

Impact of Personalization, Trust and Customer Satisfaction in the Banking Industry of Malaysia

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Abstract: The aim of this research is to study the impact of some factors on customer loyalty in banking industry. Data was collected through a survey from customers in Cyberjaya of Malaysia. Multiple Regression analysis is applied to understand the correlation of the collected data and test the research hypotheses. The results illustrate that personalization, trust and customer satisfaction are vital factors affecting customer loyalty in banking industry. Therefore, the banking sector should build strategies to enhance customer loyalty by increasing personalization, trust and customer satisfaction. In addition, it is predicted that this research study will set a foundation for future studies of the feature of business activities in Malaysia and in general, the broader service industry context.

Keywords: Customer loyalty, customer satisfaction and trust, personalization

INTRODUCTION

In the recent years, customer loyalty is one of the most important issues that many banking sector deal with it. Understanding the loyal customers are known as an asset for banks, therefore business manager should provide excellent marketing strategies that encourage and increase the number of such customers. In addition, loyal customer can cause gaining competitive advantage to any industry. Based on the Rosenberg and Czepiel (1984) report, keeping the existing customers is cheaper than acquire new customer. Therefore, customer loyalty can be a very important issue for banking industry. Furthermore, customer loyalty can be considered as a degree, which clients would maintain a long term relationship with banks and also the capability to support this association (Fullerton, 2003). Some researchers such as Pan and Xie (2008) believe that customer loyalty is the most long-term asset for any company. Generally, loyal customers perform better than a satisfied one and their desires to repurchase the products and services continuously increase. As an example, an increase of 5% in customer retention can enhance profitability between 25 to 85% depending on the type of the business (Reichheld and Sasser, 1990).

Customer loyalty can be achieved through marketing efforts (Dick and Basu, 1994) and can further be utilized as a publicity tool to attract new customers. Thus using a

new policy, it is possible to encourage loyal customers to suggest their favourite bank to their friends and relatives and resultantly return a high net present value to their banks. Experience shows that satisfying 5% customers can enhance the profit up to 125% (Reichheld and Sasser, 1990). In other words, there is always a positive relationship between customer loyalty and profitability. These days, marketers are looking for information on how to create customer loyalty. The enhanced revenue from loyal customer comes from a decreasing rate of marketing cost and increasing rate of sales (Pan and Xie, 2008).

Recently, banks in Malaysia have grown, changed and try to offer various collections of services and meet different customer's requirements. Therefore, surviving in such competitive market place is a big challenge for these banks. Hence, it is essential to empirically study the real influence of personalization, trust and customer satisfaction on customer loyalty in the banking industry of Malaysia. This kind of study can help managers in gaining the loyalty level among their customers.

The objective of this paper is to survey the effects of most important factors on customer loyalty in the banking industry of Malaysia. Therefore, three independent factors including Personalization, Trust and Customer Satisfaction are considered as the effective factors on customer loyalty. The required data for this research was gathered through a citywide survey from customers of several banks in Cyberjaya, Malaysia. The Multiple

Regression Analysis (MRA) is applied using SPSS (Statistical Package for the Social Sciences) software to analyse and process the collected data.

INFLUENTIAL FACTORS ON CUSTOMER LOYALTY

As mentioned before, there are many effective factors that may have a direct or indirect effect on customer loyalty. These factors can be divided into dependent and independent factors. Dependent factors are those that have a mutual effect on each other, where independent factors do not have any mutual relationship on other independent factors (Ross, 2004). In this research, the customer loyalty as a dependent factor and personalization, trust and customer satisfaction as independent factors are considered and analysed.

Personalization: Personalization is the process of gathering information about customers in order to provide excellent services and products based on their needs (Nunes and Kambil, 2001). Therefore, personalization can be interpreted as a tool to keep a long-term relationship between organizations and customers. Organizations can use the personalization tactic and get benefit of customer's data which was collected and then decide to use it in order to shape a correct marketing mix for customers (Nunes and Kambil, 2001; Linden *et al.*, 2003; Blattberg *et al.*, 2008).

In today's business, many organizations take benefit of personalization for increasing their loyal customers mostly in services industry. Banks also use personalization as a tactic and attempt to increase the rate of loyal customers to gain more profit. There is a direct path between personalization and loyalty because personalization often involves with learning about the customer's preferences on the part of the service provider. Therefore, personalization is one of the most important independent factors that can have a direct impact on customer loyalty (Miceli *et al.*, 2007).

