A model of customer loyalty in the retail banking market

Hadi Hajiyan[a*], Ali Akbar Aminbeidokhti[b] and Hadi Hemmatian[a]

[a]*Department of Management, Islamic Azad University, Semnan Branch, Semnan, Iran*
[b]*Department of Management, University of Semnan, Semnan, Iran*

C H R O N I C L E	A B S T R A C T
	During the past two decades, there has been growing trend in Iranian banking industry due to change in banking regulations. Private sector has grown rapidly and there have been several new banks on the market, which has created very competitive market. Therefore, customer loyalty is the key factor for running a successful banking business and customer relationship management (CRM) appears to be important for the success in this industry. The primary objective of this paper is to investigate the relationship between CRM and customer loyalty in one of the oldest Iranian banks named Bank Melli Iran. The proposed study prepares a questionnaire in Likert scale and distributes it among some regular customers of this bank. The preliminary results of this survey have indicated that consumer's gender, age and educational background had no meaningful impact on quality of services. In other words, people with different personal characteristics expect the same quality of services from banking industry and there is a positive and meaningful relationship between quality of services and customer loyalty.

1. Introduction

During the past two decades, there has been growing trend in Iranian banking industry due to change in banking regulations. Private sector has grown rapidly and there have been several new banks on the market, which has created very competitive market. Therefore, customer loyalty is the key factor for running a successful banking business and customer relationship management (CRM) (Ebrahimi et al., 2016) appears to be important for having successful banking operations. In fact, customer satisfaction is one of the primary components of modern marketing. Most businesses may only survive as long as they are to meet the customers' requirements. Thus, it is extremely essential in today's intensively competitive environment to be in regular contact with the customers. Banking industry is one of the sectors in which competition is experienced intensively and they are the finance institutions that meet the economic requirements of the individuals and businesses and that execute economic activities by collecting bank deposits, granting credits, generating capital, etc. During the past few years, there have been important developments to understand modern banking. With the transition to automation,

customer satisfaction and management of customer relationships have been among the subjects of studies in the banking sector. There are literally many studies on different types of CRM. Sivaraks et al. (2011), for instance, performed an investigation on the outcomes of electronic CRM (e-CRM) system implementation in the Thai banking industry from customers' perspectives. Since many e-CRM implementations are not seen directly by customers, the authors performed interviews with some experts in the Thai banking industry to develop a new framework called 'customer-based service attributes' to compute e-CRM outcomes from customers' perspectives. They reported that e-CRM implementation had a statistically significant positive relationship with customer-based service attributes and with the quality and outcome of customer–bank relationships.

Wal-Mart is considered a benchmark of a firm that uses a blend of high-tech solutions and high-touch employees-like flesh-and blood greeters-to increase customer loyalty. Wal-Mart allows technology work behind the scenes by using one of the biggest CRM data warehouse in the world, which helps track what the customers purchase precisely. Therefore, WalMart stocks more of the most popular goods, and clusters items that customers more likely to buy at the same time. But Wal-Mart does not implement the technology to keep individual customers' profile and leaves that job to its local staff, who are more familiar with their regular customers and understand their requirements (Rigby et al., 2003). In other words, CRM software may increase customer loyalty in different ways such as tracking customer defection and retention levels and telling us how satisfied customers are but in the end, technology is not obviously the answer. In fact, the prime driver of customer loyalty is the loyalty of the firm's employees (Rigby et al., 2003).

Zineldin (2006) provided a better insight of triangle relationship between quality, CRM and customer loyalty (CL) which might lead to companies' competitiveness (CC). They designed a model (5Qs) to measure satisfaction and loyalty based on two conditions of the customer database and CRM strategy and that management control systems have the capacity to produce needed data for the analysis. They reported that changing in quality over time within different segments or associated with specific products or categories of products/services could be implemented as an indicator the level of loyalty. Bhat and Darzi (2016) developed an integrated framework to explain the effect of CRM dimensions (complaint resolution, customer knowledge, customer empowerment and customer orientation) on customer loyalty and competitive advantage of a bank. They also explored the mediating role of customer loyalty in the relationship between CRM and competitive advantage in retail banking. They reported that the four CRM dimensions had a positive impact on customer loyalty and competitive advantage of the bank and customer knowledge was the most influential of all the dimensions among CRM components.

