

The Relationship between Customer Satisfaction and Loyalty with the Bank Performance in IRAN

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Abstract

The present study aims to examine the relationship between customers' satisfaction and loyalty with the financial performance of the bank through a field study. According to the research objectives, the applied method is application approach and the necessary data has been collected using questionnaires and survey method. In this study, the statistical population one of the branches of the private banks in Yazd. This study is an applicable correlation study which used structural equation modeling and factor analysis to examine the hypotheses. The findings demonstrate that there is a strong positive relationship between customer's satisfaction and loyalty at 95 percent. Any of the satisfaction and loyalty variables are significantly related to the bank performance at 90 percent. The results of this study can be captured by business management in banking industry.

Keywords: customer satisfaction, customer loyalty, financial performance, banking industry

1- INTRODUCTION

Attaining customers and their retention are very essential affairs in today's competitive world. Economic entities seek to satisfy the expectations and requirements of their customers to earn

revenue in addition to increasing profitability (Chen, 2012). Meeting the organizational objectives is completely dependent upon identifying and supplying the requirements and demands of the market. It is along with satisfying the customer needs more effectively than the other competitors. Today, those businesses are successful that supply their customers more than others and this doesn't hold for the enterprises which just look forward to short-term sales. They should create a better and different value for their customers and make it as a reliance point for their customers. In this dynamic market, the customers are expected to supply the most value with the best price and innovate to follow the new patterns and provide goods and services for the customers (Carter and Ejara, 2008). Therefore, the institutions and especially banks should pay attention to this main concept in which the growth and development path is defined in providing the best services to the customers. In doing so, customer satisfaction leads to more attraction of the customers, interest to the services of the businesses, tendency toward communicating a better and closer relationship and so on. On the other hand, the more satisfied the customers, the more loyal and worthy customers (Christina and Dogan, 2009). Therefore, the banks should take their customers more into consideration and finally make them loyal and improve the financial performance of the firm in this way (Silvestro, 2006). The present study then aims to respond to a question about whether satisfaction and loyalty of customers of Yazd banks associate with their performance.

2- Conceptual background and hypotheses

1.2. Customer Satisfaction

Studies about consumers' satisfaction return back to the early 1960s. Literature review of "customer satisfaction" shows that the researchers of social science and psychology have made at least 20 definitions about satisfaction during the last 30 years. These definitions were examined through computing the measures. The findings revealed that most of these definitions are convergent. The titles related to customers' satisfaction has been composed of the assortments of these definitions and their measurement schemes. According to the opinions of the commentators, there are three joint factors in all definitions which can result in a basis for the comprehensive definition of satisfaction.

1. Customers' satisfaction is an emotional (sentimental) reaction or a manner of interactive recognition and perceive.
2. Customers' satisfaction is a response to the specific concentration on the expectations of production and the experience of using services and consumption.
3. Customers' satisfaction is a reflection during a time period (for example, after the first choice or according to the recurring and aggregate experiences and so on) (Jeong and lee, 2010).

Finally, customers' satisfaction is a summary of a psychological manner in which a composite of customers' feeling about the unexplained expectations and his/her previous consumption experiences are encompassed. This definition is of the general satisfaction territory. Andersen and colleagues describe general satisfaction as a broad evaluation based on the purchase experience along with the total consumption of a merchandise and provision of services during the time (Yoon et al, 2010).

2.2. Customers' Loyalty

Customers' loyalty means a positive vision about something (brand, service, store or a vendor) and a supporting behavior of that perspective. Loyalty is a high level of involvement in repurchases intention. There are two approaches observed in the definition of loyalty:

- Perspective Approach
- Behavioral Approach

The latter approach explains customers' loyalty as a behavior. Functional concept of this explanation is the purchase share of the customer and his purchase frequency. However, the first approach is based on this assumption that loyalty is derived from psychological involvement and is focused on several subjects like brand suggestions, persistence against better productions, repurchase intention and tendency to pay fees (Yap et al, 2012).

Bloemer et al (1998) describe loyalty to bank as a behavioral response accompanied by prejudice or a revisit which is. There are numerous studies conducted about the relationship of satisfaction and loyalty. The association of customers' satisfaction and loyalty in banking industry of Taiwan (experimental study, variable cost and brand priority as the intermediary variables) was conducted to examine the relationship between customers' satisfaction, variable cost, brand priority and customers' loyalty. The researcher found that there is a positive relationship between customers' satisfaction and variable cost with the customers' loyalty; while there is no positive association between brand priority and customers' loyalty (Hin Hung, 2009). Additionally, another study titled "Customers' Satisfaction and Proficiencies in an Economical Study of an Italian Bank" has been conducted and aimed to analyze the effect of customers' satisfaction and loyalty on the profitability of banking industry with a statistical population of 2015 customers in 118 branches of one of the largest banks in Italia. The authors found that customers' satisfaction influences on the customers' loyalty. Generally, customers' satisfaction has a direct influence on the financial and non-financial value of the customers, general value of the customers and composite value of the customers. In addition, customers' loyalty is a mediator variable between financial and non-financial value of the customers and two resources of satisfaction (Paola and Nicolai, 2010). The following hypotheses are defined according to the points above mentioned:

H1: there is a relationship between the customers' satisfaction and loyalty in banks.