Trust: Trust is a vital element in many transactional relationships can be explained as a psychological state composing the intention to accept vulnerability based on expectations of the intentions or behaviour of another (Rousseau *et al.*, 1998). In addition in the commitment-trust relationship marketing literature, trust has been defined as a situation when one party is totally rely on another's party reliability and commitment (Morgan and Hunt, 1994; Ranaweera and Prabhu, 2003). Trust also can be affected customer motivation to engage in transaction of bank and detail information about client (Wang *et al.*, 2003). Thus, trust is an important element in the process of creating and keeping relationship with clients

(Bejou *et al.*, 1998). Hence, improving trust in order to long-term relationship with customer is a critical factor (Morgan and Hunt, 1994; Ranaweera and Prabhu, 2003). As a result, Trust can be assumed as an independent factor that have a direct influence on customer loyalty (Wang *et al.*, 2003).

Customer satisfaction: Customer satisfaction can be considered as the foundation for loyalty. Satisfied customers are often tend to explore other providers in the same line of business but no matter how hard the first provider tries to capture their attention through advertisement, promote, discount and etc. They may return to the first provider, even in the moment of service failure they will tend to stay with their provider (Mishra, 2009).

Currently, customer satisfaction is considered as one of the most important issues for managers (Geyskens *et al.*, 1999). Therefore, it is necessary to study satisfaction for customer services (Roberts *et al.*, 2003). Usually the nature of the relationship between customers and sellers can be considered as an influential element to customers satisfaction that can derive customers toward a positive feeling (Geyskens *et al.*, 1999). Customer satisfaction and their relationship also can influence the consumer-company relationship (Cannon and Perreault, 1999).

Satisfaction is expected to increase loyalty and also considered as a requirement for loyalty and customer retention (Bennett and Rundle-Thiele, 2004). Therefore, customer satisfaction is a vital element for managers and increasing satisfaction is necessary in order to impact on loyalty, especially in banking industry (Oliver, 1999). Satisfaction is very important issue but not adequate condition for loyalty (Egan, 2000). In other words, satisfied customers could defect if they think they can take better value and services in another place. Satisfaction is still a challenging topic in field of loyalty. Some researchers believe that satisfaction is only proxy for loyalty while other accepted satisfaction as an important role for loyalty (Oliver, 1999; Bowen and Chen, 2001; Bennett and Rundle-Thiele, 2004). In this research, satisfaction is considered as an independent-effective factor for customer loyalty.

Customer loyalty: Customer loyalty can be defined in terms of the willingness of a customer to use special product or service (Ndubisi, 2005). In the concept of real customer loyalty, customers never switch to another business for a better service but in short-term customers may turn to different business. Customer loyalty is divided into two types, long-term and short-term customer loyalty (Ganesh *et al.*, 2000). In 1992, a method was proposed to measure customer loyalty in terms of

repurchase and price tolerance by Fornell and Claes (1992). Moreover, to measure short-term loyalty a method based on Word-Of-Mouth and recommendation behaviour is proposed (Oliver, 1999). To evaluate long-term loyalty, this factor should be considered in terms of four phases: cognitive, affective, conative and active (Donio *et al.*, 2006). Customer with high loyalty has more price tolerance and also greater willingness to make a recommendation to other people (Ganesh *et al.*, 2000).

Based on the definition of customer loyalty, it is definitely linked with the organizations continued survival and future developments (Fornell and Claes, 1992). Furthermore, customer loyalty is explained as customer's commitment to an organization, or the customer's needs to be maintained in a long-term relationship with vendor (Bansal and Voyer, 2000). Therefore the main purpose of customer relationship marketing is to acquire and retain clients and the aim of all of these marketing activities is to build customer loyalty (Moorman *et al.*, 1992; Gronroos and Christian, 1995). In this study, customer loyalty is taken into account as a dependent factor for this analysis.

MATHEMATICAL BACKGROUND

Multiple regression analysis: Regression Analysis (RA) is a tool to determine the relationship between a set of variables. In many situations, there is a single dependent variable Y which depends on the independent-input variable X : x_1, x_2, \dots, x_r . The simplest type of relationship between the Y and input variables x_1, x_2, \dots, x_r is a linear relationship, which can be defined as (Soong, 2004):

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_r X_r \quad (1)$$

However, in practice, such accuracy is almost never reachable, hence to validate Eq. (1) a random error should be considered as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_r X_r + e \quad (2)$$

where e is a random error.

