

## **Impact of Customer Satisfaction on Customer Loyalty and Intentions to Switch: Evidence from Banking Sector of Pakistan**

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### **Abstract**

*Top performing financial institutions always look into the needs and demands of their customers in order to survive and compete successfully in today's dynamic corporate environment. That is the reason why organizational researchers from all around the globe have continuously emphasized on the importance of customer satisfaction, loyalty and retention. The current research study attempts to find the impact of customer satisfaction on customer loyalty and intentions to switch. The data were collected from 120 customers visiting the banks counters and had an account with banks serving in Pakistan. The collected data then analyzed using the Microsoft Excel and SPSS 16. The results of the study revealed that customer satisfaction was positively correlated with customer loyalty and negatively correlated with customer intentions to switch. Some recommendations for future research are also made.*

**Key Words:** Customer Satisfaction, Customer Loyalty, Intentions to Switch, Banking Sector, Pakistan.

### **Introduction**

The importance of customers has been highlighted by lots of researchers and academicians all around the world. Top performing financial institutions believe that customers are the purpose of what they do and they very much depend on them; customers are not the source of a problem and they should never make a wish that customers 'should go away' because their future and security will put in jeopardy. That is the main reason why financial institutions of today are focusing much attention on customer satisfaction, loyalty and retention (Zairi, 2000). Satisfaction is an overall customer attitude or behavior towards a service provider, or an emotional reaction towards the difference between what customers expect and what they receive, regarding the fulfillment of some desire, need or goal (Hansemark, & Albinsson, 2004; Kotler, 2000; Hoyer, & MacInnis, 2001). Customer loyalty, on the other hand, 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, & Jacobsen, 2000). It is in fact a deeply held commitment of customers to prefer products or services of a particular organization in future despite situational constraints or marketing influences to cause the switching behavior. Moreover true customer loyalty is created when customers become advocate of an organization without any incentive (Oliver, 1997).

Importance of customer satisfaction in today's dynamic corporate environment is obvious as it greatly influences customers' repurchase intentions whereas dissatisfaction has been seen as a primary reason for customers' intentions to switch. Satisfied customers are most likely to share their experiences with other five or six people around them.

Equally well, dissatisfied customers are more likely to tell another ten people about their unfortunate experiences with a particular organization. In order to achieve customer satisfaction, organizations must be able to build and maintain long lasting relationships with customers through satisfying various customer needs and demands which resultantly motivates them to continue to do business with the organization on on-going basis (La Barbera, & Mazursky, 1983). Although, previous research has attempted to examine the link between (a) customer satisfaction and customer loyalty and (b) customer satisfaction and customer intentions to switch in various industries but there are still lack of research in banking sector to investigate this relationship especially in the context of Pakistan. Therefore, current research study attempts to examine the impact of customer satisfaction on customer loyalty and intentions to switch in banking sector of Pakistan and to suggest the researchers and practitioners for implications.

### ***Literature Review***

Customer satisfaction has been gaining increasing attention from the researchers and practitioners as a recognized field of scholarly study and is a fundamental tool used by financial institutions for enhancing customer loyalty and ultimately organizational performance and profitability. The importance of customer satisfaction cannot be dismissed because happy customers are like free advertising. Many of us have heard of the current trend for businesses to become highly customer-centric, that is to put the customer at the centre of our business in terms of our strategies, actions and processes. For most of us, old truths still hold good, such as it is easier and more profitable to sell to existing customers than to find new ones. In practice, organizations are increasingly setting themselves strategies to measure and ensure customer retention, and charging their staff to be more customer-focused and service-oriented.

