A Study of the Relations of Understanding between Customers and Bank and their Loyalty

Mohammad Hossein Mirjalili[1], Shahnaz Nayebzadeh[*2], Hassan Dehghan dehnavi[3]

[1]Department of Management, Yazd Branch, Islamic Azad University, Yazd, Iran
[2]Department of Management, Yazd Branch, Islamic Azad University, Yazd, Iran
[3]Department of Management, Yazd Branch, Islamic Azad University, Yazd, Iran

ABSTRACT

The objective of the present research is studying the relations between customer-bank understanding and banking loyalty. The model of this research is formed using the variable of understanding, image, loyalty and satisfaction. The methodology of the research is applied and correlative in terms of objective and method respectively so that the necessary data were collected among 4446 customers of Melli Bank branches of Yazd by employing the tool of questionnaire and survey method. Confirmatory factorial analysis and structural equations modelling techniques using LISREL 8.72 are used to analyze the confirmation of the relations between the variables and factors. In addition, the assumption of the mediatory role of the studying variables is examined using Sobel Test. Research results indicate that customer-bank understanding affects satisfaction and bank image. The relation between satisfaction and banking loyalty is confirmed. According to the research results, bank image affects banking loyalty significantly. Furthermore, customer-bank understanding also affects bank image through bank image.

KEYWORDS: Understanding, Satisfaction, Image, Banking Loyalty.

1. INTRODUCTION

Customer is the foundation of all organizations and the philosophy of forming each organization directly or indirectly is offering services to customer or in other words, the consumer of the product or service of that organization [1]. Nowadays, customers, in fact, are the ones who determine the survival of organization. Organizations no longer can be indifferent to customers' expectations and wishes. They should concentrate all their attention to customer satisfaction, because the only resource of capital return is customers [2]. Nowadays, banking is one of the vital factors in the development of countries. At world level, the attempt of important economic institutes and enterprise like banks is increasing efficiency. Therefore, customers are considered the existence cause and the survival source of banking and have special priority. Regarding bank as an economic and credit enterprise whose main capital and financial resources are provided through depositing and offering services to customers, customer loyalty and effective factors such as society and organization are considered as the key factor of banks' success and profitability. When the importance of these factors by the customers is shown that their tendency to continue and develop their relations with economic enterprises is high. The issue that nowadays should be noted is that economic enterprises should believe that each measure to maintain customers is a useful and profitable work, because most of researches indicate that the costs of absorbing new customer is several times higher than the costs of maintaining current customer [3].Day et al. (1988) and Cutler (1994) expressed that customer satisfaction is an important factor in maintaining customer [4]. Loyalty, customers' tendency to repurchase from their current service provider (company) on the basis of the past experience and future expectations are also defined [5].In today's competitive world customer satisfaction is no longer sufficient and organizations should not be happy with customer satisfaction. They should be assured that their satisfied customers are also loyal. Organizations which pay attention to create loyalty in customers, consider the importance of maintaining each customer after each time of reference. They consider customer as valuable assets and want their all employees to do everything for making them satisfied, as a result making customers maintaining them loyal. Satisfied customer who would remain loyal, repurchase and invite other customers to purchase [2].

The main question of this research is that "how customer-bank understanding affect customer loyalty through satisfaction and image?"

2. Theoretical Principles and Research Hypotheses
2-1. Understanding

Germler and Gwinner express "understanding" as customers' perception of having pleasurable interactions with employees offering services, which is determined according to the personal relationship between interaction parties. The two researchers' definition of understanding is more related to marketing. In fact, they express understanding as customers' perception of having pleasurable interactions with employees offering services, which is determined

Corresponding author: Shahnaz Nayebzadeh - Department of Management, Yazd Branch, Islamic Azad University, Yazd, Iran.
Email: Snayebzadeh@iauyazd.ac.ir

according to the personal relationship between interaction parties. Germler and Gwinner conceptualize and state two dimensions of understanding of customer namely personal relationship and pleasurable interactions [6].

