

# Determinants of Customer Retention: Offering a Model to Banking Industry

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**ABSTRACT:** The main purpose of this study is to evaluate the effect of staffs' customer orientation on customer satisfaction, commitment and retention. For this aim, the model of customer orientation of service staff, offered by Thurau was combined with customer orientation model of Donovan and Hoctt and a new model was devised for Mellat Banks of North West of Iran. The trend of this research is applied, its approach is inductive, its strategy is causative, its methodology is order detection and its time period is single-pointed. To collect data, the standardized questionnaire was utilized. Meanwhile, the statistical population of the research is current-account holders of North West of Iran. A sample of 242 people was chosen and studied in a cluster manner. According to the results of model analysis, the positive and significant effect of customer orientation on customer's commitment, satisfaction, and retention can be ratified. Also, the positive effect of concept of customers' satisfaction on their commitment and retention can be proven, but based on this research the positive and significant effect of concept of customers' commitment on their retention is not proven. It should be noted that in this research, dimensions of understanding of customer, their social skills, decision-making authority, motivation and distribution of services for customers' orientation of service staff is taken into consideration for the first time.

**Key words:** Customer Orientation, Customer Satisfaction, Banking Industry, Structural Equation Modeling, Customer Retention.

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## INTRODUCTION

In the last few years, the service sector has become a prominent element in many economics. In many industrialized countries, the service sector enjoys more than 50% of Gross National Product (Akan, 1995; Gupta and et al., 2005). Many of service companies in current market need to mobilize their internal efforts in order to face the ever-changing challenges. Some of the challenges are as follows: the growing world competition, ongoing rise of customers' expectations and their need for the quality of services (Wong and Sohal, 2002). The main characteristic of service organizations is long interaction of service staff and customers. The mutual relationship of service staffs and customers and experiences they gain (like those staff who does not supply service in a pleasant way, or those who have very less experience and trainings to fulfill customers' expectations) can have unpleasant impact on customer memory about the quality of service. Thus, service staffs are primary resources by which service companies can have competitive advantage and would increase their impacts though they enjoy boundary spanning in their work settings (Thurau, 2004). In current situation, the concept of service should be viewed from the customers' perspective. It means that customers understanding of the results of service should be raised (Edvardsson, 1996). If good services are offered to the customers, the company will be able to maintain the existing customers and will attract new customers. Studies have shown that the retained customers help the company to attract new customers and in general customer retention and attraction means sales growth and increase of income (Bienstock, 2003).

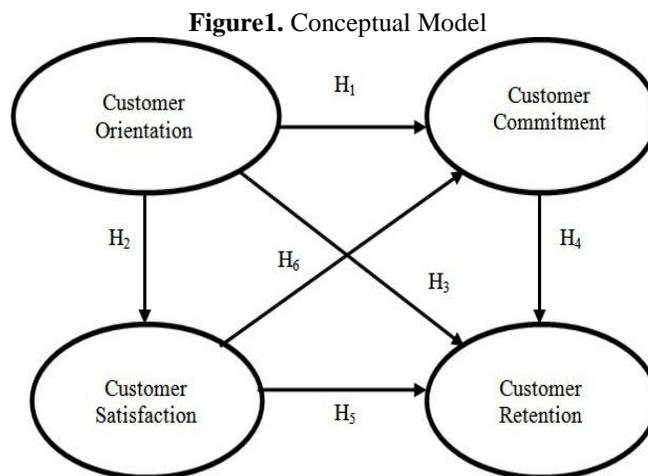
Due to intangible and interactive nature of services, sometimes customers base their judges on quality of services and personnel behaviors. Thus, customers-orientation level of service personnel is considered a key factor for the success of current service companies. There is a high degree of interaction between service personnel and customers in service companies. Employees, who don't have enough experience and trainings to meet the customers' expectations, can have an unpleasant effect on the memory of customers about the quality of services. Therefore, service personnel are primary sources who can be converted to the competitive advantage of service companies. Williany and Attaway (1996), Beaty et al. (1996) and Bejou (1994) concluded that one of the main factors which enhances the relationships between customers and service organization in long run is the fact that service personnel should have more readiness for customer-orientation. Boveand Johnson (2000) also concluded that customer-oriented service personnel, who have a high level of working knowledge, can correctly recognize customers' need and demands and fulfill them in a desirable manner (Thurau, 2004). Despite the great



