DETERMINANTS OF CUSTOMER LOYALTY AND PROPOSING A CUSTOMER LOYALTY MODEL FOR THE BANKING SECTOR OF PAKISTAN

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Abstract:
It is always costly to attract new customers, so the managers always try to find ways to retain their current customers and concentrate on different factors which enhances the customer loyalty among the customers of the organizations. This research attempts to find the factors of customer loyalty and their relationships with banking industry in one of the developing countries i.e. Pakistan. Then analyzing the relationship among different factors a model for the customer loyalty is proposed at the end of the research. In order to do this, a questionnaire is designed and validated, then based on the data which were gained from the 316 respondents' answers to the designed questionnaire, the analysis is done and the results and the relations among the factors are explained. Perceived Quality, Satisfaction, Trust, Switching Cost and Commitment are the factors which influence the Loyalty of the customers. Theses factors also influence each other as well. The relationships of different factors with each other are also studied and the SPSS software is used to analyze the data gathered from the respondents.

Keywords: customer loyalty, banking sector, perceived quality.

Introduction

In the highly competitive, complex and dynamic environment of the banking industry, the very slight differences which exist in financial services and products together with an increasingly demanding customer have led to a great transformation in the industry. The traditional product-oriented bank is becoming increasingly customer-oriented in accordance with the basic principles of relational marketing, which focuses on customer loyalty as its main goal. In this sense, Gilmore (2007) considers that constant customer-oriented behaviour is a requisite for improving the implementation of quality in services marketing. Indeed, factors such as financial products and distribution have attained similar levels of development and technology and have thus been relegated to a secondary role as reference points for distinguishing between one bank and another (Sa´nchez & Parada, 2005). In this sense, Barnes & Howlett (1998) argue that, given that many financial services are parity offerings, it can be stated that a customer is unlikely to be overly impressed by core product attributes when all companies are providing similar offerings(Chang, Yao & Ying, 2009).

The goal of this research is finding the factors of customer loyalty for banking industry of Pakistan. In order to do this, the previous studies were reviewed. According to (Beerli, Martin & Quintana, 2004) the factors which have influenced the customer loyalty in banking industry have been selected which are perceived quality, satisfaction and switching cost. Also more models in this category were reviewed to see whether there are more factors that can be considered in banking industry or not (Lin & Wang, 2006; Lauren & Lin,

2003). So the loyalty model for other industries was considered in the reviewing of the literature. And finally according to Lauren & Lin,2003; Lin & Wang,2006 two more factors which were mentioned in the loyalty model and could be considered in banking industry are trust and commitment. So we added them as well and tried to find their relation with the loyalty as well as their relationship among each other.

Perceived Quality, Satisfaction, Switching cost, Commitment and Trust are the factors which we have selected for our research after analyzing the cultural and socio economic situation of Pakistan. Our proposed model has five factors and we will analyze the impact of these factors on the loyalty of the customers towards their respective banks and we will also analyze their impact on each other.

In the highly dynamic and complex banking industry, the very slight differences which exist in financial services and products together with an increasingly demanding customer have led to a great transformation in the industry. The industry is becoming more customer-oriented, which states that the main goal of any relationship marketing would always be to build customer loyalty. In this sense, Gilmore (2001) considers that constant customer-oriented behaviour is a requisite for improving the implementation of quality in services marketing.

Loyalty to a bank can be thought of as continuing patronage over time. The degree of loyalty can be gauged by tracking customer accounts' over defined time periods and noting the degree of continuity in patronage (Yi & Jeon, 2003).

During the past decade, the financial service sector has undergone drastic changes, resulting in a market place which is characterized by intense competition, little growth in primary demand and increased deregulation (Bloemer, Ruyter & Peeters ,1998). In the new market place, the occurrence of committed and often inherited relationships between a customer and his or her bank is becoming increasingly scarce (Levesque & McDougall, 1996). Several strategies have been attempted to retain customers. In order to increase customer loyalty, many banks have introduced innovative products and services (Alam & Khokhar, 2006). Marketing success requires understanding and frequently monitoring the product and service attributes which increase loyalty and share of wallet.

However, as such innovations are frequently followed by similar charges; it has been argued that a more viable approach for banks is to focus on less tangible and less easy-to-imitate determinants of customer loyalty such as customer evaluative judgments like service quality and satisfaction (Worcester, 1997; Yavas & Shemwell, 1996).

