

Evaluation of the Relationship between Customer Satisfaction and Customer Retention: A Study of a Bank in Abakaliki Metropolis

Benjamin Chigozie

Department of Banking and Finance, Akanu Ibiam Federal Polytechnic, Unwana, Ebonyi State.

ABSTRACT

Customer satisfaction remains a worthy pursuit among the consumer marketing community. For organization to continue staying in business there is the need to create a connection with the customers through the satisfaction of their needs. Hence, this paper examined the relationship between customer satisfaction and customer retention. The study employed a quantitative method to test the study hypothesis and collect responses from the customers of a bank located in Abakaliki Metropolis. 120 questionnaires were distributed with a response rate of 89.2%. The study adopted descriptive statistics which incorporated the use of tables and percentages while Chi-Square was used as the statistical tool to test the hypothesis formulated in the study. The findings show that the X^2 value of 85.5 supports the suggestion that customer satisfaction has a significant impact on customer retention. It was therefore concluded that the effective satisfaction of customers will give room for customer retention.

Keywords: Retention, Customer satisfaction, Organization, Bank, Relationship.

INTRODUCTION

According to [1], relationship marketing simply means “attracting, maintaining and, in multi-service organizations, enhancing customer relationships”. Since every organization places a priority over its customer satisfaction, it means that customer acquisition is a critical part of the marketers’ duties, and this stresses the point that maintaining and enhancing customer relationships is of equal or greater significance to the organization in the long run than customer acquisition in the short run. Hence, customer satisfaction is a concept that must be met for efficient and effective achievement of business goals.

According to [2], the core of Customer Relationship Marketing (CRM) is Customer Retention (CR). Customer retention is considered to be the repeated patronage of a marketer or supplier by a customer; retention is also used interchangeably with other terms including customer loyalty. According to [3], retention and loyalty are different from repeat purchasing behaviour in that they both require an intentional component; that is to say, the purchase doesn’t occur by

chance - there are specific reasons for it [4].

In the same vein, Satisfaction has been described by many researchers like [5] and [6] as one of the major relationship marketing drivers. Customer satisfaction is a fundamental part of organizational goals that must be fulfilled for an organization to maintain its customers. Customer retention is a strong indicator of the extent to which an organization can achieve its goals. That is to say, if customers fail to patronize or repeat the purchase of the products of the organization, certainly sales and profitability of the organization will drop which will negatively affect the entire performance of the organisation. It goes to say that, the extent to which an organization retains its customers largely depends on the level of satisfaction that customers derive from the products of such an organization. The significance of customer satisfaction in today’s dynamic corporate environment is apparent as it greatly influences customers repurchase intentions whereas dissatisfaction has been seen as a primary factor for

www.idosr.org

customers" intention to switch [7]. It is pertinent therefore, for business organizations to create and maintain positive relationship with their customers in order to ensure repeat purchase and as well create room for customer retention. When there is a favourable relationship between the organization and the customers, they are bound to repeat purchase and continue patronizing the organization; through word of mouth, the customers share their favourable experiences with other members of the society and this can have positive effect on the organization. In the same way, customers who are not satisfied with the services of an organization are more likely to tell people about their experiences which will negatively affect the performance of the organization. To

Literature Review

Customer satisfaction is an extremely personal perception swayed by several variables such as individual expectations and demographic profile. Scholars, such as [10], have shown that customer satisfaction or dissatisfaction is dependent on whether or not the individual's expectations are being met regarding the service or product. [11] further add that a satisfied customer is one that collects substantial added value. In the service industry, strong emphasis is often placed on the importance of service quality perceptions and association between service quality and consumer satisfaction [12]; [13]. It is therefore presumed that a number of researchers conclude that service quality is an important indicator of customer satisfaction. In essence, consumers will be loyal to a bank for example, if the services rendered are satisfactory to the consumers. [14] are of the opinion that satisfaction is a critical scale of how well a customer's needs and demands are met while customer loyalty is an evaluation of how likely a customer is to repeat the purchase and engage in relationship activities. They state that customer satisfaction has a positive significant relationship with customer loyalty while concluding that it is impossible to have loyalty without satisfaction. [15], assert

Chigozie

achieve customer satisfaction therefore, organizations must be able to build and maintain long lasting relationship with customers through satisfying their various needs and demands as this resultantly motivates them to continue to do business with the organization on constant basis [8]. According to [9], a satisfied and retained customer will lead to repeat purchase while unsatisfied customer may decide to switch to other brands or competitive brands of other organizations. Thus, this paper examined the relationship between customer satisfaction and customer retention.

