FACTORS AFFECTING CUSTOMER LOYALTY IN BANKING SECTOR OF PUNJAB, PAKISTAN

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ABSTRACT

This study measures the determinants of customer loyalty in the banking sector by analyzing variables such as customer satisfaction, brand trust, perceived price and service quality. Being a descriptive study, survey method is adopted for data collection. For data collection purpose, a questionnaire on the 5-point Likert scale was adopted and distributed among customers of banks. Reliability of instrument is determined by using Cronbach's Alpha. Correlation and regression techniques are used. The findings of the research reveal that perceived value, service quality, customer satisfaction, and brand trust significantly influence customer loyalty.

Keywords: Customer Satisfaction, Service Quality, Customer Loyalty

INTRODUCTION

The banking sector is the strength of the economy in a country. Banking organizations play a dynamic role in the growth and development of a country. Poor banking systems cannot help the country in economic development. A well-functioning banking system has a key role in economic growth (Rajan & Zingales, 1998).

The objective of this research is to measure the level of satisfaction of customer in the banking sector of Punjab. The Pakistani banking sector is constantly improving with expanded patterns of possession due to active contribution of foreign and local stakeholders. Customer loyalty has been a real concern in the banking sector because of serious rivalry and higher client expectations. It has caused in an increased rivalry between banks to attract a greater number of customers by delivering quality services. Customer loyalty is identified as a key factor for the profitability of a business. Banks can never run smoothly for a long period of time without loyal customers. Customer loyalty can be accomplished by classifying customers' needs, managing them and satisfying them. Customer loyalty is observed as a key construction and desire to hierarchical achievement, advantage and business performance (Oliver, 1997).

Loyal customers will permanently give positive remarks about the banking sector. Banks can increase levels of profitability by providing secure products and services to the customers. In order to increase customer loyalty, several banks have announced innovative products and

services (Alam & Khokhar, 2006). Consumer loyalty has a positive impact on financial performance of the relations and in a creation of loyal clients (Loveman, 1998). Customer loyalty is similar to satisfaction and loyal customers raise profit of a company by repeated purchases and recommending products to other customers (Bowen & Chen, 2001; Fecikova, 2004). It is frequently said that if a firm is able to increase 5% of its customers who are loyal to the product, it can increase 25-75% of its profit (Chan et al., 2001). Customer loyalty is the emotional state, which enforces customers to buy over and over a product, service or brand of existing business (John, 2011). Firms can increase level of profitability by providing safe and sound products and services to loyal customers. There is a positive direct, relationship between service or product quality, customer satisfaction and consumer loyalty (Ali et al., 2010). Trust as a part of customer loyalty affects the construction of customer loyalty (Du Plessis, 2010).

LITERATURE REVIEW

Customer Satisfaction

Customer satisfaction has been a key factor of customer loyalty (Dick & Basu, 1994). Customer satisfaction is demonstrated by repurchase actions. Satisfaction is the customer fulfillment response (Oliver, 1997). Zeithaml, Bitner, and Gremler (1996) stated that customer satisfaction as customer's response to the product/services they obtain in relation to the fulfillment of his requirements and expectations. The loyalty is affected by the satisfaction over the satisfaction level we can forecast the purchase purposes and behavior of consumer towards the brand

product (Eggert & Ulaga, 2002). Customer satisfaction is customer posture after the practice of a specific product (Fornell, 1992). Oliver (1997) stated that satisfaction is defined as, "the summary psychological state resulting when the emotion surrounding disconfirmed expectation is coupled with prior feelings about the customer experience". Customer satisfaction is the result for repurchasing of a product by a customer. Customer satisfaction means is to satisfy a need of the customer and meeting the criteria of the customers. In mobile phones market customer satisfaction has a positive relationship with loyalty (Kuo, Wu, & Deng, 2009).

H_{a1}: Customer Satisfaction is positively correlated with customer loyalty

H_{b1}: Customer Satisfaction has a significant influence on customer loyalty

Brand Trust

Brand trust is a significant element that supports customer loyal to the brand. Without the trust in brand, customers cannot be loyal. Banks can build emotional trust if they can show that the brand is only for the customers and meet their prospects. Customer's belief on trust in terms of service is the delivery of quality services that meets customers' expectations (Anderson & Weitz, 1989). Trust has the peak importance in measuring the quality of products and services from customer's viewpoint as repute creates from the quality of its products and services. Trust lead to long-term loyalty and link between two parties becomes stronger (Singh & Sirdeshmukh, 2000).

The confidence a consumer cultivates in the brand's reliability and truthfulness (Chatterjee & Chaudhuri,

2005). Bloemer, De Ruyter, and Peeters (1998) found that reliability seems to be the most vital influencing factor than behavioral loyalty in case of customer loyalty with banks. Switching cost in linking with trust can affect customer loyalty such as a raise in switching cost can directly affect trust and customer loyalty (Sharma, 2003; Peng et al., 2013; Sharma and Patterson, 2000).

