

# An Investigation of the Essential Factors on Customer Loyalty in Banking Sector: A Case of Albanian Retail Bank

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## ABSTRACT

The purpose of this research is to reveal essential factors that have influences on customer loyalty directly in Albanian retail banking context. In order to bring out essential factors, we have developed a questionnaire and 410 people participated in the survey. Five different factors have been described to analyze their directly impacts on customer loyalty such as Service, Security, Relationship, Reliability and Staff. The significant relations of each factor with customer loyalty have been analyzed by conducting confirmatory factor analysis. Obtained results indicate that only 'relationship' and 'staff' factors have a direct impact on customer loyalty. Determination of the essential factors on customer loyalty in banking sector will be helpful to bank managers to define priorities in order to enhance customer satisfaction and loyalty.

**Key Words:** Banking sector, customer loyalty and essential factors.

**JEL Classification:** M, M3, M31.

## Bankacılık Sektöründe Müşteri Bağlılığını Etkileyen Faktörler Üzerine Bir İnceleme: Arnavutluk Örneği

### ÖZET

Bu araştırmanın amacı müşteri bağlılığını doğrudan etkileyen önemli faktörlerin Arnavutluk'ta bankacılık sektörü bağlamında ortaya çıkartılmasıdır. Bu amaçla geliştirilen ankete 410 kişi katılm göstermiştir. Müşteri bağlılığında doğrudan etkili olabilecek beş değişik faktör belirlenmiştir. Bunlar; servis, güvenlik, ilişki, güvenilirlik ve çalışanlardır. Müşteri bağlılığı ile her bir faktörün ilişkisi 'doğrulayıcı faktör analizi' yöntemiyle incelenmiştir. Elde edilen sonuçlara göre sadece 'ilişki' ve 'çalışanlar' faktörleri müşteri bağlılığı üzerinde doğrudan bir etkiye sahiptir. Bankacılık sektöründe müşteri bağlılığı üzerindeki önemli faktörlerin belirlenmesi, müşteri memnuniyetini artırmak adına öncelikleri belirlemede banka yöneticilerine faydalı olacaktır.

**Anahtar Kelimeler:** Bankacılık sektörü, müşteri bağlılığı ve önemli faktörler.

**JEL Sınıflaması:** M, M3, M31.

### 1. Introduction

The notion of customer loyalty has obtained attention and great assessment from diverse industries. Banking is one of the sectors where the intensive competition is experienced. With the %90 international foreign ownership, Albanian banking sector has evolved into international structure after the fall of communism. 14 of 16 commercial banks are foreign-owned (www.aab.al). The competition is very strong and customers have many alternatives to choose an offer. The banks are trying to pull customers by

providing a wide range of services and increasing the customer services by leveraging their service standards and technologies (Shinde, 2011) in Albania as well. To increase their economic lines, they are continuously looking at ways of reaching organic growth through acquisition of new customers and retaining existing customers (Ramkelawon et al, 2010). The customer retention depends directly on the service quality and customer loyalty. Customer loyalty is the certain attitude and behavior that customers show (Szűts & Tóth, 2008).

Customer loyalty can be obtained if companies listen to their clients and understand customer needs and make right decisions in this regard to please them (Buttle, 2009). Banks should offer to customers more than their expectations, and anticipate their needs and fulfill them (Malfa 2007).

According to Winer (2001), to reach this purpose, new and different tools and mindset are required. Giving importance to human and organizational resources as much as technological capabilities is necessary to manage good relationships with the customers (Keramati 2008). Surviving in today's competitive environments require a heart to understand the customers; a brain to analyze; and hands to deliver the products to them (Ghahfarokhi and Zakaria 2009).

To describe effective factors on customer loyalty, the literature studies have been examined of different authors from different countries and five factors described that have positive and significant relationship with customer loyalty.

