

The Relationship between Customer Satisfaction and Customer Loyalty in the Banking Sector in Syria

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Abstract

A large number of studies on customer satisfaction and customer loyalty have been conducted in marketing over the years. Customer satisfaction is a crucial factor for bank success and it has the possibility to influence customer loyalty. From a theoretical perspective it is very important to investigate which factors influence customer satisfaction. This paper analyzes the basic factors which affects customer satisfaction towards services of Bank. This study adopted empirical research design on the sample size of 401 respondents who were customers of different banks in Syria. Data is collected through survey questionnaires related to customer expectation ,price fairness , customer satisfaction and customer loyalty towards services of banks . Data is analyzed by using AMOS 18. The research reviews the current academic marketing literature and tries to identify antecedents of customer satisfaction and customer loyalty. The findings from this study also provide important managerial implications.

Keywords: bank, customer satisfaction, customer loyalty.

Introduction

Customer loyalty, a major theme in marketing research, has become an essential concern for managers, and a strategic obsession for many. This increasing concern has mainly been due to intense competition, particularly in service industries, and the current focus on the relationship between consumers and organizations, which is the core of the relational marketing approach.

The customer who is satisfied with a product or service is more likely to repeat the purchase and to recommend the consumption experience to other persons. For this reason, academics and practitioners have emphasized the concept of customer satisfaction, defined as the favorability of the individual's subjective evaluations of the outcomes and experiences associated with his or her consumption activities (Westbrook, 1980). In the competitive environments, investing in customer satisfaction is a means of creating a sustainable advantage, given that it serves to link processes culminating in purchase and consumption with important post-purchase phenomena, such as loyalty (Bolton, 1998) and word of mouth (Swan & Oliver, 1989).

Today, firms have realized how important it is to understand, meet and predict customers' needs. Customers have also become increasingly conscious of their value to their banks. Due to the highly competitive nature in the banking sector, banks have become more interested in assessing their customers' satisfaction, being aware that the higher the customer satisfaction, the greater the inelasticity of demand for their products. Thus, banks need to determine the factors that affect customer satisfaction, in order to assess the congruence between customer expectations and the banking services offered and identify their major advantages and disadvantages vis a vis competition (Angelis et al, 2005).

This paper aims to explore, through a survey, the potential impact of ' Customer expectations' and ' price fairness ' on customer satisfaction of banks service and customer loyalty . To this end, the literature related to customer satisfaction, customer loyalty and customer expectation, price fairness is reviewed and the methodology of the research is described. Following this, the results from a survey questionnaire administered to bank customers are discussed. Finally, conclusions and implications for managers are presented.

Literature review

Customer Satisfaction

Consumer satisfaction has been extensively studied in marketing over the last few decades. However, marketing scholars have not yet agreed upon a generally accepted definition of satisfaction. Giese and Cote (2000), after conducting a review of literature and consumer interviews, defined satisfaction as a summary affective response of varying intensity with a specific time point of determination and limited duration directed toward focal aspects of product acquisition and/or consumption. Consumers' satisfaction has been considered one of the most important constructs (Morgan et al. , 1996; McQuitty et al. , 2000), and one of the main goals in marketing (Erevelles and Leavitt, 1992). Satisfaction plays a central role in marketing because it is a good predictor of purchase behaviour (repurchase, purchase intentions, brand choice and switching behaviour) (McQuitty et al. , 2000).

Customer satisfaction is a measure of how the products and services provided by a company meet or exceed customer expectations (Fornell, 1992). As such customer satisfaction metrics indicate how successful an

organization is at providing products and/or services to the marketplace (Fornell, 1992). Customer satisfaction is formally measured by several publicly available customer satisfaction databases including the American Customer Satisfaction Index (ACSI) in the USA and the Customer Satisfaction Barometer in Sweden (Anderson, Fornell and Lehmann, 1994; Fornell, 1992; Fornell et al., 1996). Data from these sources are frequently employed in empirical research studies (e.g. Anderson and Sullivan, 1993; Fornell et al., 2010).

Improving levels of customer satisfaction is important for firms due to the influence customer satisfaction has on economic performance (Fornell et al., 2006). At the microeconomic level, customer satisfaction is associated with increases in market share and profitability (Anderson, Fornell and Lehmann, 1994; Reichheld and Sasser, 1990). Research shows that firms with higher levels of customer satisfaction generate higher return on investment (Anderson, Fornell and Lehmann, 1994), productivity (Anderson et al., 1997), market value added (Fornell, 2001), shareholder value (Anderson et al., 2004), and stock market performance (Fornell et al., 2006). Furthermore, increasing and maintaining high levels of customer satisfaction enhances customer loyalty and serves as a safeguard against increasing price competition (Anderson, Fornell and Lehmann, 1994; Anderson and Sullivan, 1993). At the macroeconomic level, research shows that aggregated customer satisfaction indices such as ACSI are strong predictors of gross domestic product and services growth and even stronger predictors of personal consumption expenditure (Fornell et al., 2010).

