

Impact of Customer Satisfaction on Customer Loyalty in Banking Sector towards Ahmedabad

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Abstract: *This paper examined the impact of customer satisfaction on customer loyalty. The objectives were: to determine the relationship between customer satisfaction and customer loyalty and to examine the impact of customer satisfaction on customer loyalty. Survey research design was adopted for this study. Primary and secondary sources of data were used. The primary data includes a structured questionnaire used to elicit information from the target respondents who were customers of a reputable bank in Ahmedabad city while the secondary data encompass the use of related materials, journals and periodicals,. Regression analysis was used to analyze the data.*

Keywords: Customers, Relationship, Customer satisfaction, Customer loyalty

1. Introduction

It is the desire of every business organization to achieve its stated objectives. These objectives may incorporate profit maximization, increase in sales, expansion, growth, product accessibility, product awareness, customer satisfaction etc. However, profit maximization serves as the back bone of business objectives. In a similar view, the degree of maximization of profit depends on the level of customer satisfaction which has direct link with customer loyalty. Customer loyalty is one of the most important indicators of good performing organizations. Since customer loyalty is directly linked to customer satisfaction, it is evident that measuring customer satisfaction must incorporate customer loyalty.

Customer satisfaction is the foundation for any organization to achieve its objective. In other words, the degree of customer satisfaction reflects the rate of achievement of organizational objectives. Customers that are satisfied tend to create favorable and friendly relationship with the organization. The loyalty of a customer to the organization arises from the satisfaction received from the consumption, uses or services received from the organization. The vital nature of the understanding of the degree of customer loyalty to an organization in this contemporary environment is a necessity for creating and sustaining favorable relationship. In other words, a driving force needed for creating sustainable relationship is customer loyalty. However, customer loyalty depends to a greater extent on the degree of satisfaction derived from the organization's services or output.

Satisfied customers are more likely to tell people about their experiences, more so, dissatisfied customer will also tell people about their experiences. Customer satisfaction is one of the business objectives, and can be achieved through understanding the needs of the target market, and the provision of needs satisfying packages in meeting and satisfying these needs at a greater extent, thus, building and maintaining long lasting and favorable relationship with the target market.

The need to create and maintain customer satisfaction has been emphasized by researchers. This is because the realization of other business objectives leans on the level and degree of satisfaction received by the target market. This also necessitates reasons why financial institutions and researchers focus on customer satisfaction and loyalty.

Satisfaction is an overall customer attitude or behavior towards the difference between what customers expect and what they receive regarding the fulfillment of some desires and needs (Hansemark, 2004, Kotler 2000; Hoyer and MacInnis, 2001). Customer loyalty plays a very crucial role for achieving competitive advantage in any organization. It is the result of an organization's creating a benefit for customers so that they will maintain and increasingly repeat business with the organization. (Anderson and Jacobsen 2000). True customer loyalty is created when customers become advocate of an organization without any incentive (Oliver 1997).

1.1 Objectives of the Study

The objectives of this research are:

- To determine the impact of customer satisfaction on customer loyalty.
- To examine the relationship between customer satisfaction and customer loyalty.

2. Literature Review

The Subject Matter has gained a lot of attention from researchers and practitioners across the globe. It is a necessity that must be put in place for organization to constantly achieve its stated objective in the face of competitive globalization. The issue of consumer satisfaction cannot be over emphasized because it is a factor that must be considered in order to give room for consumer loyalty. In the service industry, strong emphasis is placed on the significant importance of service quality perceptions and association between service quality and consumer satisfaction (Cronin and Taylor, 1992; Taylor and Baker, 1994). It is therefore presumed that some researchers concluded that service quality is an important indicator of

customer satisfaction. In essence, consumers will be loyal to a bank if the services rendered are satisfiable to the consumers. Faizan et al (2011) were of the opinion that satisfaction is a critical scale of how well a customer's needs and demands are met while customer loyalty is a measure of how likely a customer is to repeat the purchase and engage in relationship activities. They were of the opinion that customer satisfaction has a positive significant relationship with customer loyalty. They also included that it is impossible to have loyalty without satisfaction.

