Moderating Effect of Value and Satisfaction on Loyalty

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Bank, Value, Image, Satisfaction, Loyalty

Abstract: This study examines the effect of value, image and satisfaction on loyalty, in the context of banking services. Data for the present study was collected by survey method from the population of Delhi. Regression analysis was used to determine the effects of value, image and satisfaction on loyalty. Using image as a predictor variable, value was added and moderated regression analysis was employed to observe the changes in the degree of prediction (R2) towards loyalty. Then the same procedure was used with satisfaction (predictor) and finally both satisfaction and value were added as moderators and image as the predictor was added to determine the moderating effect of satisfaction and value on customer loyalty when combined with image. It was found that when tested together, satisfaction caused the least amount of variability in loyalty as opposed to value.

Introduction:

Understanding consumers' choice is a tough task for marketers. However, an indepth understanding of consumer choice process is a pre-requisite for customer retention in the competitive business world. Reichheld and Sasser (1990) indicate that a five percent increase in customer retention can increase a firm's profit by 100% over the long term. A retained customer continues his/her exchange process with the same firm. Such a patronising customer increases the profits of the firm by increasing his/her purchase spending, purchasing at full price or even at high prices and most importantly by attracting new customers. Thus marketing managers should concentrate on retaining customers or to build up loyal customers. Management should strive to uncover what drives loyalty in their business and exploit those drivers to the benefit of their firm. Loyalty in turn breeds retention which translates into higher profits for the company.

Customer loyalty is however easier said than achieved in unpredictable market conditions and with fickle customers. Customer satisfaction per se hardly guarantees customer patronage. Any unfavourable situation like promotional schemes by competitors, new brand launches, non-availability, etc. can take this satisfied customer far away from the company.

It therefore becomes interesting to determine that what drives loyalty. Bloemer and Ruyter (1998) provide that satisfaction occurs through matching of expectations and perceived performance. Ortmeyer et. al. (1991) and Mittal (1994) contend that while taking a purchase decision consumer always brings in mind the brand that he purchased for the last time and if he is satisfied with that brand, his probability of loyalty increases. Hallowell (1996), Arora and Shaw (2002), Taylor, et. al., (2004) also identified that when the consumers were satisfied they were more likely to loyal.

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Value refers to benefits minus cost where cost refers to the amount of money paid to acquire the product and benefits refer to the outcomes arising because of its use. Consumers expect that the money paid for a product/service must yield more return in terms of benefits. Thus a product/service that proves good on the criteria of value for money delivers good value to the consumer. He feels more satisfied since the brand is delivering an outcome that exceeds the money spent. More value derived from a particular purchase encourages him to exhibit loyalty behaviour.

Further, image represents the symbolic reference which makes it different from other available alternatives. Image too contributes to loyalty. Thus previous literature states that value, satisfaction and image are drivers of loyalty. It is interesting to ascertain which of these three determinants has a dominant effect on loyalty or which aspect amongst the three brings in more variation in loyalty.

In this study, an attempt has been made to determine the differential effect of image, satisfaction and value on loyalty with regard to banking services.

Data Collection and Research Methodology:

Data for the present study has been collected through survey method from the population of Delhi. Professionals and businessmen were the respondents for the study. The reason for selecting banking services was that the professionals and businessmen were assumed to provide more accurate information as they interact with banking services on daily basis.

The survey instrument was self administered. All the measurement items were to be rated on a seven-point Likert scale 1. Strongly agree, 2. Agree, 3. Somewhat Agree, 4. Neutral, 5. Somewhat Disagree, 6. Disagree, 7. Strongly disagree.

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A total of 250 questionnaires were distributed, with 219 usable surveys returned representing 87.6% response rate.

Out of the total respondents, males consisted of 65% of sample and females comprised of 35%. The age profile represented that 46% of sample belonged to the age group 25-40 years, whereas 35 % sample belonged to the age group 41- 54 years, rest of the sample i.e. 19% of people belonged to the age group 55+ years.

The scope of this study is limited to the banking services only.

Measures of Variables:

Following is the discussion with regard to the measures used in the study.

Value: Taylor et. al. (2004) has defined the term value by giving the reference of Oliver (1999) who asserts that "value" is indeed a unique construct from satisfaction and quality. He proposes a nomonological net model depicting satisfaction and value as existing both prior to consumption as well as post-consumption. He envisions these constructs as coexisting and influencing one another, as well as outcome variables such as loyalty, as consumers make consumption judgments across time. In this study, value has been measured with the help of three scale items as used by Taylor (2004) which were adapted from Lasser et. al. (1995). The items are:

1. The bank I am evaluating offers good value for the price I paid.
2. The bank I am evaluating provides customers with a good deal.
3. I consider the bank I am evaluating to be a bargain for the benefits I am receiving.