Equation (2) is called a linear regression equation and describes the regression of Y on the set of independent variables x_1, x_2, \dots, x_r and $\beta_0, \beta_1, \beta_2, \dots, \beta_r$ are called the regression coefficients. To determine the estimator β some numerical methods such as Least Squares Estimation (LES) can be used (Ross, 2004). However in the majority of applications, the response of an experiment depends on a collection of independent-input variables not a single independent one (Draper and Smith, 1998). Assuming a set of K input variables, the response Y can be expressed in terms of Multiple Regression Analysis (MLA) as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_r X_k + e \quad (3)$$

where, β , k and e are regression coefficient, the level of the input variable and random error, respectively. Therefore, the Least Squares Estimation (LES) technique can be applied to determine the estimators β (Ross, 2004).

Cronbach's alpha: Cronbach's Alpha which known as 'Alpha coefficient' is an measurement index to evaluate the reliability or internal consistency of an evaluation survey (Santos, 1999). Therefore, Cronbach's α can be defined as:

$$\alpha = \frac{k}{k-1} \left(1 - \frac{\sum s_i^2}{s_T^2} \right) \quad (4)$$

where, k is the number of items, s_i^2 is the variance of the i -th item and s_T^2 is the variance of the total score formed by summing all the items.

Alpha coefficient ranges in value from 0 to 1 and may be used to describe the reliability of factors extracted quantitative or qualitative questionnaires. The higher the score of Alpha coefficient can show the higher reliability level of collected dada. Thus Alpha will be 1 if the items are all the same and 0 if none is related to another (Bland and Altman, 1997). It should be noted that Alpha coefficient is not robust against missing data.

METHODOLOGY

The major aspiration of the study was to identify the effective factors on customer loyalty in banking industry. The measures used in the study are adopted from the previous studies on service quality and customer satisfaction (Jamal and Naser, 2002). Random sampling method is applied in proposed methodology to gather primary dada and out of 200 distributed questionnaires, 100 are filled completely by bank customers in 3 retail banks in Cyberjaya city of Malaysia, between 25th November and 25th December, 2011.

In order to examine the influence of personalization, trust and customer satisfaction toward customer loyalty in banking industry of Malaysia, a model shown in Fig. 1 is presented and empirically tested. As shown in the Figure, three factors named personalization, trust and customer satisfaction is considered as independent factors, while customer loyalty is assumed as a dependent factor.

To analyse the relationship between each one of the independent factors on dependent factor, three hypotheses are developed in the proposed conceptual framework as follows:

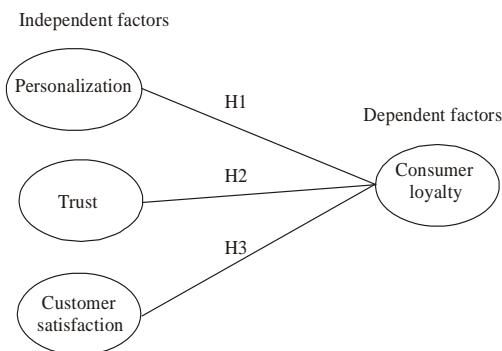


Fig. 1: Conceptual framework

H1: There is a positive relationship between personalization and customer loyalty.

H2: Trust impacts customer loyalty positively.

H3: Customer satisfaction influences customer loyalty positively.

Data analysis: Since the definitions and measurements of the constructs are driven from the empirical literature, it is assumed that content validity is achieved. Furthermore, a pilot study involving twenty people had been successfully conducted in Cyberjaya for the purpose of pre-test and questionnaire revision. The reliability of this study is tested using Cronbach's Alpha. Table 1 shows the computed Cronbach's Alpha for each variable. From the Table, it is clear that all achieved values related to Cronbach's Alpha are greater than 0.65, which indicate a high degree of validity and reliability of all variables. In addition, the calculated values of Cronbach's Alpha ensure that the answers of respondents are made in a consistent and stable manner.