The service factor plays an important role on customer loyalty in banking sector and was studied by Hinson et.al, (2006), Fragata and Gallego, (2009), Hafeez and Muhammad, (2012), Tariq and Moussaoui, (2009), Kheng et.al, (2010), Titko and Lace, (2010), Gan et.al, (2011), Siddiqi (a), (2011), Siddiqi (b), (2011), Monsef et al, (2012) and Mohsin et.al, (2012), Security was emphasized as an important factor by Kheng et.al, (2010), Relationship was studied by Akhter et.al, (2011), Reliability is perceived as substantial for clients in banking sector Kheng et, al, (2010), Annamalah et.al, (2011), Hassan et.al., (2012) and. Loyalty was previously studied by (Tariq and Moussaoui, 2009, Afsar et al, 2010, Annamalah et.al, 2011 and Siddiqi(a), (2011), Siddiqi (b), 2011; Mohsan et.al, 2011; Ghazizadeh et.al, 2010), Staff, today is considered as an important asset of banking sector and was studied by (Mylonakis, 2009).

The aim of this study is to measure and demonstrate efficiency of each factor on customer loyalty and their effects on banking sector in Albania. Finding the answer of the question that; “which factor is most efficient on customer loyalty?” will be main purpose of this study. In this regard theoretical background will be examined, then collected data analyzed. In order to bring out the efficiency of each factor, confirmatory factor analysis method will be conducted.

## **2. Theoretical Background and Hypotheses**

In the marketing approaches and applications, attention has shifted to loyalty. Customer loyalty has been among main focuses of marketing strategies. It provides exceptional advantages and opportunities to companies by customer retention and cost reduction. We know that the cost of acquiring a new customer

is five to ten folds more costly or expensive than to continue the business with the existing customers (Gray and Byun 2001). Customer loyalty is the willingness of clients to be faithful to a company. This means, even if the company makes any minor mistake, customers will still maintain loyal and do not switch them. According to Kincaid et.al, (2003) customer loyalty is a positive experience and value, which even if the decision is not the most rational, customers still keep willingness buying and maintaining the relations with the company.

At the moment, customers became loyal to a company, obviously repeat buying and also referrals will be increased and also the revenue and the market share will be increased. Meanwhile, they do free marketing by word of mouth while they are enthusiastic. Thus, customers become your protectors. At the time, the superior value is delivered to the customers; it also increases the employee's loyalty as they feel pride and become an important asset to the company.

The aim should be to build long-term relationship with customers, and to pay more attention on the loyalty of the existing customers rather than gaining new ones.

### **2.1. Service satisfaction in banking sector**

Service quality is comprehended by customers as the difference of expected service and the received one (Dhandabani, 2010). Service quality of banks is one of the most important elements for customer satisfaction and loyalty. Customers consider service satisfaction as a reason of establishing long-term relationship with the bank and also it is a crucial success element that affects the competitiveness of the bank. One way for banks to differ from competitors is by offering high quality service. To survive in this intense competitive market structure, banks should develop some capabilities and strategies to increase satisfaction of their customers (Siddiqi et.al, 2011). Service quality is an important element that makes difference companies to success or fails (Mishra et al, 2010). In this respect, the hypothesis;

*H1: There is a significant relationship between service satisfaction and customer loyalty.*

### **2.2. Security**

Security is essential to every trade and especially in banking sector where clients leave their money based on promises done (Knell and Stix, 2009). Gaining customers trust and making them feel secure have a great influence on the bank performance. Absolutely the banks should be very reliable in its any decision. The essential thing is not only to be reliable and trustworthy, but also trustful to their customers and to develop a win- win relationship with them. What customer expects from the bank is to listen, care and deal with their problems (Bell, 2000). By customers, witnessed weaknesses of the bank spread very quickly among customer. In order to save and increase market share, banks should pay attention their reputation and image as well (Hassan et. al, 2012) and they don't damage their positive intangible possessions such as trustworthiness. In this regard, the hypothesis;

*H2: There is a significant relationship between security and customer loyalty.*

### **2.3. Relationship**

Customer relationship raises in 90's and has been very important in the business approach. To emphasize importance of relationship, a new marketing approach has been created and named as 'relationship marketing'. Even relationship marketing has been termed for banking industry as 'relationship banking' to establish long-term bonds with customers (Mukherjee and Nath, 2003). For banking industry, after the 2000s, with the increasing number of internet users, customers had great opportunities to be more powerful and effective against the banks. Thus, banks understood that they could only be successful if they focused on customer long lasting relationships (Koçoğlu and Kirmaci, 2012) because developed positive relationships with the customer link him/her loyalty and loyal customer has a potential to provide various advantages and benefits (Roig et al, 2006). In this respect, the hypothesis;

