

Impact of Customer Satisfaction and Demographic Factors on Customer's Loyalty in Banking Sector of Pakistan

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Abstract: In order to compete and survive successfully in today's dynamic environment, all the service providing organizations focus on enhancing their diverse customer base having different age groups and other different demographical patterns that arise after the fulfilment of needs and wants of customers to maximize their ultimate profitability. Therefore, researchers all around the world have emphasized on the customer satisfaction and customer loyalty. The current research study endeavours to find out the relationship among customer satisfaction, demographics and customer loyalty. The sample data is collected from random customers of different banks of Pakistan. The collected data then analysed by Microsoft excel and SPSS16 by applying descriptive statistics and chi square analysis. The results revealed that there was a positive association between most of demographical characteristics and customer satisfaction on customer loyalty.

Key words: Customer satisfaction • Demographics • Customer loyalty • Banking • Pakistan

INTRODUCTION

Scholars and researchers have highlighted the importance of customers for all businesses concerns whether manufacturing or service providing. Over all attitude of customer towards a service is customer satisfaction. This is actually difference between what a customer actually expect and what they receive Now a day's many types of banks are in our society like commercial banks, retail banks, merchants bank, investment bank, mortgage bank, saving bank, central bank etc. but one thing is common between all. That is Customer. For bank, Customer is a person having habit of dealing in regular banking business. Thus it is inferred from above information that banking business is based on customers. From the very first time when a person comes to a bank for depositing money, relation begins. On the other side customer loyalty arise when someone maintain continuous business relation with the bank [1]. Moreover a loyal customer advocates and prefers the services of an organization against marketing influences of competitors [2]. That's why like all financial institutions, banks these days are concentrating on customer satisfaction that leads to customer loyalty and retention. A satisfied customer share their experiences

with 5 to 6 people but a dissatisfied person will talk to at least 10 persons about their bad experiences. Therefore, an organization must fulfils the needs and expectations of their customers on continuous basis to build long lasting relationship [3].

The demographic factors of customer can also have some impact on customer satisfaction. Demographics reveal customer profile that may have some impact on affiliation with the bank. Many previous studies have attempted to explain the relation between customer satisfaction and loyalty all over the world but a few have tried to understand what would be the impact of demographic factors on satisfaction and ultimately on customer loyalty. Therefore, current research endeavours to examine the impact of customer demographics and satisfaction level on the customer loyalty in banking sector of Pakistan.

This study is quantitative in nature through survey method based on questionnaire. The study implies data collection method from bank customers of different cities of Pakistan. Survey is based on questionnaire to judge impact of customer loyalty. Further descriptive statistics and chi-square method are the data analysis methods to estimate the association of demographics, customer satisfaction on customer loyalty made in accordance.

Background of Study: It has not so far been decided as how the word bank originated. Banking is in fact as primitive as human society. From the times when man realizes the importance of money as medium of exchange, the need of a controlling agency was felt. Modern banking evolved through era of Greeks, Chinese, Romans and Egyptians when people not only deposited their money but also kept ornaments for safety and security. Modern bank can be defined in Law and banking Dr. Herbert L. Hart as, "a person or company carrying on the business of receiving moneys and collecting drafts for customers to the obligation of honouring cheques drawn upon them from time to time by the customers to the extent of amount available on their accounts." Now a day's many types of banks are in our society like commercial banks, retail banks, merchant's bank, investment bank, mortgage bank, saving bank, central bank. etc. but one thing is common between all. That is Customer. This study is focussing on the different demographic factors of customers that create satisfaction and finally loyalty is built by satisfied customers. As different groups have different belongings to their service provider.

Literature Review: To improve organizational productivity and profitability, all the service providing businesses are focusing now a day on the satisfaction level of customers that lead to customers' loyalty because a satisfied and gratified customer is free advertiser of business, whether large or small. These days, banking sector of Pakistan is becoming competitive day by day. Like other businesses banking sector is also formulating customer based strategies generate more and more profits from existing loyal and retained customer than to create new customer base. Bank policies to make their staff more customers focussed and service oriented lead to long term customer relations Banking industry in Pakistan is highly competitive.

Moreover, innovative services provided by foreign banks operating in Pakistan like Standard Chartered Bank Ltd Dubai Islamic Bank Ltd etc. are exerting more competitive pressures on local banks as they have to provide services on the same lines as foreign bank to capture same market segment. Banks have to introduce diverse products and services as the competition increases with enhanced service quality and satisfaction. Need is to attract and retain customers by these strategies as many banks are losing their customer base due to this increasing banking rivalry [4]. Customer dissatisfaction and different demographic factors are the

key elements in shifting attitude and they demonstrate bank inefficiency to retain customer base. In these circumstances, enhancing customer satisfaction is considered as an essential element in sustaining long-term customer relationship [5].

