

## **IMPACT OF CUSTOMER SATISFACTION ON CUSTOMER LOYALTY AND INTENTION TO SWITCH IN COMMERCIAL BANKING SECTOR IN SRI LANKA**

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### **ABSTRACT**

*To obtain the competitive advantage in the dynamic financial industry, banks always concentrate on fulfilling their customers' needs and demands. The current study attempts to find the impact of customer satisfaction on loyalty and intention to switch in the commercial banking sector in Sri Lanka. The population consists of customers of banks in Sri Lanka and the target population consists of customers of banks in the Colombo district. The sample is derived from the simple random sampling method and a questionnaire is used to collect primary data from 150 commercial bank customers. The dependent variable is intention to switch, the independent variable is customer satisfaction and the mediator variable is customer loyalty. The study reveals that customer satisfaction moderately affects customer loyalty and there is a negative relationship between customer satisfaction and switching intention. However, there is no impact of customer satisfaction and customer loyalty on switching intention. Also, other than customer satisfaction and customer loyalty, there are several other factors affecting the intention to switch. As per the findings of the study, there is no statistically significant association of age, gender, occupation, highest education level and marital status with customer satisfaction, customer loyalty and intention to switch. Monthly income level of the respondents also does not have a significant association with customer loyalty and intention to switch but there is a statistically significant association between income level and customer satisfaction. Finally, the study identified that customers are switching from the existing bank due to an external reason such as the existing bank not complying with some special request or to obtain some exclusive benefits at another bank.*

**Key Words:** Customer Satisfaction (CS), Customer Loyalty (CL), Demographic factors, Commercial Banking sector in Sri Lanka, Intention to switch (IS)

### **1. Introduction**

The importance of the customer has been highlighted in many studies around the world. To maintain competitiveness in the industry, banks try to retain their customers and maximize their new customer base (Bank systems and

Technology, 2012). However, customer retention is becoming an increasingly difficult task due to emerging technology and competitiveness in the industry. Hence, the switching cost could be a key element in retaining customers in the specific organization (Goonetilleke, 2011). According to Bain and Company (2010), customer loyalty is directly connected with the organization's growth. Satisfaction is the main driver of consumer loyalty (Dixon, 2005, Fornell 1992). However past studies point out that customer satisfaction is not customer loyalty and that those terms are vastly different concepts with different degrees of usefulness (Klein 2013, Christensen 2006). Also, another study expressed that satisfaction does not always lead to loyalty (Sambandan, 2011). High customer satisfaction does not increase revenue (Hyken, 2011).

The existing literature has not thoroughly explained the factors influencing customer loyalty and customer satisfaction or attempted to examine the link between customer satisfaction and customer loyalty (Leingpibul, 2009). Existing theories such as Dissonance theory (Cardozo, 1965), Contrast theory (Y., 1990), Expectancy Disconfirmation Paradigm (Oliver R., 1980), Comparison Level Theory (Y., 1990), Value Perception theory (Westbrook, 1983), Attribution Theory (Weiner, 1971), equity theory (Swan, 1989), and marketing theory of loyalty (Glinskienė, 2010) fail to address the subject area. Hence the main purpose of this study is to find out the impact of customer satisfaction on loyalty and intention to switch in the commercial banking sector in Sri Lanka.

In order to carry out the study, a questionnaire was designed and validated based on the data gained from 200 customers visiting bank counters, who had an account with banks in the Colombo District. In order to answer the said research problem, five main objectives were set. By conducting the research, researcher expected; To determine the level of customer satisfaction, Loyalty and intention to switch in commercial banking sector in Sri Lanka; To explain the influence of demographic factors on customer satisfaction, Loyalty and intention to switch in commercial banking sector in Sri Lanka; To determine the influence of the level of satisfaction on loyalty of the customers in the commercial banking industry in Sri Lanka; To explain the influence of Loyalty on switching intention of the customers in the commercial banking industry in Sri Lanka; To determine the impact of customer satisfaction on customer loyalty and intention to switch in commercial banking sector in Sri Lanka.