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

### **2.4. Reliability**

Reliability is considered to be an important indicator of service quality (Kheng et. al, 2010). It is one dimension of SURVQUAL researches and its efficiency has been measured in several studies in banking sector (Baumann et al, 2007- Bahia and Nantel, 2000). Berry et al, (1988) measured and remarked reliability as the most influential factor on service quality and customer satisfaction (Kim et al, 2006). Also Bloemer et al, (1998) determined reliability one of the important components of customer loyalty as an intangible asset in banking sector. Furthermore, reliability is seen among vital traits of banking service. For a bank, failing in this field bring out significant degree of dissatisfaction (Johnston, 1997). In this regard, related hypothesis;

*H4: There is a significant relationship between reliability and customer loyalty.*

### **2.5. Staff**

The willingness of staff to help clients and to provide prompt service makes customers highly please. Likewise, demoralized staff pulls customer satisfaction down (Joseph et al, 1999). This pleasure is particularly important when clients have requests, questions, complaints and problems surrounding the service. So, staff plays an important role on bank's performance. The professional staff transmits to customer courtesy and inspires confidence, trust and loyalty (Iymperopoulou et al, 2006). The way how staff gets, share and interpret knowledge in an enterprise is very important in aiming to retain competitive advantage (Moreno and Melendez, 2011). Staff is frontier between customers and organization and their approach very essential on customer loyalty. To gain customer satisfaction and loyalty by staff approach there are three stages that staff should consider forever; the first stage consist in being aware of bank prestige "Hearing it", then, understanding importance of themselves in the meet of bank

promises “Believing it”, finally becoming impassioned promoter of the bank “Living it” (Yazdanifard et al, 2011). In this respect, the hypothesis;

H5: *There is a significant relationship between staff and customer loyalty.*

**3. Methodology**

In this research face-to-face survey method was conducted for data collection and the data collected among BKT (Banka Kombëtare Tregtare) bank customers. BKT is the second largest and the oldest commercial bank in Albania. 5-point Likert scale has been used in this research and 1 indicates strongly disagree, 5 indicates strongly agree. The asked demographic variables of the respondents have been gender, marital status, age, monthly income, education and the profession.

421 people participated in the survey and 11 questionnaires have been eliminated in the data entry process because of missing questions. 410 questionnaires have been analyzed to observe the effect of 5 factors on customer loyalty through confirmatory factor analysis method such as; service satisfaction, security, relationship, reliability and staff. We used SPSS 18 to conduct exploratory factor analyses (EFA) and AMOS 19 for confirmatory factor analysis.

**4. Findings**

Analyzed sample characteristics of the participants are shown in table 1.

**Table 1:** Demographic Samples

Category		Freq.	%	Category		Freq.	%
Gender	Male	238	58	Inco-me Level	€ 350 or less	235	57.3
	Female	172	42		€ 351-700	110	26.8
					€ 7001-1.500	44	10.7
					€ 1.500 or more	21	5.1
<b>TOTAL</b>		<b>410</b>	<b>100</b>	<b>TOTAL</b>		<b>410</b>	<b>100</b>
Marital Status	Single	104	25.4	Educa-tion	Less than high school	27	6.6
	Married	45	11.0		High school	158	38.5
	Married one child	135	32.9		Bachelor	167	40.7
	Married two children	96	23.4		Post Graduated	58	14.1
	Married three children	30	7.3				
<b>TOTAL</b>		<b>410</b>	<b>100</b>	<b>TOTAL</b>		<b>410</b>	<b>100</b>
Age Cate-gory	18-30	82	20.0	Occu-pation	Pensioner	15	3.7
	31-40	129	31.5		Student	14	3.4
	41-50	89	21.7		Unemployed	4	1.0
	50 or more	110	26.8		Private Sector	173	42.2
					Public Sector	100	24.4
					Other	104	25.3
<b>TOTAL</b>		<b>410</b>	<b>100</b>	<b>TOTAL</b>		<b>410</b>	<b>100</b>

General characteristics of the data samples that % 58 participants were male, % 31 of their age were 31-40, % 40 participants have bachelor degree, % 42 of them work for private sector, % 57 of participants have 350 € or less individual income and % 32 of them married and have one child.

