

Determinants Of Customer Loyalty: A Preliminary Study On A Prominent Bank In Malaysia

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Abstract— The study was conducted to identify the determinants of customer loyalty as it has become a critical aspect of maintaining organization permanence. There are three independent variables being tested in this study, which are, perceived service quality, emotional satisfaction, and corporate reputation. This study replicated the study done at a Tunisian Bank. Using convenience sampling as a sampling technique, the questionnaires had been personally distributed to 152 respondents. The results showed that two out of three hypotheses were supported. The study recommended a bigger sample size for future researcher.

Keywords: customer loyalty, perceived service quality, emotional satisfaction, and corporate reputation

I. INTRODUCTION

Enterprises need loyal customers as they help in predicting future sales and profit, thus making strategic business plans better and easier. Also, high levels of loyalty and recommendation can lead to larger market shares, lower costs and higher percentage of profitability [1].

Customer loyalty can result in better financial results for banks [2]. The banking sector relies heavily on customer loyalty since banks offered the same services as provided by their competitors. Customer's recommendations and good word-of-mouth stems from good banking experiences, add on to banks competitive advantage. Therefore, to ensure customers keep coming back for their services, banks need to understand the key determinants of customer loyalty.

This study was conducted to investigate the determinants of loyalty through three independent variables namely, perceived service quality, emotional satisfaction and corporate reputation. The study focused on a prominent bank in Malaysia. The

framework of the study was replicated from a research done in a Tunisian Bank by Ladhari, Souiden, and Ladhari [1].

Other studies had investigated the connection between customer loyalty and service quality, but there were limited studies on the impact of corporate reputation and emotional satisfaction as part of the important determinants of customer loyalty. Furthermore, there was a lack of studies on the connection between service quality, emotional satisfaction, corporate reputation and customer loyalty in the Malaysian banking sector. Therefore, this study attempts to study the framework of customer loyalty in the local setting. Additionally, this study attempts to achieve two objectives, namely:

- a) To investigate the relationship between perceived service quality, emotional satisfaction, and corporate reputation with customer loyalty; and
- b) To examine the most important determinant of customer loyalty among perceived service quality, emotional satisfaction, and corporate reputation.

II. LITERATURE REVIEW

A. Customer Loyalty

In any businesses, maintaining customer loyalty will ensure abundance and continuous success in making profit (1, 3,4] Denotatively, loyalty can be described as the state or quality of being faithful or commitments or obligations to a person or institutions. Regarding banking industries, there had been various definitions of customer loyalty. Afsar et al. [5] defined customer loyalty as the act of continuously using or utilizing services, and repeated purchases. In other words, customer loyalty is a constant patronage of a product or services. Wu and Li [6] described loyalty as the intention of customers to repeat

orders or repurchase products or services of certain companies. Customer loyalty according to Du and Tang [7] is more important than market share in determining profits. It is because customer loyalty has direct impact on profits as when customer loyalty increases by 5.0 percent, the profit will increase by 25.0 percent. Srivaranan (2007) in Afsar et al., [5] stated that there are two types of customer loyalty. One is the true blue of loyal customers resulted from higher customer satisfaction when consuming the services or products. Another is fake customers as they are forced to use the services out of several factors like attachment and commitment with suppliers but never been a satisfied user. There are several opinions regarding the components or elements of customer loyalty. Grondholt, Martensen and Kristensen [8] stated that customer loyalty consists of four elements; customer repurchase intention, price tolerance, willingness to recommend company or products to others and customer cross buying intention. Customer loyalty is not only affected by customer behavior but is also determined by other factors like emotional satisfaction, perceived service quality and corporate or company reputation [5, 6, 7, 9].

B. Perceived Service Quality

Service quality can be defined as the ability of the service provider to conform to the customers' expectations. It focuses on expectations and performance. Service quality is a useful tool in measuring customer satisfaction and to some extent measuring customer loyalty as well (Selvanathan, et al., 2016 and Radhita, Michael and David, 2017). Perceived service quality can be explained as customers' opinions on overall quality of the products or services that they purchased and whether it could meet their expectation or otherwise. The elements that had been used in measuring perceived service quality are: i) tangible aspects, ii) reliability, iii) empathy, iv) assurance and v) responsiveness [10, 11]. When customers experienced bad services, any or all the five elements of service quality had not been met. Thus the image of the organization can be diminished. Therefore, improving the perceived service quality will have positive impact on customer loyalty as the level of perceived service quality experienced will influence the willingness of customer to recommend the services to others and making them as part of loyal customer. [5, 6, 7, 10, 11, 12, 13, 14, 15,].