Customer Loyalty

Many service organizations have developed customer loyalty programs as a part of relations development activities. Customer loyalty is a complicated concept. Oxford Dictionary defines loyalty as a state of true to allegiance. But the mere repeated purchase by customers has been mixed with the above mentioned definition of loyalty. In service domain, loyalty has been defined in an extensive form as “observed behaviors” (Bloemer et al., 1999). Caruana (2002) argues that behavior is a full expression of loyalty to the brand and not just thoughts.

However, behavior standards (such as repeated purchase) have been criticized, due to the lack of a conceptual basis of a dynamic process (Caruana, 2002). For example, the low frequency of repeated purchase of a special service may be resulted from different situation factors, such as non-availability or absence of a provider. According to this point of view, loyal behavior cannot offer a comprehensive conception of fundamental causes of loyalty. Additionally, repetition may be due to different restrictions resulted from the market. Consequently, the loyalty of this type of customers mainly differs from the loyalty of those customers who seriously support a product, and do have psychological bond with a product and a company. Therefore, customer’s loyalty was considered as an attitudinal structure.

For example, this issue appears in the tendency to advise the service offer to other customers. Finally, in addition to behavioral and attitudinal approaches, another approach to customer’s loyalty, called cognitive approach, was introduced. The operational definition of this approach often refers to the first product or service which comes to the mind of a person, while making decision for purchase. Meanwhile, in their definition of this approach, Ostrowski et al. (1993) and Bloemer (1999) refer to the first product or service that a person chooses among products and services.

The relationship between customer satisfaction and customer loyalty

The satisfaction of business customers leads to customer loyalty (Fornell, 1992). Furthermore, customer satisfaction has been shown to be related with long-term company revenues as Sheth and Sisodia (1999) verify that customer satisfaction is positively associated with the company market value and return on investment (ROI).

Oliva et al. (1992) state that in the relationship between customer loyalty and customer satisfaction that customer loyalty will increase significantly when satisfaction accomplishes a certain level and at the same time customer loyalty will drop dramatically if the satisfaction level drops to a certain point. Highly satisfied customers tend to be more loyal customer than the customers who were merely satisfied (Tepeci, 1999).

Additionally, a number of studies have confirmed a significant positive relationship between customer satisfaction and loyalty/retention (Chi, 2005). If consumers are satisfied with the product or service, they are more likely to carry on purchasing, and are more willing to spread positive WOM.

To sum up, quite a few researchers suggested a strong relationship between customer satisfaction and customer loyalty (Szymanski and Henard, 2001; Chi, 2005). And customer loyalty leads to an increase of both sales and profitability. Therefore the following hypotheses can be proposed:

H1: Customer satisfaction is positively associated with Customer Loyalty.

Customer expectation

Customer expectation are pretrial beliefs about a product or service (Olson & Dover, 1979). In the absence of any information, prior expectation of service will be completely diffuse. In reality, however, customer have many source of information that lead to expectation about upcoming service encounters with a particular company.

These source include prior exposure to the service ,word of mouth ,expert opinion , publicity, and communication controlled by the company (e.g., advertising, personal selling ,and price) , as well as prior exposure to competitive services (Zeithaml ,Berry, and Parasuraman ,1993).

In the pre purchase stage ,expectation influence consumer decisions on which brand or type of product or service to buy .During consumption can be effected can be the attitude of service personnel ,other customer and equipment .In the post purchase stage ,expectation from the basis of evaluations of satisfaction (oliver ,1980).

A review of the literature suggest that consumers may use multiple types of expectation in their satisfaction evaluation process (Tse &Wilton,1988). However ,the types most often referred to are predictive expectation and normative expectation . Predictive expectation are generally define as consumer beliefs about the level of service that a specific service firm would be likely to offer. these expectations are frequently used as standard of service against which satisfaction judgment are made (Churchill & Surprenant,1982).Normative expectation are generally conceptualized as consumers ideals level of service which can be referred as desires too. Additionally, Customers' expectations are key determinants of their consumption experiences, satisfaction, and loyalty. (Ofir & Simonson,2007; Gures et al ,2014) . This leads to following hypothesis :

H2 : customer expectation is positively associated with customer satisfaction.

H3: customer expectation is positively associated with customer Loyalty .