The significance of the study is to find out the main determinants of customer satisfaction and its effect on customer loyalty and intention to switch in the banking industry of Sri Lanka in order to help this key industry to have a wider look for supporting their customers and finally having more loyal ones to maximize their performance. This may help banks to exceed the customer expectations and give guidelines on how to retain the customers and acquire

new customers and ultimately give directions to improve the performances of the bank. The policy makers can also use the findings to identify areas for improvement of customer loyalty.

The existing literature indicates that customer satisfaction positively influences consumer loyalty (Julander, 2003), (Oliver R. L., 1999) and (Reichheld, 2000). Also the literature finds that satisfied customers are not willing to switch from their service provider (Dick, 1994), (Ehrenberg, 1968). Based on these findings, the following hypotheses were developed:

H1: Customer satisfaction is positively related to customer loyalty.

H2: Customer satisfaction is negatively related to intention to switch.

## **2. Literature Review**

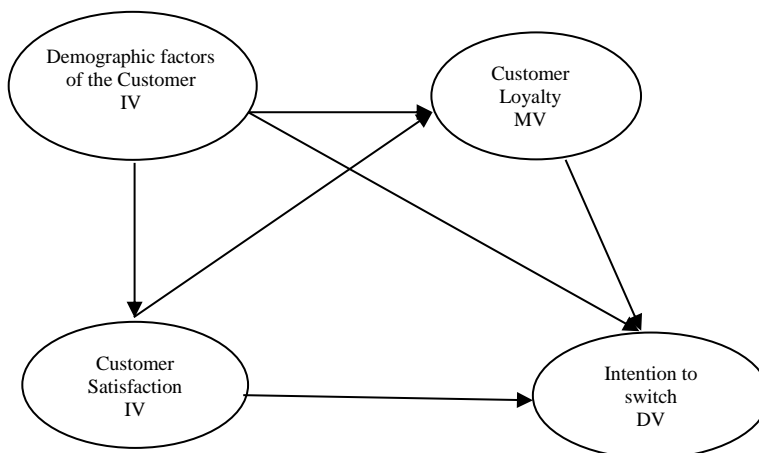
Customer satisfaction is an attitude that positions the organization in the customer mind on exceeding expectations towards retention (Wilton, 1988), (Kotler, 1999). Customer loyalty is a behavior, where a customer buys products from the same bank repeatedly rather than from other banks and is roughly indicated by the bank's customer retention rate (Kotler A. G., 2000). The customer aims to move from one bank to another bank as a result of dissatisfaction with the service rendered (Jones M. A., 2000).

Different studies have different opinions on the relationship between customer satisfaction and loyalty. Some scholars discuss satisfaction as the main driver of consumer loyalty (Dixon, 2005), (Fornell, 1992), (Mittal, 2001) and (Szymanski, 2001). Other scholars argue that satisfaction does not always lead to loyalty and that the terms have different degrees of usefulness (Sambandan, 2011), (Mark Klein, 2013), (Vance Christensen, 2006 ).

The concept of repurchase has two forms: the intention to re-buy (repurchase), and the intention to engage in positive word-of-mouth and recommendation (referral) (Zeithaml, 1996). The customer characteristics moderate the relationship between satisfaction and behavioral outcomes (Baumann, 2005), (Mägi, 2003) and (Keiningham T. L., 2006). In the past, researchers expressed that these moderate the relationship between demographic factors and customer loyalty (Baumann, 2005) and (Homburg C. a., 2001). The demographic factors and psychological factors influence customer satisfaction (Bryant, 1996), (Mittal, 2001), (Keiningham T. L., 2006), customer loyalty (Baumann, 2005), (Homburg C. a., 2001) and intention to switch (Moos, 2004) (Mittal, 2001). Customer satisfaction and loyalty have a negative effect on intention to switch (Jones M. A., 2000), (Anderson, 1993), (Dick, 1994).

## **3. Conceptual Framework**

Based on a review of the literature, a model which links customer satisfaction with customer loyalty and intention to switch was developed as follows:



#### 4. Research Methodology

The study adheres to exploratory correlation research design. The questionnaire is used with a five-point Likert scale. Based on the literature, four questions each were used to measure the three variables. The proposed questionnaire was designed based on a similar study done by (Faizan, 2011) on the banking sector in Pakistan. For the multivariate statistical analysis, the summated value has been used as metric variable. For the univariate analysis, summated value is categorized as low, medium and high by dividing the maximum possible score by three using coding as; 1 to 9 = Low, 10 to 15= Medium and 16 to 20= High.

