LOYALTY AND CUSTOMER SATISFACTION IN RETAIL BANKING. THE ROLE OF SOCIAL NETWORK.

Luca Petruzzellis

Dipartimento di Studi Aziendali e Giusprivatistici, University of Bari, Italy
Via Camillo Rosalba n.53 – 70124 Bari – Italy
lu.petruzzellis@disag.uniba.it

Salvatore Romanazzi

Dipartimento di Studi Aziendali e Giusprivatistici, University of Bari, Italy
Via Camillo Rosalba n.53 – 70124 Bari – Italy
salvatore.romanazzi@gmail.com

Antonia Rosa Gurrieri

Dipartimento di Scienze Giuridiche Privatistiche, University of Foggia, Italy
Largo Papa Giovanni Paolo II, 1 – 71100 Foggia – Italy
a.gurrieri@lex.unifg.it

Summary

In the modern customer centric competitive arena, satisfaction, quality and loyalty prove to be key factors reciprocally interrelated in a causal, cyclical relationship. The higher the (perceived) service quality, the more satisfied and loyal are the customers. In particular, financial institutions (i.e. banks) realised the strategic importance of customer value and seem to be continuously seeking innovative ways to enhance customer relationships. In fact, as the offers of many financial services are very similar and slightly differentiable, loyal customers have a huge value, since they are likely to spend and buy more, spread positive word-of-mouth, resist competitors' offers, wait for a product to become available and recommend the service provider to other potential customers.

This paper focuses on those dimensions that were reported in the marketing literature. The major contribution of this paper lies in the simultaneous consideration of the perceptions of both financial service providers and their clients to construct a model for the management of long term marketing relationships, in which social bonds play a very important role, especially in the area considered. Firstly, the paper will try to investigate which dimensions are important in customer relationship with the banks. Then, the paper tries to study the effect of social network in establishing long lasting relationships, that will minimise the customers' switching costs, according to the perceptions of both relationship bankers and their clients.

Key words: Customer satisfaction, loyalty, retail banking, social network

Introduction

In modern competitive environments services are gaining increasingly more importance in the competitive formula of both firms and countries. Globalised competition has stressed the strategic importance of satisfaction, quality and consequently loyalty, in the battle for winning consumer preferences and maintaining sustainable competitive advantages. In the service economy especially, these prove to be key factors reciprocally interrelated in a causal, cyclical relationship. The higher the (perceived) service quality, the more satisfied and loyal the customers (Petruzzellis, D'Uggento and Romanazzi, 2006).

Financial services in Italy have experienced several changes over the last decades with a growing attention to customer needs. Financial institutions (i.e. banks) realised the strategic importance of customer value and seem to be continuously seeking innovative ways to enhance customer relationships.

During the 1980s marketing research became aware of the potential of relationship marketing and shifted focus to the development and maintenance of long term marketing relationships. Therefore, the traditional product-oriented bank became more and more customer-oriented, focusing on protecting and retaining actual customers' loyalty as the main source of competitive advantage. Traditional financial services providers have to work even harder to retain customers that they once took for granted.

Since customers have more choice and more control, long lasting and strong relationships with them are critical to achieve and maintain competitive advantages and, as a consequence, earnings. However, due to the similarity of the offers of many financial services, loyal customers have a huge value, since they are likely to spend and buy more, spread positive word-of-mouth, resist competitors' offers, wait for a product to become available and recommend the service provider to other potential customers.

Furthermore, the increasingly competitive environment prevailing in the global market and rapid advances in customer intelligence technologies have led retail banks to look for new business and marketing models for realizing intelligence-driven customer transactions and experiences. Nowadays great attention is paid to all the bank-customer touch-points, aiming to optimise the interaction, towards affecting specific customer behaviour variables (satisfaction, loyalty, etc.).

In the past customer retention strategy was just one weapon to use against competitors and was downplayed because marketing professionals focused primarily on attracting new customers. However, firms that continue to acquire new customers but are unable to retain them are unlikely to see positive results and customer retention has become essential to survival.

Indeed, the relationship between the customers and the banks seems to be built around two different types of factors: social bonds, namely relational components that result in direct relationships, and structural bonds, namely structural components which provide knowledge about the parties involved.

This paper focuses on the dimensions of the bank-customer relationship that were reported in the marketing literature. The major contribution of this paper lies in the attempt to construct a model for the management of long term marketing relationships, in which social bonds play a very important role, especially in the area considered. Firstly, the paper will try to investigate which dimensions are important in customer relationships with banks. In order to identify the order of importance, respondents had to indicate the importance of each dimension relative to all other dimensions. Secondly, the paper will attempt to study the effect of social network in establishing long lasting relationships that will minimise the customers' switching costs, according to the perceptions of bank customers.

Literature review

The services market is becoming ever more competitive, as price competition intensifies and the shifting of loyalty becomes an acceptable practice. Many industries have already experienced a rearrangement of marketing budgets in order to devote more resources to defensive marketing, namely customer retention (Patterson and Spreng, 1998). Several initiatives have been undertaken to improve retention, including value chain analysis, customer satisfaction and loyalty programmes (Gummerson, 1998).

The customer satisfaction-retention link has received more attention among marketing and management practiitoners and academics. Customer satisfaction has long been regarded as a "proxy" for firm success since it is inextricably linked to customer loyalty and retention.

Several authors (Bloemer and Lemmink, 1992; Bloemer and Kasper, 1995; Sharma and Patterson, 2000) highlighted, however, that the link between customer satisfaction and customer retention is reliant, to some extent, upon other factors such as the level of competition, switching barriers, proprietary technology and the features of individual

customers. The relationship between these two key constructs is considered to be far more complex than it might first seem (Fournier and Mick, 1999).

Satisfaction has a significant impact on customer loyalty (Sharma and Patterson, 2000) and, as a direct antecedent, leads to commitment in business relationships (Burnham et al., 2003), thus greatly influencing customer repurchase intention (Morgan and Hunt, 1994). Indeed, the impact of satisfaction on commitment and retention varies in relation to the industry, product or service, environment, etc.