2-2. Satisfaction

In the literature of relationship marketing, customer's satisfaction is considered as the key performance index for evaluating the quality of a relationship between service provider and customers. Customers' expectations according to the costs and benefits of relationship basically depend on the previous experience and satisfactory experiences increase motivation and probably the individual remains in the relationship [7]. Satisfaction is the evaluation of the experience of interaction with the service provider until the present time and is used to predict the future experience. Satisfaction is a wide feeling affected by service quality, product, price and personal factors [8]. As customer-bank understanding increases, their satisfaction also increases. Thus, the first hypothesis is suggested as follows:

Hypothesis (1): The understanding between customer and bank affects satisfaction significantly.

2-3. Bank Image

Boo et al. [9] call image as the very customers' sense and accurate perception of their intended bank. Taylor et al [10] in expressing image state that image is the very customers' perception reflected from their accumulated mental imaginations in their memory. Customers receive more understanding between themselves and bank over banking interactions making customers receive a good bank image. Therefore, the second hypothesis is suggested as follows:

Hypothesis (2): The understanding between customer and bank affects image significantly.

2-4. Banking Loyalty

Creating commitment in consumer for purchasing goods and services repeatedly is called customer' loyalty [11]. Jones and Sasser (1995) stated that customer' loyalty includes emotional relations with company's individuals, products or services. A loyal customer is defined as someone who has a positive attitude towards the service providers, introduces and recommend them to other consumers and repurchase [12]. Some of the researchers have concluded that loyalty division can contribute to the better understanding of loyalty nature effectively and provide marketers with valuable marketing information [13]. Dissatisfied customers tend to quote negative phases to other consumers. As a result, dissatisfied customers reduce loyalty and this denotes the fact that customer satisfaction and loyalty are widely interrelated. Customers who are satisfied with the provided services by bank, are more loyal and customer who have a good image of the bank and its relevant services through banking interactions have also more loyalty to the bank. Thus, the following hypotheses can be considered for this research:

Hypothesis (3): Satisfaction affects banking loyalty significantly.
Hypothesis (4): Bank image affects banking loyalty significantly.

Satisfaction is appositive feeling created in the individual after using goods or receiving services. The intended feeling is created from the encounter of customers' expectations and provider's performance. If the received goods or services are evaluated at the level of customers' expectations, satisfaction and a good image are created in their mind. In the case where the level of services and goods is higher than customers' level of expectations, it results in customers' joy and lower level of services and goods in relation to expectations results in customer's dissatisfaction [14]. Friendly relationship are formed between customers and bank over interaction and receiving banking services that it results in satisfaction and a good image in their mind. The issue makes customers use the services of the relevant bank all the time and have more commitment. Thus, the following hypotheses can be suggested:

Hypothesis (5): The understanding between customer and bank through satisfaction affects banking loyalty.
Hypothesis (6): The understanding between customer and bank through bank image affects banking loyalty.

2-5. Conceptual Model

According to the theoretical principles and the previous studies, the conceptual model of the present research is shown in Figure 1 as follows:
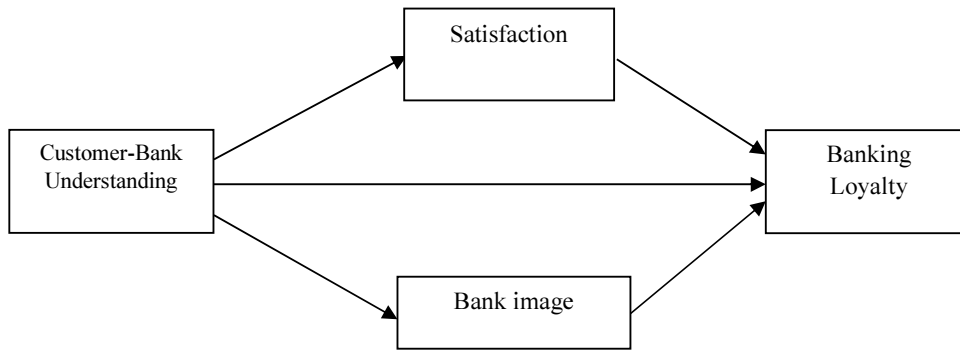
Figure1: Conceptual model of the research [15, 16]