H_{a2}: Brand Trust is positively correlated with customer loyalty

H_{b2}: Brand Trust has significant influences on customer loyalty

Perceived Price

Price is the medium of exchange which may allow us to get a product or a service. Price is one of those essentials that can entice or reject customers (Rao & Monroe, 1989). Price is an important factor in consumers' purchases; therefore, it has a large effect on consumers' judgments concerning service (Herrmann, Xia, Monroe, & Huber, 2007). Perceived price is essentially a qualitative estimate by the customer regarding the competitive price for same product or service (Chen, Gupta, & Rom, 1994). Perceived price has an important effect on the connection between quality and customer satisfaction (Ryu & Han, 2010). According to Butt and Murtaza (2011), a price is one of those features that can attract or repulse customers. Yoo, Donthu, and Lee (2000) stated that perceived price is the expense compared to benefits of a product and it affects customer's attitude and purchasing intention. According to Levis and Shoe maker (1997), 'Prices' the means of exchange from which we get worth, that can be in the form of tangibles (goods), intangibles (service), price function is an indicator of quality.

Perceived price and fairness plays an important role in selection of bank because price structure is relatively complex than other service contexts, like education, hotel, etc. Studies conducted by the author show that the financial prices of products are not voluntarily remembered by the customers, however, they adopt different other means that are meaningful to them for the sake of comparison. Earlier investigators found that perceived price is the key determinant of loyalty of a customer in telephone services and it is the key factor of customer loyalty (Bolton & Drew, 1991).

H_{a3}: Perceived Price is positively correlated with customer loyalty

H_{b3}: Perceived Price has significant influences on customer loyalty

Service Quality

In the service context perceived price play dynamic role in decision making. Quality has been defined as fitness for use or the extent to which a product successfully serves the purposes of consumers (Kahn, Strong, & Wang, 2002). Service quality can be characterized just by consumers and that it happens when a service association gives an advantage that fulfills the consumer's needs (Metters, 2003). Several studies have discovered a positive connection between customer behavioral plans and service quality perceptions (Zeithaml et al., 1996). It is the entirety of features and characteristics of a product or service that bears on its ability to satisfy given needs (Winder & Judd, 1996)

Ranaweera and Neely (2003) verified that there is a solid relationship between customer loyalty and service quality. Higher-quality service shows that service quality can be defined only by

customers and that it occurs when a service organization delivers service that satisfies the customer's needs (Metters et al., 2003).

H_{a4}: *Service quality will be positively correlated with customer loyalty.*
H_{b4}: *Service quality has influences on customer loyalty.*

Customer Loyalty

Customer loyalty is crucial both for the organization and the customer. Singh and Sirdeshmukh (2000) said the customer loyalty as "the marketplace currency of the twenty-first century". Pfeifer (2005) described it as that the serving cost of a loyal customer is five or six times less than a new customer in the banking organizations. Walsh, Groth, and Wiedmann (2005) stated it is better to serve first the existing customer before obtaining new customers. Salegna and Goodwin (2005) mentioned that if the attitude of a customer is poor within the industry, then an organization which has just better than "poor" could elicit a positive customer "relative attitude" score and high repeat patronage. Loyalty is developed by approaches which reinforce and develop a positive state of mind and the associated behaviors.

RESEARCH METHODOLOGY

This research is descriptive in nature. Descriptive research can be explained as describing something, some phenomenon or any particular situation. Descriptive researches are those researches that describe the existing situation instead of interpreting and making judgments (Creswell, 1994). The key objective of the descriptive research is confirmation of the developed hypotheses that reflect the current situation.

Instrument and Measures

There is two main purpose of this research survey: first to examine the relationship of different variables for customer loyalty in the banking sector. Second, to collect information about the different characteristics of the respondents that can be used to understand the variations in different categories.

The survey instrument contains two sections. Section one includes different personal and demographic variables. This section will obtain the respondent's information about gender, age, income, education, and status. Section two includes the latent variables that are important in the current study. These variables include Perceived Value, Service Quality, Customer Satisfaction, Brand Trust and Customer Loyalty. This section of the study is developed based on the past literature and already used questionnaires.

Population and Sample Size

The urban customers of the bank in both public and private sector banks in Punjab were/have been chosen for the current study. For gathering data to understand the situation about customer loyalty, a questionnaire was adopt to record the responses. Four division (Lahore, Faisalabad, Multan, and Bahawalpur) were selected through simple random sampling and questionnaires equally divided in all cities. The Capital of were selected divisions to conduct research and 300 customers were contacted. Out of these questionnaires, 51 were rejected because of missing data or high response bias, and this left an overall sample size of . Out of the total acceptable sample (232), 122 respondents were from public sector banks and 127 were from private sector banks.

The respondents were selected from public and private sector banks through quota sampling. Quotas were based on public and new private sector banks. Within the quota, customers were selected on the basis of purposive sampling. The bank staff helped to distribute and collect the survey sheets from the participating customers.