However, customer commitment cannot be dependent only on satisfaction (Burnham et al., 2003). Relational switching costs, which consist in personal relationship loss and brand relationship costs and involve psychological or emotional discomfort due to loss of identity and breaking of bonds (Burnham et al., 2003), have a moderating effect on the satisfaction – commitment link (Sharma and Patterson, 2000). Since relational switching costs represent a barrier to exit from the relationship, they can be expected to increase the relationship commitment. High switching barriers may mean that customers have to stay (or perceive that they have to) with suppliers who do not care for the satisfaction created in the relationship. On the other hand, customer satisfaction is usually the key element in securing repeat patronage, this outcome may be dependent on switching barriers in the context of service provision (Jones et al., 2000).

In fact, in certain conditions, a customer might be less than satisfied with a service supplier, but still continue to deal with it because the costs of leaving are perceived to be too high. Thus, the so called loyalty programmes clearly are an example of programmes designed to weaken switching barriers.

Indeed, if the firm is able to manage the customer switching costs, it can still retain the customer even though the satisfaction may be lower. The longer the relationship, the more the two parties gain experience and learn to trust each other (Dwyer et al., 1987). Consequently, they may gradually increase their commitment through investments in products, processes, or people dedicated to that particular relationship.

Moreover, a switch in suppliers involves set-up costs and termination costs; the former include the cost of finding another supplier who can provide the same or better performance than the current supplier or the opportunity cost of foregoing exchange with the incumbent, while the latter include the relationship specific idiosyncratic investments made by the customer that have no value outside the relationship (Dwyer et al., 1987).

Since a degree of social interaction between the provider and the customer is often required for the service to be "manufactured", the theoretical foundations for the study of switching

costs in a service context can be found in social exchange theory (Emerson, 1976). In fact, service encounters can be viewed as social exchange with the interaction between service provider and customer being a crucial component of satisfaction and providing a strong reason for continuing a relationship (Barnes, 2002). Social exchange theory attempts to account for the development, growth and even dissolution of social as well as business relationships. In other words, people (or businesses) evaluate their reward (cost) ratio when deciding whether or not to maintain a relationship. Rewards and costs have been defined in terms of interpersonal (e.g. liking, familiarity, influence), personal (gratification linked to self esteem, ego, personality) and situation factors (aspects of the psychological environment such as a relationship formed to accomplish some task).

In a services context, considering the level of interpersonal contact needed to produce services, there is a range of psychological, relational and financial considerations that might act as a disincentive for a hypothetic change of service providers.

Consistently with the switching costs literature, social capital acts both as a barrier that makes it more difficult or costly (psychological, relational, economic) to change service provider (Patterson, 2004), and as an influence, created by the endogenous and contextual interactions, that is distinct ways that consumers might be influenced by their social environments.

Indeed, social capital has been conceptualised in many different ways (for example, Coleman 1994; Serageldin, 1999). Putman (2000) defines it as a representation of the norms of reciprocity and trustworthiness that arise from social relations, while the Organization for Economic Co-operation and Development [OECD] (2001, p. 23) perceives social capital as "the resources gained through social ties, membership of networks and sharing of norms".

Therefore, informal networks of social support, including relatives, friends and other extra-household connections such as a supportive community, have value. These networks constitute a locus of access to resources; which in turn determine socio-economic outcomes (Collier, 1998). Moreover, social capital has also been indicated as the primary factor in the success – high rates of credit repayment – enjoyed by Grameen bank and other credit institutions based on the "peer lending model" (Banerjee, 1998; Van Bastalaer, 1999).

Since most studies using the social capital framework are from poor developing countries where the ideal of "community" is prized, it is not clear whether participating in an informal network of social support will have similar effects on performance within the context of an advanced-market economy, especially in those countries like the United States, where individual advancement has a significant value. Moreover, previous research has not revealed whether certain aspects of participating in an informal network of social support are more

likely to influence economic performance than others; neither has it revealed the nature of these impacts. In addition, there are few studies specifically focused on the relationship between informal networks of social support and saving outcomes of low-income individuals and households.

Research questions

The extreme competition and saturation in the financial markets and the growing demand of products and services through new media, such as the Internet and mobile phone (Methlie and Nysveen, 1999; Jun and Cai, 2001; Bradley and Stewart, 2003), have forced banks to quickly respond to the new changes and challenges with new and different business models.

In the service industry, a long term relationship with customers (Grönroos, 1994; Berry, 2002) is the key success factor that is enormously increasing with the electronic channels. The proliferation of new channels and the high demand for differentiated products has presented customers with a wide choice in terms of which service to use in order to profitably interact with the bank.

The extended portfolio does not only offer benefits to customers, but also to banks. Banks have now the opportunity to capitalise on the beneficial characteristics of the various products and channels, for example while electronic channels help to reduce the costs of interaction with the customer by substituting labour intensive operations with automated sales processes (Campbell, 2003), the interactivity of a face to face consultation provides various cross-sell opportunities (Clemons et al., 2002).

Banks have to actively manage the customer's service usage in order to benefit from the different strengths of its portfolio. In doing so, banks need to understand the ways in which customers may choose between the portfolio and the circumstances under which this choice is made, thus identifying the relevant factors which influence customer choice and their respective importance for the choice decision.

The decision to adopt a service is primarily driven by the perceived benefits and perceived costs of using the new "product" (Eastlick and Liu, 1997), that is its adoption depends on the value the "product" can provide to a customer. Such a value is identified by: the "product" service quality (Montoya-Weiss et al., 2003), the convenience it offered (Black et al., 2002; Devlin and Yeung, 2003), the risk involved in conducting transactions through the "product" (Black et al., 2002; Grewal, Levy, and Marshall, 2002; Reardon and McCorkle, 2002), and the costs of conducting business through it (Devlin, 2002; Fader, Hardie and Lee, 2003).

Moreover, the bank attributes such as perceived convenience, service quality and price (Bhatnagar and Ratchford, 2004), influences the perceived value of a service which, therefore, depends not only on its attributes but also on moderating effects such as situation or customer features (Mattson, 1982). Hence, the importance of a bank attribute for the choice decision might vary for different situations and customers.