3. METHODOLOGY

The present research is an applied one in terms of type, problem nature and objective. This research is a descriptive-correlative one according to its data collection method. The data collection method of this research is a combination of library and field. The literature related to the research subject is conducted through library studies and questionnaire tool is also used to collect data. In this research, all Melli Bank branches at Yazd level were considered as the location area. In addition, all customers of Yazd Melli Bank branches who had Melli card or at least had a deposit account (including current, interest-free loan, short-term or long-term) and refer to the bank at least once a week were considered as the statistical population. Therefore, using clustering sampling method, among 45 branches of Melli Bank located in Yazd, 13 branches were chosen as the cluster randomly and then the elements of the sample in each bank were chosen by simple random sampling. 446 questionnaires were distributed among members of the statistical population in order to achieve a more appropriate answer rate. The questionnaire of the present research included 13, 3, 3 and 4 questions regarding customer's loyalty to the bank, customer's satisfaction, customer-bank understanding and bank image respectively. Since the value of Cronbach's alpha for each of variables is greater than 0.7, thus, the test has acceptable reliability.

Table 1. Variables, type and method of calculating them

Variables	Questions	Number of questions	Type of variable	Cronbach's alpha	Source
Satisfaction	1-3	3	Mediator	0.946	[15]
Customer-bank understanding	4-6	3	Independent	0.892	
Bank image	7-10	4	Mediator	0.785	[16]
Banking loyalty	11-23	13	Independent	0.886	-
Questionnaire	-	23	-	0.912	-

Table 2 shows the demographic characteristic of the population. Among 446 persons who filled out the questionnaire, 366 were males and 80 females that 21% were single and 79% married. In terms of education level, approximately 13%, 36%, 17%, 28% and 7% had degree lower than diploma, diploma, A.A., B.A., M.A. and PhD respectively. On the other hand, 53% and 47% of them use only presence service and electronic services of Melli Bank respectively.

Table 2. Demographic characteristics of population

Variable	Group	Frequency	Percentage	Variable	Group	Frequency	Percentage
Gender	Male	366	82.1	Work experience	Less than 5 years old	85	19.1
	Female	80	17.9		Between 6 and 10 years old	145	32.5
Marital status	Single	94	21.1		Between 11 and 15 years old	103	23.1
	Married	352	78.9		Between 16 and 20 years old	63	14.1
Way of receiving services	Presence	235	52.7		Over 20 years old	50	11.2
	Electronic	211	47.3	Education level	Less than diploma	56	12.6
Age	Under 25 years old	69	15.5		Diploma	161	36.1
	Between 26 and 35 years old	205	46		A.A.	74	16.6
	Between 36 and 45 years	122	27.4		B.A.	123	27.6
	Between 36 and 55 years	39	8.7		M.A.	27	6.1
	Over 56 years	11	2.5		PhD	5	1.1

4. Data Analysis Method

In this research, confirmatory factorial analysis and structural equations modelling techniques using LISREL are used to analyze the confirmation of the relations between the variables and factors through investigating the measurement models of the exogenous variable (understanding) and endogenous variables (satisfaction, bank image and banking loyalty). In addition, the assumption of the mediatory role of the variables of satisfaction and bank image is examined using Sobel Test.

4-1. Measurement Models of Research Variables

It is necessary to be assured of the accuracy of the measurement model before entering the phase of testing hypotheses and the conceptual model.

Thus, the measurement models of variables is presented in Table 3. Measurement equations are presented as many as the observed variables. Each equation includes the path coefficient between the observed variable and the latent variable, measurement error of the observed variable along with significance test based on t-statistic and R^2 value namely determination coefficient or the relation of the explained variance by the latent variable.

Table 3. Results of confirmatory factorial analysis for variables

Latent variables	Observed variables	Standard coefficient	T-statistic	Determination coefficient	Error
Understanding	R1	0.77	18.03	0.59	0.038
	R2	0.79	18.71	0.62	0.039
	R3	0.72	16.51	0.52	0.035
Satisfaction	S1	0.79	-	0.63	-
	S2	0.82	18.10	0.68	0.039
	S3	0.81	17.93	0.66	0.043
Banking loyalty	BL1	0.61	-	0.38	-
	BL2	0.56	10.34	0.31	0.045
	BL3	0.47	9.02	0.22	0.052
	BL4	0.41	7.89	0.17	0.048
	BL5	0.73	12.80	0.53	0.059
	BL6	0.73	12.73	0.53	0.057
	BL7	0.77	13.31	0.59	0.058
	BL8	0.80	13.62	0.63	0.058
	BL9	0.36	7.02	0.13	0.040
	BL10	0.85	14.26	0.73	0.057
	BL11	0.79	13.55	0.63	0.047
	BL12	0.50	9.52	0.25	0.039
	BL13	0.80	13.69	0.64	0.051
Bank image	BI1	0.51	-	0.26	-
	BI2	0.46	9.43	0.21	0.074
	BI3	0.44	7.28	0.19	0.090
	BI4	0.63	9.22	0.40	0.074