Both the type of customer relationship and bank are essential in banking industry and customer satisfaction and retention is based on nature of customer and service quality. Many previous researchers have identified the determinants of generating valued customer base and their perception about service in different cultures that cannot be generalized in Pakistan context. For example, the crucial factors that have an impact on satisfaction level of customers are age level, confidentiality and speed of transaction, bank staff friendliness, billing precision, billing clearness, billing properness, price affordability, service orientation [6]. A Bahrainian survey conducted among college students specified that young customers while choosing their banks paid more attention on determinants like reputation of bank, appropriate location of branch ATM and parking area provided [7].

Customer satisfaction in banking industry is driven by fundamental performance dimensions of service provider. Moreover, retail bank's perception and interest about industry competitiveness also influences level of satisfaction and loyalty. Continuous benefit packages provided by bank enhance customer satisfaction. Therefore customer value enhancement must be the prime management focus [8]. However, focus only on satisfying the customers is not sufficient as it does not retain customer because due to service quality and loyalty issues, customers mostly switch from bank to bank [9]. And due to poor services they terminate their relation with the bank [10]. This behaviour has a significant impact on plans involved in customer's decisions regarding selecting their banks. Thus satisfaction is the criteria for building long term customer relations and loyalty.

The possibility to select and recommend a bank is influenced by Customer satisfaction. It nurtures loyalty upto extent that develop attitude to select and recommend and eventually adopting the banking channel. Loyalty can be generated when customer recommend the same banking channel to others and this will only be possible when the customer will first be satisfied having positive attitude towards the services of bank [11].

It is a very good chance for those companies having satisfied customers to convert them into loyal ones over a period of time. To satisfy and then retain customer is necessary for banks to survive and prosper in competitive industry [12]. However, customer satisfaction is not the

only enough goal and to have gratified customers is vital. This is the case where customer satisfaction leads to customer loyalty. Building customer loyalty becomes competitive advantage of a service provider. This is actually a marketing objective recycled by all market players [13].

Customer loyalty should be the ultimate objective of organizations [11]. A highly satisfied customer will be more loyal for the bank and that loyal customer will be less inclined towards attractive marketing by competitors [5]. Possibility of recommending the services of same banking channel and maintaining long term relationship which generate high profits are positively related with the satisfaction level [14]. Long term buying patterns can be examined by loyal and gratified customers [12]. Similarly all the repeated customers are mostly satisfied ones and they never think to switch to other financial institution [15].

In the same, study in North American banking industry explained positive relation between customer satisfaction level and loyalty [16]. Rust and Zahorik (1993) [17] revealed greater repurchase intentions with greater level of satisfaction level. Moreover, the intention to switch is decreased by high level of customer satisfaction characterised by different demographic patterns [13].

The importance of quality of service, its awareness among people and its relation with the satisfaction level is highly emphasized in service providing industry [18] (Taylor). So, it is concluded by many researchers that important ingredient of customer satisfaction is quality service. Willingness to terminate banking relation is continuously decreased as the loyalty with service provider increases. Further, it was explained by Chakravarty, Feinberg and Rhee (2004) [19] that a large percentage of those customers leave their banks that have some bad experiences in recent past. As a dissatisfied customer share his bad experiences with other potential customers and it damage the reputation of bank. This concludes that customer satisfaction, demographics and loyalty are highly inter related that build selection criteria for the bank.

Now days, all service providers are in competition to create loyal customers market share. As in this case marketing, operational expenses are reduced and profitability is enhanced. Moreover loyal customers are already familiar with the organization culture and less information cost is incurred. They become part time advertiser of that service industry. Therefore, they not only stuck to organization themselves, being cheapest for firm but also serve as marketers for the potential customers of business. Therefore in this era in order to

build loyal customer, every bank must first generate profile of their customers then they should meet their expectation in order to develop their repurchase intentions [20].

Objective: The objective of my study will be to examine what actual impacts on the loyalty of bank customers due to customer satisfaction and different demographic patterns.

The objective of my study is to determine if any:

- Relationship of customer demographic factors and loyalty of customers in banking sector of Pakistan.
- Relationship of customer satisfaction and loyalty of customers in banking sector of Pakistan.

Research Question:

- To what extent customer demographics have an impact on customer satisfaction?
- To what extent customer satisfaction has an impact on customer's loyalty?

Theoretical Framework: The theoretical model of this research is as under in which customer demographics and customer satisfaction are independent variable while customer loyalty act as dependent variable. Customer satisfaction and customer loyalty is further operationalized into different elements. In the same way demographics is also converted into segments as age, gender, qualification etc.