Therefore, consistently with the literature, it is possible to distinguish two loyalty dimensions: (1) a past loyalty (Zins, 1998) which associates more to the consumer's behavioural loyalty (Snehota and Söderlund, 1998; Chaudhuri and Holbrook, 2001) and represents the relative importance of a specific banking service in the previous customer's transactions decisions; and a (2) cognitive loyalty, defined as the behavioural intention of using the bank service in future (Methlie and Nysveen, 1999; Van Rail et al., 2001).

The perceived service quality, satisfaction and past loyalty are antecedents of the intention of continuing to use the service or future loyalty. Banks should assure a high quality in the services offered to be able to survive in the highly competitive markets and to achieve a sustainable advantage in the long term (Mefford, 1993; Jun and Cai, 2001).

As this paper aims at understanding the social capital effect on the service usage/choice and consequently on customer loyalty, commitment has been considered a key construct, according to the social exchange literature (Thibault and Kelly, 1959) and the relationship marketing literature (Berry and Parasuraman, 1991). It represents the buyers' perception that the relationship with a particular supplier is so important that it is worth investing special effort to maintain it indefinitely (Tellefsen, 2001; Coote et al., 2003). It enhances exchange relationships and stimulates partners' willingness to cooperate and comply with the others requests, share information and engage in joint problem solving (Morgan and Hunt, 1994). Furthermore, commitment prevents the negative effect of the switching costs (Fullerton, 2003): committed customers are less likely to switch than customers who lack commitment to a firm, thus resulting as being a more powerful determinant of customer retention than continuance commitment.

A positive association, especially in the service context, between relationship switching costs and relationship commitment exists (Patterson and Smith, 2001). In particular, the impact of satisfaction on commitment is weaker in conditions of high switching costs than in alternative situations (Sharma and Patterson, 2000), therefore customers will tend to continue the current relationship despite less than ideal satisfaction if they perceive that the economic and psychological costs of developing a new relationship are too high.

Since satisfaction has been defined as a post purchase evaluation of a service following a consumption experience (Sharma and Patterson, 2000) and in the relationship literature as a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another firm (Frazier et al., 1989), higher levels of satisfaction are a natural consequence of more positive experiences with a firm. This leads to sharing these experiences with other customers, recommending a firm, which provides exceptional service, and exerting additional effort to utilize a superior firm over competitors (Cronin and Taylor, 1992; Jaishankar et al., 2000).

The importance of satisfaction in literature is shown by its significant impact on the repurchase intentions of a product or service. The relationship marketing literature indicates a positive relationship between satisfaction and commitment. Higher satisfaction levels increase the attractiveness of a relationship to customers and hence, their commitment to the relationship (Morgan and Hunt, 1994).

In the marketing literature a great variety of loyalty models outline different ways of relationships between the perceived quality, satisfaction and loyalty variables. Given the complexity of these relationships, it has been hypothesised:

H1: Bank attributes directly affect the customer comfort/acceptance of the new service fostering service extensions.

H2: Product attributes positively influence the loyalty dimensions; the higher the satisfaction the stronger the commitment, thus reducing risk perception and uncertainty in experiencing new bank services.

Moreover, since relational switching costs are built due to the psychological factors and investments in relationships (Burnham et al., 2003), these barriers often referred to as social bonds (such as: a comfortable and friendly relationship with an individual service provider; being instantly recognised; being treated almost like a friend rather than a customer) are so high as to trap the individuals into a relationship. Thus:

H3: Social bonds influence the service use and perception, through the joint positive effects (direct and indirect) of product and bank attributes.

In conclusion, the customer involvement in the production has evolved from *servuction* (Eiglier and Langeard, 1987) to *prosumption* (Sigala, 2005), which has two dimensions, namely the willingness to be involved and the competences to take part in designing and projecting the service output. Its obvious consequence is customer satisfaction (Cermak, File and Prince, 1994), and it takes place together, or interacting, with other customers (Kelley, Skinner and Donnelly, 1992). Moreover, customer inputs and their co-production performance considerably affect productivity, added value and efficiency of the provider; thus highlighting the profitability of customer loyalty.

H4: Customer loyalty is function of product, customer and bank attributes, and of a multiplicative value of product and bank attributes.

Methodology

In order to investigate levels of satisfaction and loyalty of banking portfolio (products and services), a questionnaire was submitted to a random sample of bank customers (see Table 1), interviewed by trained student volunteers outside the banks in a large city in the South of Italy. The data were collected in one month during the time in which people usually go to banks (from 10 a.m. to 12 p.m. and from 1 to 3 p.m.). 653 customers were contacted while leaving the bank, for a total of 300 usable questionnaires. The average response rate was 45.9%, due to the short time available for the interviews. Although a quota sample was not used, the distribution of the socio-demographics indicated no conspicuous biases. Moreover, usual tests of non-response bias were carried out, thus assuring the representativeness of the sample. To make sure that the interviewees were a suitable target group for banking services, they were first asked how often they use traditional services such as money deposit, bank accounts, credit and debit cards and cheques. However, a strong increase was observed in internet banking and mobile/phone banking services: 42.34% of the sample uses the internet or the telephone to use bank services.

Table 1 Sample characteristics

Age	Frequency	Percentage	Gender	Frequency	Percentage
18-24	30	10.0	*Male*	174	58.0
25-39	88	29.4	*Female*	126	42.0
40-65	127	42.3	Total	300	100.0
More than 65	55	18.3	**Frequency of the bank visits**	**Frequency**	**Percentage**
Total	300	100.0	*Once or twice a month*	66	22.0
Occupation	**Frequency**	**Percentage**	*From 2 to 4 times a month*	78	26.0
Executive or manager	20	6.6	*From 5 to 8 times a month*		
Clerk or similar	119	39.7		116	38.7
Free lance	26	8.7	*More than 8 times a month*	40	13.3
Housewife	29	9.7	Total	300	100.0
Student	20	6.7			
Retired	59	19.7			
Unemployed	19	6.3			
Other	8	2.6			
Total	300	100.0			

The questionnaire included 17 items that are primarily drawn from the literature (see Table 2). All the variables were measured using multiple items, as respondents were asked to mark their responses on seven point Likert type scales, that ranged from (1) Totally disagree to (7) Totally agree. The measures have reported high reliability with Cronbach alpha ranging from 0.95 and 0.72.