All variables had t-statistic greater than 96.1. In addition, their determination value was appropriate, thus, none of items (questions) is eliminated from the model. The work is followed with all items (questions) and the model is investigated.

4-2. Model Confirmation

Generally, in working with LISREL program, each of the obtained indices for the model is not a reason for the fitness of model or its lack of fitness, but these indices should be interpreted with each other. Several fitness features exists to evaluate the model. As observed, χ^2 in freedom degree is 2.36 and smaller than 3, which is an appropriate value. The lowness of this index indicates the slight difference between the research conceptual model and the research observed data. Furthermore, the value RMSEA is 55.0 smaller than 0.08. In addition to χ^2, as RMSEA is lower, the model has more appropriate fitness and the indices CFI, IFI, NNFI, NFI and GFI are greater than the value 9.0, thus the model has shown desirable fitness and is confirmed.

Table 4. Analysis of fitness indices

Indices	Values
Chi-square	515.80
Freedom degree	219
Chi-Square to freedom degree	2.36
RMSEA	055.0
GFI	0.91
AGFI	0.88
NFI	0.97
NNFI	0.98
IFI	0.98
CFI	0.98

4-3. Research Structural Model (Path Analysis)

After conducting confirmatory factorial analysis, in this part, testing the research hypotheses is dealt with by conducting structural analyses. Structural equations model is used to test the hypotheses. The structural model of this research in standard mode is shown in Figure 1.

Figure 1 shows the general model in the model of standard estimation. The results of estimation (the lowest part of the figure) indicate the appropriateness of the model. The comparison among the observed variables explaining the latent variable is possible only in the standard estimation mode and the model in the standard mode shows that how much the variance relevant to the latent variable is explained by the observed variable.
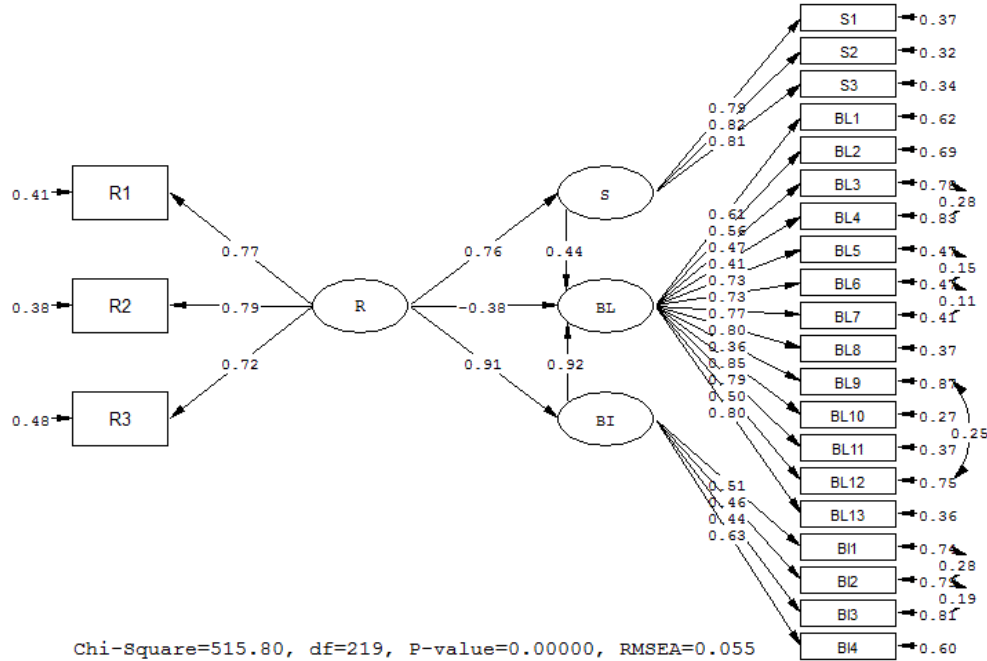