According to Abesy and Torkan (2016), technology has led most firms to offer their products and services with higher quality and reduced prices to their loyal customers. Therefore, with the sole use of the advanced technology or cheaper price in comparison to the competitors the competitive advantage may not necessarily be reached and a customer is the only reliable competitive advantage for the firms. Osayawe Ehigie (2006) performed a survey to explore customers' expectations from bank services on the basis of which measurement scales were developed among employees of Nigerian bank including operators of savings, current, and electronic bank accounts. He reported that perception of service quality and satisfaction were substantial predictors of customer loyalty, with customer satisfaction contributing more. Caruana (2002) reported that customer satisfaction play a mediating role in the impact of service quality on service loyalty. Newman (2001) presented a case study of a pioneering nationwide implementation of SERVQUAL (Parasuraman et al., 1988) by a major UK high street bank over the period 1993-1997 at an annual cost of one million pounds. They reported that customer loyalty could contribute significantly on the success of banking operations.

2. The proposed study

The primary objective of this paper is to investigate the relationship between CRM and customer loyalty in one of the oldest Iranian banks named Bank Melli Iran. The study designs a questionnaire in Likert scale with 30 questions and distributes it among some customers, randomly who do their banking business activities with Bank Melli Iran in city of Semnan, Iran. Since the population of this survey is unlimited we use the following to measure the sample size,

$$N = Z_{\alpha/2}^2 \frac{p \times q}{e^2},$$ (1)

where N is the sample size, $p = 1 - q$ is the probability, $z_{\alpha/2}$ denotes CDF of normal distribution and finally ε represents the error term. For the proposed study of this paper we assume $p = 0.5, z_{\alpha/2} = 1.96$ and $e=0.05$, the number of sample size is calculated as N=59. We distribute 65 questionnaires to make sure we reach the desirable accuracy. Fig. 1 shows personal characteristics of the participants.
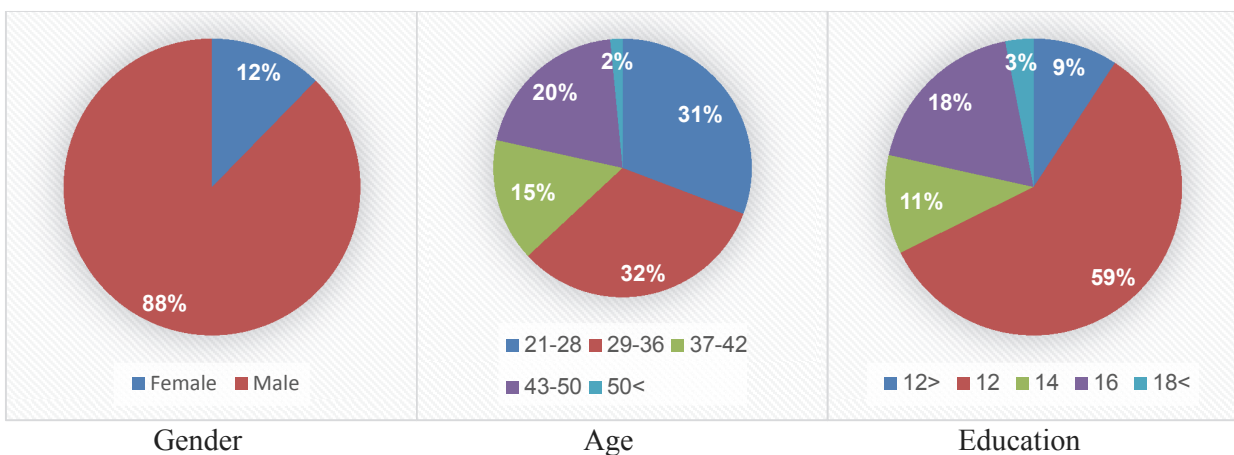

Fig. 1. Personal characteristics of the participants

As we can see from the results of Fig. 1, 88% of the respondents in our survey were male, 77 % had no university education and 80% of them aged at least 28 years old. Moreover, Kolmogorov-Smirnov test has confirmed that the questionnaire data were normally distributed. Our study examine two hypotheses where the first hypothesis tests whether people with different personal characteristics had various expectations from their banks in terms of quality of services and the second hypothesis investigates whether there is any relationship between CRM and quality of services.

3. The results

The first part of the survey examines the relationship between customer's personal characteristics and quality of services.

3.1. The relationship between personal characteristics and quality of services as well as loyalty

3.1.1 The impact of gender on quality of services and loyalty

In this study, we use Levene's test and t-test to examine the effects of gender on quality of services and customer loyalty. Table 1 shows the results of the survey.