Table 2: Features of long term marketing relationships

Dimensions	Source
Satisfaction	Andaleeb (1996), Garbarino & Johnson (1999).
Communication	Anderson & Narus (1990), Morgan & Hunt (1994).
Experience	Shankar et. al. (2003), Addis & Holbrook (2002)
Past loyalty	Snehota & Soderlund (1998); Zins (1998)
Bonding	Gounaris (2005), Yau et al. (2000)
Customisation	Coulter & Coulter (2003), Doney & Cannon (1997).
Repurchase intentions	Hellier et al. (2003), Van Riel et al. (2001).
Relationship benefits	MacMillan et al (2005), Morgan & Hunt (1994).
Switching costs	Burnham, Frels & Mahajan (2003), Sharma & Patterson (2000).
Duration of relationship	Ward & Dagger (2007)
Empathy	Coulter & Coulter (2003), Yau et al. (2000).
Dependence	De Ruyter, Moorman & Lemmink (2001), Geyskens & Steenkamp (1996).
Reciprocity	Yau et al. (2000).
Competence	Coulter & Coulter (2003), Selnes (1998).
Attractiveness of alternatives	Patterson & Smith (2001).
Service quality	De Ruyter & Wetzels (1999).
Branch attributes	Paulins and Geistfeld (2003), Erdem et al. (1999)

In order to protect existing customer and build customer loyalty, customer satisfaction and commitment are the inputs of the bank-customer relationship, that underlie in all the variables considered. Previous research has examined the interaction effects of satisfaction, commitment and switching costs dimensions on customer loyalty. Therefore, they are generated by regular interaction, communication, cooperation, joint actions and decision making, and closeness between the parties in a relationship.

This paper aims at assessing which are the key drivers to achieve customer loyalty and in particular which is the effect of social bonds. Firstly, a factor analysis was carried out in order to identify which dimensions are important in customer relationships with banks. Therefore, the respondents indicated the level of importance of each dimension relative to all other dimensions. Secondly, a multilinear regression model has been used in order to model the customer loyalty as the dependent variable. Following the literature, the model included as explanatory variables, the bank attributes, the situation specific variables, such as the product considered and the stage of the customer purchase process, and finally, the customer specific variables.

Empirical results

The descriptive analysis of the sample assessment of the satisfaction in relation to the relationship with the bank shows the demographics of satisfaction and dissatisfaction. The former is typically female, between 26 and 39 years old, employed or self-employed, while the latter is male, more than 65 years, retired or near retirement. This is probably due to the gender attitude to develop relationships, since women are more inclined to trust other parties in purchasing goods such as financial products, cars and technological products.

Since the average customer tends to go in person to the bank less than twice a month, the online services prove to be very important in assessing the relationship with the bank. In fact, for such kinds of services the level of satisfaction is; 4.25 for males and 4.76 for females out of a seven point scale. Therefore, the high interest shown for virtual channel, highlights that it could be used not exclusively for advertising of services offered, but also as a real interaction channel with customers.

On the other hand, given the interpersonal relation, the bank front-office staff plays a strategic role, due to their direct interaction with customers. Therefore, the front-office staff features

highlighted by the sample are: courtesy, ability, patience and clarity are considered important key skills in the bank-customer relationship.

In particular, out of a seven point scale, the importance of the ability of the bank staff obtained an average rank of 6.06 for males and 6.14 for females; while courtesy scored an average evaluation of 5.30 for males and 6.25 for females. Indeed, the overall satisfaction of the relationship with the front-office staff is almost "adequate" by customers; females seem to evaluate such relationship more.

Furthermore, approximately all the customers (92%) began their relationship with the bank trusting in staff suggestions. This proves that the word-of-mouth communication is the best ways to promote a service and communicate satisfaction thus facilitating the creation and development of the relationship.

As regards the overall assessment of the level of satisfaction of the services offered by their banks, the customers result as being very loyal to the bank: 68.67% of the sample has been a customer of their bank for 5 years or more and 78.67% does not have relationships with other banks.

Since the descriptive analysis highlighted the connections among the variables, a factor analysis was carried out to identify the common variables (see Table 3).

Table 3: Factor Loadings

	Factor 1	Factor 2	Factor 3
Reciprocity	0.211	0.184	0.811
Satisfaction	0.863	0.136	0.155
Relationship benefits	0.254	0.258	0.458
Duration of Relationship	0.667	0.411	0.278
Service Quality	0.224	0.827	0.262
Past Loyalty	0.223	0.775	0.248
Switching Costs	0.809	0.232	0.228
Communication	0.208	0.456	0.184
Customisation	0.229	0.539	0.153
Branch attributes	0.416	0.339	0.471
Empathy	0.256	0.171	0.847
Repurchase Intentions	0.865	0.263	0.165
Competence	0.188	0.210	0.795
Dependence		0.211	0.446
Experience	0.708	0.327	0.280
Bonding	0.875	0.211	0.205
Attractiveness of Alternatives	0.191	0.786	0.233

	Factor 1	Factor 2	Factor 3
SS loadings	4.479	3.196	3.179
Proportion Var	0.263	0.188	0.187
Cumulative Var	0.263	0.451	0.638

$$\chi^2 = 300.53$$
$$\text{p-value} = 5.11\text{e-}25$$

The factor analysis highlighted three factors that can be summarised in: a) Factor 1: 'Social capital' as representative of the customer attributes, that highlights the importance of the relational aspects and the impact that these connections have in customer buying behaviour; b) Factor 2: 'Service quality' for the product attributes, as service quality results from a cognitive process, being more relational and so refers to sensations and evaluation of the external stimuli (Anderson and Fornell, 1994); c) Factor 3: 'Empathy' for the bank attributes, i.e. caring, individualised attention to every customer, thus performing the service promised dependably and accurately.

