

# FACTORS INFLUENCING CUSTOMER RETENTION AMONG BANKS

Michelle P. Yu\*, Hannah Grace C. Grustani<sup>2</sup>, Marvel S. Intano<sup>3</sup>

Surigao del Sur State University, College of Education, Business and Management, Cantilan, Surigao del Sur, Philippines

\*For correspondence; Tel. + (63) 947-334-8609, E-mail: [queen\\_misyel@yahoo.com.ph](mailto:queen_misyel@yahoo.com.ph)

**ABSTRACT:** Customer retention is far more important in recognizing one of the best strategies in marketing. Theoretically, many of the studies' emphasis were on different aspects that influenced preservation of customers. The researchers used the descriptive method and distributed questionnaires customers of selected Banks in Madrid, Surigao del Sur, Philippines. This research highlighted interpersonal relationship, customer satisfaction, price perception, image, and trust factors. In attracting and retaining customers, more specifically in banking industry, banks must identify and meet clients' perspective. This study examined which factors of the clientele were more important in influencing retention. The findings showed that "satisfaction factor distinctively on overall performance of the product and services and professional competencies; and trust factor characteristically on security of service process and confidentiality procedures," have an elevated degree on how customers influenced to retain and constantly patronizing one's products and services. The results also suggest for rigid trainings for existing and newbie banks or any business organizations that emphasized retention strategies to do well in the market competition.

**Keywords:** Customer Retention, Interpersonal Relationship Factor, Price Perception Factor, Bank Image Factor, Trust Factor

## 1. INTRODUCTION

Customer retention is very essential for a business to prosper with the growing competition in the business world. One has to continuously adapt better strategies and more specifically improved mechanisms to eventually seize to the accustomed clients of the organization, thus attracts potential customers in the future, especially in the locality where banking industry was generously operating and growing utmost.

Consequently, the identification on how these customers can be influenced through the different factors to be retained in one's business such as interpersonal relationships, customer satisfaction, price, image and trust were imperative to achieve these aspirations. More importantly, discovering these factors and what most influenced the clientele.

As commented by Hull, customer retention is potentially an effective tool that banks can use to gain a strategic advantage and survive in today's ever-increasing banking competitive environment. It refers to the activities and actions that companies and organizations take to reduce the number of customer defections. It is the percentage of customer relationships that once established, a business is able to maintain on a long term basis and begins with the first contact a customer has with a company and continues throughout the entire lifetime of the relationship [1].

According to Samuel M. Salvador, *et. al*, having a loyal customer means your business is doing great, especially in terms of quality. Quality means anticipating the future needs of the customer. A company doesn't only satisfy and meet their needs but also exceeds their expectations[2]. As commented by Ioanna, (2002) service quality may be the only sustainable form of differentiation in such a highly competitive and homogenous industry. However, bank managers should bear in mind that delivering superior service is not enough. In effect, they should deliver services that are better than consumers' expectations in order to enhance satisfaction and maintain a positive image[3].

Healy, also commented that longer term customers buy more and, if satisfied, may generate positive word-of-mouth promotion for the company. Additionally, long-term customers also take less of the company's time and are less sensitive to price changes [4]. These findings highlight the opportunity for management to acquire referral business, as it

is often of superior quality and inexpensive to obtain. Thus, it is believed that reducing customer defections by as little as five percent can double the profits. Customer retention often is faster than customer acquisition. Selling to customer with whom you already have a relationship is often a more effective way of growing revenue because companies don't need to attract, educate and convert new ones. It is more convenient and easy for the company without any extra marketing strategies because customers would prefer to choose companies who have good reputation and superior customer experience.

This study will help the companies retain as many customers as possible, often through customer loyalty. This study is significant for the management; they are able to know the performance of their organization in terms of customer retention management. It gives them a challenge to explore and discover more strategies and techniques to retain customers. This enhances the organizations' performance as well as their customer relationship for profitability of their business and thus, provides information on how banks will be more competitive amidst competitors in the locality.