2.3. Banking Performance

In a market based economy, the banking regulation holds a very significant responsibility and is considered as one of the most important components of a country's economy. Banking provides services which have a vital role in the economic system of the country. The capital of the banks is the main resource of purchasing productions and services; while their granted loans are also regarded as a credit for all the economic entities like families, occupations, corporations and government. Therefore, the optimal performance of the banks and effective application of facilities are so useful in capital utilization and considerably in different economic activities (Abdullah et al, 2011). Incremental threats and pressures of globalization made different governments attempt to privatize the banks and establish competitive situations for the purpose of improving service level of the governmental banks. Other financial institutes are

then established as a result of such policies (Sarkar and Sensarma, 2010). The banks have tried to set up research centers and conduct studies about their position in comparison with other banks to improve their performance in internal and external markets and find new methods for increasing service value and achieving competitive advantage. However, the managers of the banks are mainly concentrating on finding answers to these two questions:

- What derives performance and leads it?
- How can the performance be improved?

There are several studies carried out to find the answers to these questions. According to the prior findings, there is a chain of service-earning which involves the performance factors of service organizations (Ghayebi Badrabadi, 2007). Yu and Chao (2009) analyzed a sample of 442 respondents with the experience of using electronic banking system in Taiwan. They aimed to investigate the relationship between the quality of electronic services, customers' satisfaction and trust and the electronic loyalty in Taiwan. They found that electronic management should focus on service quality to increase customers' satisfaction and trust and finally improve their loyalty. Another study called "Examining the Islamic Banking Model based on Service Quality, Customers' Satisfaction and Bank Performance" was conducted in Pakistan among 720 respondents from 60 branches in six developed Islamic bank. Their findings demonstrated that there is a strong positive relationship between service quality and customers' satisfaction in Islamic banks of Pakistan; while service quality and bank performance are positively correlated. Additionally, customers' satisfaction is not a mediator among service and bank performance. The author suggests that the gap between customers' satisfaction and bank performance might be because of the bankers' concentration on extending banking network instead of customer orientation (Ashfaq et al, 2011). Therefore, the researcher intends to test the following hypotheses:

H2: There is a significant relationship between customers' satisfaction and bank performance.

H3: There is a significant relationship between customers' loyalty and bank performance.

3- Statistical Population and Methodology

The statistical population of this study is composed of the customers of one of the private banks in Yazd. Selecting a private bank is because of the more attention paid by them to satisfying and making their customers loyal. Additionally, performances of these banks are accurately evaluated and the governmental banks are less desired to answer to the questionnaires and provide their performance information. Random sampling was used to select the required sample. In doing so, 400 questionnaires were randomly distributed among customers and finally 324 of them were returned back. The present study is an applied field study and tries to find the relationship between the variables.

1.3. Questionnaire and its reliability and validity

In this study, the research questionnaire is a standard questionnaire used in international researches, so Validity is confirmed. in the present study to assess the questionnaire reliability, the Cronbach's alpha coefficient of reliability in internal consistency method 0.88 is obtained. With respect to, the required minimum coefficient of reliability in the research questionnaire is

0.7 hence it can be concluded that the questionnaire used in this study has high reliability, also for each of the variables in Cronbach's alpha is calculated which is given in table below.

Table 1: Cronbach's alpha coefficient of the study variables

Variable	Cronbach's alpha
Customers' Loyalty	0.684
Customer Satisfaction	0.832
Total questionnaire	0.88

2.3. Description of study samples

In this study, samples under study are the age distribution, education, income and savings that are as follows:

Table2: Demographic characteristic description of the study samples.