Therefore, a multiple regression has been chosen as the analysis method in order to test the relationships among customer loyalty, the three macrovariables as identified by the factor analysis (BNK, PRD, CUST) and a multiplicative variable of product and bank attributes (BNK*PRD). This last variable aimed at measuring the joint effect of the two variables that seems to be highly correlated, because of the service characteristics – in particular the inseparability feature – and also because bank services are jointly promoted both at the corporate/group level and at the specific service/brand. Furthermore, the channel through which the service is promoted and delivered is strategic in providing value to the customers.

Table 4: Regression Coefficients(a)

	Unstandardised Coefficients		Standardised Coefficients	T	Sig.	Collinearity statistics	
	B	Std. Error.	Beta			Tolerance	VIF
BNK	-0.228	.076	.688	-3.002	.004	.167	5.983
PRD	.710	.125	.848	5.674	.000	.393	2.547
CUST	.492	.123	.698	4.009	.000	.289	3.462

(a) Dependent Variable: Customer loyalty
$R^2 = .509$

The results of the model are interesting, even though R^2 value is .509. Missing values (which were few) were replaced by the average. The VIF has been calculated to avoid problems of multicollinearity; the estimates do not show multicollinearity problems, expect for the multiplicative variable 'BNK*PRD' (VIF = 7.1248). Therefore, this variable has been eliminated from the regression model.

The three marco variables impact significantly on customer loyalty; in particular, the bank attribute 'Empathy' unexpectedly shows a negative beta, that could derives from the

importance of customer risk perception. Customers perceive a higher risk in using new services, for example the online banking, in relation to the physical distance between customer and bank, their inexperience with the new service, shortcomings and delays in the systems, insecurity in the information and transactions, and lack of clarity in legislation (Chen et al., 2003; Mukherjee and Nath, 2003). This impacts negatively on customer's trust and satisfaction, and consequently on their loyalty to service. Moreover, a degree of perceived risk or uncertainty accompanies every decision to switch service suppliers. This risk is related to whether or not a new service provider will perform the core service at the same level of (or better than) the current supplier (Zeithaml, 1981).

Moreover, as H2 has been confirmed, the positive relationship among customer satisfaction, customer loyalty, and profitability has been highlighted consistently with the literature (Reichheld and Sasser, 1990; Gould, 1995). The increased profit from satisfaction and loyalty comes from several factors, i.e. reduced marketing and operational costs, and increased sales.

Loyal customers are less likely to switch because of price and they make more purchases than similar non-loyal customers (Reichheld and Sasser, 1990). Loyal customers will also help in promoting the business. They will provide strong word-of-mouth, create business referrals, provide references, and serve on advisory boards.

The evolution of banking services through a sort of disintermediation, the market saturation and the economic crisis, have forced the consumer to seek for risk prevention and avoidance in social network, as primary source of trust and service reliability, confirming the third hypothesis. As a consequence, members belonging to the same group tend to behave similarly, due to interactions within the group, namely "social norms", "peer influences", "neighbourhood effects", "conformity", "imitation", "contagion", "epidemics", "bandwagons" or "herd behaviour" (Hayman, 1942; Merton, 1957; Granovetter, 1979; Jenks and Mayer, 1989). In a consumer service setting, especially for high and even medium contact services, regular customers often form a quasi-friendship with individual service personnel (Bove and Johnson, 2002).

In the end, the present study, though exploratory, has underlined that social bonds prove to be critical especially in the case of bank services, that requires a strong trust based relationship, thus confirming the fourth hypothesis. Since bank services, by their very nature, are directly influenced by socio-economic aspects, both at macro and micro level, the strongest source of influence proves to be the social connections.

Conclusions

The constant effort of managers to stimulate customer loyalty involves customer integration in the firm value chain as a result of personalised marketing (Vesanen, 2007) aiming at intensifying the relationship between the supplier and its customers and increasing customer loyalty. Customer loyalty can be seen as a result of switching costs, opportunity costs and sunk costs based on technological, contractual and psychological obligations faced by a customer (Jackson, 1985; Riemer and Totz, 2003). All sources of these costs are based on the interaction with a customer during the course of integration. Switching costs increase due to the established trust towards the supplier and its capability to meet promised quality levels. If customers can be persuaded to invest significantly in a specific relationship, then sunk costs increase. Additionally, if customer satisfaction is positively influenced by customisation, then a customer's opportunity costs increase as a defecting customer risks losing the net benefits of the current relationship (Riemer and Totz, 2003). However, not all companies will be able to draw profits from these saving potentials to a similar extent, regardless of whether they have already realised the existence of these effects.

The degree of customer interaction is influenced by the characteristics of the good being individualised, such as its complexity, the expenditures and the risks of its utilisation and customisation.

The paper contributes to the literature in identify new strength and weakness areas concerning the actual range of services offered by retail banks, the re-purchase intentions, the state of relationships with customers, and the competitors' image positioning.

The findings of this research suggest several implications also for marketing practitioners, as they validate the concept that relationship marketing orientation is critical for business performance. Firstly, since only when the satisfaction with the core service and relationship is high, the commitment will be higher, banks have to ensure that utmost importance is given to attributes like quality, product features, product availability etc. Moreover, the staff role is critical in understanding the customer needs and in satisfying them: the higher satisfaction will then increase customer retention.

Secondly, relational switching costs can be increased only by investing in the soft or the relational assets (Nielson, 1996), in terms of various adaptations to favour the customer and also the investments in other soft assets like training for the working staff of the customers etc. Since the interaction is mostly interpersonal in nature, these outcomes hold major lessons for them.

Finally, the moderating effect establishes that the investment in the relationship with the customer will raise the relational switching costs. This will help in customer retention, as the customer will not terminate the relationships even if the satisfaction is lower. It makes the entry of any other competitor difficult as he has had no investments in relationship so far.

The findings of this study highlighted the strong role of social network in influencing consumer behaviour. Therefore, customers are more willing to participate and interact in the creation of the offer, since they feel a sense of belonging. Practitioners should encourage social network in order to minimise the switching behaviour (see for example the credit cards industry), upgrading their relationship perspective from customer relationship management to vendor relationship management (Berkman Center for Internet and Society). Minimisation of switching behaviour will lead to better customer retention, which will eventually lead to better bottom lines.