Customer satisfaction holds significant importance in corporate sector because without satisfied and loyal customers, you don't have a business. A single unsatisfied customer can send away more business from your organization than 10 highly satisfied customers. The more you focus on customer satisfaction and retention, the more long-term business you will get. It's worth to focus on customer satisfaction strategies; no matter how large or small your organization is as a well known fact is that referrals only come from customers who are "apostles". Banking industry in Pakistan is highly competitive. Moreover the existence of foreign players in the form of Standard Chartered Bank Ltd., HSBC Bank Middle East Ltd., Dubai Islamic Bank Ltd. Etc. in the banking sector of Pakistan pressures the local banks to be more innovative in order to compete aggressively in the development of products and services in the same market segmentation. As the competition increases banks begin to offer products and services that differ from one another. Besides that, the quality of service and customer satisfaction is an obligation. This is no exception for Pakistani banks, where customer satisfaction is potentially an effective tool that banks can use to enrich a strategic competitive advantage in banking markets. Due to the high level of competition in the Pakistani banking market, many banks losing existing customers to their rivals as a result of successful attempts to entice customers away. However, the inability of banks to retain customers highlights the factors that result in customer defection, affecting the banks' ability to increase future growth of business. At the same time, dissatisfaction drives customers away and is a key factor in switching behavior. In this situation, customer satisfaction has been regarded as a fundamental determinant in maintaining long-term customer relationship behaviors (Oliver, 1980; Zeithaml, Berry, & Parasuraman, 1996; Anthanassopoulos, Gounaris, & Sathakopoulos, 2001; Anderson, & Sullivan, 1993; Fornel, 1992; Levesque, & McDougall, 1996). Therefore, enhancing customer satisfaction should be a key driver for banks in maintaining a long term relationship with their customers.

In the banking industry, a key element of customer satisfaction is the nature of the relationship between the customer and the provider of the products and services i.e. banks. Thus, both product and service quality are commonly noted as a critical prerequisite for satisfying and retaining valued customers. Previous research has identified many factors that determine customer satisfaction in retail banking sector, and that there are differences in how consumers perceive services across countries and cultures that cannot be generalized. In Pakistani banking industry, customers have put the criteria of customer satisfaction towards service quality provided by their banks. For example; fast and efficient service, confidentiality of bank, speed of transaction, friendliness of bank personnel, accuracy of billing, billing timeliness, billing clarity, competitive pricing, and service quality are the key factors which significantly affect customer's satisfaction (Hokanson, 1995). A survey conducted on college students in Bahrain indicated that young customers places more emphasis on factors like a bank's reputation, friendliness of bank personnel, convenient location, 24/7 ATM, and availability of parking space in selecting their banks (Almossawi, 2001).

Meanwhile, Levesque and McDougall (1996) found that the performance of the service provider on core and relational dimensions of service quality was an important driver for customer satisfaction in retail banking. Furthermore, customer satisfaction in retail banking also influenced by the perceived competitiveness of the bank's interest rates.

The bank's ability to deliver these benefits on a continuous basis probably has a significant impact on the level of customer satisfaction. Therefore, bank management has to identify and improve upon factors that can increase customer value. Although, it is apparent that for superior service, it is not sufficient to only focus on satisfying customers, as customers switched their financial institutions because of service quality problems and failures (Gerrard, & Cunningham, 1997), and stop the use of a financial service provider because of poor service performance (Allred, & Addams, 2000). This attitude is a significant factor, which influences customer intention to engage in positive or negative behavior decisions. Consequently, satisfaction is a necessary prerequisite for building long term customer relationships and likely to increase loyalty (Anthanassopoulos, Gounaris, & Sathakopoulos, 2001; Selnes, 1993; Bloemer, & Ruyter, 1998).

According to Sivadas and Baker-Prewitt (2000), satisfaction also influences the likelihood of recommending a bank as well as repurchase. It fosters loyalty to the extent that it is a prerequisite for maintaining a favorable relative attitude and for recommending and repurchasing from the bank. Once customers recommend a financial institution it fosters both repurchase and loyalty towards that financial institution. Thus the key to generating loyalty is to get customers to recommend a service provider to others. Also, customers are likely to recommend a service provider when they are satisfied with the services and when they have a favorable relative attitude towards that service provider. Evans and Lindsay (1996) stated that companies with satisfied customers have a good opportunity to convert them into loyal customers who purchases from those firms over an extended time period. Today's highly competitive and dynamic corporate environment compels the financial institutions to have satisfied customers and retain them in order to survive and compete with other market players successfully. However, Bowen and Chen (2001) said that having satisfied customers is not enough, there has to be extremely satisfied customers. This is because customer satisfaction must lead to customer loyalty. Building customer loyalty is not a choice any longer with businesses. It is in fact the only way of building sustainable competitive advantage. Building loyalty with key customers has become a core marketing objective shared by key players in all industries catering to business customers. Sivadas and Baker-Prewitt (2000) examined that there is an increasing recognition that the ultimate objective of customer satisfaction measurement should be customer loyalty. Fornell (1992) found that high customer satisfaction will result in increased loyalty for the firm and that customers will be less prone to overtures from competition. This view was also shared by Anton (1996) who stated that satisfaction is positively associated with repurchase intentions, likelihood of recommending a product or service, loyalty and profitability. Loyal customers would purchase from the firm over an extended time (Evans, & Lindsay, 1996). Guiltinan, Paul and Madden (1997) also examined that satisfied customers are more likely to be repeat (and even become loyal) customers and don't think to switch to other service providers.