Customer retention is an important element of banking strategy in today's increasingly competitive environment. Bank management must identify and improve upon factors that can limit customer's defection. These include employee performance and professionalism, willingness to solve problem, friendliness, and level of knowledge, communication skills and selling skills among others. Furthermore, customer defection can also be reduced through adjustment in a banks rates, policies and branch location [5].

Growth and long-term profits for any business was driven by customer retention strategy in marketing. While some businesses still value the acquisition of new customers over developing a deeper relationship with current customers, it's actually counterintuitive based on what mostly know about the lifetime value of existing customers. According to the Retention Science eCommerce Marketing Survey 2014, only 23% of marketers are tracking the rate at which their customers churn, and fewer than 40% are tracking customer lifetime value. In that same survey, 70% of marketers admit that their retention marketing efforts are only average, poor, or need improvement. [6]

Increasing customer retention is no longer just about “the customer is always right”. Today’s customer is sophisticated, knows about competitions, and expects their needs to be met. If retention criteria are not well- managed, customer’s rights still leave their banks, no matter how hard bankers try to retain them. This study also examines the impact of several retention- relevant construct that influence customer’s decision to stay with or leave their banks.[7]

Customer retention is defined by different studies as the continuity of the business relations between the customer and company. Customer retention is more than giving the customer what they look forward to; it is about beyond their anticipation so that they become a faithful supporter for your brands. [8]

According to Reichheld, [6] customer retention can be achieved through customer satisfaction. Customer satisfaction has for many years been perceived as key in determining why customers leave or stay with an organization. Organizations need to know how to keep their customers, even if they appear to be satisfied. He suggests that unsatisfied customers may choose not to defect, because they do not expect to receive better service elsewhere.

Companies thus need to understand the nature of their consumers’ reasons for staying and must not assume that it is a positive, conscious choice because they are the greatest need of any organization. Hence, it is obvious that they should be satisfied and understood because this is the most important requirement of success in any industry. Management should think more strategically about retention by baking it into every step of the customer life cycle: target, acquire service and development. Smarter use of the technology available, revisiting process to improve customer experience and ensuring the organization culture supports retention are all ways to improve attrition rates [7].

Customer satisfaction is a significant issue for most marketers. Previous research has identified various factors that determine customer satisfaction in retail banking sector in Western countries. There was a strong relationship between service quality and customer satisfaction. There was, however, no relationship between customer satisfaction and tangible aspects of the service environment. The current paper reports findings from a survey, which looked into determinants of customer satisfaction in the retail banking in Pakistan. [8].

According to the findings of the study of Jay Kandampully, Dwi Suhartanto, [9], the result specified that hotel image and customer satisfaction with the performance of housekeeping, reception, food and beverage, and price are positively correlated to customer loyalty.

According to the study of Kuusik [10], the results revealed that four analyzed factors affecting customer loyalty (satisfaction, trustworthiness, image and importance of relationship) are playing different role on the different levels of customer loyalty. Brand image can affect loyalty in two ways. Firstly, customer may use his preferences to present his own image. Belk’s theory of extended self, people define themselves by the possessions they have, manage or create.

Venetis and Ghauri (2004)[11] revealed in their study that service quality has given contribution to the long- term relationships and customer retention.

According to social identity theory, people tend to classify themselves into different social categories this would lead to evaluation of objectives and values in various groups and organizations in comparison with the customer’s own values and objectives.[12]

Customer satisfaction is said to be an basic part of business objectives of any organization irrespective of the nature of the organization.[13] However, more pronounced in business oriented organizations can be achieved through appreciating the needs of the target market and the provision of needs satisfying correspondence in meeting and fulfilling these needs at a greater extent, thus, building and maintaining long lasting and productive relationship with the target market [14].

The concept of relationship marketing was first mentioned in the year 1983 and since then the interpretation of the following concept has been changing and nobody has come to the united point of view concerning relationship marketing and its factors [15]. Nevertheless, many research have already scrutinized the costumers’ repeated purchase intentions, however there is no united point of view concerning the factors influencing customer retention. [16] Some authors investigated customer retention by creating a linear model. The linear model assumes that customer retention affects customer satisfaction, customer perceived value, trust relationships and switching costs. It must be concluded, that these factors are equally important for customer retention [17].