According to Rahim et al (2012), consumer satisfaction is a critical focus for effective marketing programs. Oliver (1999) viewed the fact that consumer satisfaction remains a worthy pursuit among the consumer marketing community. Yi (1991) stated that consumer satisfaction is a collective outcome of perception, evaluation and psychological reactions to the consumption experience with a product or service. Consumer satisfaction is regarded as how consumers can get more benefits than their cost (Lin and Yen, 2010). Consumer satisfactions positively affect loyalty (Zeithaml et al 1996; Bloemer, et al, 1999; Oliver, 1999). They were of the fact that there is a significant positive relationship between consumer satisfaction and consumer loyalty. Reicheld (1996) was of the fact that organizations are willing to invest their loyalty in business that can deliver superior value relative to competitors

Rahim et al (2012) explored and established the existence of relationship/interdependence between customer satisfaction and customer loyalty. They were of the fact that there is a positive relationship between customer satisfaction and customer loyalty. The quality of products or service has strong positive impact on customer satisfaction. Some defined quality of product or services in terms of performance, conformance, reliability, durability, serviceability, aesthetic, and customer perceived quality (Yuen and Chan, 2010). Past researchers indicated that there is a strong positive correlation between service quality and customer satisfaction (Haghighi et al 2012; Kuo, wu and Deng, 2009; Gonzalez, Comesena and Brea, 2007; Zhao, Lu and Chau, 2012).

Roger (1996) opined that many researchers were of the fact that consumer satisfaction influences customer loyalty, which in turn affects profitability. Proponents of this theory include researchers such as Anderson and Fornell (1994); Gummesson (1993); Heskett et al (1990); Heskett et al (1994); Reicheld and Sasser (1990); Rust, et al (1995); Schneider and Bowen (1995); Storbacka et al (1994); and Zeithaml et al (1990). Roger (1996) was of the fact that there is a significant relationship between customer satisfaction and consumer loyalty.

Bernhardt et al, (2000); Zeithaml et al (1990); Gursoy and Swanger (2007) suggested that in the service industry, attention to service and customer satisfaction is considered to be a „given“ factor, which is an expected and a natural part of day to day operations. Service organizations cannot survive without satisfied customers. The satisfaction of the customers will definitely pave way for consumer loyalty. Ibojo et al (2013) were of the fact that the focus of organizations on the target market in order to give out the

expected and necessary satisfaction made it vital to say that customer satisfaction is a valuable tool that must be given to customers if organization must achieve their core business objectives which is profitability. They concluded that there is significant relationship between customer satisfaction and organizational profitability. Customer loyalty is a strategy that creates mutual rewards to benefiting firms and customers (Reicheld and Detrick, 2003). With loyal customers, organizations can maximize their profit because loyal customers are willing to purchase more frequently, spend money on trying new products or services, recommend products and services to others, and give organizations sincere suggestions (Reichheld and Sasser 1990). Yu et al (2012) were of the fact that customer satisfaction has strong impact on customer loyalty.

3. Methodology

3.1 Research Design

This study examines the effect of customer satisfaction on customer loyalty in a reputable bank in Ahmedabad. It is a survey study and so this research adopted a descriptive design to elicit information on the characteristics of the respondents in terms of age, sex and occupational level.

3.2 Study Population/Sample

Customers of the reputed banks in Ahmedabad constitute the study population.. The sample used in the study is drawn from the population and it represents the characteristics of the larger group that is the population. The total population is 200 customers of the bank. Out of 150 subjects given the questionnaire, 107 returned the questionnaire.

3.3 Sampling Method and Sample Size

The samples are account holders of the bank in Ahmedabad. They consist of high ranking academicians, students, business individuals of high level to low level salary and wage earners. The customers are males and females of different ages.

3.4 Sources of Data

This involves the use of descriptive and inferential statistics. The descriptive statistics incorporate the use of tables and percentages while the inferential statistics give room for the use of regression analysis.