C. Emotional Satisfaction

Desmet [16] had noted the difficulties in defining emotions. He suggested, characterizing emotions based on the positive and negative values of emotions before measuring emotional satisfaction. Emotions can be categorized as either reactive or goal-directed in nature [16]. If the delivered service exceeds promises made, the consumer may react with positive emotions resulted in high emotional satisfaction. Goal-directed emotions on the other hand are emotions whereby consumer consciously seeks to experience [17] This opinion was supported by Zarei et al., [18] that stated, services that are characterized by strong goal-directed positive emotions are particularly important since experiential emotions may constitute the main outcome of the service and because of service variability, consumer perceived service quality and experience emotions might vary depending on the situation or service that they have encountered.

Matilla [19] also mentioned that emotionally bonded customers tend to invest more in their relationships and therefore to become loyal to product or services they used or consumed. Dean and Yu [17] had discussed quite extensively on previous research about customer satisfaction and customer loyalty. They had concluded that there is a significant positive relationships' between customer satisfaction and customer loyalty and in this case, customer satisfaction is referred to as emotional satisfaction. They view emotion as a form of affection and responsive to service delivery. Emotions influence behavior [20]. Human responds to a certain event or phenomenon according to human nature. For example, when they are happy, they have a positive emotion and this positive emotion resulted in willingness to share the experience, open-minded and full of hope. However, when they are depressed, they have negative emotions that could be translated into complaining and whining behavior [20]. The study then concluded that there is a significant relationship between emotional satisfactions with customer loyalty as emotions can influence the decision making of a person. Consequently, positive emotions can influence customers to stay and being loyal whereby negative emotions could result in complaints and customers no longer use the products and services [18, 20, 21]

D. Corporate Reputation

Reputation can be defined as the favorable or non-favorable opinions that people have on the performance of an organization or person. When a company established a good performance record, the company will gain high reputation and vice versa. Gul [22] considered reputation as a name or favorable standing or as a way things or person is known for. Ali et al [23] stated that if a company has a strong reputation among customers, it will lead to customer loyalty by creating positive emotions and repetitive purchase behavior. His study also supported previous researches that acknowledged the significant relationships between organization or corporate reputation and customer loyalty [22, 24, 25, 26, 27]. In a nutshell, reputation plays a significant role in maintaining the trust and reducing uncertainties when the customers are using certain products or services. Company with good reputation could increase customers' confidence levels and therefore become loyal towards their services.

Based on the literature, the study had proposed a conceptual framework.

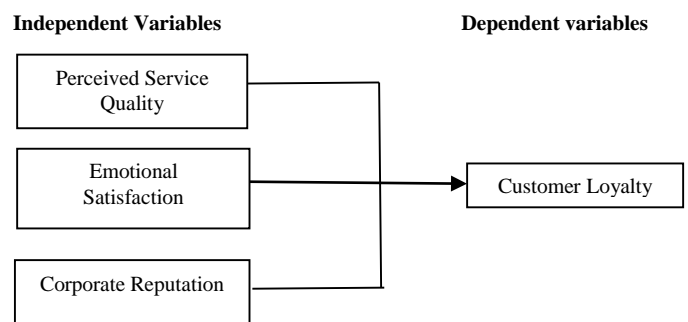


Figure 1: Theoretical Framework

Based on Figure 1, three hypotheses had been developed:

H1: There is a significant relationship between perceived service quality and customer loyalty.

H2: There is a significant relationship between emotional satisfaction and customer loyalty.

H3: There is a significant relationship between corporate reputation and customer loyalty.

III. METHODOLOGY

A. Research Design and Collection Method

This research applied self-administered questionnaire survey to collect data which was collected during August to October 2015. The questionnaires were distributed to customers that used the services offered at a branch of a prominent bank in Malaysia. The sampling technique employed was nonprobability sampling. Since it was difficult to determine the exact population of the study, convenience sampling was utilized. This sampling technique was selected since the time in conducting this study was limited. As this research was only in its preliminary stage, a sample of 152 survey questionnaires were being distributed and collected. The respondents needed 5 to 10 minutes to answer the questionnaires.