A research outcome demonstrated that there was a statistically significant positive correlation between factors identified in the theoretical model: customer satisfaction, relationship quality, switching costs and customer retention [18].

However, none of the authors specify the order of importance of these factors. There are also no research which factors are important for banking industry; such studies have not found any case of bank customers in Madrid, Surigao del Sur. The research problem - find the factors that influence customer retention of the banking sector in Madrid, Surigao del Sur.

## 2. MATERIAL AND METHODS

The descriptive method of research is used in this study, using the questionnaire to gather information. It is considered appropriate seeing that the study described the factors influencing customer retention of banks in Madrid, Surigao del Sur.

### Participants and Procedure:

The respondents of the study are those people engaging or having bank transactions in the locality of Madrid, Surigao del Sur, where it considered as one of the developing municipalities in local area wherein different kinds of business and products are traded and found and banking industry is also growing.

### 3. RESULTS AND DISCUSSION

The results showed the degree on how customers agree that they can be influenced by the retention factors using descriptions to each of the factors.

Table 1 showed that the customers agree that interpersonal relationship influenced them to retain with a certain bank. They strongly agree that they were comfortable and have developed a personal friendship with the banks staff and bank itself. The study found out that the customers are doubtful if they lose friendship within the bank if they switch to the other bank. They also felt the care of the bank with them and it can be deduced from the findings that the overall interpersonal factors with the grand mean of 4.1 and verbal description of agree revealed that the customers have built such relationship with the banks and it influences the retention of them to it.

The table 1 also presented the satisfaction factors influencing customer retention of banks. The study revealed that the customers were very satisfied for all products and services offered by the bank. They were also satisfied with the competences of the employees and front line people. From the different factors of satisfaction described in the study, there was a clear implication that customers strongly agree that satisfaction of the products and services of the bank and its employees has influenced them in continuously patronizing the bank thus they were retained.

The table 1 presented the factors influencing customer retention of bank in terms of price perception. The study discovered that the bank took effective way in order for their customers to understand its products and services. The bank's rates offered were reasonable and also offered flexible prices for various services that meet the needs of their customers. From the different factors of price perception above with the grand mean of 4.4 and a verbal description of strongly agree, it signifies that the bank's transparency, reasonable and flexible in terms of prices for their product and services influenced the customer to retain.

The table 1 also presented the factors influencing customer retention of bank in terms of bank image. The study resolved that customers considered bank's reputation; it should possess good corporate social responsibilities, and offers a good brand of image of products and services to its customers. From the different factors of bank image they strongly agreed and declared that they believed bank image is important and thus influenced them in transacting and giving their trust and loyalty.

The table 1 showed the factors influencing customer retention of bank in terms of trust. The study disclosed that the banks were reliable for its concern for the customer satisfaction, their policies and practices were trustworthy, and their service process and confidentiality of procedure was secured which they strongly agreed that the bank protects the investment and every transaction of their customer, thus these were most of the reasons that influenced them to retain in a particular bank.

**Table 1: Degree of Customer Retention Influenced by Factors**

Factors	Weighted Mean	Verbal Description
---------	---------------	--------------------

<b>Interpersonal Relationship</b>	4.1	Agree
<b>Customer Satisfaction</b>	4.5	Strongly Agree
<b>Price Perception</b>	4.4	Strongly Agree
<b>Bank Image</b>	4.4	Strongly Agree
<b>Trust</b>	4.5	Strongly Agree
<b>Grand Mean</b>	4.38	Strongly Agree

### 4. CONCLUSIONS

The study aids to continuously at par with the growing competition in the business world most specifically in the banking industry. Based on the results attained, it can be concluded that all of the factors considered namely, interpersonal relationship, customer satisfaction, price, bank image and trust were primarily measured in influencing customer retention.

