitative research methods employed. Statistical trends related to the measuring loyalty and identifying determinant factors of loyalty has been investigated by using quantitative research approaches; and the challenges of Dashen bank to move with the technological advancement is addressed by qualitative approach. The research project applied both primary and secondary data types. The primary data collected by a survey questionnaire and oral interviews. The target population was around 25,245 both customers and employees. As the population is large and hard to manage, a reasonable sample size taken. Accordingly, 384 sample respondents drawn by using sample size determination table developed by Cavalho (1984). Finally, The Judgmental and convenient sampling technique used to contact the sampled respondents.

V. DATA ANALYSIS

The data collected, coded and analyzed by using quantitatively and qualitative approach. In this regard, the highest weight given to quantitative methods. Descriptive statistics used to determine the main features of the collected data in quantitative terms. To examine the central tendency of the data average mean score and standard deviation is used. Correlation coefficient is used to see the strength of the relationship between customer loyalty and its determinant factors.

All of the items used in the instrument (questionnaire) where based on 5-point Likert- scale .Therefore, the mean values greater than 3.00 for all the 4 variables assumed as the significant positive trend. Standard deviation and variance were also very important as it indicates the deviation from the mean value.

VI. RESULTS AND DISCUSSION

4.3 Analysis of the Determinant Factors

A. Perceived Quality

The questions of quality were divided in two groups i.e. tangible perceived quality (in which the perceived quality can be seen physically) and intangible perceived quality (in which the perceived quality cannot be seen physically.

Perceived Quality Factors

No.	Items	Mean	Std. deviation
Tangible perceived Service quality mean and standard deviation			
1	The received interest from the bank is effective to continue my work with this bank	3.58	1.162
2	The advertisement in broadcasts or relatives is effective for me to use the service of this bank	2.89	1.255
3	The banks Physical facilities are attractive and modern.	3.98	1.054
4	This bank's employees are tidy in appearance	3.87	1.009
5	Materials associated with the services are visually clean	4.07	1.083
6	Materials associated with the services are enough	3.85	1.199
7	This bank informed me of its side services from the beginning	3.76	1.173
8	The opening hours of the bank are convenient to me	4.10	1.185
9	My needs and interests is considered in the bank's services.	4.12	.837
10	I use this bank because all of its services are available in the branch.	4.37	1.115
In-tangible perceived Service quality mean and standard deviation			
1	This bank insists on providing the services error-free.	3.96	2.885
2	Employees of this bank solve your problems when they promise to do so.	3.85	.906
3	This bank provides services at the time it promises to do so.	3.98	.922
4	The bank employees are fast enough in providing the services.	3.87	1.149
5	Employees of this bank are always willing to help you overcome the problems.	4.05	1.073
6	Employees of this bank are aware of when exactly services will be performed.	3.84	1.173
7	The behavior of employees of this bank instills confidence in customers.	4.23	.986
8	Employees of this bank are constantly courteous to you.	4.04	1.024
9	Employees of the bank pay special attention to you.	3.80	1.147

Note: 5=most favorable (strongly agree), 1= most unfavorable (strongly disagree)

As indicated in the table above to measure the perceived service quality a total of 19 items has been developed out of which 9 is to measure the tangible aspect of service quality and the remaining 10 to measure the intangible aspect of quality.

The customers perceived that the items like fulfillment, supportive information, providing quick responses, delivery service at the promised time, security, customization, organizational issue were the main indicators to measure services quality. Accordingly, the service quality performance as computed for customer loyalty on the four identified dimensions presented. Mean scores reveal that the advertisement is poorly performed, as maintaining below average on most of service quality dimensions and specific to customer loyalty and customer. Accordingly, in the tangible perceived service quality measurement categories the respondents perceived that the services requested by the customers are available in the branch where they are supposed to respond. Therefore, the item scored highest mean value (4.37) and all the remaining seven are average performers. Unlike the other variables, the use of effective advertisement scored least one or least performer, the average mean of 2.58. Therefore, this score would not make the bank successful, as advertisement is the sole means to inculcate customers about the unique nature of company/bank offer. The result also indicating that there are still areas with limitations like pertaining neatness of the materials, the physical appearance of the whole layout of the building and services hours. In the second part the perceived service quality focused with intangible aspect specially the behavior of employees helps to instill confidence in

customers has scored the highest mean value (4.23) but has the minimum score of (3.10) in giving due attention/less responsive to customers' requests.