Banking has traditionally operated in a relatively stable environment for decades. However, today the industry is facing a dramatically aggressive competition in a new deregulated environment. Government of Pakistan has privatized quite a number of banks which further increases the competition and complexity among the banks. The net result of the recent competition and legislation is that traditional banks have lost a substantial proportion of their domestic business to essentially non-bank competition. Competition will undoubtedly continue to be a more significant factor.

With the phenomenal increase in the country's population and the increased demand for banking services; commitment, service quality and customer satisfaction are going to be key differentiators for each bank's future success. Banks begin to realize that no bank can offer all products and be the best/leading bank for all customers. They are forced to find a new basis for competition and they have to improve

the quality of their own products/services (Zineldin, 1996; Olsen, 1992). A bank has to create the customer relationship that delivers value beyond the provided by the core product. This involves added tangible and intangible elements to the core products, thus creating and enhancing the "product surrounding".

Positioning is an attempt to distinguish the bank from its competitors along real dimensions in order to be the most preferred bank for a certain market segment or in other words, if a bank can position itself favorably within a particular marketplace, relative to competitors, that bank is a competitive one. Competitiveness means that a bank, in terms of its competitive position, its management and marketing strategies, its use of information technology, the quality of its products/services and its ability of managing long term customer relationship must be increasingly responsive to the market consideration and customer orientation.

Statement of Problem

During the past decade, the financial service sector has undergone drastic changes, resulting in a market place which is characterized by intense competition, little growth in primary demand and increased deregulation. Government of Pakistan has privatized quite a number of banks which further increases the competition and complexity among the banks. Finding a place in this heating sun becomes vital to the long-range profitability and ultimate survival of the bank. This can be done both by maintenance or having new ones. In this research we tried to find the main determinants of the customer loyalty in banking industry of Pakistan in order to help this key industry to have a wider look for supporting their customers and finally having more loyal ones.

Research Objectives

• The overall objective is to analyse the factors which influence the Customer Loyalty in the banking industry of Pakistan and to propose a model for Customer Loyalty.

• To analyse the influence of satisfaction, perceived quality, commitment, trust and switching cost on Loyalty.

• To analyse the influence of perceived quality on satisfaction.

• To analyse the influence of trust on commitment.

Research Area and Problem

In this competitive environment each company or bank wants to absorb the customers. This can be done both by maintenance or having new ones. In this research we tried to find the main determinants of the customer loyalty in banking industry of Pakistan in order to help this key industry to have a wider look for supporting their customers and finally having more loyal ones. We will consider the customers of different banks of Abbottabad due to shortage of time and money resources. In this environment naturally there are some customers who are using the banking services, and because of the similarity of the offered services by different banks, we consider the customers similar to each other.

Research Questions

The answer to the following questions will together provide us the possibility to reach the objective of this research.

• Can a model for customer loyalty in banking industry of Pakistan be specified?

• What factors influence the customer loyalty in banking sector of Pakistan?

• What are the relationships between these factors?

In order to answer to the research

questions we defined some more detailed questions such as:

- Does customer satisfaction influence the loyalty of the customer in the banking

industry of Pakistan?

- Does switching cost influence the loyalty of the customer in the banking industry of Pakistan?

- Does perceived quality influence the loyalty of the customer in the banking industry of Pakistan?

- Does trust influence the loyalty of the customer in the banking industry of Pakistan?

- Does commitment influence the loyalty of the customer in the banking industry of Pakistan?

Literature Review

Acquiring a new customer is always expensive because it costs higher in the acquisition of a customer then in retention customers as falls it happens only with customers has they repeatedly purchase the products and services and the volume of purchases increases. The firms and do not invest much in attracting the loyal customers towards their products and services. These findings prompted business decision makers and executive to search for new innovative strategies to keep their existing customers loyal towards their products and services, and also to further increase the base of loyal customers (Darrell K. Rigby, Frederick Reichheld & Chris Dawson, 2003).

Loyalty

Sodurland (2001) says that these are two main categories of loyal customers. The first category is of loyal customers. With in the loyal category there are satisfied and un-satisfied customers. The satisfaction is not an essential requirement for loyalty, so satisfied customers do not have to be loyal but there is a correlation between the satisfied customers and loyal customers.

Sometimes unsatisfied customers are also loyal due to attachment and commitment with the supplier. And satisfied customers, if lack the trust commitment and attachment with the suppliers products and services will always deflect once they find a competitor with better quality of products and services. This type of loyalty is sometimes called False Loyalty in whish unsatisfied customers remain loyal to their suppliers. The reason for this false loyalty is the factors due to which the customer feels hurdles and obstacles in his/her way, which stops him her from switching or choosing another supplier. These hurdles are called switching costs.