Certainly, the analysis has some limitations, such as the sample size, the variables and the area considered; future research will be focused especially on the multiplicative variable, that was eliminated from the model probably due to the variables considered, in order to assess the joint effect of the three macro variables on customer loyalty.

References

Addis, M. and Holbrook, M.B. (2001). "On the conceptual link between mass customisation and experiential consumption: an explosion of subjectivity", *Journal of Consumer Behaviour*, vol. 1, n. 1, pp.50-66.

Andaleeb, S.S. (1996). "An experimental investigation of satisfaction and commitment in marketing channels: the role of trust and dependence", *Journal of Retailing*, 72(1), pp. 77-93.

Anderson, E.W., and Fornell, C. (1994). A customer satisfaction research prospectus. In R. Rust and R.J. Oliver (Eds.), *Service quality: New direction in theory and practice* (pp. 241-268). Thousand Oaks: Sage.

Anderson, J.C. and Narus, J.A. (1990). "A model of distributor firm and manufacturer firm working partnerships", *Journal of Marketing*, 54(1), pp. 42-58.

Banerjee, M.M. (1998). *Micro-enterprise development: a response to poverty*. New York: Haworth Press

Barnes, J. (2002), "The impact of technology on customer relationships", *Australian Marketing Journal*, Vol. 9 No. 1, pp. 21-31.

Berry, L. (2002). "Relationship marketing of services – perspectives from 1983-2000", *Journal of Relationship Marketing*, 1(1), pp. 59-77.

Berry, L. and Parasuraman, A. (1991). *Marketing Services: Competing Through Quality*. New York: The Free Press.

Bhatnagar, A. and Ratchford, B.T. (2004). "A model of retail format competition for non-durable goods", *International Journal of Research in Marketing*, 21, pp. 39-59.

Black, N.J., Lockett, A., Ennew, C., Winklhofer, H., McKechnie, S. (2002). "Modelling Consumer Choice of Distribution Channels: An Illustration from Financial Services", *International Journal of Bank Marketing*, Vol.20 (4), pp.161-173.

Bloemer, J.M. and Kasper, H. (1995), "The complex relationship between consumer satisfaction and brand loyalty", *Journal of Economic Psychology*, Vol. 16, pp. 311-329.

Bloemer, J.M. and Lemmink, J.A.G. (1992), "The importance of customer satisfaction in explaining brand and dealer loyalty", *Journal of Marketing Management*, Vol. 8 No. 5/6, pp. 351-364.

Bove, L.L. and Johnson, L.W. (2002). "Customer relationships with service personnel and their impact on service loyalty", *The Australian and New Zealand Marketing Academy Conference*, 2-4 December, Deakin University, Melbourne, Australia

Bradley, L. and Stewart, K. (2003). "The diffusion of online banking," *Journal of Marketing Management*, Vol. 19 No.9/10, pp.1087-1109.

Burnham, T.A., Fels, J. and Mahajan, V. (2003), "Consumer switching costs: a typology, antecedents, and consequences", *Journal of the Academy of Marketing Science*, Vol. 31 No. 2, pp. 109-126.

Burnham, T.A., Frels, J.K., and Mahajan, V. (2003). "Consumer switching costs: a typology, antecedents and consequences", *Journal of the Academy of Marketing Science*, Vol. 31 No.2, pp.109-126.

Campbell, D. (2003). "The Cost Structure and Customer Profitability Implications of Electronic Distribution Channels: Evidence from Online Banking", *Job Talk Paper*, Cambridge: Harvard Business School,

Cermak, D., File, K., and Prince, R. (1994). "Customer participation in service specification and delivery", *Service Industry Journal*, Vol. 2, pp.90-97.

Chaudhuri, A. and Holbrook, M.B. (2001). "The Chain of Effects from Brand Trust and Brand Affect to Brand Performance: The Role of Brand Loyalty", *Journal of Marketing*, 65 (April), pp. 81-93.

Chen, Z., De Vaney, S.A. and Liu, S.S. (2003). "Consumers' value perception of an E-Store and its impact on E-Store loyalty intention", *Seventh Triennial AMS ACRA Retailing Conference* 2003, November 6-9, Columbus.

Clemons, E.K., Hitt, L.M., Gu, B., Thatcher, M.E. and Weber, B.W. (2002). "Impacts of eCommerce and Enhanced Information Endowments on Financial Services: A Quantitative Analysis of Transparency, Differential Pricing and Disintermediation", *Journal of Financial Services Research*, 22(1,2), pp. 73-90.

Coleman, J.S. (1994), A rational choice perspective on economic sociology, in Smelser N.J. and Swedberg R. (eds.), *The handbook of economic sociology*, Princeton: Princeton University Press.

Collier, P. (1998). *Social Capital and Poverty*, Social Capital Initiative Working paper No. 4, Washington: The World Bank

Coote, L.V., Forrest, E.J. and Tam, T. (2003). "An investigation into commitment in non-Western industrial marketing relationships", *Industrial Marketing Management*, 32(7), pp. 595-604.

Coulter, K.S. and Coulter, R.A. (2003). "The effects of industry knowledge on the development of trust in service relationships", *International Journal of Research in Marketing*, 20(1), pp. 31-43.

Cronin, J.J. and Taylor, S.A. (1992). "Measuring service quality: a re-examination and extension", *Journal of Marketing*, Vol. 56, July, pp. 55-68.

De Ruyter, K. and Wetzels, M. (1999). "Commitment in auditor-client relationships: antecedents and consequences", *Accounting, Organization and Society*, 24(1), pp. 57-75.

De Ruyter, K., Moorman, L. and Lemmink, J. (2001). "Antecedents of commitment and trust in customer-supplier relationships in high technology markets", *Industrial Marketing Management*, 30(3), pp. 271-286.

Devlin, J.F. (2002). "Customer knowledge and choice criteria in retail banking", *Journal of Strategic Marketing*, 10, pp. 273-290.

