Why is customer loyalty so important in the banking sector? - An overview !

Gentiana Mjaku, Ph.D. c

[*] Department of Marketing, Faculty of Economics, University of Tetova

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Abstract- Today, in order for banks to be productive in the labor market and to be competitive in the market, they must identify customer preferences. For this in this research, an overview of the literatureon consumer loyalty in the banking sector was made. From the literature review we as researchers have concluded that the consumer in the banking sector will remain loyal if he is satisfied with the banking services. A service with advanced and fast technology in this dynamic period has made the main factor that determines the customer to select his bank to perform banking services. Many authors have been contacted regarding CL and changes have been made, especially in the banking sector. Through this research we have made a general summary for CL in different countries for the banking sector over the years.

Index Terms- Customer loyalty (CL), client, banking services, banking sector.

I. Introduction

Competition between banks pushes owners to find ways to ensure market stability and gain competitive advantage even between competition. Thus, attention to customer loyalty has increased more than ever before, which has attracted the attention of many researchers. To improve organizational about industry competiveness also influences level of productivity and profitability, all the service providing satisfaction and loyalty. Continuous benefit packages businesses are focusing now a day on the satisfaction provided by bank enhance customer satisfaction.

However, focus only on business, whether large or small. The rapid development and application of information and communication technologies (ICTs), especially the vast proliferation of Internet and Web 2.0 paradigm in the recent years, have profoundly transformed the traditional ways of doing business in the banking sector. Bank institutions have significantly enriched their offerings with brand new products and services, being highly customized to meet the needs of their customers. In this context, ***Hadžić (2015)*** shares the findings of other authors, pointing out the fact that banking institutions, which have succeeded in adjusting themselves to the needs of their customers in a prompt and an adequate way, are the most successful ones. They have to focus their attention on the changes that continually occur in the contemporary business surrounding as well as to introduce new and innovative processes, products, and services on a regular basis, in order to manage those changes on time and in an effective manner **(Zagorac, 2014).**

Similarly, **Rončević (2006),** while making a comparison between the traditional and the contemporary banking, has stated out that the later one is being characterized by dynamic development and application of new strategies, oriented strictly towards the clients. This behaviour is entirely opposite to the philosophy of the traditional banking, where bank institutions have been oriented mainly towards themselves. According **to Alam, Musa and Hasan (2009),** traditional bank institutions seek to lower their operating costs, improve the delivery of banking services for customers, and retain customers on a long run by offering Internet banking services. By examining the current situation in the country concerning the perceived levels of customer usage and satisfaction with banking services, the paper aims to determine which variables affect the usage of banking services at most as well as whether there is a mutual relationship between the perceived levels of satisfaction vis-à-vise-banking services and customers' loyalty.

The findings of this study will have many important implications for the industry. Banks will help, discover the relationship between customer loyalty. Also, customer loyalty is greatly influenced by customer satisfaction and customer satisfaction identified as an important predictor of customer trust. Since loyal customers are profitable customers, banks are looking for ways to make loyal customers to them. Therefore, customer loyalty to banks can practically be achieved by increasing the satisfaction and trust of bank customers. However, this research for the banking sector will help banks design strategies to satisfy customers through which they build customer trust and make them loyal to the bank.

The rest of the research is structured as follows. The literature review is presented in the second section, which focuses on: the meaning of banking services; as well as the consumer satisfaction and loyalty in developing countries. Last section of the paper presents the conclusion and recommendation of the study.

II. THEORETICAL BACKGROUND

Globalization, deregulation and financial innovations have all a significant impact on increasing the competitive levels in the banking sector. Therefore, banking institutions have to pay a great attention to the improvement of the quality of their services, which is a key premise to their better positioning on the market (**Radojević, Marjanović, 2011).** The quality of banking services along with the clients' satisfaction and loyalty are both significant determinants that underlay the success in modern banking (**Islam, Ali, 2011**). Since the banking sector is a service-oriented business, the appliance of contemporary technologies is necessary to improve the quality of services (**Karim, Chowdhury, 2014).** One of the most evident results that arise from the direct appliance of the ICTs in banking sector is the development and proliferation of e-banking. There is a plethora of definitions about what actually means the term 'e-banking'.