		%
Gender	Male	86.6
	Female	11.4
Marital status	Singe	55.5
	Married	44.5
Age	26-35	45.1
	51 years above	4.3
Educational level	Diploma	39.4
	Master degree and PhD	5.9
Income	Less than 300\$	13.6
	301-500	40.1

4- Data Analysis

1.4. Structural equation modeling

Structural modeling equation (SME) is a multivariate analysis technique which is generally a more precise linear model that makes the researcher possible to test a set of regression equations simultaneously. The data is analyzed by using structural modeling equation and regression. Factor analysis is actually needed to be used in some fields of tests. In exploratory analysis, the researcher seeks to analyze the experimental data to explore and recognize special indexes and the relationship between them. The methods of exploratory factor analysis can be valuable when the confirmatory methods are used to test the hypotheses. Therefore, the factor analyses might be used in logical bases of structural modeling equation. In the present paper, we have first recognized the main variables by using exploratory factor analysis and then the research hypotheses and final models have been tested by a set of fitness proxies.

2.4. Exploratory Factor Analysis of Customer's Satisfaction

Customer’s satisfaction is the first variable being examined. According to the findings of the first stage of the study, a collection composed of eight questions was exploited and the first questionnaire was then designed. Table 3 analyzes the factors of customer’s satisfaction, code and the number of the variables of each factor and the results of the exploratory analysis.

Table3. The Composite Factors of Customer’s Satisfaction Structure

Factors	Code	Vareiables	results
Competitor Differentiation satisfaction	D	C ₁ -C ₃	C ₁ -C ₂ -C ₃
sustainability	S	C ₄ -C ₅	C ₄ -C ₅
Recognition	F	C ₆ -C ₇	C ₆ -C ₇

Sampling adequacy is the initial step toward exploratory factor analysis. The findings of KMO-Bartlett test are provided in table 4. Consistent with the results, the exploratory factor analysis can be conducted on data. KMO statistics which is more than 0.5 confirms the sampling adequacy and confidence level of zero for the Bartlett test documents the fitness of the factor model. Besides, analyzing the main elements with Varimax rotation is the method used in all stages of exploring the factors.

Table4. KMO and Bartlett test.

Index sampling adequacy KMO		0.857
Bartlett test.	Approx.chi-square	871.039
	df	21
	Sig.	0.000

The results of KMO and Bartlett test in table 4 show the sampling adequacy and fitness of the proposed model.

3.4. Exploratory Factor Analysis of Customer’s Loyalty

Customer’s loyalty is the second variable used for exploratory factor analyses which is described in form of four questions. Table 5 shows the customer’s loyalty, code and the number of variables of each factor used in analyses along with the findings about the exploratory analyses of the factors.

Table5. The Composite Factors of Customer’s Satisfaction Structure

Factors	Code	Vareiables	results
Attitude loyalty	A	L ₁ -L ₂	L ₁ -L ₂
Behavioral loyalty	B	L ₃ -L ₄	L ₃ -L ₄

Table6. KMO and Bartlett tes

Index sampling adequacy KMO		0.672
Bartlett test	Approx.chi-square	224.744
	df	6
	Sig.	0.000

The results of KMO and Bartlett test in table 6 show the sampling adequacy and fitness of the proposed model.

4.4. Exploratory Factor Analysis of Bank Performance

The fourth variable is the bank performance which is collected in form of four proxies.

Table7. Coding of the Variables of Banking Performance

variable	Code	results
The per capita income for each employee	PER4	PER4
Loan accounts grow	PER5	PER5
Bank size (log of assets)	PER8	PER8
Per capita expenditure per employee	PER10	PER10

Table8. KMO and Bartlett Test

Index sampling adequacy KMO		0.685
Bartlett test	Approx.chi-square	64.532
	df	6
	Sig.	0.000

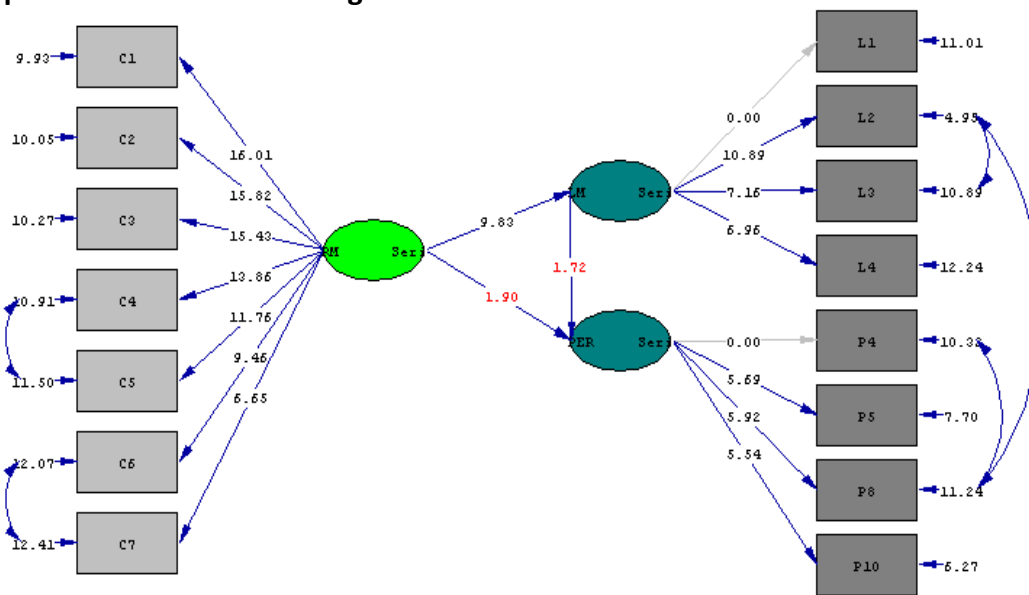
The findings of KMO and Bartlett test are provided in table 8 and show the sampling adequacy and fitness of the proposed model.