Analysis of Satisfaction Factor

No	Items	Mean	Standard deviation
Customer Satisfaction mean and standard deviation			
1	This bank has met my expectations.	3.20	1.069
2	The bank I work with is far from my expectation of an ideal bank positively	3.30	1.208
3	According to my experiences, I service delivered as promised	4.05	1.112
4	In comparison to other banks, I consider this bank and its services successful.	3.08	1.079

Note: 5=most favorable (strongly agree)   1= most unfavorable (strongly disagree)

Four items identified to measure satisfaction as factor affects loyalty. Satisfaction in the banking industry determined by perceived service quality in general and positive post purchase behavior, expectation, promised values and awareness creating efforts in particular. Apart from this, in order to measure the satisfaction level of the customer questionnaires with four items developed, due to this the item pertaining to delivering the services as promised scored the highest mean value (4.05). From this point of view, we can inferred that the customers are satisfied by the services delivered based on the criterion identified except expectation. Whereas, limitations are there in the case of meeting the expectations of the customers. As we can see from the above table, failure to meet expectations means failure to delight the customers. The mean score (3. 2), (3.30) and (3.08) indicates that the bank is poorly perform to meet the expectations

Analysis of Complaint Handling Factor

No	Items	Mean	Std. deviation
Complaint Handling mean and standard deviation			
1	There is a proper complaint handling system	4.04	1.325
2	The bank tries to avoid potential complaints related to service you used.	4.17	.965
3	The employees listen carefully whenever you complain	3.84	1.218
4	The bank tries to solve clear complaints before they create problems.	3.01	1.124
5	The bank has the ability to open discuss solutions when problems arise.	3.93	1.154

Note: 5=most favorable (strongly agree)   1= most unfavorable (strongly disagree)

Here to measure customer complaint handling procedure 5 items has been identified and developed. The availability of Customer service departments are responsible for managing inbound call center operations, complaint handling and resolution, order entry and processing, providing field sales support, managing outbound call center operations, and acting as liaison to other functional areas. Contact centers configured to communicate with customers across multiple channels, including voice telephony, e-mail, SMS, instant messaging and other services to collect on spot customer inquiries. Accordingly, the in this regard the trend of the bank in avoiding potential complaints, in applying proper complain handling system and arranging on spot and open discussion with customers who have complain scored maximum mean value (4.02), (4.03) and (3.91) in the survey.

Nevertheless, the ability of the bank to project problems and solve before it happened score relatively low mean value (3.01) this indicates that the bank has limitations in preventing problems before they happened.

Analysis of Commitment Factor

No	Items	Mean	Std. deviation
Commitment mean and standard deviation			
1	The bank makes several service adjustments to suit my needs	4.04	1.032
2	The bank offers personalized services to meet different customer needs differently	3.12	1.264
3	The bank is flexible when its services are changed	3.08	1.048
4	The bank is flexible in serving my needs.	4.06	.978
5	The employees give you special attention	3.44	1.216

Note: 5=most favorable (strongly agree)   1= most unfavorable (strongly disagree)

To measure customer complaint handling impacts on customer loyalty and see the practices of the system 5 items identified and questionnaire has developed. In this regard, the bank's commitment leading to lower workers' compensation costs, higher quality and higher productivity. Commitment result in lower operating expenses and higher profitability. The more the bank operational costs effective the more the bank is the profitable. The consumers perceived that the suitability of service adjustment & making the working environment flexible to fit customers need scored as high performer (4.04) and (4.06) respectively. In the contrary, the bank offers personalized services to meet different customer needs in a differently way and ability to be flexible when its services are changed scored/performed moderately (3.08), (3.12) and (3.44).

Reliability Coefficient and Descriptive Statistics of Customer Loyalty, Perceived Quality, Customer Satisfaction, Complaint Handling and Commitment

S.N	Variables	No. of Items	**Alpha**	Mean	Std. deviation
1	Customer Loyalty	4	0.830	4.3010	.7012
2	Perceived Quality	19	0.771	4.3646	.7041
3	Satisfaction	4	0.902	3.6053	.8081
4	Complaint Handling	5	0.830	3.9750	.93283
5	Commitment	5	0.650	3.7904	.68955

Source: SPSS result of the own survey 2011
Note: N=384   1= very greater extent disagree   5= very greater extent agree

As indicated in the above table the mean of means and the standard deviation for the research variables of customer loyalty, perceived quality, satisfaction, complaint handling and commitment used in the data analysis. Mean scores have been computed by equally weighting the mean scores of all the items on a five-point scale. The mean score of customer loyalty was 4.30 (sd = 0.70). Apparently, this indicates that the customers were loyal to the bank.   The mean scores of customers' perceived quality of that Dashen Bank Adigrat area branch range from 4.36 and this indicates that customers' perceived that the quality of service being offered by the bank was high. The mean score of customer satisfaction was 3.60 (sd = 0.80) this displayed that the customers of the bank were averagely satisfied. The mean score of customer complain handling (3.97), and Commitment was (3.79), meaning the respondents agreed that the variables are moderately satisfied.