Image: Lassar et. al. (1995) have defined image as "the consumer's perception of the esteem in which the consumer's social group holds the brand. It includes the attributions a consumer makes and a consumer thinks that others make to the typical user of the brand." It has been analysed with the help of four multi-scale items borrowed from Lassar et. al. (1995). These items are:

1. The bank fits my personality.
2. I would be proud to attach to this bank.
3. This bank will be well regarded by my friends.
4. In its status and style, this bank matches my personality.

Satisfaction: Satisfaction is defined as pleasurable fulfilment. When the need, desire or goal of the consumers are fulfilled in such a way that fulfilment is pleasurable, then it becomes satisfaction. Further on, Fornell (1992) suggests that satisfaction can be assesed directly as an overall feeling. He further adds that customers have an idea about how the product or service compares with an 'ideal norm.' Bloemer and Ruyter (1998) provide that satisfaction occurs through matching of expectation and perceived performance. Satisfaction was measured with the help of scale items as mentioned by Taylor et. al., (2004) which were modified from Oliver (1997) and Sirdeshmukh et. al. (2002). These scale items are:

1. The bank has exceeded my expectations.
2. The bank is among the best I could ever avail.
3. The bank is exactly what I needed.
4. My choice to buy the services of this bank was wise one.
5. I am satisfied with my decision to buy the services of this bank.
6. I am sure that it was right thing to do to buy the services of this bank.
7. Using the services of this bank has been a good experience.
8. I have been delighted with the services of this bank I am evaluating.

Loyalty: This is the dependent variable of the study. As per Oliver (1999), loyalty consists of aspects involving commitment towards brand irrespective of price change, recommendation, intention and repeat purchase patronage. Also Rowley (2005) provide that consumers demonstrate their loyalty behaviour in any of the three ways, first staying with the same brand; second one includes increasing the number of purchases or frequency of purchase and the last one by acting as advocates of the brand. To cover these varied aspects, this study measures the concept of loyalty with the help of five statements partly adopted from Chaudhuri (1999) and partly from Chaudhuri and Holbrook (2001). The measurement items are:

1. I am committed to this brand.
2. I will pay a higher price for this brand over other brands.
3. I will recommend this brand to others.
4. I will buy this brand the next time I buy this product.
5. I intend purchasing this brand again and again.

Hypothesis development:

Since this study was conducted to examine to determine the effect of value, image and satisfaction on customer loyalty, the following hypotheses were set.

Hypothesis A - Regarding Value :

H_0: There is no significant correlation between value received from bank and customer loyalty.

H_1: There is a significant correlation between value received from bank and customer loyalty.

Hypothesis B - Regarding Satisfaction :

H_0: There is no significant correlation between value and satisfaction with services of bank and customer loyalty.

H_1: There is significant correlation between value and satisfaction with services of bank and customer loyalty.

Hypothesis C - Regarding Image :

H_0: There is no significant correlation between value from bank and its image and customer loyalty.

H_1: There is significant correlation between value from bank and its image and customer loyalty.

Hypothesis D - Regarding Loyalty :

H_0: There is no significant correlation between value from bank, its image and satisfaction from services of bank and customer loyalty.

H_1: There is significant correlation between value from bank and its image and satisfaction from services of bank and customer loyalty.

Reliability and Validity:

Multi-items scales for each of the constructs mentioned above were borrowed from the previous research. However, as these scale items have been used in context of different products and environments (country), thus validity and reliability of items was checked. Thereafter the various hypothesis were examined and implications were suggested.

Reliability: As suggested by Churchill (1979), to check the internal consistency of items, coefficient alpha was calculated. According to Nunnally (1978), the value of 0.7 or above is taken as acceptable measure. These scales for value, image, satisfaction and loyalty had high coefficient alpha (0.77, 0.79, 0.86 and 0.81 respectively) for reliability.

Validity: Validity of scale items was checked through content validity and construct validity.

Content Validity: Content validity means each item of the scale deals effectively with the content of the construct that has to be measured (Odin et al., 2001). In this study, content validity was ensured as the underlying dimensions are taken from literature and thoroughly reviewed by professionals and academicians.

Construct Validity: Construct validity means proving that a construct is actually measuring that what it is supposed to do. According to O'Leary –Kelly and Vokurka (1998), convergent validity measures the degree to which a construct actually measures its besieged value. As suggested by O'Leary –Kelly and Vokurka (1998) and also employed by Lin and Chen (2006), in order to check the construct validity, factor loading of all scale items was observed. Chiu (2003) provide that if the factor loading is equal to or above, 0.5, then the measures are said to have construct validity. Values displayed in Table 1 shows the presence of construct validity since factor loading of none of the item is below 0.5.

Method :

This study has examined the relationship of value, image, satisfaction and loyalty with the help of regression and moderated regression analysis. When a combination of value and satisfaction, value and image and value, image and satisfaction was analysed, moderated regression was used. SPSS statistical software package was used to analyse the above mentioned relationships.