To test the first objective, the method of descriptive statistical tools is used and to test the second objective T test and Anova are used and the third, fourth and fifth objectives used the method of Correlation and Regression.

The study is carried out in Colombo due to the large population and the banks and branches reported in Colombo district (statistics, 2011) . The Simple Random Sampling Technique was used to randomly select employees of the companies, postgraduate students from the list obtained from universities and professional educational institutions, and businesspeople from the list obtained from the business associations in the Colombo district. The researcher circulated two hundred (200) questionnaires among the sample customers and only 150 customers responded.

#### 5. Results, Analysis and Discussion

The results indicate that the majority (64%) of the respondents are highly satisfied with their commercial banks. Also, a majority (60.7%) of respondents are highly loyal to their banks. 47.3% of respondents have a medium level of

intention to switch from their current commercial banks. 73.7% of the respondents selected most satisfactory bank as private banks. 28.7% of the respondents had maintained a 3 – 5 years relationship with their most satisfied bank and 25.3% respondents maintained a relationship of less than two years with their most satisfied bank. 40.0% of the respondents selected their main reason for satisfaction as relationship.

The researcher used ANOVA to check the influence of the following demographic variables on Customer Satisfaction, Customer Loyalty and Switching Intention behavior.

**Table 1: Correlation between Demographic factors and CS, CL and IS**

Variable	CS	CL	IS
Age	0.495	0.660	0.567
Gender (50% male and 50% female)	0.784	0.494	0.567
Occupation	0.940	0.989	0.277
Highest Education Level	0.332	0.823	0.064
Marital Status	0.784	0.494	0.567
Monthly Income	0.054	0.874	0.642

According to Table 1, there is no statistically significant association of Age, Gender, Occupation, Highest Education Level and Marital Status with CS, CL and IS at the 95% confidence level. However, there is a statistically significant association between Income level and Customer satisfaction at 90% confidence level.

According to the results of Table 2, there is a positive relationship between Customer Satisfaction and Loyalty at 99% significance level. Therefore, we accept **H1** which states that customer satisfaction has a positive relationship with loyalty. Table 2 shows that there is a negative relationship between Customer Loyalty and Intention to switch at 95% significance level. Also, there is a negative relationship between Customer Satisfaction and Intention to switch at 95% significance level. Hence, we accept **H2** which states that customer satisfaction has a negative relationship with intention to switch.

After identifying the relationships, the researcher used regression analysis to measure the influence of customer satisfaction and loyalty on intention to switch. However, the R-square of the regression is 0.048, and p – values are

**Table 2: Correlations CS/CL/IS**

		CS	CL	IS
CS	Pearson Correlation	1		
	Sig. (2-tailed)			

	N	150		
CL	Pearson Correlation	.510**	1	
	Sig. (2-tailed)	.000		
	N	150	150	
IS	Pearson Correlation	-.180*	-.201*	1
	Sig. (2-tailed)	.028	.014	
	N	150	150	150

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

greater than 0.05. Therefore, the variables are not significant at 95% confidence level. Hence, according to the analysis, there is no impact of CS or CL on IS and there are factors other than Customer loyalty and Customer Satisfaction influencing intention to switch. Hence, the researcher has identified that there is Reciprocal Suppression in the model.

Afterwards, the researcher personally interviewed 10 customers selected from the previous list based on convenience sampling method to identify the real factors that cause switching behavior. At the discussion it transpired that they switched their bank due to an external force. For example, their employer asked them to open an account with their bank; the existing bank did not comply with some special request and as a result they moved to another bank that fulfilled the said requirement; or to obtain some exclusive benefits – especially in the credit card market.

**Table 3: Regression Analysis**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	20.417	2.983		6.844	.000
	CS	-.233	.208	-.105	-1.117	.266
	CL	-.248	.157	-.147	-1.574	.118

a. Dependent Variable: IS

### Discussion

The results of the study reveal that a high level of customer satisfaction will cause a high level of customer loyalty and as result the level of intention to switch of the customers will go down. These findings are similar to the findings of previous studies. According to past literature customer satisfaction is a main driver of customer loyalty (Dixon, 2005), (Fornell, 1992), (Mittal, 2001), (Szymanski, 2001). According to (Jones M. A., 2000) switching intention

typically arises from dissatisfaction with the current provider's performance. Thus, the final result of this analysis shows that it supports the first objective to determine the level of customer satisfaction, Loyalty and intention to switch in commercial banking sector in Sri Lanka.