FIGURE 1

Schematic Diagram
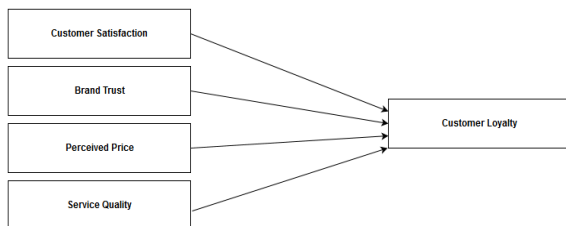
Procedure

After collecting the completed questionnaires, these questionnaires were coded and entered into an SPSS 21 sheet for further analysis.

Reliability Analysis

To check the internal reliability of the instrument, Cronbach's Alpha (CA) was run. The value of Cronbach's Alpha comes to 0.724, which is above the standard value proposed by Nunnally (1978) of 0.70. This shows that our instrument is reliable and we can confidently apply different statistical tests and interpret the results with confidence.

TABLE 1

Validity and Reliability Results

Factors	Items	CA
Customer Satisfaction	4	0.73
Brand Trust	4	0.70
Perceived price	4	0.81
Service Quality	4	0.82
Customer Loyalty	4	0.87

RESULTS AND DISCUSSION

Profile of the Respondents

The descriptive analysis of the respondents has shown that out of 264 respondents, 67% of the respondents were males and 33% were females. In terms of age, the majority of respondents fell between 40 and above (24%), and between 36 and 40 (23%). 19% of the respondents were found to be between 31 and 35, 16% of the respondents were found to be between 26 and 30, and 18% between 20 and 25. Most respondents indicated possessing a bachelor (45%) and masters (36%) qualification.

Correlation Analysis

TABLE 2

Pearson's Correlation

Factor	1	2	3	4	5
1 Customer Satisfaction	1.000				
2 Brand Trust	0.225	1.000			
3 Perceived Price	0.361	0.262	1.000		
4 Service Quality	0.229	0.214	0.284	1.000	
5 Customer Loyalty	0.568	0.451	0.566	0.459	1.000

Table number two shows the outcomes of correlation analysis. We can see that customer satisfaction, brand trust, perceived price and service quality are positively and significantly correlated with customer loyalty. The overall customer loyalty (r=0.568, P< 0.001) is significantly and positively correlated with all variables. The results of table number two prove the hypothesis. H1, H2 H3, and H4.

Regression Analysis

TABLE 3

Coefficients

Variables	B	t	Sig
Customer Satisfaction	0.372	8.005	0.000
Brand Trust	0.183	5.736	0.000
Perceived Price	0.28	6.978	0.000
Service Quality	0.209	5.677	0.000

Note. Dependent Variable: Customer Loyalty

Table number three explain the regression analysis of customer satisfaction, brand trust, perceived price and service quality. The results of regression analysis show that customer satisfaction, brand trust, perceived price and service quality have an influence on customer loyalty. The values of beta (B) indicated the impact of variables. We see that customer satisfaction has 37%, brand trust has 18%, perceived price has 28% and service quality 20% impact on the customer Loyalty.

TABLE 4

Regression Results

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.769ª	0.591	0.585	0.49028	2.408

Note. Dependent Variable: Customer Loyalty

As the table five shows the model summary of in which the value of R is .769 which shows that there is a strong correlation between independent and dependent variable. The value of R square is 0.591 which shows that model is a good fit. Therefore, our all alternative hypothesis is accepted with the significance value less than 0.05 which shows that all independent variables have great influence on dependent variable customer loyalty.

TABLE 5

ANOVA

Model	Sum of Squares	F	Sig.
Regression	29.931	93.532	0.000

Note. Dependent Variable: Customer Loyalty

The table six shows that F significance is 0.000 which is less than 0.05 which shows all independent variables do a good job in explaining the dependent variable. The purpose of this study is to explore the factors influenced customer loyalty. The results of regression show that four hypotheses were proved to have Sig value less than 0.005.

Findings

The independent variables (customer satisfaction, brand trust, perceived price and service quality) have significant relationship with customer loyalty. If a bank not meets customer's requirement, he switches to another bank. Highly satisfied customers tell other person about their experience but dissatisfied customers tells more person than the satisfied customer.

CONCLUSIONS

Academically, this study expands the boundaries of knowledge by contributing in four different ways. This research advances our understanding of perceived value, service quality, customer satisfaction, brand trust and how they interact with customer loyalty in Punjab banking sectors. First, it tests an integrated framework to predict customer loyalty in Punjab's banking industry. This research

study signifies the importance perceived value, service quality, customer satisfaction, brand trust to achieve customer loyalty.

The data was collected by the customer of the bank by adopted the questionnaire. Three tests were applied Cronbach Alpha's correlation and regression. Cronbach's Alpha shows that the questionnaire is reliable. From the regression analysis, it indicates that model is a good fit.

Results provide evidence that perceived value, service quality, customer satisfaction, brand trust influences customer loyalty. This finding is well addressed in previous studies. This finding has great significance for professionals. Therefore, this research could be used as a guide for commercial banks to keep their focus on the variables affecting customer loyalty. The Public and private banks should try to incorporate the significant factors in their business models.

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