To find out efficiency of different factors on customer loyalty, factor analysis has been conducted. The Exploratory factor analysis conducted on six main factors with 19 factor items and results were found out by Principal Component Analysis method. Reliability analyzes of the scale factor questions conducted by Cronbach  $\alpha$  method obtained a .746 result for 19 items.

**Table 2:** Explanatory Factor Analysis (EFA)

<b>Factors and Sub- Items</b>	<b>Mean Values</b>	<b>Stand. Dev.</b>	<b>Factors Loads</b>
<b>Staff Factor</b>			
Factor Variance: 15.81%			
The staff of my bank is kind and helpful when dealing with them.	4.40	.490	.916
The staff of my bank is understandable while giving service.	4.37	.554	.882
Staff of my bank is customer focused.	4.31	.549	.862
I know that staff of my bank is available to address my problems and concerns.	4.25	.464	.704
<b>Loyalty</b>			
Factor Variance: 13.22%			
I would enlarge the use of my bank's services and products.	3.89	.640	.825
I do not think of switching my bank easily.	4.11	.476	.824
I consider myself loyal customer to my bank.	3.97	.531	.744
I would suggest my bank to my friends and family.	4.45	.498	.682
<b>Service Satisfaction</b>			
Factor Variance: 8.83%			
My bank gives me good advice regarding the services I received.	4.44	.535	.661
My bank attempts to figure out my business and needs.	4.21	.597	.660
Information provided by my bank is up to customers' expectations.	4.38	.599	.611
Customers get full and clear explanation on bank charges and interest rates regarding their accounts.	4.33	.595	.584
<b>Relationship</b>			
Factor Variance: 7.83%			
I can always count on my bank to follow up on problems to make sure they have been resolved.	4.31	.526	.765
In my bank, I am always treated with consideration, appreciation and respect.	4.50	.510	.740
My bank ensures precious ideas that assist in increasing profitability	4.19	.625	.485
<b>Reliability</b>			
Factor Variance: 7.78%			
I find my bank very credible.	4.50	.547	.820

I feel confident in dealings with my bank.	4.55	.541	.796
<b>Security</b>	Factor Variance: 7.37%		
My bank is always trustful on customer transactions.	4.20	.740	.818
My bank keeps private all of my transactions.	4.46	.546	.701
<b>Total Variance Explained</b>	<b>60.84%</b>		

From the results generated by Principal Component Analysis, six factors have been analyzed. Each factor is greater than one as a value of Eigen. According to rotated component matrix results, total variance explained in this case is 60.84%, whereas, “Staff factor” explained 15.81% of total variance, “Loyalty” occupied 13.22%, Service factor holds 8.83%, “Relationship” explained 7.83%, the fifth factor “Reliability” explained as 7.78% of total and last factor “Security” have been 7.37%.

The ‘staff’ factor has been first principle component of EFA. Efficiency and importance of kindness, sincerity, honesty, experience, customer focusing, and problem solving ability of ‘staff’, makes it essential for banking sector. Also, efficiency of staff factor on customer loyalty has been justified by confirmatory factor analysis (CFA). Staff is among main two factors that impact customer loyalty directly with relationship. Confirmatory factor analysis statistically tests the significance of a hypothesized factor model and its validity. Furthermore, CFA measures certain numbers of each factor and confirms which factors are correlated each other (Schumacker and Lomax, 2004). Goodness of fit results of CFA shown in table 3.

**Table 3:** Goodness of Fit Results in CFA

Indication	Tested model	Reference values
Chi-Square 1/Degrees of Freedom ( $\chi^2/df$ )	2.03	0-5 interval
Goodness of Fit Index ( <b>GFI</b> )	.927	$\geq .90$
Adjusted Goodness of Fit Index ( <b>AGFI</b> )	.905	$\geq .90$
Comparative Fit Index ( <b>CFI</b> )	.924	$\geq .90$
Tucker Lewis Index (known as NNFI) ( <b>TLI</b> )	.911	$\geq .95$
Incremental Fit Index ( <b>IFI</b> )	.924	$\geq .90$
Root Mean Square Error of Approximation ( <b>RMSEA</b> )	.050	$< .8$
Critical N (Hoelter N) ( <b>CN</b> )	242	$>200$

**Source:** Meyers et al, 2006; Hooper et al, 2008; Ayyıldız and Cengiz, 2006.

Table 4 summarizes certain results of CFA between each factor and customer loyalty. According to the results only relationship and staff factors have direct impact on customer loyalty. Absolutely the other factors have a potential on customer loyalty too but on Albanian customer structure their efficiency comes behind relationship and staff factor and impact is not enough to provide loyalty on customers alone.