Price Fairness

According to Kotler and Armstrong (2010) price is the amount of money charged for a product or service, or the sum of the values that customers exchange for the benefits of having or using the product or service while Stanton et al (1994) defined price as the amount of money or goods needed to acquire some combination of another goods and its companying services. Anderson et al (1994) emphasized price as an important factor of consumer satisfaction ,because whenever consumers evaluate the value of an acquired service , they usually think of the price .

Usually ,the lower the perceived price is ,the lower perceived sacrifice is (Zeithaml,1988).Then, More satisfaction with the perceived price and overall transaction are created .On the other hand ,it is also possible that consumers use the price as a clue .It implies that lower monetary price or perceived price does not guarantee higher satisfaction .Consumers usually judge price and service quality by the concept of " equity " , then generate their satisfaction or dissatisfaction level (Oliver,1997).

Recently , marketing literature showed researchers' inclination towards price fairness in relation with customer satisfaction (Hermann et al., 2007; Kukar-Kinney, Xia and Monroe, 2007; Martin-Consuegra et al, 2007). Price fairness refers to consumers' assessments of whether a seller's price is reasonable, acceptable or justifiable (Xia et al., 2004; Kukar-Kinney, Xia and Monroe, 2007). Price fairness is a very important issue that leads toward satisfaction. Charging fair price helps to develop customer satisfaction and loyalty. Research has shown that customer's decision to accept particular price has a direct bearing at satisfaction level and loyalty and indirectly (Martin-Consuegra et al , 2007). In another study of Herrmann et al., (2007), it was concluded that customer satisfaction is directly influenced by price perceptions while indirectly through the perception of price fairness. The price fairness itself and the way it is fixed and offered have a great impact on satisfaction.

Ti Bei & Ching Chiao (2001) found perceives price fairness has positive effects both direct and indirect effect (through consumer satisfaction) on consumer loyalty .From customers perspective, price is what is given up or sacrificed to obtain a product is reasonable ,it is possible for them to display the intention of repeat purchase behavior. On the other hand ,if customers do not feel that their sacrifices are worthwhile ,they may not the purchase again ,even when they are satisfied with the quality of a product. Based on this discussion , the next hypothesis is :

H4 : price fairness is positively associated with customer satisfaction.

H5: price fairness is positively associated with customer loyalty .

Research methodology

Sampling design and data collection

Data was collected through a field survey of bank customers in Damascus, Syria . Nine banks in the city were invited to participate in the survey; 5 accepted the invitation. The sampling frame thus consisted of the customers of the volunteer banks only. A total of 510 survey forms were distributed.

Among completed survey forms, excluding those with omissions or with randomly repeated answers, 401 usable responses were obtained, providing an acceptable level of response rate of 78 percent. Table (I) shows the community demographics .

Table I. Community demographics

		N	%
Gender	Male	213	53.2
	Female	188	46.8
	Total	401	100
Income (SP)	None	21	5.2
	<10000	64	16
	10000-20000	106	26.4
	>20000	210	52.4
	Total	401	100
Age	20-25	157	39.15
	>25	244	60.85
	Total	401	100
Education level	Under graduate	346	86.3
	Post graduate	55	13.7
	Total	401	100

Results

Measurement model

This study employs a structural equation modeling (SEM) approach, using AMOS 18, to develop a model that represents the causal relationships among the variables (Chin, 2001). The questionnaire items (Appendix) employed to collect data were adapted from Fornell et al. (1996), Zeithaml et al. (1996) and Kukar-Kinney et al. (2007). Each variable was measured using previously developed components of instruments that have demonstrated good psychometric properties. The study survey consisted of four sections: customer expectations, measured using three items; price fairness, measured using four items; customer satisfaction, measured using three items; customer loyalty, measured using ten items.

A confirmatory factor analysis (CFA) was conducted to empirically test the measurement model. Multiple tests on construct validity and reliability were performed. Model fit was evaluated using the maximum likelihood (ML) method.

Construct reliability. Construct reliability was assessed using Cronbach's α , composite reliability (CR) and average variance extracted (AVE) using CFA. As the α -values (Table II) for all the constructs are greater than the guideline of 0.70, it can be concluded that the scales can be applied for the analysis with acceptable reliability (Saunders et al., 2003). CR and AVE were calculated from model estimates using the CR formula and AVE formula given by Fornell and Larcker (1981). In the measurement model, all constructs had a CR over the cut-off of 0.70 and the AVE for all exceeded the recommended level of 0.5 (Bagozzi and Yi, 1988). Based on these assessments, measures used within this study were within the acceptable levels supporting the reliability of the constructs (Table II).