3.5 Data Collection Instrument

Questionnaires were distributed to the subjects used in the study. The researcher appealed to the respondents to complete the questionnaire in the bank premises to ease out the stress of collecting the questionnaires back.

3.6 Methods of Data Analysis

This involves the use of descriptive and inferential statistics. The descriptive statistics incorporate the use of tables and percentages while the inferential statistics give room for the use of T- test and regression analysis.

3.7 Research Hypotheses

- Ho There is no significant relationship between customer satisfaction and customer loyalty.
- H1- There is a significant relationship between customer satisfaction and customer loyalty.
- Ho - Customer satisfaction has no significant impact on customer loyalty.
- H1- Customer satisfaction has a significant impact on customer loyalty.

4. Data Presentation and Analysis

4.1 Demographics

Table 4.1.1: Distribution of respondents by sex

Category	Frequency	Percent	Valid Percent	Cumulative Percent
Male	50	46.7	46.7	46.7
Female	57	53.3	53.3	100.0
Total	107	100.0	100.0	

Table 4.1.1 shows the distribution of respondents by sex. The table reveals that out of a total of 107 respondents, 50 were males while 57 were females. 46.7% of the population were males while the females make up 53.3% of the total sample of the respondents. With these we conclude that most of our respondents are females.

Table 4.1.2: Distribution of respondents by age

Years	Frequency	Percent	Valid Percent	Cumulative Percent
16-25	37	34.6	34.6	34.6
25-40	60	56.1	56.1	90.7
40-60	10	9.3	9.3	100.0
Total	107	100.0	100.0	

The tables above revealed that the age of respondents were divided into three distinct groups. 34.6% of the respondents fall between the age brackets of 16-25 years. Majority of the respondents fall within the age bracket of 25-40 years with 56.1% and 9.3% represent the respondent within the age brackets of 40-60.

Table 4.1.3: Distribution of respondents by marital status

Category	Frequency	Percent	Valid Percent	Cumulative Percent
Single	76	71.0	71.0	71.0
Married	20	18.7	18.7	89.7
Others	11	10.3	10.3	100.0
Total	107	100.0	100.0	

The table above revealed that the marital status was divided into three distinct groups. 71.0% of the respondents is single, 18.7% are married and 10.3% of the respondents are neither married nor single.

Table 4.1.4: Distribution of respondents by years of account

Category	Frequency	Percent	Valid Percent	Cumulative Percent
1 year	6	5.6	5.6	5.6
2 years	11	10.3	10.3	15.9
3 years	15	14.0	14.0	29.9
Above 3 years	75	70.1	70.1	100.0
Total	107	100.0	100.0	

The table above revealed that 5.6% of the respondents are

just one year old as account holders in the bank. 10.3% of the respondents are two years old as account holders, 14.0% of the respondents are three years old as account holders while 70.1% of the respondents are above three years old as account holders in the bank.

Table 4.1.5: Distribution by type of account

Category	Frequency	Percent	Valid Percent	Cumulative Percent
Current account	28	26.2	26.2	26.2
Savings account	79	73.8	73.8	100.0
Total	107	100.0	100.0	

The table above revealed that the respondents have only two types of accounts in the bank. 26.2% of the respondents were current account holders while 73.8% have saving account in the banks. This implies that the majority of the respondents have saving account in the banks.

Table 4.1.6: Distribution by occupation

Category	Frequency	Percent	Valid Percent	Cumulative Percent
Lecturer	18	16.8	16.8	16.8
student	64	59.8	59.8	76.6
Admin Staff	12	11.2	11.2	87.9
Banker	4	3.7	3.7	91.6
Others	9	8.4	8.4	100.0
Total	107	100.0	100.0	

The table above revealed that out of a total 107 respondents 18 were lecturers, 64 were students, 12 were administrative staff, 4 were bankers and 9 belong to other categories not specified. Finding here revealed majority of the respondent were students with 59.8% while lecturers constitute 16.8% of the population, administrative staff constitute 11.2%, bankers constitute 3.7%, another category constitute 8.4% of the population.