Similarly, Bontis, Nick, Booker, Lorne and Serenko (2007) examined the causal construct between customer satisfaction and customer loyalty in the North American banking industry and found that there is positive association between customer satisfaction and customer loyalty. Rust and Zahorik (1993) stated that greater customer satisfaction leads to greater intent to repurchase. According to Anderson and Sullivan (1993), a high level of customer satisfaction will decrease the perceived need to switch service provider, thereby increasing customer repurchase and ultimately enhancing profitability of the organization (Bowen, & Chen, 2001).

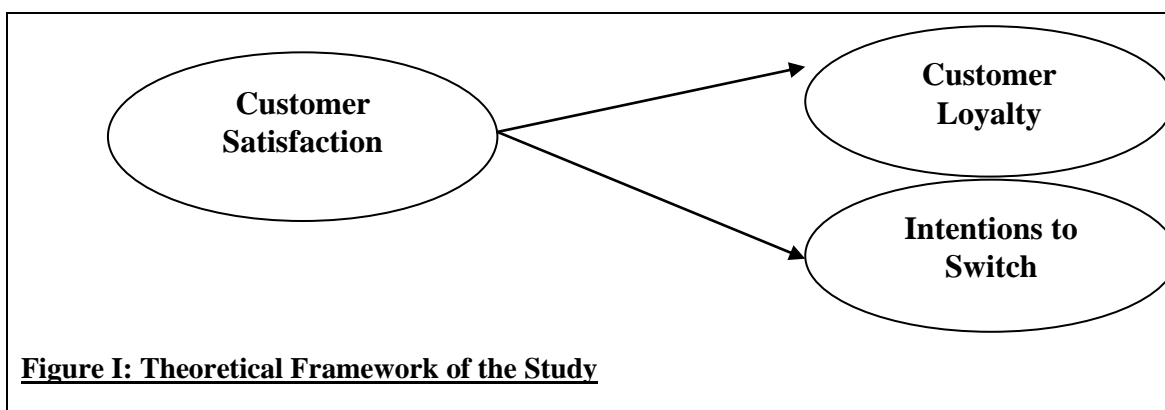
In the services sector literature, strong emphasis is placed on the significant importance of service quality perceptions and the association between service quality and customer satisfaction (Cronin, & Taylor, 1992; Taylor, & Baker, 1994). Therefore, some organizational researchers concluded that service quality is an important indicator of customer satisfaction intentions. That is, consumers may be loyal to a bank if it is viewed as generating satisfaction among other consumers, particularly in credence products and services. This alone may create an amount of unwillingness to switch. Furthermore, Chakravarty, Feinberg and Rhee (2004), explained that a high proportion of customers in the high propensity to switch group appear to have had problems with their bank in the past. In the real world, unsatisfied customers tend to convey their negative impression to other customers or create a negative word of mouth. Consequently, customer dissatisfaction leads to low loyalty (Lewis, 1991; Newman, 2001; Caruana, 2002). This implies that customer satisfaction and customer loyalty are highly related, and that dissatisfaction fosters a customer's intention to switch.

No doubt customer satisfaction should be the primary objective of an organization to enhance customer loyalty but a business that focuses exclusively on customer satisfaction runs the risk of becoming an undifferentiated brand whose customers believe only that it meets the minimum performance criteria for the category. Long-term customer retention in competitive markets requires the supplier to go beyond mere basic satisfaction and to look for ways of establishing ties of loyalty that will help ward off competitor attack (Clarke, 2001). Sivadas and Baker-Prewitt (2000) also stated that it is not merely enough to satisfy a customer. According to Reichheld (1996), 60 to 80 percent of customers who defect to competitors' brands said that they were either satisfied or very satisfied with the product or service they left. Therefore, in order to ensure customers' retention, Bowen and Chen (2001) were of the view that customers must to be extremely satisfied. As far as organizations are concerned, they want their customers to be loyal to them and customer satisfaction does not fully guarantee this. Customer satisfaction is in fact not necessarily a guarantee of loyalty. In certain industries up to 70% of customers who switch providers say that they were satisfied or even highly satisfied with their previous service provider. Customers may change service providers because of price, or because the rival is offering new opportunities, or simply because they want some variation.