To name a few, **Srivastava (2007)** defines e-banking as a system which allows the customers to access their banking accounts and get information about banking products and services over the Internet. According to **Suki (2010),** among the most prominent primary factors are the perceived perception, complexity, and hedonic-oriented features of banks' Internet webpages. In addition, the results of a study conducted by **Kumbhar (2011)** vis-à-vis the most important factors affecting customers' satisfaction in e-banking are as follows: brand perception, perceived value, cost effectiveness, easiness of usage, and convenience. Moreover, Australian banks that provide user-friendly interface, website reliability, transactional capabilities, and activities that foster customers' education about online risks are more successful in the area of e-banking **(Poder, 2005).** Namely, it is a great opportunity for them to standardize the delivery of their services to customers, as well as to increase their profitability by reducing the services' processing costs. At the same time, it significantly increases the chances of attracting more clients.

A. Costumer Loyalty

The concept of loyalty first appeared in the 1940s. In its infancy, this concept was introduced as, "brand preference" which was later mentioned as loyalty to stay and "market share", which was later mentioned. as loyalty of conduct. Nearly 30 years after loyalty first appeared in academic literature scholars **(Day, 1969)** proposed that loyalty could be more complex and that it could involve a loyalty of attitude and behavior.

Customer loyalty is the attitude and behavior of the customer to limit satisfaction with the product or service. Customer loyalty has an official to do it in gaining competitive advantage Among firms for more under a competitive and dynamic opportunity. Customer loyalty is difficult to define. In general, there are three distinctive approaches to measure loyalty:

- ❖ behavioral measurements;
- ❖ attitudinal measurement;
- ❖ and composite measurements.

In coordination with **(Peiguss, 2012)** it states that: "Customer loyalty is defined as the willingness of any particular customer to purchase the company's goods or services over those competitors available in the market." Whereas according to **(Singh, Khan, 2012)** it says that: The client gains trust as a result of good experiences from the past and for this the client again comes and performs banking services in the bank that is satisfied. According to the authors **Ghavami & Olyaei, (2006) and Zikmund, (2002)** the loyalty of the clientele is influenced not only by the price of the service but also by the emotional connection that the client creates and the trust in that bank, etc**.**

According to **(Segoro, 2013),** the customer's loyalty is explained in three cases:

- ❖ first, the steadfastness appeared through the client's conduct with repetitive purchasing;
- ❖ second, the loyalty shown through the customer's attitude about the company (this factor includes preference and commitment to the brand and advising it to the others)
- ❖ and third, a composition of the customer's behavior and his attitude about the company.

In general, customer satisfaction with a company's services is considered the key to a company's long-term success and competitiveness. Customer satisfaction is the determining factor that keeps the company in its clientele.

But on the other hand the author like **Peiguss, (2012)** emphasized that pleasure is not the determining factor in the attitude of the client in the enterprise. He says in his research that if a customer leaves satisfied with the banking service it does not mean that 100% safe will come back to your bank. According to the author, customer satisfaction is short-term. **Singh & Khan (2012)** conclude that fast service, reasonable prices affect long-term customer loyalty and thus long-term profitability. With the understanding of the behavior of the customers and satisfying them provides the benefit to the business in the long term. It is thought that establishing good relationships with customers by providing better services will build customer loyalty. This will affect the long-term profit of the business and will be more competitive in the market. According to **Agchi & Xingbo (2011)** the loyalty of the clientele is also influenced by the location of the bank or the different distance of banking services. **Omar et al. (2009),** emphasized that marketing utilization affects customer loyalty. According to the author in question, marketing tools do not allow to forget in the customer's memory the good service for a certain period of time.

Also **East et al. (2005),** the authors argue from the findings of the study that in three areas should contribute to increase client reliability such as: Good behavior, continuous communication by keeping the clientele informed of the latest changes, and prompt service. Also, according to the author **Kumar & Medha (2013)** in CL many influential factors among them are:

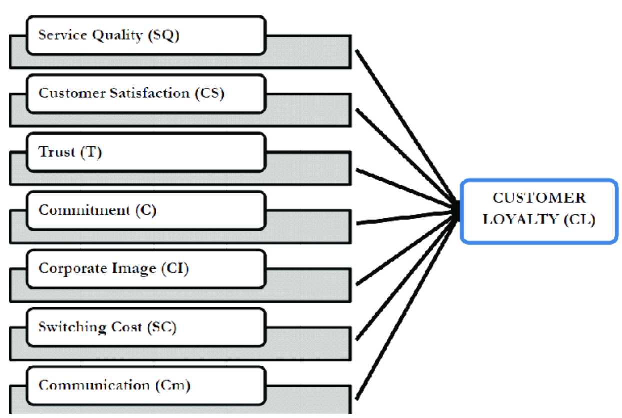

Figure 1Customer Loyalty Formation. Source:https://www.researchgate.net/publication/269829674_The_Antecedents_of_Customer_Loyalty_An_Empirical_Investigation_in_Life_Insurance_Context/figures?lo=1

Deighton (2000) tended to that data innovation empowers firms to rehearse singular level promoting which help the wide spread of faithfulness programs into a few businesses, for example, gaming, budgetary administrations, and retailing. So as to research the conditions under which a reliability rewards program will positively affect client assessments, conduct, and rehash buy expectations.

Henning & Klee, (1997), focused at the customer satisfaction with a company's product or services as it is the key to company's success and long-term competitiveness. The author considered customer satisfaction a central determinant of customer retention. The overall purpose of this study is to develop a conceptual foundation for investigating the customer retention process, with the use of the concepts of customer satisfaction and relationship quality. The study has a critical examination of the satisfaction-retention relationship, and the development of a comprehensive view of the customer's quality perception. **Dowling and Uncles (1997),** explained that there are three primary lessons from the research they did." First, a major reason for launching of many customer loyalty programs is competition. Second, if a loyalty program does not support the product or service value proposition, it might be justified in attracting more distributors to deal with the product. Third, brand loyalty is more likely to come from the market". On the other hand, we have **Singh & Imran (2012)** estimate that on average online retailers lose 25% of their clientele. The authors also point out that if different policies are followed to retain the clientele, it would increase the firm's profit by 25%.

Today, various techniques are used to measure customer satisfaction in banking services. Moreover, recommendations or oral communication are also important tools to determine customer satisfaction. Good experience with banking services makes the client evaluate the bank. Basically, customers who have good experience will encourage others to perform banking services in that bank. Customer loyalty is also sometimes described as repeated purchases by the same trader over a period of time. And in conclusion customer loyalty is the main objective of measuring customer satisfaction.

III. CONCLUSIONS AND RECOMMENDITIONS

In addition to the high level of competition in the banking sector, banks decide to increase and further offer its portfolio with new products and services, to advance them existing so that you have the opportunity to use and currently use. Moreover, to this day, it is essential for banks to use marketing segment strategies through direct communication with current and potential customers. For more services and its advantage over the competition in the best business case, it is possible for banks to become innovative, creative and identify more with other tire customers. Taking care of this, only they can want to earn more compared to the tire competition and offer a higher quality product and service that you will be more likely to want and want to change from customers. This study was created to look at the findings of different authors and at different times and regions what affects customer loyalty. From various researches we have come to the conclusion that many factors affect the loyalty of the clientele.

It is important to note that for any service industry, customer satisfaction is very important to the success of the business entity because it influences the choice and the decision of the customers to return to the same services. Companies need to retain existing customers by effectively meeting their needs in order for existing customers to become loyal. Hence, through providing good services, the perception of customer can be changed positively towards revisit intention and once the positive perception has been developed, the loyalty can be seen more effective and definitely it would effect on customer return intention. When the client shares a positive experience is the key to success for their loyalty. Some of these general recommendations are:

1. Management policies should focus on continuously improving their services in line with clientele preferences.
2. The services provided should be divided according to age, educational level, cultural level and if necessary the staff should hold additional training.
3. The employees of the bank should support the working staff, give the right support because in this way the needs and desires of the clients are understood.
4. In order to attract new clients, the bank must sometimes provide free services as part of its policy.

Since this research has some limitations, it is useful to conduct future studies that deal with the impact of certain factors that affect client loyalty. Banks should provide and continuously improve their quality of services to suitably meet the need of customers for satisfaction that could result in loyalty.

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AUTHORS

First Author – Gentiana Mjaku, Ph.D. Candidate, University of Tetova, genta.mjaku@live.com

Correspondence Author – Gentiana Mjaku, Ph.D. Candidate, University of Tetova, genta.mjaku@live.com+38345498156