importance of the role of service personnel in the value chain, few studies have conducted about customer orientation of service personnel as well as the success of service companies (Thurau, 2004, 461). Furthermore, due to the increase of competition in the banking industry of Iran, it is considered as a necessity to pay attention to customer satisfaction, commitment and loyalty in order to attract and maintain them. However, there hasn't been a research in banking industry of Iran that can model the determining factors customer commitment, satisfaction and loyalty. This study has been carried out in order to overcome shortcomings in Mellat Bank of North West of Iran by devising a model of service personnel customer orientation on satisfaction, commitment and customer retention. This study tries to answer this question: "Is there fitness between service staff customer orientation and collected data from statistical population, in Mellat banks of North West of Iran?"

**Conceptual model**

Figure 1, which is a conceptual model, represents service staff customer orientation in Mellat banks of North West of Iran. This model, according to the figure below, regards customer-orientation, customer satisfaction, customer commitment, and customer retention's variables connected to each other. This figure also determines five different hypotheses in mentioned industry.



The issue of customer satisfaction has become main research project in sociology, psychology, planning, marketing and geography (WU, 1999). The company should be able to create and retain customers in order to arrive at a proper competitive advantage. One of the necessary conditions to do this is companies' commitment and ability to meet customers' needs and demands. Therefore, managers should try to create proper culture and philosophy in their company based on which customers can become as an inseparable part of organization processes. This is the culture of customer -orientation (Zillur, 2004).

Shapiro views customer-orientation as distribution of information to customers in the organization. This can be done by strategy and operational planning to meet market needs and to reach commitment for these plans.

Kohli and Joworsli view customers-orientation a level by which customers' information is utilized and collected by commercial unit. Narver and Slater maintain that customer-orientation refers to organizational culture and philosophy when created needed information for offering topurchasers effectively and efficiently (singh and Adu, 1998).

The term "customer-orientation" means that service personnel should clearly understand customers' needs and demands. Service personnel should also match their behaviors in order to meet customers' needs and demands in service organizations. Service personnel customer-orientation is always considered as a relationship between customer and service organization in a long-term period. Due to this, service personnel should search for best conditions for customer instead of a swift sale and short-term profit. Kelley introduced service personnel customer-orientation for the firsttime in 1992. This construct has been subject to many changes. For instance, Thurau considers decision-making authority, technical skills, social skills and motivation for the concepts of service staff customer-orientation (Thurau, 2004).

Meanwhile, Donovan and Hocutt consider personal relationship, pamper, understanding and service delivery for this concept (Donovan and Hocutt, 2001).

In this study, for the concept of productive progress in service personnel customer-orientation, customers' understanding, pamper, social skills, decision making authority, motivation and service distribution is taken into consideration. Pamper means that service personnel behave with customers in a way that they feel they are given special services. This should be taken place individually. Customers' understanding means that customers should listen to service personnel swiftly. Service distribution means that service personnel should make their decisions clearly and should create conditions on which customers feel comfortable. Decision-making authority speaks of designated authority of managers to

service personnel to decide about subjects while giving service to customers. Social skill refers to service staff ability to organize relationship with customers while receiving services. And finally, motivation refers to the level of need that staffs feel in order to offer customer-orientation behavior (Thurauy 2004; Donovan and Hocatt, 2001).

The point whether customer is satisfied with received services or not, depends on the received services. Generally, satisfaction refers to one's pleasant or unpleasant feeling while his or her performance compared with the customers' expectations. Based on this clear definition, satisfaction is subject to mental performance and expectations. If the performance of a service is less than expectations, the customers will be unsatisfied. Meanwhile if the performance of a service equals expectations, the customer will be pleased, but if the performance surpasses the expectations, the customers will be very pleased and happy (Kotler, 2003).

Singh and Randchhod studied the relationship between market-orientation and business performance in automobile industry of England in 2004. They viewed market-orientation as having four factors that are as follows: customer-orientation, competitor-orientation, Departmental Responsiveness and propensity to customer satisfaction. They also emphasized to the traditional relationship of customer-orientation and customer satisfaction (Sing and Ranchhod, 2004).

Korunka et al found that not only customer-orientation is an important factor among personnel in quality management, but it is also a prerequisite to achieve customer satisfaction in service organizations (Korunke et al., 2007).