5.4. Confirmatory Factor Analysis

The significance and precision of the analyses are considered by confirmatory analyses. This is probably the most useful method to estimate the parameters and test the hypothesis that

examines the relationship between collections of proxies (Houman, 2008). The exploited factors are then examined by confirmatory tests about the findings of exploratory factor analyses. All the proxies are verified in factor analysis. The results show that t- statistics of all relations are more than two and the explained variance by each variable is an acceptable value. Therefore, the measurement model of all variables has a goodness of fit.

Graph1. The Final Model of Significant Numbers



According to the outputs of the software and t-statistics, the final model has the proper goodness of fit. Table 9 provides the results about the hypotheses according to $t=1.64$ at 0.90 significant level and $t=1.96$ at 0.95 significant level.

Table9. The Findings of the Research Hypotheses

Hypothesis	t-value	0.95	0.90
there is a relationship between the customers' satisfaction and loyalty	9.83	Supported	Supported
There is a significant relationship between customers' satisfaction and bank performance.	1.9	Not Supported	Supported

There is a significant relationship between customers' loyalty and bank performance.	1.72	Not Supported	Supported
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5- Discussion

Three main hypotheses are examined in this study:

The First Hypothesis: The positive significant relationship between customer's satisfaction and loyalty is regarded in this hypothesis. This is examined by confirmatory factor analysis and the significant positive relationship between these two variables has been verified. Consequently, the satisfaction level of customers in the specified bank has a positive influence on the customers' loyalty.

The second hypothesis: this hypothesis examines the significant positive association between customers' satisfaction and financial performance which has been examined by the confirmatory factor analysis. According to $t=1.64$ at 90 percent of significance level and $t=1.96$ at 95 percent of significance level, it can be concluded that the second hypothesis is rejected at 95 significance level. This is also concluded by considering t-value which is 1.9 and is less than 1.96. However, it is more than the critical value of 1.64 and the second hypothesis is confirmed at 90 percent of significance level. Therefore the customers' satisfaction has a positive influence on the financial performance of the bank. The more satisfied customers then can make us expect better financial performance of a given bank.

The third hypothesis: this assumption is about the positive significant relationship between customer's loyalty and financial performance. This hypothesis is also examined by using confirmatory factor analysis. According to $t\text{-value}=1.72$ which is less than 1.96 it can be resulted that the third hypothesis is rejected at significant level of 0.95. However, it is more than the critical value of 1.64 which confirms the hypothesis at 90 percent of significant level. Customers' loyalty is therefore in a positive association with the financial performance of the bank. Hence, the more loyal customers cause the better financial performances of the bank.

6- Conclusions

There are some points suggested according to the findings of the study:

1. Creating an efficient and dynamic management system for the purpose of increasing the customer's satisfaction and loyalty in order to improve the financial performance level of the bank
2. Using incentive policies for the loyal customers and increasing the motivations for their more loyalty to the bank and improving the financial performance of the bank.
3. Designing a measurement system for evaluating the customer's satisfaction of a bank's branch to collect, analyze and publish the information and communicate it with the financial performance of the bank to motive managers and employees of different branches in order to satisfy the customers which will finally improve the financial performance of the bank.

There are also some suggestions offered to be studied in future:

1. Measuring the relationship between customers' satisfaction and loyalty in different time periods and investigating the association between customers' satisfaction and loyalty with the financial performance of the future time periods in each branch
2. Comparative analysis of the relationship between customers' loyalty and satisfaction in private and governmental banks
3. Analyzing the association between satisfaction and loyalty in different groups of customers (in terms of job, income and profitability) with the financial performance of each branch and providing the significant coefficient of loyalty and satisfaction of each group
4. Examining the relationship of the variables in different organizations and industries and different competitive environments

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