Chi-Square=515.80, df=219, P-value=0.00000, RMSEA=0.055

Figure 2. Model in standard coefficients mode

Standard coefficients in the research model along with t-statistic of each path are summarized in Table 5. Table 5 shows that determination coefficient for the variable of banking loyalty is estimated 0.87 and shows that satisfaction, understanding and bank image all could explain only 87% of the changes of banking loyalty. According to the standard coefficient value and t-statistic, it can be mentioned that the variables of bank image (0.92) and satisfaction (0.44) respectively had the highest effect on the variable of banking loyalty. Highest coefficient of standard path and the variable of understanding had not significant effect. Moreover, it can be mentioned that 58% of satisfaction changes are explained by the variable of understanding. It also shows that 83% of the change of the bank image are explained by the variable of understanding.

Table 5. Summary of standard coefficients, determination coefficients, t-statistic and result

Paths	Standard coefficient	T-statistic	Determination coefficient	Result
Satisfaction→ Banking loyalty	0.44	6.51		Confirmed
Understanding→ Banking loyalty	-0.38	-0.94	0.87	Rejected
Bank image→ banking loyalty	0.92	2.15		Confirmed
Understanding→ Satisfaction	0.76	13.97	0.58	Confirmed
Understanding→ Bank image	0.91	10.04	0.83	Confirmed

4-4. Testing Research Hypotheses

After examining and confirming the model, the research hypotheses were evaluated and tested. In addition, the mediatory role of the variables was studies using Sobel Test.

Hypothesis (1): The understanding between customer and bank affects satisfaction significantly

According to Table 5, the absolute value of t-statistic for the path of understanding between customer and bank to satisfaction is 13.97, which is greater than the value 96.1. In other words, the understanding between customer and bank at the level of Yazd Melli Bank branches affects satisfaction significantly and the effect value is 0.76 and positive (direct).

Hypothesis (2): The understanding between customer and bank affects image significantly

According to Table 5, the absolute value of t-statistic for the path of understanding between customer and bank to bank image is 10.04, which is greater than the value 96.1. In other words, the understanding between customer and bank at the level of Yazd Melli Bank branches affects bank image significantly and the effect value is 0.91 and positive (direct).

Hypothesis (3): Satisfaction affects banking loyalty significantly

The absolute value of t-statistic for the path of satisfaction to banking loyalty is 6.51, which is greater than the value 96.1. In other words, satisfaction affects banking loyalty significantly and the effect value is 0.44 and positive (direct).

Hypothesis (4): Bank image affects banking loyalty significantly

The absolute value of t-statistic for the path of bank image to banking loyalty is 2.15, which is greater than the value 96.1. In other words, bank image affects banking loyalty significantly and the effect value is 0.92 and positive (direct).

Hypothesis (5): The understanding between customer and bank through satisfaction affects banking loyalty

According to the statistic of Sobel Test (5.917) and significance level (0.000), which is smaller than 0.05 and in respect to the insignificance of the direct relation between customer-bank understating and banking loyalty in the model, the variable of satisfaction plays the mediatory role completely and its indirect effect is 0.334. As a result, the understanding between customer and bank through satisfaction affects banking loyalty.

Hypothesis (6): The understanding between customer and bank through bank image affects banking loyalty

According to the statistic of Sobel Test (2.095) and significance level (0.036), which is smaller than 0.05 and in respect to the insignificance of the direct relation between customer-bank understating and banking loyalty in the model, the variable of bank image plays the mediatory role completely and its indirect effect is 0.837. As a result, the understanding between customer and bank through bank image affects banking loyalty.