Donavan and Hocutt conducted a research about restaurant industry of America and scrutinized customer-orientation unlike other researches in 2001. Their model have been tested and ratified several times by banking industry and restaurants (Donavan and Hocutt, 2001).

Knight et al analyzed the causative relationship between stress, customer-orientation, sale-orientation and sellers' performance in retailers in 2007. One of the final variables of their model was the number of customers who did the shopping repetitively (Knight and et al., 2007).

Thurau (2004) maintains that service personnel customer-orientation behavior affect their relationship both directly and indirectly. This also influences customers' commitment to the service organizations. Service personnel customer-orientation behavior leads to rise in the satisfaction level of the customers (Thurau, 2004).

Macintosh presented a model in travel agencies of Canada in 2007 in which he analyzed the potential relationship between customer-orientation and quality of relationship in line with positive service results in the level of the company like customer satisfaction, customer loyalty and verbal ads (Macintosh, 2007).

Strauss et al maintained that customers' retention refers to "likeness, detection, commitment, trust, willingness to recommend the product and customers' intention to buy again ". They showed that satisfaction is solely a step to attain customer retention and rises via satisfaction level (Hansemark and Albansson, 2004).

Pinho analyzed the importance of quality management extension approach and its impact on small and medium companies in manufacturing industry of Portugal (Tile industry, clothing, shoes, furniture, and....) in 2008.

Rap et al analyzed the effect of technology and complementary resources on the reliability of company's relationship with customers in 2009. They have linked personnel's customer-orientation to company's communicative performance which entails aspects of customers' satisfaction, customer loyalty and customer willingness to continue relationship with the company (Rapp et al. 2009).

Thurau holds that service personnel customer-orientation can directly affect customer retention due to two reasons. First, customers are willing to return again to companies whose service providers are customer-oriented because they like the staff and have good feeling toward them. Secondly, customer reactive behavior is influenced by service staff and they also generalize this trust to the whole company. Thurau has linked service personnel customer-orientation to three concepts as "customer satisfaction, custom commitment and customer retention. He has analyzed causative relationship between satisfaction and customer commitment (Thuran, 2004).

## **MATERIALS AND METHODS**

**Sample:** Mellat banks of North West current account holders are statistical population of this research. In this study Mellat Banks of East Azarbijan, Zanjan, west Azarbijant and Ardabil of North West of Iran is taken into consideration. While using cluster sampling, the researcher has listed all branches of Mellat banks of North West. Having determined the "Bank" as a sampling unit, five Banks were chosen randomly. Then the customers were selected to fill the questionnaires randomly. To randomly select the customer in every Bank, first current account holders were coded and then they were randomly selected by numeric charts.

**Research Design:** In this study, Saunders, Lewis and Thornhill's Research process Onion which was developed in 2003 in methodology field, and which was approved by most of researchers, is referred to. (Saunders et al., 2003) Since this research is designed to eliminate existing problems in banking industry, its orientation is the applied one. Main purpose of this research is to deliver a model to evaluate the effect of customer-orientation on commitment, satisfaction and customer retention. Therefore, it can be concluded that its approach is inductive and its methodology is order exploration.

Since research data is collected and analyzed in a short period and does not pay attention to result changes as time passes, it is of a cross sectional time horizon nature. Finally, strategy of this research is a causal one, meaning that it is considered co relational one and uses causal pattern. Scholars maintain that causal pattern is used due to limitation of

correlation and Regression Analysis which analyzes variables’ impacts and their causal paths. Scholars also emphasize on using causal strategy.

Standard questionnaire is utilized to collect the data in this research. To evaluate motivation a model such as social skills, decision-making ability, customer-orientation, customer satisfaction, customer commitment, and customer retention, Thurau’s questionnaire is used (Thurau, 2004). Also Donovan and Hocutt’s questionnaire is utilized in this study for the evaluation of modules as service distribution, customer understanding and pamper (Donavan and Hocuttb, 2001). Having translated the texts by three Iranian active experts in this field, validity and reliability tests are used. The above-mentioned modules are devised with continuous range from “very satisfied” (5) to “satisfied”(1) according to Lickert measurement scale.