Devlin, J.F. and Yeung, F.T. (2003). "Insights into customer motivations for switching to internet banking", *International Review of Retail, Distribution and Consumer Research*, 13, pp. 375-392.

Doney, P.A. and Cannon, J.P. (1997). "An examination of the nature of trust in buyer-seller relationships", *Journal of Marketing*, Vol. 61, pp.35-51.

Dwyer, F.R., Schurr, P.H. and Oh, S. (**1987**), "Developing Buyer-Seller relationships", *Journal of Marketing*, 51(2), pp. 11-27.

Eastlick, M.A. and Liu, M. (1997). "The influence of store attitudes and other non-store shopping patterns on patronage of teleshopping", *Journal of Direct Marketing*, 10, pp. 19-29.

Eiglier, P. and Langeard, E. (1987). *Servuction: Le Marketing des Services*, Paris: McGraw-Hill.

Emerson, R.M. (1976), "Social exchange theory", *Annual Review of Sociology*, Vol.2, pp. 35-362.

Erdem, O., Oumlil, A.B. and Tuncalp, S. (1999). "Consumer values and the importance of store attributes", *International Journal of Retail & Distribution Management*, Vol. 27, pp. 137-144.

Fader, P.S., Hardie, B.G.S., and Lee K.L. (2003). "Counting Your Customers" the Easy Way: An Alternative to the Pareto/NBD Model, *Working Paper Wharton School*, Philadelphia.

Fournier, S. and Mick, D.G. (1999), "Rediscovering satisfaction", *Journal of Marketing*, Vol. 63, October, pp. 5-23.

Frazier, G., Gill, J, and Kale, S. (1989). "Dealer dependence levels and reciprocal actions in a channel of distribution in a developing country", *Journal of Marketing*, Vol. 53, pp.50-69.

Fullerton, G. (2003). "When Does Commitment Lead to Loyalty?", *Journal of Service Research*, 5(4), pp. 333-344.

Garbarino, E. and Johnson, M.S. (1999). "The different roles of satisfaction, trust and commitment in customer relationships", *Journal of Marketing*, 63(2), pp. 70-87.

Geyskens, I. and Steenkamp, J-B. (1996). "An investigation into the joint effects of trust and interdependence of relationship commitment", *Proceedings of the 24th EMAC Conference* Paris, France.

Gould, G. (1995). "Why it is customer loyalty that counts (and how to measure it)", *Managing Service Quality*, Vol. 7 No. 4, pp. 4-26.

Gounaris, S.P. (2005). "Trust and commitment influences on customer retention: insights from business-to-business services", *Journal of Business Research*, 58(2), pp. 126-140.

Granovetter, M. (1979). "Threshold models of collective behaviour", *American Journal of Sociology*, 83, pp. 1420-1443.

Grewal, D., Levy, M. and Marshall, G.W. (2002). "Personal Selling in Retail Settings: How Does the Internet and Related Technologies Enable and Limit Successful Selling?", *Journal of Marketing Management*, 18, pp. 301-316.

Gronroos, C. (1994). "Quo vadis, marketing? Towards a relationship marketing paradigm", *Journal of Marketing Management*, 10, pp. 347-360.

Gummerson, E. (1998), "Total relationship marketing: experimenting with a synthesis of research frontiers", *Australian Marketing Journal*, Vol. 7 No. 1, pp. 72-85.

Hayman, H. (1942). "The psychology of states", *Archives of Psychology*, No. 269.

Heide, J.B. and John, G. (1990). "Alliances in industrial purchasing: determinants of joint action in buyer-supplier relationships", *Journal of Marketing Research*, Vol. 27 No.1, pp.24-36.

Hellier, P.K., Geursen, G.M., Carr, R.A. and Rickard, J.A. (2003). "Customer repurchase intention: a general structural equation model", *European Journal of Marketing*, Vol. 37 No.11/12, pp.1762-1800.

Henderson, J. (1990). "Plugging into strategic partnerships: the critical IS connection," *Sloan Management Review*, 30 (3), pp. 7-18.

Homans, G.C. (1958), "Social behaviour as exchange", *American Journal of Sociology*, Vol. 63 No. 6, pp. 597-606.

Jackson, B.B. (1985). "Building customer relationships that last", *Harvard Business Review*, Vol. 63 pp.120-128.

Jaishankar, G., Arnold, M., and Reynolds, K. (2000). "Understanding the customer base of service providers: an examination of the differences between switchers and buyers", *Journal of Marketing*, Vol. 64, pp.65-87.

Jenks, C. and Mayer, S. (1989). "Growing up in poor neighbourhoods: how much does it matter?", *Science*, 243, pp. 1441-1445.

Jones, M.A., Mothersbaugh, D.L. and Beatty, S.E. (2000), "Switching barriers and repurchase intentions in services", *Journal of Retailing*, Vol. 70 No. 2, pp. 259-274.

Jun, M. and Cai, S. (2001). "The key determinants of Internet banking service quality: a content analysis", *The International Journal of Bank Marketing*, Vol. 19 No. 7, pp. 276-291.

Kelley, S.W., Skinner, S.J., and Donnelly, J.H. (1992). "Organisational socialisation of service customers", *Journal of Business Research*, Vol. 20, pp.1175-1198.

MacMillan, K., Money, K., Money, A. and Downing, S. (2005). "Relationship marketing in the not-for-profit sector: an extension and application of the commitment-trust theory", *Journal of Business Research*, 58(6), pp. 806-818.

Mattson, B.E. (1982). "Situational influence of store choice", *Journal of Retailing*, 58, pp. 46-58.

Mefford, R.N. (1993). "Improving service quality: learning from manufacturing", *International Journal of Production Economics*, 30, pp. 399-413.

Merton, R. (1957). *Social theory and social structure*. New York: The Free Press.

Methlie, L. and Nysveen, H. (1999). "Loyalty of on-line bank customers", *Journal of Information Technology*, 14, pp. 376-386.

Methlie, L. B. and Nysveen, H. (1999). "Loyalty of on-line Bank Customers", *Journal of Information Technology*, vol. 14, pp. 375-386.

