

Chapter 10

Identifying the Determinants of Customer Retention in a Developing Country Context

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ABSTRACT

This chapter investigates how image, perceived service quality, and satisfaction determine customer retention in the retail banking industry in Malaysia. Data was obtained using a self-administered survey involving a convenience sample of 134 retail banking customers in Malaysia. The results show that image is both directly and indirectly related to retention through satisfaction, while perceived service quality is indirectly related to retention through satisfaction. The chapter concludes that satisfaction is not the sole determinant of retention in retail banking. Some managerial implications of this research find that the interrelationships between the determinants (image, quality, and satisfaction) allow bank managers to better understand the dynamics of customer retention formation.

INTRODUCTION

The financial landscape is undergoing transformation, driven by financial liberalization and consolidation, economic transformation, and more discerning consumers. These developments have been reinforced by technological advancements,

which have allowed the developments of new and more efficient delivery and processing channels as well as more innovative products and services. Against this backdrop, a number of challenges have emerged. Foremost amongst these is intensified competitive pressures, spurred by financial liberalization and technology revolution. Banking institutions are facing competition not only from each other but also from non-traditional competi-

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tors such as non-bank financial intermediaries as well as from alternative sources of financing, such as the capital markets. Another strategic challenge facing banking institutions today is the growing and changing needs and expectations of consumers in tandem with increased education levels and growing wealth. Consumers are becoming increasingly discerning and have become more involved in their financial decisions. For this reason, they are demanding a broader range of products and services at more competitive prices through more efficient and convenient channels. As such the need to enhance the competitiveness of the banking sector to withstand forces of change and compete in this more liberalization environment becomes even more pressing. Successful institutions will be the ones with the agility to adapt swiftly and respond to the changing market needs through innovative and differentiated product offerings; excellent service quality; and superior level of efficiency. Moreover, to meet the challenge from more discerning and demanding consumers, it is equally important for banking institutions to complement the richer and more customized range of product offerings with higher levels of service performance. Of important is the enhancement on customer relationship management and development of 'front-office' strategy that is aligned with the customer-centric value proposition to improve customer satisfaction and retention.

Therefore, what seems vital is a deep understanding of the *factors influencing customer retention*. In particular, the first primary objective of this research was to investigate the impact of image on consumers' perception of the service quality and their satisfaction with that service. Secondly, the paper aims at determining the relationship between consumers' satisfaction and consumers' retention. The research is undertaken within the context of the retail banking services in a developing country, i.e. Malaysia, one of the most important economies in the South East Asia. It is hoped that the findings of this study will be

useful to other countries with similar environment and level of economic development.

LITERATURE REVIEW

Importance of Service Retention

Retention of current customers or loyalty is of interest to many researchers (Broyles, 2009; de Matos, Henrique & de Rosa, 2009; Dowling & Uncle 1997; Ganguli & Roy, 2011; Ganesh et. al., 2000; Mittal & Lassar 1998). The emphasis on customer retention is justified by the lesser cost of retaining a customer than obtaining a new one (Fornell 1992; Fornell & Wernerfelt, 1987; Keaveney, 1995; Reichheld & Kenny, 1990; Reichheld & Sasser, 1990). For instance, by retaining its customers, a company might avoid or reduce its costs of advertising to entice new customers, costs of a personal selling pitch to new prospects, costs of setting up new accounts, costs of explaining business procedures to new clients, and costs of inefficient dealings during the customer's learning process (Barsky, 1994; Mittal & Lassar 1998; Peppers & Rogers, 1993; Reichheld & Sasser, 1990). Furthermore, it was argued that a company can presumably increase its revenues and profits (Palmatier & Gopalakrishna, 2005) by inducing its existing customers to increase their *usage* (Danaher & Rust, 1996). For example, retaining customers and trying to encourage them into more profitable states for their banks seems an appropriate customer service strategy (Colgate et al., 1995; Dawes & Swailes, 1999; Palmatier & Gopalakrishna, 2005). This profitability is assumed to result from quality because higher quality leads to satisfied customers (Anderson et al., 1994; Cronin & Taylor, 1992; Danaher & Rust, 1996; Parasuraman et al., 1988) and satisfied customers tend to use more of a service or product (Danaher & Rust, 1996).

Retention may be demonstrated in multiple ways; for example, by expressing preference for

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