Hypothesis: Many previous researchers have identified the determinants of generating valued customer base and their perception about service in different cultures. The crucial demographics factors that have an impact on satisfaction level of customers are age level, confidentiality and speed of transaction, bank staff friendliness, relation with the bank, billing clearness, billing properness, price affordability, service orientation [6]. There is a strong relationship between age and determinants of satisfaction like reputation of bank, appropriate location of branch ATM and parking area provided [7]. A strong relationship between Customer loyalty and customer satisfaction was determined in Bahamian banking sector [1]. Moreover a satisfied customer prefers the long term relationship with the bank [2]. A significant relation of impact of customer demographics on customer satisfaction was found [21]. Therefore it can be predicted that:

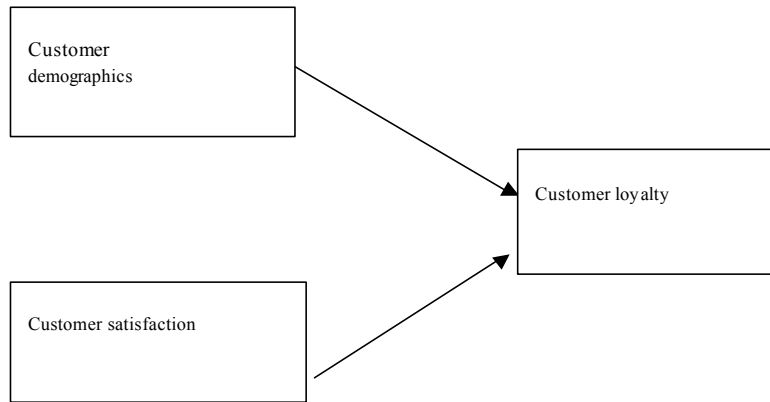


Fig. Theoretical model

H₁: There is an impact of customer satisfaction on customer loyalty in banking sector of Pakistan.

H₂: There is an impact of age on customer loyalty in banking sector of Pakistan.

H₃: There is an impact of Gender on customer loyalty in banking sector of Pakistan.

H₄: There is an impact of Academic qualification on customer loyalty in banking sector of Pakistan.

H₅: There is an impact of marital status on customer loyalty in banking sector of Pakistan.

H₆: There is an impact of duration of relationship on customer loyalty in banking sector of Pakistan.

H₇: There is an impact of customer category on customer loyalty in banking sector of Pakistan.

MATERIALS AND METHODS

Data Collection Method: This study is a quantitative research in which primary data from a random sample of 200 customers of different banks of Pakistan is collected. Data Collection Method is based on Survey Research questionnaire adapted from previous studies. The reason is that to collect data from such a large customer base this method will give significant information. The data regarding the qualitative variables is collected through the adopted questionnaire. A five point likert scale was developed in which responses ranges from 1-5, 1= strongly disagree, 2 = disagree, 3 = neutral, 4= agree, 5 = strongly agree. Scale reliability was measured by Cronbach's Alpha and it was found significant of .788. Questionnaire is based on three portions,

customer satisfaction, customer loyalty and is also including questions to collect demographic patterns regarding age, gender, occupation. Qualification, monthly income.

The data is analysed by using Microsoft excel and SPSS-16 and finding are analysed and interpreted by different descriptive statistics, demographic frequencies and chi-square analysis.

Analysis and Interpretation: Collected data is analysed by descriptive statistics and chi-square analysis. Different categories of demographical information are revealed by Table 1 as under:

As evident from above table, that out of total 200 respondents, 81 % have accounts with the commercial banks while only 19 % people have account with govt.owned bank. While majority of the information was gathered by male respondents as male were 59.5% out of total. 55.5 % were businessmen, 12 % was students and 32.5% respondents were salaried income people. When respondents were analysed with age perspective it was found that people of age between 26-45 were 77% of total more loyal to their bank than young customers. Data showed 9.5% were below age of 30. Academic qualification reveals that mostly respondents (small businessmen) were graduation as they were 78 % of total data.

Chi-Square analysis: Above Table 2 shows chi-square value of 1.298 and significance value of .000 which is less than critical value of 0.05. therefore H1 is accepted that there is a positive impact of customer satisfaction on customer loyalty

Above Table 3 shows chi-square value of 74.680 and significance value of .000 which is less than critical value of 0.05. therefore H2 is accepted that there is a positive impact of age on customer loyalty.