Respondent profile: To validate the proposed framework and analyses the relationships between variables, a questionnaire is distributed between 150 bank customers in 3 retail banks in Cyberjaya, Malaysia and a total number of 100 respondents filled up the questionnaire. Table 2 shows the descriptive analysis of the respondent profile. From the Table 2, 57% of respondents are male and 43% are female. In terms of marital status, 81.75% of respondents are married while 18.25% are single. Most of the respondents (66.50%) are between the ages of 26 and 45 years. The remaining, 10.75, 19.50 and 3.25% are under 25 years, between 26 and 45 years, between 46 and 55 years and over the age of 55 years, respectively. In terms of education, 16.75% are reported to have an elementary level, 34.50% are qualified to high school level and 48.75% are university degree holders. In terms of income, 59% of respondents had income less than 2000, 27.75% of respondents had income between 2000 and 5000 and 15.25% of respondents had income more than 5000.

Table 1: Cronbach's alpha

Variable	Cronbach's alpha
Personalization	0.923
Customer satisfaction	0.718
Trust	0.727
Customer loyalty	0.813

Table 2: Demographic profile of the respondents

Variables	Categories	Percentage
Gender	Male	57
	Female	43
Marital status	Married	81.75
	Unmarried	18.25
Age categories	Under 25 years	10.75
	Between 26 and 45 years	66.50
	Between 46 and 55 years	19.50
	Over the age of 55 years	3.25
Education level	Elementary education	16.75
	high school	34.50
	university	48.75
Monthly income (RM)	Less than 2000	59
	Between 2000 and 5000	25.75
	More than 5000	15.25

Table 3: Standardized coefficients of regression model

Main constructs	Coefficient	Sig.
Constant	---	0.425
Customer satisfaction	0.456	0.000
Trust	0.331	0.000
Personalization	0.206	0.020

Regression diagnostics, R²: 0.72; Dependent variable: customer loyalty

Hypotheses testing: In order to evaluate the relationship between variables, Multiple Liner Regression analysis is applied using the SPSS (Statistical Packages for the Social Sciences) software. Table 3 shows the summary of regression model. It should be noted that analysis with equal variances is assumed in this section and null hypotheses are the negative effects of independent factors with dependent factor. As shown in Table 3, the coefficient of customer satisfaction is the highest among other variables which mean customer satisfaction is the most important element that impact on customer loyalty. In other words, satisfied customers are those who expected to easily become more loyal. Furthermore, customer satisfaction is vital to improve customer loyalty.

The coefficient for customer satisfaction is followed by trust and personalization. From the Table 3, it is clear that the R-square value is 0.72, which means that 72% of changes in customer loyalty are due to changes in personalization, trust and customer satisfaction. It should be noted that analysis with equal variances is assumed in this section.

The significant of relationship between the variables is shown in column Sig. of Table 3 and the Sig.-values that are less than 0.05 are considered as the positive and significant relationship between variables, which is a strong reason to reject null hypothesis. For example, the

Sig.-value of personalization is 0.022 which indicated that there is a positive relationship between personalization and customer loyalty. It means that hypothesis 1 is acceptable and has a significant relationship with customer loyalty. Nonetheless, personalization has less significant positive correlation with customer loyalty among other factors.

The results of this study imply that customer satisfaction can increase the tendency and willingness of Malaysian customers. Therefore bank managers should pay more attention to the range and quality of services to increase customer satisfaction. In addition, providing more branches for better local access, traditional services and multi-channel banking can be helpful in order to increase customer satisfaction. In addition, the significant association between trust and customer loyalty is due the high level customers' trust to their banks. In other words, by decreasing the trust of customers, their tendency for being loyal will also decrease. Therefore it is strongly recommended that the manager consciously try to continuously improve the feedback system to provide direct, tangible benefits for customer and minimize the intention of customers to switch to other banks. Furthermore, personalization should be necessarily considered as a critical and beneficial factor for both customers and banks in Malaysia. In parallel with reducing information overload in banks by setting helpful personalization policy, managers can improve the effects of personality by providing those promotions, services and products that are fit more to their customers to attract their attentions.

CONCLUSION

In this paper, an appropriate research model has been developed to evaluate the impact of personalization, trust and customer satisfaction on customer loyalty in banking industry of Malaysia. The required data is collected through a citywide questionnaire from customers of three retail banks in Cyberjaya, Malaysia. The data analysis shows that banks in Malaysia need to communicate efficiently with their customers and provide better and more-fitted services to their customers.

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