**Validity and reliability test:** It is necessary that adjusted modules be tested in terms of validity and reliability before research model be evaluated. Construct validity is utilized for validity test. Having analyzed supporting factors by Lisrel software, (8.5) it is reported that based on goodness indices, (Table 1) it is designed with approximately high construct validity. As shown in Table (1), to represent Goodness of Fit, Adjusted Goodness of Fit Index (CFI) and the Root Mean Square Residual (RMR) are exerted. Meanwhile Kassim and Abdulla maintain that relative sum  $\chi^2/df$  equals less than 3, bespeaks of construct Validity. They also hold that, CFI, GFI, AGFI, bigger than 0.8, 0.9, and 0.9 and for RMR very small index represent high construct validity (Kassim and Abdulla, 2006).

**Table 1.** Results of constructs' reliability and validity tests.

| Constructs            | Alpha | $\chi^2/df$ | RMR   | GFI  | AGFI | CFI  |
|-----------------------|-------|-------------|-------|------|------|------|
| Customer Orientedness | 0.68  | 3           | 0.002 | 0.93 | 0.89 | 0.81 |
| Customer Satisfaction | 0.76  | 2           | 0.001 | 0.83 | 0.95 | 0.90 |
| Customer Commitment   | 0.83  | 3           | 0.014 | 0.88 | 0.78 | 0.97 |
| Customer Retention    | 0.79  | 2           | 0.018 | 0.95 | 0.92 | 0.89 |

To represent construct validity, cronbach Alpha Coefficient is calculated for each of modules by SPSS software and is shown in Table 1. Since Notably, Nunally and Bernstein hold that Alpha coefficient higher than 70%, represent proper test reliability, shown results approximately bespeaks of proper reliability of measurement tools (Chang and Chieng, 2006, 940).

**RESULTS**

In this study whose aim is to devise and test a model, Structural Equation Model Method (SEM) is utilized for data analysis and model assumption test. Structural Equation Model (SEM) is a strong multivariate analysis technique which is a combination of confirmatory factor analysis (CFA), Regression and path Analysis and in a clear term it is an extension of general linear model. This model allows researchers to test a set of regression equation simultaneously. Structural Equation model is a kind of comprehensive statistical approach to testing hypotheses about the relationship between Observed variables and latent variable which is sometimes referred to as Covariance Structural Analysis, casual Modeling and sometime is called Lisrel. Having collected the data, their Covariance is calculated and is utilized as a Lisrel software Input for Structural Equation calculation.

Covariance Matrix and descriptive data indices are presented in table (2), the gained results via Structural Equation Model are represented in Table (3) in summary. According to the results, all paths approximately are of proper significant level ( $p < 0.05$ ). According to the presented explanations, the main hypotheses of the research, whose results represented in Table (3), are as following:

Hypothesis (1): Mellat Banks service staff customer-orientation has significant and direct positive effect on the commitment of customers.

Hypothesis (2): Mellat Banks service staff customer-orientation has significant and positive effect on the satisfaction of customers.

Hypothesis (3): Mellat Banks service staff customer-orientation has significant and positive direct effect on the retention of customers.

Hypothesis (4): Mellat banks customer commitment has significant and positive direct effect on the retention of customers.

Hypothesis (5): Mellat Banks customer satisfaction has significant and positive effect on the retention of customers.

Hypothesis (6): Mellt Banks customer satisfaction has significant and positive direct impact on the commitment of customers.

**Table 2.** Covariance Matrix and Descriptive Indices

| Constructs            | Mean  | Standard Deviation | Matrix Covariance |       |       |      |
|-----------------------|-------|--------------------|-------------------|-------|-------|------|
|                       |       |                    |                   |       |       |      |
| Customer Orientation  | 0.801 | 3.04               | 0.642             |       |       |      |
| Customer Satisfaction | 1.00  | 0.00               | 0.424             | 1.00  |       |      |
| Customer Commitment   | 1.00  | 0.00               | 0.232             | 0.530 | 1.00  |      |
| Customer Retention    | 1.00  | 0.00               | 0.249             | 0.285 | 0.285 | 1.00 |

The results of test research hypothesis and their comparison with previous results is as following.

According to the results represented in Table 3 significant and positive impact of service personnel customer-orientation endogenous variables on customer commitment endogenous latent variables as (Y, =0.51: T value=8.11), customer satisfaction (Y=0.36: T value =4.70) and customer retention (Y=0.27: T value =3.12) in this study have been proven. Therefore, hypotheses 1, 2 and 3 are ratified.