Conversely, in profound investigation, examination and analysis of the research, it specified that customer satisfaction and trust were among on the eminent factors among all that influenced customer retention. Customer satisfaction factor particularly on overall performance of the product and services and professional competencies; and trust factor typically on security of service process and confidentiality procedures were regarded as fundamental in customer retention. Price perception, Bank Image and Interpersonal relationship followed to the level of influence.

Furthermore, the scrutiny will enable the research study to recommend various capable ways for future related studies. As an outcome, also, there can be a development of knowledge that there will be a need for rigid trainings on customer satisfaction and trust building relationships among customers and the bank organizations to endure in the growing market competition.

### 5. REFERENCE

- [1] Hull, L., *Foreign-owned Banks: Implications for New Zealand's Financial Stability Paper Series* (2002)
- [2] Salvador, Samuel M. et al. ,*Total Quality Management, Concept and Practices* (2009)
- [3] Ioanna, P.D. "The Role of Employee Development in Customer Relations" *The Case of UK Retail Bank. Corporate Communication*, **7(1):62-77** (2002)
- [4] Healy, T.J., "Why You Should Retain Your Customers?", *America's Community Banker*, **8(9):22-26**(2005)
- [5] Leeds, B. *Mystery Shopping' Offers Clues to Quality Service. Bank Marketing.*, **24(11):24-27**(2003)
- [6] Reichheld, T. & Sancher, D. (1990). *The trends in Customer Retention*. New Jersey: McGraw-Hill.
- [7] Colgate, M., K. Stewart, R. Kinsella. "Customer Defection: A Study of the Student Market in Ireland", *The International Journal of Bank Marketing*,**14(3):23**(2010)
- [8] Jamal, A. and Naser, K. 'Factors Influencing Customer Satisfaction in the Retail Banking Sector in Pakistan', *International Journal of Commerce and Management*, **13(2):29-53**(2003)
- [9] Jay Kandampully, Dwi Suhartanto "Customer loyalty in the hotel industry: the role of customer satisfaction

- and image", *International Journal of Contemporary Hospitality Management*, **12(6)**,:346 - 351, (2000)
- [10] Kuusik, Andres, *Affecting Customer Loyalty: Do Different Factors Have Various Influences in Different Loyalty Levels?. The University of Tartu Faculty of Economics and Business Administration Working Paper No. 58-2007*. Available at SSRN: <http://ssrn.com/abstract=1025989> or [http://dx.doi.org/10.2139/ssrn.1025989\(2007\)](http://dx.doi.org/10.2139/ssrn.1025989(2007))
- [11] Karin A. Venetis, Pervez N. Ghauri, "Service quality and customer retention: building long-term relationships", *European Journal of Marketing*, **38(11/12)**,:1577 – 1598(2004)
- [12] Robert W. Palmatier, Rajiv P. Dant, Dhruv Grewal, and Kenneth R. Evans *Factors Influencing the Effectiveness of Relationship Marketing: A Meta-Analysis*. *Journal of Marketing*, **70(4)**,:136-153(2006)
- [13] Reichheld, T. & Sancher, D. . *The trends in Customer Retention*. New Jersey: McGraw-Hill. (1990)
- [14] Roberts, P. W. & Dowling, G. R. (The value of a firm's corporate reputation: how reputation helps attain and sustain superior profitability. *Corporate Reputation Review*, **1(1)**,:72–76(1997)
- [15] Romano, A.C. *Customer relations management in information systems research*. *Proceedings of the Americas Conference in Information Systems (AMCIS)*, **13**, 811-9 (2000).
- [16] Rootman, C. *The influence of customer relationship management on the service quality of banks*. Unpublished masters dissertation, Nelson Mandela Metropolitan University, Port Elizabeth(2006).
- [17] Rose, C. & S. Thomsen (The impact of corporate reputation on performance: some Danish evidence. *European Management Journal*, **22**, :201–210 (2004).
- [18] Ioanna, P.D. *The Role of Employee Development in Customer Relations: The Case of UK Retail Bank*. *Corporate Communication* ,(7)**1**.: 62-77(2002)
-