Today, financial institutions are seeking information on how to build customer loyalty. The increased profit comes from reduced marketing costs, increased sales and reduced operational costs. Finally, loyal customers often cost less to the firm because they know the products and services and require less information. They even serve as part-time employees up to some extent. Therefore loyal customers not only need less information themselves about product and service offerings but also serve as an information source for prospective customers of the firm. In order to ensure customer loyalty and restrict switching behavior, financial institutions of 21<sup>st</sup> century must be able to anticipate the needs of their customers because a customer's interest in maintaining a loyal relationship is depended on the firm's ability to anticipate customer's future needs and demands and offering them before anyone else (Kandampully, & Duffy, 1999).

### Research Methodology

Questionnaire based survey method used for this one-shot research study. The scale was developed to measure the impact of customer satisfaction on customer loyalty and intentions to switch using five point likert scale with responses ranging from 1 to 5, where 1 = Strongly Disagree, 2 = Disagree, 3 = Indifferent, 4 = agree and 5 = strongly agree. Customer satisfaction, customer loyalty and intentions to switch scales were composed of three, four and three items respectively. The reliability of the scales was accessed using Cronbach's Alpha, and the Cronbach's Alpha score of customer satisfaction, customer loyalty and intentions to switch was .720, .641 and .682 respectively which indicate reliability of the scales. The scales based on previous research on the respective topics were customer satisfaction (Anderson, & Sullivan, 1993; Fornel, 1992; Levesque, & McDougall, 1996), customer loyalty (Gerrard, & Cunningham, 1997; Allred, & Addams, 2000) and intentions to switch (Selnes, 1993; Bloemer, & Ruyter, 1998; Evans, & Lindsay, 1996) and all were measured on five point likert scale. A demographics section was also included in the questionnaire containing questions regarding gender, age, qualification and occupation of the respondents as well as the name of the bank along with number of years customer is using the services of a particular bank (See Appendix A for detailed questionnaire). For the study data were collected from 120 customers visiting the banks counters and had an account with banks serving in Pakistan. The collected data then analyzed using the Microsoft Excel and SPSS 16. The theoretical framework of the study along with hypothesis is as follows:



**Figure I: Theoretical Framework of the Study**

**H1:** Customer satisfaction is significantly and positively associated with customer loyalty.

**H2:** Customer satisfaction is significantly and negatively associated with intentions to switch.

### Analysis and Interpretations

Table I below provides the demographical distribution of the respondents with regard to various categories.

**Table I: Demographics**

Demographics	Category	No. of respondent in category	Percentage
<b>Type of bank</b>	Public	13	10.8
	Private	107	89.2
	Total	120	100
<b>Occupation</b>	Salaried	95	79.2
	Businessman	11	9.2
	Student	14	11.6
	Total	120	100
<b>Qualification</b>	Graduation	89	74.2
	Masters	19	15.8
	Others	12	10.0
	Total	120	100
<b>Gender</b>	Male	109	90.8
	Female	11	9.2
	Total	120	100

As shown by the table I, out of a total of 120 respondents, 89.2% of the respondents had their accounts in private banks and only 10.8% had public sector banks as their financial service provider; 79.2% were salaried individuals, 9.2% were businessman and 11.6% were students. Further, majority of the subjects were male i.e. 90.8% while only 9.2% were female. Subjects were also inquired about their qualifications and 15.8% of them were post graduates, 74.2% were graduates, while remaining 10% did some professional certifications and diplomas or have qualifications lower than graduation. Moreover respondents were aged between 19 years of age to 53 years having customer-banker relationship of 1 to 11 years.

**Table II: Summary statistics of dependent and independent variables used in this study**

	Mean	Std. Deviation
Customer Satisfaction	3.76	.719
Customer Loyalty	3.71	.506
Intentions to Switch	3.64	.552

Table II provides the descriptive statistics of the dependent variables i.e. customer loyalty and intentions to switch and independent variable i.e. Customer satisfaction. The mean value of customer satisfaction is 3.76 with standard deviation of .719 indicating that customers are satisfied with their respective financial service providers. The mean value of dependent variables i.e. customer loyalty and intentions to switch is 3.71 and 3.64 respectively which is above average of 3. Moreover, standard deviation for these variables is respectively .506 and .552 indicating that respondents are loyal customers and any variation in financial services would never cause them to switch to another bank which offers better financial services. Table III provides the correlations of the variables used in this study i.e. customer satisfaction being the independent variable whereas customer loyalty and intentions to switch being the dependent variables. All variables are significant at 1% level of significance. The correlation coefficient of customer loyalty for customer satisfaction is .229 which is significant thus we accept H1 which states that customer satisfaction has a positive significant relationship with customer loyalty. For the 2nd dependent variable i.e. customers' intentions to switch, the correlation coefficient is -.193 which is also significant thus we accept our 2nd hypothesis too i.e. H2 which states that customer satisfaction has a negative significant relationship with intentions to switch.