Montoya-Weiss, M.M., Voss, G.V. and Grewal, D. (2003). "Determinants of online channel use and overall satisfaction with a relational, multichannel service provider", *Journal of the Academy of Marketing Science*, Vol. 31 No.4, pp. 448-458.

Moorman, C., Deshpande, R. and Zaltman, G. (1993). "Factors affecting trust in market research relationships", *Journal of Marketing*, 57, pp. 81-101.

Morgan, R.M. and Hunt, S.D. (1994). "The commitment-trust theory of relationship marketing", *Journal of Marketing*, 58(3), pp. 20-38.

Mukherjee, A. and Nath, P. (2003). "A model of trust in online relationship banking", *The International Journal of Bank Marketing*, 20 (2), pp. 153-175.

Nielson, C. (1996). "An empirical examination of switching cost investments in business to business to business marketing relationships", *Journal of Business and Industrial Marketing*, Vol. 2, pp.38-63.

OECD (2001). *The Well-being of Nations. The Role of Human and Social Capital*. Paris: OECD,

Patterson, P.G. (2004). "A contingency model of behavioural intentions in a services context", *European Journal of Marketing*, Vol. 38 No.9/10, pp.1304-1315.

Patterson, P.G. and Smith, T. (2001). "Relationship benefits in services industries: a replication in Southeast Asian context", *Journal of Services Marketing*, 15(6), pp. 425-443.

Patterson, P.G. and Spreng, R. (1998), "Modelling the relationship between perceived value, satisfaction and repurchase intentions in a business-to-business context: an empirical

examination", *International Journal of Service Industry Management*, Vol. 8 No. 5, pp. 414-434.

Paulins, V.A. and Geistfeld, L.V. (2003). "The effect of consumer perceptions of store attributes on apparel store preference", *Journal of Fashion Marketing and Management*, Vol. 7, pp. 371-385.

Petruzzellis, L., D'Uggento, A.M., and Romanazzi, S. (2006). "Student Satisfaction And Quality Of Service In Italian Universities", *Managing Service Quality*, Vol.16 No.4, pp. 349-364.

Putnam, R. (2000). *Bowling Alone: The collapse and revival of American community*. New York: Simon and Schuster.

Reardon, J. and McCorkle, D.E. (2002). "A consumer model for channel switching behaviour", *International Journal of Retail & Distribution Management*, 30 (4), pp. 179-185.

Reichheld, F., and Sasser, W.E. (1990). "Zero defections: quality comes to services", *Harvard Business Review*, Vol. 68 September/October, pp. 105-111.

Riermer, K. and Totz, C. (2003). "The many faces of personalization", in Tseng, M. and Piller, F.T. (eds), *The Customer Centric Enterprise: Advances in Mass Customization and Personalization,* pp. 35–50. Berlin: Springer.

Selnes, F. (1998). "Antecedents and consequences of trust and satisfaction in buyer-seller relationships", *European Journal of Marketing*, 32(3/4), pp. 309-322.

Serageldin I., Grootaert C., (1999). Defining social capital: an integrating view, in Dasgupta and Serageldin I. (eds), *Social capital: a multifaceted perspective*, pp. 40-58. Washington: World Bank.

Shankar, V., Smith, A.K. and Rangaswamy, A. (2003). "Customer satisfaction and loyalty in online and offline environments", *International Journal of Research in Marketing*, Vol. 20 Issue 2, pp. 153-176.

Sharma, N. and Patterson, P.G. (2000). "Switching costs, alternative attractiveness and experience as moderators of relationship commitment in professional consumer services", *International Journal of Service Industry Management*, 11(5), pp. 470-490.

Sigala, M. (2006). "Mass customisation implementation models and customer value in mobile phones services: Preliminary findings from Greece", *Managing Service Quality*, Vol.16, No. 4, pp. 395-420.

Snehota, I. and M. Söderlund (1998). "Relationship marketing - what does it promise and what doe it deliver? An empirical examination of repeat purchase customers", in

Andersson, P. (ed.), *27th EMAC Conference Proceedings - Marketing Research and Practice*, pp. 311-330.

Tellefsen, T. (2002). "Commitment in business-to-business relationships: the role of organizational and personal needs", *Industrial Marketing Management*, Vol. 31 No.8, pp.645-652.

Thibault, J. W. and Kelly, H. H. (1959). *The Social Psychology of Groups*. New York: Wiley & Sons.

Tse, A.C.B. and Yim, F. (2001). "Factors affecting the choice of channels: online vs. conventional", *Journal of International Interactive Marketing*, 19, pp. 75-85.

Van Bastalaer, T. (1999). "Does Social Capital Facilitate the Poor's Access to Credit? A Review of the Microeconomic Literature", *Social Capital Initiative Working Paper 8*, Washington: World Bank, Social Development Department.

Van Riel, A., Liljander, V. and Jurriens, P. (2001). "Exploring consumer evaluations of e-services: a portal site", *International Journal of Service Industry Management*, 12 (4), pp. 359-377.

Vesanen, J. (2007). "What is personalization? A conceptual framework", *European Journal of Marketing*, 41(5/6), pp. 409-418.

Ward, T. and Dagger, T.S. (2007). "The complexity of relationship marketing for service customers", *Journal of Services Marketing*, Vol. 21, pp. 281-290

Yau, O.H.M., McFetridge, P.R., Chow, R.P.M., Lee, J.S.Y., Sin, L.Y.M. and Tse, A.C.B. (2000). "Is relationship marketing for everyone?", *European Journal of Marketing*, 34(9/10), pp. 1111-1127.

Zeithaml, V.A. (1981). "How Consumer Evaluation Processes Differ Between Goods and Services", in Donnelly ,J.H. and George, W.R. (eds.), *Marketing of Services*, pp. 186-190. Chicago: American Marketing Association.

Zins, A. H. (1998). "Antecedents of Satisfaction and Customer Loyalty in the Commercial Airline Industry", Andersson, P. (ed.), *27th EMAC Conference Proceedings - Marketing Research and Practice*.