Data Analysis and Results:

Regression and moderated regression analysis was done in order to determine the relationship between value, satisfaction and customer loyalty. Results are displayed in Table 2 and Table 3.

Table 1 : Factor loading of scale items

Value	Image	Satisfaction	Loyalty
0.932	0.671	0.914	0.824
0.930	0.761	0.725	0.811
0.921	0.712	0.723	0.814
-	0.864	0.773	0.756
-	-	0.702	0.747
-	-	0.739	-
-	-	0.598	-
-	-	0.549	-

Table 2: Correlation and Descriptive Statistics

Variable	Mean	Standard Deviation	Value	Image	Satisfaction	Loyalty
Value	2.89	0.820	1	0.430	0.547	0.734
Image	4.08	1.780	0.430	1	0.577	0.765
Satisfaction	3.12	0.918	0.547	0.577	1	0.712
Loyalty	3.89	1.690	0.734	0.765	0.712	1

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Table 3: Results of Moderated Regression Analysis

Model	R^2	Value	Image	Satisfaction
L=V	.513*	-	-	-
L=S+V	.402**	.05Δ		.357**
L=I+V	.620**	.046Δ	.574**	-
L=I+V+S	.634**	.043Δ	.577**	.015Δ

Note: * means p≤ .01, ** means p≤ .05. Δ = change in value to the predictor variable by the moderating variable

Hypothesis A : As per the regression and moderated regression results, H_0 has been rejected and H_1 is accepted which says that there is significant relationship between value and customer loyalty (r^2= .513; p≤.01). The creation of value should be main objective of bankers to keep the customers loyal. Value in general refers to benefits minus cost where cost refers to amount of money paid to acquire benefits arising because of its use. Shocker et al. (1994) comment that with added market alternatives, consumers are now demanding good customer services at reasonable prices. Thus is becomes an obligation for the banks to return more than the price paid by their customers. Since value can be said to be defined by the customer, this study indicates that customer will consider value received when considering their further deal with the bank. Customer demands more and will expect service after the sale as component of the overall value equation and repurchase intent.

Hypothesis B: Further, moderated regression analysis is made to assess the moderating affect of satisfaction. H_0 is rejected and H_1 is accepted, which indicates that there is significant relationship between value and satisfaction on customer loyalty (r^2= .407; p ≤.05). It has been found that satisfaction accounts for 35.7% (r^2= .357) of the variability in customer retention; when value is added, values moderating effect increases the variance by 4.9%. The remaining 59.4% is attributed to "other" influences. R^2 represents a variance which is shared with the independent predictor variable (s), or moderating variable (s), and dependent variable (loyalty). The higher the R^2 the greater the influence of the moderator, therefore, an approximate 5% increase in variability is observed when value was added to the analysis. Simply stating, satisfaction accounts for approximately 88% of the predictive value in maintaining customer loyalty. Management can interpret this to mean that satisfaction and value are considered as reasons to repurchase. In this specific analysis, satisfaction takes a superior position in the influence for customer retention, but satisfaction takes a superior position in the maintaining customer loyalty, but satisfaction position is enhanced by the presence of value in the overall equation. A bank must seek to satisfy its customers. But simple satisfaction alone may not lead to a customer coming again. Having the customer feel very satisfied instead of simply satisfied or moderately satisfied should be the bank's goal.

Hypothesis C: H_0 is rejected and H_1 is accepted as a significant relationship of loyalty is observed for value and image (r^2= .620; p≤ .05). Using regression stepwise method to analyse the predictor variables, it is found that value's moderating effect accounting for a 4.3% increase in predictive variability when added to image (predictor). Image accounts for 57% (r^2= .574) of the predictive value. When both variables are present, the predictive value increases, R^2= .620. Therefore image of the bank is an important driver in the customer loyalty.

Hypothesis D: H_0 is rejected and H1 is accepted depicting a significant relationship between value, satisfaction and image on customer loyalty (r^2= .620; p≤.05). Here three variables are used and image accounting for 57.7% (r^2= .577) of predictive variability. When value as a moderator is added, the predictive variability increases, R^2= .620, or an increase of 4.3%. When satisfaction is added as a second moderator variable, predictive variability increases again, R^2= .634, or an increase of 1.7%. Since our objective was to attain the highest R^2 (predictive variability) with the least amount of variables, it can be concluded that satisfaction has the least influence of the three predictor variables when analysed together, L= I+V+S.

This conclusion is quiet interesting. It was observed that satisfaction plays a dominant role over value when assessing customer loyalty. When combined with image, value played a larger role than satisfaction in influencing the customer' repurchase intention.

Conclusion:

This study provides that no doubt loyalty of the customers depends upon the image of the bank. Both satisfaction and value play an important role in influencing loyalty. However, for the banking customers, value is more important than satisfaction. It means customers want to derive full value for the prices they have paid. It is obvious that when the customers are getting full value in return of prices paid by them, they will be automatically satisfied.

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