**Table III: Correlations**

		<b>Customer Loyalty</b>	<b>Intentions to Switch</b>
<b>Customer Satisfaction</b>	Pearson Correlation	.229**	-.193**
	Sig. (2-tailed)	.001	.003

\*\* sig at level 0.01

On the whole, findings indicate that respondents are loyal to their financial service providers and don't think to switch to another bank without any worst variation in financial services offer to them by their respective banks.

### ***Conclusions and Discussions***

The current research study attempts to find the impact of customer satisfaction on customer loyalty and intentions to switch. Clarke (2001) examined that customer satisfaction is really no more than the price of entry to a category. For satisfaction to be effective, it must be able to create loyalty amongst customers. McIlroy and Barnett (2000) stated that an important concept to consider when developing a customer loyalty program is customer satisfaction. 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 purchases and engage in relationship activities. Loyalty is vulnerable because even if consumers are satisfied with the services they will continue to defect if they think they can get better value, convenience or quality elsewhere. Therefore, customer satisfaction is not an accurate indicator of loyalty. Satisfaction is essential but not a sufficient condition of loyalty. In other words, we can have customer satisfaction without loyalty, but it is too hard or even impossible to have loyalty without satisfaction.

Based on the views and research done by numerous researchers and academicians, it can be concluded that customer satisfaction is very important. Thus, though customer satisfaction does not guarantee repeat purchases on the part of the customers but still it plays a very important part in ensuring customer loyalty and retention. However his point has been echoed by lots of organizational critics when they said that customer satisfaction is a direct determining factor in customer loyalty which in turn prevent them to switch to other financial service providers. Therefore organizations should always strive to ensure that their customers are very satisfied. Customer loyalty and retention is potentially one of the most powerful weapons that financial institutions of 21<sup>st</sup> century can employ in their fight to gain a strategic advantage and survive in today's ever-increasing competitive environment.

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*Appendix (A)***(Questionnaire)****Impact of Customer satisfaction on Customer Loyalty and Intentions to Switch: Evidence from Banking Sector of Pakistan**

Please respond to the following questions by circling the best fitting number. There are no right or wrong answers for these questions. All the information collected through the questionnaire will be used only for contribution to knowledge and kept secret/ confidential. Please ensure that you mark all the given statements as incomplete responses will not fulfill researcher's requirements. **Thanks**

**(1) Strongly Disagree (2) Disagree (3) Indifferent (4) Agree (5) Strongly Agree**

**Customer Satisfaction**

1	I am satisfied with staff's response and prompt services provided by my bank.	1	2	3	4	5
2	I am satisfied with financial services advice provided by my bank.	1	2	3	4	5
3	I am satisfied with products and services offered by my bank.	1	2	3	4	5

**Customer Loyalty**

4	I often tell positive things about my bank to other people.	1	2	3	4	5
5	I recommend my family, friends and relatives to do business with my bank.	1	2	3	4	5
6	I recommend my bank to someone who seeks financial advice.	1	2	3	4	5
7	I shall continue to do more business with my bank.	1	2	3	4	5

**Intentions to Switch**

8	I would like to switch to another bank that offers better customer services.	1	2	3	4	5
9	I would like to switch to another bank that offers better profit.	1	2	3	4	5
10	I would like to switch to another bank that offers a variety of products and services.	1	2	3	4	5

**DEMOGRAPHICS**

The following data is required for statistical purposes only, please do not give your name or identification

**Type of Bank** ----- Public Private

**No. Of years you are customer of this bank** \_\_\_\_\_

**Occupation**----- Salaried Businessman Student

**Qualification** ----- Graduation Masters Others

**Age (in Years)** -----

**Gender** ----- Male Female

**THANK YOU VERY MUCH FOR YOUR TIME AND COOPERATION**