Table 1
The summary of Levene's test and t-test on the effects of gender on quality of services and loyalty

		Levene's test		t-test		
		F	Sig.	t	df	Sig.
Quality of services	$H_0:\sigma_1^2 = \sigma_2^2$	1.452	0.233	0.082	63	0.935
	$H_1:\sigma_1^2 \neq \sigma_2^2$			0.064	8.081	0.950
Customer loyalty	$H_0:\sigma_1^2 = \sigma_2^2$	0.025	0.875	-1.205	63	0.233
	$H_1:\sigma_1^2 \neq \sigma_2^2$				9.132	0.255

Based on the results of Table 1, gender shows no meaningful effect on quality of services and loyalty.

3.1.2. The impact of age on quality of services and loyalty

The proposed study of this paper implements ANOVA test to measure the effect of age on participants' personal characteristics on quality of services as well as customer loyalty and Table 2 demonstrates the results of the survey.

Table 2
The summary of ANOVA test on the effects of age on quality of services and loyalty

		Sum of Squares	df	Mean Square	F	Sig.
Quality of services	Between group	233.235	4	58.309	0.539	0.708
	Within group	6489.227	60	108.154		
	Total	6722.462	64			
Customer loyalty	Between group	490.010	4	122.502	1.514	0.210
	Within group	4856.236	60	80.937		
	Total	5346.246	64			

As we can see from the results of Table 2, age maintains no meaningful effect on quality of services and loyalty.

3.1.3. The impacts of education on quality of services and loyalty

Again, the survey uses ANOVA to examine the effect of education on quality of services and customer loyalty and Table 3 shows the results of the survey.

Table 3
The results of ANOVA test on the effects of educational background on quality of services and loyalty

		Sum of Squares	df	Mean Square	F	Sig.
Quality of services	Between group	758.150	4	189.538	1.907	0.121
	Within group	5964.311	60	99.405		
	Total	6722.462	64			
Customer loyalty	Between group	843.994	4	210.999	2.812	0.033
	Within group	4502.252	60	75.038		
	Total	5346.246	64			

According to the results of Table 3, customer's educational background has no meaningful effect on quality of services. However, it has some impact on customer loyalty when the level of significance is 5%.

3.2 Main hypotheses

In this survey, we investigate the impacts of CRM on quality of services and customer loyalty,

1. There is a meaningful relationship between CRM and quality of services.

2. There is a meaningful relationship between CRM and customer loyalty.

3.2.1 First hypothesis: The effect of CRM on quality of services

The first main hypothesis of the survey tests the relationship between CRM and quality of services. Table 4 presents the results of one-way test.

Table 4
The results of one-way test on relationship between CRM and quality of services.

	t-value	df	Sig.	Mean difference	95% confidence interval	
Quality of services	10.105	64	0.000	85.641	0.6871	1.0257

Based on the results of Table 4, CRM has shown a meaningful effect on quality of services ($\alpha = 5\%$). Therefore, the first hypothesis of the survey has been confirmed.

3.2.2 Second hypothesis: The relationship between CRM and customer loyalty

The second hypothesis of the survey examines the relationship between CRM and customer loyalty. Table 5 presents the results of one-way test.

Table 5
The results of one-way test on relationship between CRM and customer loyalty

	t-value	df	Sig.	Mean difference	95% confidence interval	
Quality of services	11.915	64	0.000	0.90051	0.7495	1.0515

Based on the results of Table 5, there is a meaningful relationship between CRM and customer loyalty ($\alpha = 1\%$). Therefore, the second hypothesis of the survey has been confirmed.

4. Conclusion

We have presented a survey to examine the relationship between customer's personal characteristics and service quality expectations. Using an empirical investigation, the study has determined that people with different age, gender and educational background maintained similar expectations from their banks. The study has also confirmed that there was a positive and meaningful relationship between CRM and customer loyalty. Our more in-depth survey has indicated that e-business facilities contributed significantly on customer loyalty and this consistent with findings reported by Lee-Kelley et al. (2003) and Liu et al. (2012). These days, many businesses such as banks, insurance firms, and other service providers have understood the relative importance of CRM and its potential to acquire new customers, retaining existing ones and maximize their lifetime value through providing need based services in the changing economic scenario (Kishor & Nagamani, 2015). The results of this survey have emphasized that banking industry could be more successful only by providing comprehensive CRM and dedicated employees who serve their customers well.

Acknowledgement

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