Meanwhile, customer s satisfaction endogenous latent viable on customer commitment endogenous latent variables as (B=0.41; T Values 8.13) and customer retention (B=0.18; T value=2.61) have positive significance impact. Thus, Hypotheses 5 and 6 are accepted. Finally, according to the results of structural equation model customers commitment endogenous latent variable significant positive impact on customer retention (B=0.07: T value=0.90) is not ratified. Thus hypothesis 4 is rejected.

In Singh and Ranchhod's study, customer-orientation and tendency upon customer satisfaction has strong positive impact on the performance construct of business. Also, it is emphasized that there is a positive and significant relationship of customer-orientation and customer satisfaction (Singh and Ranchhod, 2004). Korunka and et al. devised a new module for customer-orientation measurement and also utilized it in multi-period study in America and Australia. Meanwhile, results of their research bespeak of the existence of meaningful and positive relationship between customer-orientation and customer satisfaction (Korunka and et al., 2007.307).

**Table 3.** Structural equation modeling results.

| Hypotheses  | Standard Coefficients | T <sub>value</sub> |
|---|-----------------------|--------------------|
| H <sub>1</sub> : customer-orientation on customers' commitment    | 0.51                  | 8.11               |
| H <sub>2</sub> : customer-orientation on customers' satisfaction  | 0.36                  | 4.70               |
| H <sub>3</sub> : customer-orientation on customers'               | 0.27                  | 3.12               |
| H <sub>4</sub> : Customers' commitment on customers' retention    | 0.07                  | 0.90               |
| H <sub>5</sub> : Customers' satisfaction on customers' retention  | 0.18                  | 2.61               |
| H <sub>6</sub> : Customers' satisfaction on customers' commitment | 0.41                  | 8.13               |

**Note:**  $p \leq 0.05$  means that all directions are of significant nature.

Results of Donovan and Hocutt concluded that there is a significant positive relationship between customer-orientation and customer satisfaction and also customer commitment (Donavan and Hocutt, 2001).

Knight and et al. proved that there is a positive relationship between customer and customer-orientation of significant level of ( $p \leq 0.01$ ) in their study in 2007. According to the results of Macintosh's study, there is a positive and significant relationship between customer-orientation with customers' satisfaction, oral ads and customer loyalty in 2007 (Macintosh, 2007). Based on the results of Pinho's study, there is a positive relationship between customer-orientation and customers faithfulness (Pinho, 2008). According to the finding of Rapp et al. there is a positive relationship of customers' relationship management (CRM) and customer-orientation in improving communicative performance of company with customers (Rapp et al.,2009,1).

Based on the results of Thurau's research, significant level of ( $p < 0.05$ ) bespeaks of direct positive relationship on satisfaction, commitment and customer retention. Also it is proved that there is a positive relationship of customer satisfaction construct on customers' commitment (Thuarn, 2004).

## DISCUSSION AND CONCLUSION

The main objective of this study is to investigate service Personnel customer-orientation impacts' concepts as satisfaction, commitment and customer retention so that business performance could be improved and attain a proper competitive advantage.

As mentioned above and as well as other conducted studies in the field of customer-orientation, this module has positive direct and apparent indirect impact on customers' retention. However, an attempt is made to devise a different construct for service personnel customer-orientation. To achieve this and according to the points that personnel characteristics has determining impact on achieving satisfaction and customer commitment, customers' understanding, pamper, service distribution and personnel relationship have been utilized as it is designed as a customer-orientation construct. (Donavan and Hocutt, 2001, 302)

Results of this research show that if service personnel pay particular attention to customers, understand their interests, supply their services properly and completely recognize them, these will lead to their satisfaction and commitment. Service managers should be willing to hire personnel who interact with customer on a personal level and recognize him. Therefore, not only this leads to customer satisfaction but also improves his desire to pursue with service companies.

One of the weaknesses of this research is that the relationships have been tested in a single-service and single –period time construct. To overcome these shortcomings, we can test these relationships in other contexts as like restaurants and clinics. Because there may be modules in service contexts in which the relationship between seller and buyer is of long-term effect as in Banks and Clinics compared with other constructs as like Restaurants and Retailers. Meanwhile, service constructs in which the rate of concrete elements is more as like Banks, casual relationships may change overtime. Therefore, there is a need for multi-sectional study in which change results are analyzed through study of selected groups or large groups.

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