Research Hypothesis

Ho: There is no significant relationship between customer satisfaction and customer retention.

that consumer satisfaction is vital for effective marketing programs. On his part, [16] notes that consumer satisfaction remains a worthy pursuit among the consumer marketing community. Furthermore, [17] points out that consumer satisfaction is a collective outcome of perception, evaluation and psychological reactions to the consumption experience with a product or service. Consumer satisfaction is seen as ways by which consumers can get more benefits than their cost. [18] submits that customer satisfaction is the core philosophy of marketing strategy of any organisation and contributes significantly to the success of a business. He states that customer satisfaction is fundamental for brand loyalty as it is an important reason to attach someone with a particular brand.

Customer satisfaction has been generally regarded as a primary determinant of long term customer behaviour. Supporting this view, [19] assert that the more satisfied customers are, the greater is their retention, the positive word of mouth generated through them and the financial benefits to the firms who serve them. For organization to continue staying in business there is the need to create a connection with the customers through the satisfaction of their needs. [20]

observe that the critical issue in relationship marketing research has been the effects of relationships and quality on customer's retention. Retention and attraction of new customers are used as drivers for increase in market share and revenues [21]. In the retention of customer, it is important for a firm to know who to satisfy and how to effectively satisfy them. Post sales services are the important drivers for customer retentions according to [22]. It is imperative for product/service providers to stress on the quality of product and services. As observed by [23], there exist statistically, a fundamental relationship between quality trust, commitment and satisfaction and customer retention and future use of product, as retention is significantly influenced by future use of product.

Satisfaction can be obtained based on the expectation of the receiver. If the supply of an organisation were according to the expectations of customers, they would be satisfied. Consequently, the amount of high or low satisfaction depends upon the level of supply that meets the level of expectation or fall below the level of expectation [24]. Satisfaction of customer is used as a clue for future possible revenue [25], and this is because customer satisfaction is the basis for the business to retain the existing customers [26]. The customers who are not satisfied with the received services would not be expected to have long term relationships with the company [27]. Poor services can also lead to dissatisfaction. Poor services or unsatisfactory level of services, which cannot meet customers' expectation, may be one of the causes of dissatisfaction in customers [28]. [29] state that variation in the quality and value of products and services made available to customer creates variation in customer satisfaction and that create variation in customer loyalty. For developing customer satisfaction, reliability in the provision of services and commitment to service relationships is compulsory if an organisation must attempt to increase customers' future expectations. Satisfaction is the general customer

attitude or conduct toward the variation between what customers expect and what they receive, as regards the fulfillment of some desire, need or goal [30]; [31].

Contrarily, Customer retention according to [12], [9], is the continuity of the business relations between the customer and company. Customer retention goes beyond giving the customer what they expect; it is about surpassing their expectations so that they become loyal promoters for your products. In the retention of customers, it is important for an organisation to identify how to serve their customers because post sales services are the important drivers for customer retentions [17]. [3] is of the opinion that financial institutions like the banking sector are focusing on retaining their existing customers and in doing this, they improve on the services provided, expand smarter use of technological mechanism like Automated Teller Machines (ATM), online banking etc, revisit procedures to improve the customer experiences and ensure that the organizational culture supports retention. The single purpose of a business according to [23] is 'to create a customer'. Nonetheless, keeping the customer has become regarded as equally, if not more important, since [1] reported that a 5 per cent increase in customer retention generated customer net present value of between 25 per cent and 95 per cent across a wide range of business environments. [19] maintain that customer retention takes place when a customer procures a product or services continuously; this phenomenon is called customer retention over an extended period of the time. According to [10], customer retention is the process by which consumers interpret price and attribute value to a product or service. [27] go on to state that customers who are willing to pay higher prices for a product or service tend to be brand-conscious and prestige sensitive. On his part, [16] sees customer retention as the number of customers doing business with a firm at the end of a financial year expressed as a percentage of customers that were active at the beginning of the year. Customer

retention has been shown to be a primary goal in firms that practice relationship marketing. While the precise meaning and measurement of customer retention can

Research Methodology

The paper adopted survey research method. The study population comprise of customers of the bank along Ogoja Road, in Abakaliki metropolis. A total of 120 customers of the bank, mainly account holders, were selected for the study. Of the 120 questionnaires distributed, 107 were analyzed. The