B. Survey Instruments

The research instrument was heavily adopted from previous research on the same topic and study in a Tunisian Bank by Ladhari, et al. [1]. The instrument had been divided into five categories. The first part was on demographic profile and the items asked in this section included gender, age, income, races and whether they used the bank services or not. Section B consisted of items on perceived service quality including the five basic dimension which are, reliability, responsiveness, empathy, tangibles and assurance. Section C consisted of items on emotional satisfaction indicating their feelings like happy, hopeful and joy. Section D measured the company reputation using items such as reliable services, customer perception and customer view on company or organization. Section E consisted of items of customer loyalty. All these items were measured using 5 Likert Scale where 5 strongly agreed, 4 agree, 3 neutral, 2 disagree and 1 was strongly disagree. All the data were analyzed using SPSS 21.

IV. DATA FINDINGS AND ANALYSIS

A. Frequency Analysis

TABLE 1: FREQUENCY ANALYSIS

Age			Monthly Income		
Frequency	Percent (%)		Frequency	Percent (%)	
19-23	42	27.6	Below RM2000	92	60.5
24-28	39	25.7	RM 2000- RM3999	44	28.9
29-32	18	11.8	RM4000- RM5999	12	7.9
33 and above	53	34.9	RM6000 and above	4	2.6
	152	100		152	100

TABLE 1: Cont

	Frequency	Percent (%)
Experiencing using MBB services	Yes - 133	87.5
	No - 19	12.5
Gender	Male - 52	34.2
	Female - 100	65.8
	152	100

B. Reliability Analysis

Since the survey questionnaire was personally distributed to the customers, the response rate is 100.0 percent. The reliability test was then being conducted to test the relevancy of the items in the survey. The reliability test showed that all variables were reliable since their Cronbach Alpha was more than 0.8 and according to Hair et al [28], the Cronbach Alpha that was higher than 0.7 could be considered good and acceptable.

TABLE 2: RELIABILITY TEST

	Variables	Cronbach Alpha
1	Customer loyalty	0.914
2	Service quality	0.873
3	Emotional satisfaction	0.933
4	Corporate reputation	0.848

C. Descriptive Analysis

Table 3 showed the results for the descriptive analysis. Based on the results, customer loyalty records the highest mean – 3.99 and this proved that the bank customers are mostly loyal and they were also willing to recommend the bank services to other potential customers. This was followed by corporate reputation and service quality. The weakest among the three observed independent variables was emotional satisfaction since it was only recorded at 3.66 as shown in Table 3.

TABLE 3: DESCRIPTIVE ANALYSIS

Variables/Values	N	Mean	Standard Deviation
Customer loyalty	152	3.99	0.830
Perceived Service quality	152	3.93	0.608
Corporate reputation	152	3.96	0.693
Emotional satisfaction	152	3.66	0.904

D. Correlation Analysis

Pearson Correlation test was conducted as a preliminary analysis to investigate the relationship between customer loyalty and the selected independent variables. Using SPSS version 21, data was then run and tabulated. Based on the result, all the observed variables; perceived service quality, corporate reputation and emotional satisfaction is positively related to customer loyalty.

TABLE 4: CORRELATION ANALYSIS

Variables		Perceived Service Quality	Corporate Reputation	Emotional Satisfaction	Customer Loyalty
Customer Loyalty	Pearson Correlation	0.724**	0.563**	0.657**	1
	Sig. (2 tailed)	0.000	0.000	0.000	
	N	152	152	152	152

**correlation is significant at the 0.01 (2 tailed)

E. Multiple Regression Analysis

Multiple Regression Analysis technique was then used to further examine the relationship between the observed independent variables and the dependent variable. From this research, it could be concluded that perceived service quality and emotional satisfaction had significantly influenced customer loyalty since their significant value were at 0.000. Conversely, corporate reputation had no significant impact on customer loyalty since their significant value was 0.379 which was higher than 0.05 ($p \leq 0.05$). Therefore, only hypothesis 1 and 2 are supported and objective 1 of the study was achieved. The Beta value refers to the most influential factor among all the three observed independent variables and from this test, the highest Beta value was 0.671 that represented perceived service quality. Therefore, it can be concluded that perceived service quality was the most critical and important factor in measuring customer loyalty as shown in Table 5.

The coefficient correlation (R^2) is 0.587 and therefore, it can be concluded that only 58.7 percent of dependent variable is being explained by all the three independent variables, namely perceived service quality, emotional satisfaction and corporate reputation. So, there might be other factors that influence customer loyalty for example customer trust, customer commitment or switching cost [5].