4.2 Research Questions

Table 4.2.1: Impact of customer satisfaction on customer loyalty

Category	Percentage (%)
Strongly Agreed	56.26
Agreed	42.99
Neither -Agreed/ disagree	0.74

Research question: What is the relationship between customer satisfaction and customer loyalty?

Table 4.2.1 above revealed that there is a strong relationship between customer satisfaction and customer loyalty. Out of the total respondents it is observed that 56.26 % strongly agreed and 42.99% agreed while only 0.74% of the respondents neither agreed nor disagreed that they are satisfied with the bank operations

4.3 Test of Hypotheses

Hypothesis 1-There is a significant relationship between customer satisfaction and customer loyalty

Table 4.3.1

Variable	Mean	Std. Dev.	N	R	P	Remark
Customer Satisfaction	4.555140	.2419394	107	.617**	.000	Sig
Customer Loyalty	4.558879	.2464668				

** Sig. at .01 levels

It is shown in the above table that there is a significant relationship between customer satisfaction and customer loyalty ($r = .617^{**}$, $N = 107$, $P < .01$). The implication of this result is that a 1% shift in customer satisfaction will cause a 61.7% shift in customer loyalty. Hence, it could be deduced that customer satisfaction influence and has positive impact on customer loyalty in the study.

4.4 Regression Analysis

Table 4.3.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.794 ^a	.631	.609	.505

a. Predictors: (Constant), customer satisfaction

b. Dependent Variable: customer loyalty

Table 4.3.3: ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	2.523	2	1.261	33.500	.000 ^b
	Residual	3.916	104	.038		
	Total	6.439	106			

a. Dependent Variable: customer loyalty

b. Predictors: (Constant), customer satisfaction

4.5 Discussion of Findings

Table 4.1.1 shows that the bank has more female members of staff than male members of staff. This is based on the need for the degree of attractiveness of customers by female members of staff. Table 4.1.2 shows that majority of the members of staff falls between the active working ages. This shows that the financial institution has active workforce. Table 4.1.3 shows that the bank has workforce that are highly responsible, this is because majority of the workforce are married. In line with years of account, majority of the respondents have been operating account with the bank for more than three years. This shows that they are loyal to the bank based on the expected satisfaction derived for being customers of the bank. Table 4.1.5 shows that customers of the bank operate either savings or current account. Table 4.2 shows the responses of the respondents on the impact of customer satisfaction on customer loyalty. Majority of the respondents were of the opinion that customer satisfaction has positive impact on customer loyalty.

From the hypothesis tested in Table 4.3, it shows that there is a significant relationship between customer satisfaction and customer loyalty. Also there is a significant relationship between customer satisfaction and customer loyalty ($r = .617^{**}$, $N = 107$, $P < .01$). A 1% shift in customer satisfaction will cause a 61.7% shift in customer loyalty. To this end, the study concludes that customer loyalty is a function of customer satisfaction. Table 4.4.1 shows the regression analysis (R^2) value of 0.631 which reveals that customer satisfaction independently accounts for 63.1% of the variation in customer retention. The f-statistics of 33.500

reveals that the model is statistically significant at 0.05 significant level.

5. Conclusion

The continuous existence of the financial institutions depends on the relationship between the institutions and their respective customers. Customer satisfaction is a vital construct that must be given concentrated attention. It is therefore necessary for banks and other financial institutions to incorporate customer satisfaction into their management portfolio. It is an objective that must be achieved in the face of competitive globalization. From the data analyzed, it can be concluded that customer satisfaction has positive impact on customer loyalty. More so, there is a significant relationship between customer satisfaction and customer loyalty.

6. Recommendations

Based on the research findings, the following recommendations were made.

Financial institutions personnel should create more friendly relationship with their customers. The environment should be conducive and enabling. More so, it should be attractive and decent.

There should be continuous high quality delivery service. This will add to the value of satisfaction received by customers. Personnel in the customer care service section of the financial institution should be friendly and create a friendly relationship with their customers.

There should be seminars for members of staff on the need to improve their relationship with customers, and also on the importance of customer satisfaction as a vital tool for creating and improving customer loyalty.

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