Data Presentation and Analysis

Distribution of respondents by sex indicates that out of a total of 107 participants, 53.3% of the respondents were males while 46.7% were females. Also, the distribution of respondents by age shows that 34.6% are between the ages of 18 and 30 years. Majority were within the age bracket of 31 to 40 years, constituting 40.2%, while 25.2% were aged 40 years and above. In respect to the type of account being operated, 67.3%

Chigozie vary between industries and firms, there seems to be a general consensus that focusing on customer retention can yield several economic benefits [2].

population comprises. They consist of business men/women, students and other members of the public. The study adopted descriptive statistics which incorporated the use of tables and percentage; while Chi-Square was used to test the hypothesis.

operated Savings account while 32.8% were Current account holders in the bank. Similarly, data in table 5 revealed that 22.4% of the respondents have being actively operating an account with the bank between one to three years. 48.6% of the respondents had accounts that were between three to five years old, while 29% have being account holders with the bank for five years and above.

Table 5: Distribution of respondents by years of operating with the bank

Items	Frequency	Percent
1 - 3 years	24	22.4%
3 - 5 years	52	48.6%
5 years and above	31	29%
Total	107	100%

Test of Hypotheses

There is a significant relationship between customer satisfaction and customer retention.

Response	Fo	Fe	fo-fe	(fo-fe) ²	(fo-fe) ² Fe
Strongly Agree	51.8	21.4	30.4	924.16	43.2
Agree	35.9	21.4	14.5	210.25	9.8
Undecided	3.2	21.4	-18.2	331.24	15.5
Strongly Disagree	9.1	21.4	-12.3	151.29	7.1
Disagree	7	21.4	-14.4	207.36	9.7
Total	107	107			X² = 85.5

From the above table, the calculated value X² = 85.5

df = k - 1

df = 5 - 1 = 4

df = 4

Table value of X² at 0.05 = 9.49

Discussion of Results

The result of the tested hypothesis ($X^2 = 85.5$) reveals that customer satisfaction solely accounts for the variation in customer retention. The result shows the calculated value of $X^2 = 85.5$, while the

chi-square value of 0.05 (5%) level of four (4) degree is 9.49; an indication that the alternative hypothesis is accepted while the null hypothesis is rejected.

CONCLUSION AND RECOMMENDATION

From the findings of this study, there is a significant relationship between customer satisfaction and customer retention. Thus, this study recommends as follows:

1. Organizations should endeavour to establish favorable relationship with their customers.
2. Organizations should adopt the marketing concept that allows for

creating and delivering superior customer value to their target markets.

3. Organizations should also take cross functional decisions on marketing and non marketing activities in order to satisfy their customers for more effective customer retention.

REFERENCES

1. Alshurideh, M., Masa'deh, R., and Alkurdi, M. (2012). The Effect of Customer Satisfaction upon Customer Retention in the Jordanian Mobile Market: An Empirical Investigation. *European Journal of Economics, Finance and Administrative Sciences* - Issue 47
2. Anderson, E. Fornell, C. and Rust, R. T. (1997). Customer satisfaction, productivity and profitability: differences between goods and services". *Marketing science*, vol.16 no.2, pp.129-45.
3. Berry, L. L. (1995). Relationship marketing of services- growing interest, emerging COSE: Its impact perspectives". *Journal of the Academy of marketing science*, vol.23 No.4, pp.236-45.
4. Cronin, J. J. and Taylor, S. A. (1992). Measuring service quality: a re-examination and extension. *J. Mark.* 56, 55-68.
5. Crosby, L. A. and Stephens, N. (1987). Effects of relationship marketing on satisfaction, retention and prices in the life insurance industry. *Journal of marketing research* 24: 404-411.
6. Day, G. S. (1994). The capabilities of market- driven organizations. *Journal of marketing*, 58(4), pp.37-52.
7. Dick, A. S. and Basu, K. (1994) Customer loyalty: towards an integrated conceptual frame work. *Journal of the cade/my of marketing science*, vol 22, pp.99-113.
8. Dimitriades, Z. S. (2006). Customer satisfaction, loyalty and commitment in service organizations, some evidence from Greece. In *Management research news* vol. 29 No. 12. Emerald Group Publishing Limited (782-800).
9. Evans, J.R., and Lindsay, W.M. (1996). *The management and control of Quality*. 3rd edition, ST. Paul: West Publishing Company.
10. Faizan, M. M., NAWAZ, M. S. Khan, Z. (2011). Impact of customer satisfaction on customer loyalty and intention to switch: Evidence from banking sector of Pakistan *International Journal of Busioness and Social Science*. 2(16).
11. Fornell, C. (1992). A national customer satisfaction barometer: the Swedish experience. *J. Mark*, 56, 6-21.
12. Gerpott, T. J. Rams, W. and Schinder, A. (2001). Customer retention, loyalty and satisfaction in the German mobile cellular telecommunications market. *Telecommunications policy*, 25, 249- 269.
13. Gerrard, P. and Cunningham, J. B. (1997). Islamic banking: a study in