Content and discriminant validity. Content validity was verified by expert judgment and by a careful literature review. To assess the discriminant validity, Fornell and Larcker's (1981) criterion, that square root of the AVE for each construct should be greater than the correlation between constructs, was used. Table III shows the values of the square root of the AVE are all greater than the inter-construct correlations.

Eight common model-fit measures were used to assess the model's overall goodness of fit. As shown in Table IV, all the model-fit indices exceeded the respective common acceptance levels suggested by previous research (Kim et al., 2004), demonstrating that the measurement model exhibited a good fit with the data collected.

Table II. Result For The Measurement Model

Construct	CR	AVE	Cronbach's α
Customer expectation	0.807	0.586	0.80
Price fairness	0.918	0.737	0.91
Customer satisfaction	0.796	0.565	0.79
Customer loyalty	0.911	0.516	0.90

Table III. Correlation and average variance extracted

	CS	CE	PP	CL
CS	0.725			
CE	0.552	0.765		
PP	0.309	0.112	0.858	
CL	0.678	0.603	0.282	0.718

Table IV. Measurement Model Fit Indices

Fit index	Recommended value	Indices values
Chi-square / (df)	≤ 3.00	2.93
GFI	≥ 0.80	0.88
AGFI	≥ 0.80	0.85
NFI	≥ 0.90	0.90
IFI	≥ 0.90	0.93
CFI	≥ 0.90	0.93
TLI	≥ 0.90	0.92
RMSEA	0.05 to 0.08	0.07

Structural model

Bootstrapping with 401 resample's was done to derive *t*-statistics to assess the significance level of the model's coefficients and to test the hypotheses (Chin, 2001). Using AMOS version 18.0, the researcher determine the path coefficients. Figure 1 shows the Results of structural model.

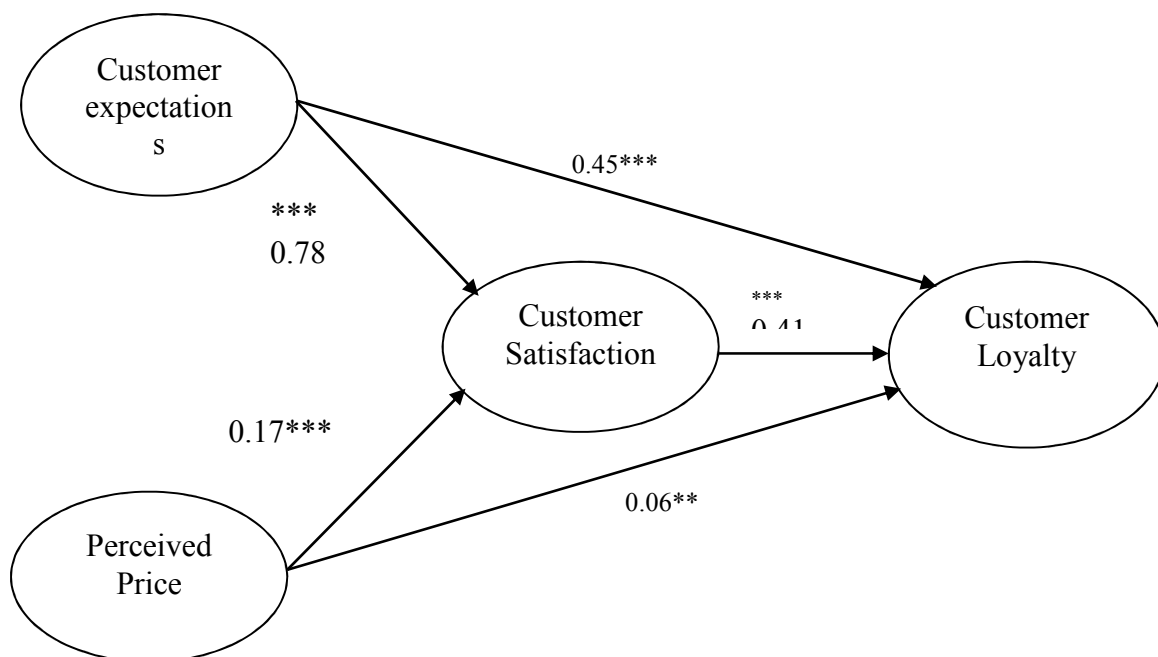


Figure 1.
 Results Of Structural Model

Table V. Hypothesis-testing results

path	Coefficients (β)	t-values	p-value	Result
H1:CE → CS	0.783	7.907***	0.000	Supported
H2:PF → CS	0.174	4.769***	0.000	Supported
H3:CS → CL	0.409	6.440***	0.000	Supported
H4:CE → CL	0.449	5.288***	0.000	Supported
H5:PF → CL	0.064	2.331**	0.020	Supported

Notes: *** $p < 0.001$, ** $p < 0.05$

CE showed a positive effect on both CS ($\beta = 0.783$, $p < 0.001$) and CL ($\beta = 0.449$, $p < 0.001$). Therefore, *H1* and *H4* confirmed (Table V). In addition PF had a positive effect on both CS ($\beta = 0.174$, $p < 0.001$) and CL ($\beta = 0.064$, $p < 0.05$). Thus, *H2* and *H5* were supported. CS had positive effect on CL ($\beta = 0.409$, $p < 0.001$). Therefore, *H3* was supported.