According to the past literature there is a significant influence of demographic factors on customer satisfaction, loyalty and intention to switch, but the present study does not find any influence of Age, Gender, Occupation, Highest Education Level and Marital Status on CS, CL and IS. However, there is a statistically significant association between Income level and Customer satisfaction. Thus, the final result of this analysis shows that it supports the second objective to explain the influence of demographic factors on customer satisfaction, Loyalty and intention to switch in commercial banking sector in Sri Lanka.

Also according to past studies, customer satisfaction is the main driver of customer loyalty (Dixon, 2005), (Mittal, 2001), (Guenzi, 2004) and customer satisfaction positively influences loyalty (Heitmann, 2007) and as per the findings of the current study, there is a positive relationship between Customer Satisfaction and Loyalty. Using the correlation analysis, the researcher was able to achieve the third research objective to determine the influence of the level of satisfaction on loyalty of the customers in the commercial banking industry in Sri Lanka. Therefore, we accept **H1** which states that customer satisfaction has a positive significant relationship with loyalty.

As per the past literature, there is a negative relationship between customer loyalty and the intention to switch (Dick, 1994), (Ehrenberg, 1968), (Evans, 2003) and as per the findings of the current study, there is a negative relationship between Customer Loyalty and Intention to switch and so the researcher was able to achieve the fourth research objective to explain the influence of Loyalty on switching intention of the customers in the commercial banking industry in Sri Lanka. Also, as per the findings there is a statistically significant negative relationship between Customer Satisfaction and Intention to switch. Hence, we accept **H2**, which states that customer satisfaction has a negative relationship with intention to switch.

Finally, the results of the study revealed that while the level of customer satisfaction affects customer loyalty there are other factors apart from the CS and CL that affect the switching intention of the customer. These findings are similar to the findings of previous studies (Dixon, 2005), (Fornell, 1992), (Mittal, 2001). Thus, the researcher was able to achieve the fifth research objective to determine the impact of customer satisfaction on customer loyalty and intention to switch in commercial banking sector in Sri Lanka. The study revealed that most of the private bank customers are satisfied with their bank

and that they are educated, single, young, earn income below 20,000/- per month, are salaried employees holding non managerial positions and live in rural areas. They had also maintained a relationship with the particular bank over a 3-5-year period. These findings are similar to the findings of the previous studies conducted in industrial countries (Faizan, 2011) and (Bain and Company, 2010). According to the literature, there is a significant influence of demographic factors on CS, CL and IS but in this study most of the demographic factors do not influence CS, CL and IS due to the culture difference of the customers.

## **6. Conclusion and Implications**

According to the findings of the study, Customer Satisfaction is very important in the banking sector and the level of Customer Loyalty will moderately increase Customer Satisfaction and customers will change their banks to obtain some exclusive benefits; due to an external forces; or if the bank does not comply with some special request. The relationship is the main reason compared with easy access, government protection and profit, to improve the customer satisfaction and to retain the customer for longer period with the organization. Finally, it is revealed from the research findings, that there is a positive impact of customer satisfaction on loyalty and no impact on intention to switch. Therefore, each organization should always try to maximize their customer satisfaction and build loyalty to the organization. The final outcome of the analysis shows that banks should consider how to improve customer satisfaction by improving the relationship to build the loyalty in order to retain the customers for a long period.

There are several limitations in the study. The study focused only on local commercial banks in Sri Lanka, focused only on the customers of banks in the Colombo district. Hence the results cannot be generalized to other banks or the banking sector in general. Also, respondents are normally hesitant to give their free view about loyalty to the bank for fear of implicating staff. The researcher deems this issue as not adversely affecting the results of the study. Future studies are expected to be conducted using similar methods by using a variety of variables that influence switching intention of the customers. Also, future studies are expected to conduct a similar study for whole banking sector in Sri Lanka.

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