- Singapore. *International Journal.Bank.Mark*, 15 (6), 204-216.
14. Hallowell, R. (1996). The relationships of customer satisfaction, customer retention and profitability International. *Journal of service Industry Management*, 7(4), 27-42.
15. Hansemark, O. C, and Albinson, M. (2004). Customer satisfaction and retention: The experiences of Individual employees. *Managing service Quality*. 14(1), 40-57.
16. Ibojo, B. O., Olawepo, G. T. and Akinruwa, T. E. (2013). Effect of Customer Satisfaction on Organisational Profitability, using an organization in the Food and Beverage Industry. *International Journal of Management Sciences*, Vol 1, No 5, 2013, 159-166
17. Kathleen, K. (2005). Customer loyalty on retail banks: time to move beyond simple programs or a product orientation @. View point issue 127 Tower group.
18. Keiningham, T. L., Perkins-Munn, T., Aksoy, Land and Estrin, D. (2005). Does customer satisfaction lead to profitability: The mediating role of share-of-wallet" in *Managing service Quality* 15(2) 172-181.
19. Khan, I. (2012). Impact of customers satisfaction and customers retention on customer loyalty. *International journal of Scientific and Technology Research* Vol. 1 Issue 2.
20. Levesque, and McDougall, G. H. G. (1996). Determinants of customer satisfaction in retail banking. *International journal of Bank Marketing* 14 (7). 12 - 20.
21. Mohsan, F., Nawaz, M. M., Khan, M. S., Shallkat, Z. and Aslam, N. (2011). Impact of customer satisfaction on customer loyalty and intentions to switch: Evidence from banking sector of Pakistan. *International Journal of business and social science*. Vol.2 No.16.
22. Naser, K., Jamal, A. and Al-Khatib, K. (1999). Islamic banking: A study of customer satisfaction and preferences in Jordan. *International Journal of bank management*, 17(3): 135-150.
23. Newman, k. (2001). Interrogating SERVQUAL: A critical assessment of service quality measurement in a high street retail bank. *International Journal of bank marketing* 19 (3) 126 - 139.
24. Olajide, O. P and Zabkar, V. (2009). Effect of customer satisfaction on customer loyalty among selected bank customers in Ado-Ekiti Metropolis Nigeria. *Interdisciplinary journal of contemporary research in business*, vol3 No.11, pp.228-235.
25. Oliver, R. L. (2000). Measurement and evaluation of atifaction proce in retailting. *Journal of retailing* vol, 57, 25 - 48.
26. Ranaweera, C. and Prabhu, J. (2003). The influence of satisfaction, trust and switching barriers on customer retention in a continuous purchasing setting. *International journal of service industry management*, vol.14, pp. 37-95.
27. Reichheld, F. F. (1990). Zero defections: Quality comes to services Harvard business review, 68(5), 105-111.
28. Singh, S. (2013). Positive service encounter: A tool for customer loyalty in retail. *Journal of Business Theory and Practice*; 1 (2).244 - 261.
29. Smith, M and Chang, C. (2009). The impact of customer related strategies on shareholder value: evidence from Taiwan. *Asia Review of Accounting*, 17 (3) 247 - 268.
30. Taylor, S. A. and Baker, T. L. (1994). An assessment of the relationship between service quality and customer satisfaction in the formation of customers" purchase intentions. *Journal of Retailing* 70 (2) 163 - 178.

31. Wong, Y. H., Chan, R. Y. K., Ngal, E. W. T. and Oswa, I. P. (2009). Is customer loyalty based? An empirical study of a chinese capital intensive manufacturing industry. In Industry Marketing Management; 38, 83 - 93.
32. Zeithami, A. A. and Bitner, M. J. (2000). Service Marketing Customer Focus cross the firm (2nd Edition). Nw York, Mc Graw-Hill.