Table 6. Sobel test for hypotheses 5 and 6

Hypothesis	Statistic of z-test	S.E	Significance level p	Standard indirect effect
5	5.917	0.058	0.000	0.334
6	2.095	0.407	0.036	0.837

Discussion, Conclusion and Applied Suggestions

The present research has dealt with the examining the role of customer satisfaction and banking image in the relations between customer-bank understanding and banking loyalty that by testing hypotheses in the statistical population (customers of Yazd Melli Bank branches). In addition, according to the existence of a positive relation of understanding between customer and bank at the level of Yazd Melli Bank branches, their satisfaction indicates that employees offering services at the level of Yazd Melli Bank Branches can increase their satisfaction of referring to the branches of Melli Bank and using their services by increasing the level of pleasurable interactions between themselves and customers and making greater attempts to create friendly relations and understanding with customers. The result of this hypothesis is consistent with that of researches like Fatima and Abdur Razzaque (2014), Macintosh (2009), Delcourt et al. (2013). It can be suggested to the managers of Melli Bank that put teaching and reinforcing the power of making a good and constructive relationship of its employees on the agenda, because employees and their behavior play a crucial role in the understanding between customer and bank that consequently it would be effective in increasing or reducing customer satisfaction rate. It can be concluded from the second hypothesis that the understanding between customers and bank at the level of Yazd Melli Bank branches affects their bank image directly and positively. Shaikh Ali and Ndubisi also in their research have pointed out that friendly relations and understanding affect the general understanding of the relation by the customers. Thus, it is suggested that employees make attempt to improve bank image for customers by making friendly relationships and pleasurable interactions with them. Employees' good behavior, discipline and being well-dressed and the cleanness of bank environment are among factors that make a positive and good of bank in customers' mind. Furthermore, testing the third hypothesis states that customer satisfaction rate of Yazd Melli Bank branches affects their loyalty directly (positively). In other words, any attempt to increase customer satisfaction dramatically increases his/her loyalty towards offered services in Yazd Melli bank branches. Therefore, Yazd Melli Bank branches should have customer satisfaction in the first phase for having loyal customers. This issue give the managers and authorities of Yazd Melli Bank branches the message that they should focus their attention on the ways of gaining customer satisfaction to promote their loyalty. The marketers of this bank should also focus on customer satisfaction in order to maximize his/her loyalty and they frequently should be aware of their customer's opinions on the quality and way of services.

Testing the fourth hypothesis shows that customers' bank image of Yazd Melli Bank branches has a positive effect on their loyalty. In other words, as much as bank can make a completer and better and more ideal image of itself in its customers' mind, it will increase their loyalty to the offered services in its branches dramatically. The result of this hypothesis is similar to the results of researchers like Samli and Sirgy (1985) and Narteh (2013). Image is one of the important components for customer loyalty. The fame of bank, better subjectivity in relation to other bank among customers are considered among the most important indices of image so that designing appropriate advertising will put part of the goal into practice. Thus, it is suggested to Melli Bank managers that by emphasizing on moral principles and

social duties, by forming an appropriate and desirable bank image can be customers' mind using advertising tool, necessary successes can be achieved.

In the study of testing the fifth and sixth hypotheses, the result was obtained that customer satisfaction and a good and ideal image in his/her mind can play role in the relation between understanding and loyalty and can make customer more loyal to the bank. In fact, customer satisfaction of services of Melli Bank branches contributes to the coordinated relationship between customer and bank. It also convert his/her mutual relationships and interaction to a long-term relationship between customer and the bank and consequently forming permanent dependency and firm commitment to use Melli Bank services as well as in some cases to recommend others to use such services.

Thus, it can be concluded that the understanding between customer and bank through customer satisfaction affects creating loyalty sense and commitment in him/her and positively verbal advertising by the customer. The researcher attracts Melli Bank managers' attention to the point that holding educational courses of communication with customers in short and long-term courses for employees regarding how to interact with customers including communicative and behavioral skills, good listening and hearing skills, verbal skills, behaving skills with different kind of customers in particular situations (angry, hasty and pessimistic customers) can increase the understanding between customer and the bank and affect customer loyalty to the bank. Moreover, the result of the sixth hypothesis can be mentioned in which the understanding between customer and bank through bank image affects customer loyalty in Yazd Melli Bank branches. In other words, if employees' pleasurable interactions who offer services in Melli Bank branches would be accompanied with a reinforcing factor like a powerful and ideal mental background along with a trusted image in customers' mind, they will have a dramatic effect on customer loyalty rate to the offered services in the braches of Yazd Melli Bank.

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