VII. CONCLUSION AND RECOMMENDATIONS

Conclusions

Among the factors that have an impact on customer loyalty, services quality, satisfaction and customer complaint handling found the highest contributor of all respectively. This means that these identified factors are more important for the bank to let the customers loyal. Based on the major findings, the researcher inferred that the expectation of the customers was approximately satisfied but the services offered and the way it is delivering were not beyond their expectation. This means the bank was only trying to satisfy what it thinks they will satisfy but not what they think must be satisfied. The perception of the respondents in the commitment factor shows higher average result to flexibility of the bank to serve the needs of the customers but less rated to the personalized service provided for different customers differently. In the traditional marketing or as time where there was a slogan one size fits all will only work this. However, in this era customers were very quickly deciding if someone fails to treat his/her needs differently not as a group. It seems the bank was exchanging without segmenting the groups and target groups. Lastly for the dependent variable (customer loyalty variable), respondents give the greater mean value for they were loyal customers but lesser rate for the difficulty of changing to other bank. This means they were loyal but it seems not difficult to change to other banks. This shows, the bank is not giving due attention the commitment as this factor scored the low mean score of all.

Recommendations

✓ In the real banking industry of the country in general and Adigrat areas branch in particular, the Dashen bank should adopt a clearly distinguished service quality and assure customer satisfaction so as keep the customers loyal.

✓ The Bank should invest in the measuring factors found highly affecting customer loyalty like perceived service quality, customer satisfaction and complaint handling. Particularly, Services quality can enhanced by playing in employee satisfaction, reducing waiting time, increasing front-end services and expanding e- banking.

✓ The bank management should know that retaining the customers satisfied does not guarantee loyalty rather they have to work on delighting/providing additional pleasures/ to the customers in particular and the key stakeholders in general. In doing so the management of the bank always contemplate the requirements of the customers.

✓ The Bank never fails to fulfill expectations. The bank has never disappointed so far the pleasurable fulfillment" of needs, desires, and goals. Customer satisfaction is the customers' evaluation of the bank services in terms of whether that service has met their needs and expectations or not. Customer satisfaction is a positive, affective state resulting from the appraisal of all aspects of a party's working relationship with another.   So here, the researcher recommended that the bank management should be in charge to meet the customer expectations.

✓ The Services quality variable indicates that bank should provide customers with relevant information, quick response and provide financial service online and other E-banking.

References

1. Aaker(1991). Managing brand equity: capitalizing on the value of brand Name, New York: The free press

2. Dillman, D. A. (2007). Mail and Internet Surveys: The Tailored Design Method (2nd ed.). Hoboken, NJ: John Wiley and Sons.

3. Ennew, Ch. & Binks, M., (1996),"Good and bad customers: the benefits of participating in the banking relationship", International Journal of Bank Marketing, Vol .14 No.2, pp. 5-13.

4. Field, A.p (2009).Discovering statistics using SPSS, and sex and drugs and rock 'n' roll (3rd edition).London:

5. Gilmore (2007). "Total relationship marketing: experimenting with a   synthesis of research frontiers", Aus. Mark J., 7(1): 72-85.

6. Hair, Jr., J. F., Black, W. C., Babin, B. J., Anderson, R. E., and Tatham, R. L. (2006). Multivariate Data Analysis (6th ed.). Upper Saddle   River,

7. Kotler (2005). According to Kotler: the World's Foremost Authority on Marketing Answers Your Questions, New York: AMACOM.

8. Lemon, K.N., Rust, R.T., & Zeithaml, V.A. (2001). What drives customer equity, Marketing Management, 10(1), 20-25.

9. Mitja (2008).Determinants, contexts, and measurements of customer   loyalty, Universitat Pompeu Fabra Barcelona, Spain.

10. Pine, J. and Gilmore, J.H. (1998) .Welcome to the experience economy, Harvard Business Review, 76 (July/August): 97–106.

11. Reichheld, F.F (1996). Learning from customer defections, Harvard Business Review, Vol.74, No.2, pp. 56-61.

12. Zineldin, M., (2006), " The royalty of loyalty: CRM, quality and retention", Journal of Consumer Marketing, Vol.23, No.7, pp. 430-437.