Discussion And Conclusions

This study found that CE, PF were critical factor for CS with banks services. By observing the relation between CE and other factors, the main result shows that CE is of the greatest influence on CS, then the CL with banks service. For the relation between the PF and other factors, the main result shows that the PF influences the CS

the most, then the CL with banks services.

CS has a significantly positive direct impact on CL. Thus, as the level of CS increases, the level of CL increases. This is consistent with prior studies (Fornell et al ,1996; Lee ,1998 ; Oliver ,1999; Johnson et al ,2001 ; Sondah et al ,2007) that customer establish higher loyalty toward service when they are more satisfied . The research concluded that if banks services providers want to increase CL effectively, they should work out a way to improve CS.

Implications For Managers

Data analysis suggests that if a bank wants to benefit from Customer Loyalty and the related positive outcomes (increased positive word of mouth and attraction of new customers), there is a need to pay a special emphasis in increasing customers perceived price fairness and meeting Customer expectation as well as overall satisfaction .

Moreover ,This study shows, if the customer is satisfied and happy, and assuming that banking products and services offer competitive value, then these customers (especially older customers) will remain loyal for the long term. This finding also suggests that the bank needs to work assiduously at ensuring that they continue to offer competitive products; that they continue to closely manage personal relationships and reward valued customers.

Customers' expectations are key determinants of their consumption experiences, satisfaction, and loyalty. Therefore, knowing in advance what customers expect is critical for the success of marketing strategies. Additionally , It is critical for marketers to find out about their customers' expectations in advance because a failure to meet or exceed these expectations could lead to dissatisfaction and defection. Banks should understand customer expectation to take effective actions to narrow the gap between customer expectation and recovery performance.

In relation to price fairness , marketing managers need to exploit integrated marketing communications, in order to promote the high price of their services as well as the transparency, reliability and fairness of their bank ' s pricing policy. These promotional messages that could be communicated via advertising, publicity and direct marketing actions will be able to enhance consumers ' price confidence and price satisfaction.

Furthermore, it is necessary to use internal marketing practices, such as the continuous training of front line employees. This will ensure that bank employees who have to communicate with customers will have a good understanding of the importance of their appearance and their behavior in providing customer service.

Limitations and future research

The study has been carried out in the Damascus city, where the income level and population density is very high as compare to rest of Syria except the other metropolitan cities; hence, the results are not necessarily generalizable for the whole country or other countries.

The results coming from the banks service industry might not be applicable to other service businesses. In other service fields, building a broader understanding of the effect of the factors related to customer satisfaction should create new possibilities in terms of understanding how to increase satisfaction . Finally, as this study does not consider switching costs ,future research could consider the effect of switching costs on the satisfaction-loyalty association .

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Appendix, Variable Items

Customer expectation

- 1) What are your overall expectations of the quality of bank services.
- 2) What are your expectations of the extent to which this bank services would meet your personal requirements.
- 3) What are your expectations of the reliability of this bank services.

Price fairness

I think the price I would have to pay if I bought the services from this bank would be:

- 4) Fair .
- 5) Acceptable .
- 6) Unfair.
- 7) Satisfactory

Customer satisfaction

- 8) Overall, how satisfied are you with bank services.
- 9) Considering your expectations, to what extent have these bank services fallen short or exceeded your expectations.
- 10) How close are the services offered by this provider to your ideal bank services.

Customer loyalty

- 11) Say positive things about this bank to other people.
- 12) Recommend this bank to someone who seeks your advice.
- 13) Encourage friends and relatives to do business with this bank
- 14) Consider this bank your first choice to buy services.
- 15) Do more business with this bank in the next few year.
- 16) Do less business with this bank in the next few years. (-)
- 17) Take some of your business to a competitor that offers better prices. (-)
- 18) Continue to do business with this bank if its prices increase somewhat.
- 19) Pay a higher price than competitors charge for the benefits you currently receive from this bank.
- 20) Switch to a competitor if you have experienced a problem with this bank service.

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