**Table 4:** Confirmatory Factor Analysis Results

		Hypotheses		Results
<b>H1</b>	Service Satisfaction	→	Customer Loyalty	Not Supported
<b>H2</b>	Security	→	Customer Loyalty	Not Supported
<b>H3</b>	Relationship	→	Customer Loyalty	Supported***
<b>H4</b>	Reliability	→	Customer Loyalty	Not Supported
<b>H5</b>	Staff	→	Customer Loyalty	Supported**

\*\*\*p<0.01, \*\*p<0.05

Relationship is one of the main components of customer loyalty in banking sector as in other businesses. Padmavathy et al. (2012) evaluate relationship satisfaction as basis for loyalty in banking sector. Also, Leverin and Liljander (2006) obtained in their study that relationship satisfaction leads customer loyalty. Akhter et al. (2011) assess relationship factor as predetermine of establishing customer loyalty. They have measured significance of relationship on customer loyalty and emphasized that customer loyalty is significantly dependent on customer relationship.

Staff is another major element has direct impact on customer loyalty. Staffs, who deal with customers, directly represent brand. Their kind and gentle approaches impress customers positively and also, cultivating strong relationships with customers can be possible struggle of employees. Approaches of employees have a critical role not only on obtaining customer loyalty but also on customer retention, according to a research 13% of customers, who closed bank accounts, show as reason rude and unhelpful staff approach (Mylonakis, 2009). There is a significant relationship between staff service satisfaction and behavioral loyalty as well as attitudinal loyalty (Monsef et al. 2012). That also has been confirmed in this study by CFA results.

### Conclusion

In particular, the main objective of this research was to reveal the impacts of different factors on customer loyalty in Albanian banking context. So this framework would show that if the bank wants to create loyalty between then and clients, should apply all the factors that were designed for the questionnaire. The

research shows that, service, security, relationship, reliability, loyalty, and staff can increase the loyalty among Customers and banks in Albania.

Taking in consideration the analysis done to the questionnaire we can conclude that most of the respondents responded very positively on all factors of the questionnaire. The factors are: service, security, relationship, reliability, loyalty, and staff.

The majority of variable answers was agreeing and strongly agrees. In fact, each factor is important on customer loyalty but relationship and staff factor are essential than other factors in terms of having potential to build customer loyalty alone. In Albanian market, according to CFA results, importance of relationship has been emphasized significantly as first factor with  $p < 0.01$  CFA value. Secondly, staff factor on the other word staff approach has an essential power to build loyalty alone with  $p < 0.05$  CFA value. Undoubtedly, the other factors (service satisfaction, reliability and security) are important components of customer loyalty in banking industry but not powerful as much as creating loyalty alone.

#### **Limitations and Further Research**

This study has some limitations as well as useful findings. In this study only relationships of 5 factors have been analyzed with loyalty by confirmatory factor analysis method. For further research besides analyzing different factors, efficiency of relationship and staff factors can be analyzed by structural equation modeling method as latent variable to reveal relationships of those factors with the others.

In this field, valuable another further research for banks can be examining details of staff approaches and revealing its sub-items or factors. Understanding customer expectations in this regard provides a right direction to bank managers.

#### **Managerial Implications**

This study provides an opportunity to evaluate main factors on customer loyalty in banking sector. It will be helpful to bank managers to define priorities and to design appropriate marketing or public relation campaigns in order to enhance customer satisfaction and loyalty. In organizational trainings, educating bank staff regarding power of relationship and teaching them on details of cultivating kind relations with customers should provide competitive advantage to your bank.

Also, making bank staff aware about the importance of their positive and kind approaches toward customers should be very useful behalf of your brand. Firstly improving positive relationships with customers and demonstrating kind staff approaches, then applications of the other factors from this study are going to be helpful for banks to create a strong, positive and long-lasting customer relationship.

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