Table 1: demographic profile

	Variable	Frequency	Percent
1) Gender	Male	119	40.5
	Female	81	59.5
2) Age	18-25	19	9.5
	26-35	96	48.0
	36-45	59	29.5
	46-above	26	13.0
3) Educational attainment	Masters	12	6.0
	Graduates	157	78.5
	Matric	21	10.5
	P.hd	8	4.0
4) Marital status	Single	49	24.5
	Married	151	75.5
5) Duration of relationship	1-less than 3	32	16.0
	3-less than 5	39	19.5
	5-less than 10	52	26.0
	10-less than 15	21	10.5
	15-less than 20	26	13.0
	More than 20	30	15.0
6) Customer category	businessman	111	55.5
	Salaried	65	32.5
	Student	24	12.0

N=200

Table 2: Association between customer satisfaction and customer loyalty

	Customer satisfaction	Customer loyalty
Chi-Square	1.298E2 ^b	1.094E2 ^b
df	22	19
Asymp. Sig.	.000	.000

Table 3: Association between age and customer loyalty

	Age	Customer loyalty
Chi-Square	74.680 ^a	1.094E2 ^b
df	3	19
Asymp. Sig.	.000	.000

Table 4: Association between gender and customer loyalty

	Gender	Customer loyalty
Chi-Square	7.220 ^a	1.094E2 ^b
df	1	19
Asymp. Sig.	.007	.000

Table 5: Association between academic qualification and customer loyalty

	Academic qualification	Customer loyalty
Chi-Square	432.550 ^b	1.094E2 ^a
df	4	19
Asymp. Sig.	.000	.000

Table 6: Association between marital status and customer loyalty

	Marital status	Customer loyalty
Chi-Square	52.020 ^b	1.094E2 ^a
df	1	19
Asymp. Sig.	.000	.000

Table 7: Association between duration of relationship with the bank and customer loyalty

	Duration of relationship	Customer loyalty
Chi-Square	17.980 ^b	1.094E2 ^b
df	5	19
Asymp. Sig.	.003	.000

Table 8: Association between customer category and customer loyalty

	Customer category	Customer loyalty
Chi-Square	56.830 ^b	1.094E2 ^b
df	2	19
Asymp. Sig.	.000	.000

Above Table 4 shows chi.square value of 7.220 and significance value of .007 which is slightly greater than critical value of 0.05.therefore H3 is rejected that there is an impact of gender on customer loyalty

Above Table 5 shows chi-square value of 432.550 and significance value of .000 which is less than critical value of 0.05.therefore H4 is accepted that there is a positive impact of academic qualification on customer loyalty

Above Table 6 shows chi-square value of 52.020 and significance value of .000 which is less than critical value of 0.05. Therefore H5 is accepted that there is a positive impact of marital status on customer loyalty.

Above Table 7 shows chi.square value of 17.980 and Asymp. Sig. Value of .003 which is less than critical value of 0.05. Therefore H6 is accepted that there is a positive impact of duration of relationship on customer loyalty.

Above Table 8 shows chi-square value of 56.830 and Asymp. sig. Value of .000 which is less than critical value of 0.05. Therefore H7 is accepted that there is a positive impact of category of customer on customer loyalty.

Therefore, overall findings revealed that there is positive impact of customer satisfaction on customer loyalty and strong association between most of the demographic characteristics and customer loyalty is also revealed by chi-square analysis. Mean that when they are satisfied with their service provider only then loyalty builds for primary bank and they never switch to other financial service providers of same industry.

CONCLUSION

The prime focus of this study was to find the impact of customer satisfaction and demographics on the customer loyalty in the retail banking sector of Pakistan. Loyalty can only be created when the satisfaction will be more effective and the main ingredient to develop loyalty is customer satisfaction [22]. Satisfaction is achieved after fulfilment of customer need and want while loyalty is actually how repeatedly the customer chooses the same banking channel and builds long term relationship with the service provider. In reality sometimes a person after satisfying his demands may not be loyal in the sense that he is in search of some better service provider [23]. Therefore satisfaction is not sufficient criteria to build loyalty. Demographical characteristics have also impact on loyalty therefore satisfaction can be attained without loyalty but loyalty can never be attained without satisfaction.

Finally, these results concludes that customer satisfaction and different demographics are crucial elements for building loyalty among customers of service providing banking industry in Pakistan however they cannot assure that long term relationship will be build. Both are the determining forces behind losing customer base. Results evidenced that middle age customers and graduate businessmen have more belongings to their banks as more association is found between these characters and loyalty Therefore, in today's competitive banking industry, customer satisfaction must be assured by organization by focusing demographic patterns to gain strategic and competitive edge in industry, retaining and building loyal customer base as this is one of the most powerful weapons.

Limitations and Recommendations: As this study was conducted with a limited random sample of 200 customers

from different banks of Punjab only so there is a wide scope of future study with a large sample to analyse the impact of customer satisfaction and demographics on customer loyalty. Data can be collected from other provinces also and different analysis method can also be applied like correlation, regression etc.

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