TABLE 5: MULTIPLE REGRESSION ANALYSIS

Model	Beta	Standard Error	t	Significant
Service Quality	0.671	0.101	6.624	0.000
Emotional Satisfaction	0.272	0.070	3.906	0.000
Corporate Reputation	0.078	0.088	0.882	0.379

$R^2 = 0.587$. adjusted $R^2 = 0.579$ F value = 70.225 $P \leq 0.05$

F. Conclusion on Findings and Analysis

The main objective of the study is to investigate the relationships between customer loyalty, perceived service quality, emotional satisfaction and corporate reputation. From Multiple regression analysis, only two observed independent variables which are perceived service quality and emotional satisfaction were significantly related to customer loyalty. Hence, the first objective of the study was achieved. The second objective of this study was to determine which factor among all the three observed independent variables were critical or important factor that influences customer loyalty. It was identified that perceived quality had the biggest influence on

customer loyalty. Therefore, the second objective of this research was also achievable.

V. RECOMMENDATION AND DISCUSSION

Based on the analysis, the researchers recommend that managers need to re-emphasize on how customers feel about their experiences on service quality. The customers' feelings towards banks contribute to the enhancement of customer loyalty. Bank managers should engage a research team that could forecast the future needs scenario of the bank customers based on the current market throughout the world. The advancement of technology provides many opportunities for banks to explore into new business markets and groups.

Another recommendation is that bank managers should measure and improve their services by improving the frontliners' customers' relations skills. Most of the perceptions on service quality arise from customer's first impression of the bank. Therefore, there is a need to give more training to the employees in order to handle diverse customers in the bank. In addition, the methods and processes in the bank should be designed to meet the needs of the internal and external customers.

As for corporate reputation, though various studies had emphasized its importance in determining customer loyalty, it was not the case in this study. This statement could be supported by one study in German [29]. The authors said that the impact of corporate reputation on customers' retention or customer loyalty is mediated by customer satisfaction. They also added that the link between customer loyalty and corporate reputation is weak, that a study needs to be done to further examine whether corporate reputation is more relevant and have a stronger impact on highly individualized and interactive services or more "tangible" services such as hairdressing or restaurants but not in services like banking services. From a study in Egypt, corporate reputation also has a weak relationship with customer loyalty with $r = 0.175$ (sample size is 650 customers), so for this study which sample size is relatively small, the insignificant impact of corporate reputation to company loyalty is unavoidable [30].

Even though, corporate reputation is deemed to be insignificant in this study, many studies agreed that by maintaining positive reputation through good services and products banks could heighten their image, thus can attract more loyalty from the customers [1, 5, 17, 31, 32]

VI. LIMITATIONS OF THIS RESEARCH

This study attempted to identify the factors that might influence customer loyalty in the banking industry in Malaysia. This study however, had some limitations. It only focused on three independent variables, thus was unable to investigate the impact of certain environmental variables and their influence in shaping customer loyalty. The study also focused on one branch of a bank, so the results might be different if the study included all the bank branches in Malaysia. Furthermore, this study also did not fully utilize the demographic information. Demographic factors can provide outlook regarding the needs of customers of different generation and gender. The study also represented a

relatively small sample in industry, therefore the results required further investigation and verification.

VII. IMPLICATION OF THE STUDY AND FOR FUTURE RESEARCH

Since the sample size was relatively small, the future research should include a larger sample size and make comparison of the sample based on demographic backgrounds. Regarding survey instrument, the scale of emotional satisfaction could be refined to give better results. Since data collection for this study was carried out at one specific point in time, the results might be true only for that particular moment. Therefore, this study suggests for longitudinal studies to be carried out. Future research could include more factors and factor analysis could be conducted. Also, future research could analyze company profitability in comparison to the costs of retaining customers. The scope of the sample also needs to be bigger to obtain better results. In addition, future research can include comparison study between banks in order to allow banks to benchmark in terms of their services and products and customer loyalty [1, 5, 17, 23, 32].

VIII. CONCLUSION

As for conclusion, customer loyalty was positively related to perceived quality and emotional satisfaction. For the bank to be on top of its game, perceived service quality and customers' emotional satisfaction need to be further apprehended. Although corporate reputation was found to be insignificant in this study, the impact of reputation cannot be simply ignored. Banks may still benefit from having good reputation as it may help in attracting new customers. This could be achieved by the positioning of the bank as one of the best banking providers in Malaysia.

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