In today's technologically advanced world and due to arrival of internet, it's much more difficult to retain a customer. They have far more choices, the level of competition is high, and each supplier tries to attract customers through different packages. Within second a customer can surf the internet and can check out for better deal. The defection rates are ever on increase. A company with a seemingly impressive 80% retention rate will lose more than 60% of its customers in the next five to ten years (Kim, 2004). By retaining more and more customers, the profits increase phenomenally and costs are reduced considerably.

Perceived Quality

A concept which is very closely related with satisfaction and loyalty is perceived quality, and the differences between these have not always been very clearly defined. They have been used on occasion in an indistinct manner. In an attempt to clarify the distinction between satisfaction and perceived quality, Anderson & Sullivan, (1993) consider that satisfaction requires previous consumption experience and depends on price, whereas quality can be perceived without previous consumption experience and does not normally depend on price. However in circumstances where there is little

available information or where quality evaluation is difficult, price can be an indicator of quality. In this sense, Spreng & Mackoy (1996), starting from Oliver's (1997, 1999) conceptual model of service quality and service satisfaction, concluded that these constructs are distinct and have different determinants. Service quality has been found to have a profound input on customer satisfaction and loyalty as a whole and is defined as the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Caruana, 2002).

Anderson *et al,* (2007) suggested that when the perceived value was low, customers would be more inclined to switch to competing businesses in order to increase perceived value, thus contributing to a decline in loyalty. Technology can't replace effective human interaction. You need to make sure that your company's job descriptions, performance measures, compensation systems and training programs back up your customer strategy-rather than undermine it (Jacob, 2005). The literature relating to service management has argued that customer satisfaction is the result of a customer's perception of value received (Hallowel,1996).Perceived value is considered a construct that captures any benefit-sacrifice discrepancy in the same way that disconfirmation does for variations between expectations and perceived performance. As it is explained perceived service quality and perceived value has approximately same meaning.

Customer Satisfaction

The satisfaction is yet another important trait which must be taken in to account when shaping the overall loyalty of the customers towards their service providers. In banks, the customers ask themselves about the level of the services and decide about the lack of importance given to them

and decide about repurchase behavior after using the services. The level of satisfaction is always high when the customer gives minimum price and gets maximum of usage and profit (Jamal & Kamal, 2004. Dissatisfaction usually occurs when the pricing issues are not suiting the needs of the customers. In banking industry also, the interest rates on loans and charges on the usage of online services such as ATM machines and the processing fee is a major bone of contention between the bank and its customers. If the customer thinks that the charges are more than the needs he churns. The customer initially tries to compromise with the bank but at a certain point he decides to defect. Nowadays, it has become too easy to open an account in any other bank so the switching cost is also minimal. These all factors help customers to switch from the current bank. The response of customer plays a pivot role in the overall satisfaction graph of the provider. If a customer is satisfied, the loyalty injects automatically and the customer remains with the current providers for a longer and longer period of time (Giese & Cote, 2000).

Switching Cost

As defined by Jones et al (2002), a switching barrier is any factor that makes it difficult or costly for customers to change providers. Another brand loyalty determinant is known as switching costs, which can be defined as the technical, financial or psychological factors which make it difficult or expensive for a customer to change brand (Shergill & Bing, 2006).

There has been a growing interest in recent years in analyzing the factors influencing customer loyalty. As a result, there are numerous works in marketing which have attempted to explain the relationships between brand loyalty and the various variables regarded as antecedents, the most significant of which are customer satisfaction, and, to a lesser degree, switching costs (Boulding et al., 2003; Kasper, 2005;

Berne´, 2007).

For this reason, a switching cost can be seen as a cost that deters customers from demanding a rival firm's brand (Aydin & Ozer, 2005).It can be defined as the technical, financial or psychological factors which make it difficult or expensive for a customer to change brand (Selnes, 2007). When the costs of switching brand are high for the customer, there is a greater probability that the customer will remain loyal in terms of repeat purchase behavior, because of the risk or expense involved in switching and because of the accompanying decrease in the appeal of other alternatives (Kon, 2004).

A customer who has collected information in order to decrease his anxiety about a wrong purchasing decision will use all previous purchase experiences. This is called "post-purchase cognitive dissonance". In this process, if the customer were to switch brand, he/she would compare the switched brand and the previous brand. Barriers to customer defection, such as development of strong interpersonal relationships or imposition of switching costs, represent additional retention strategies. Such barriers are important because they may generally foster greater retention and because they may help companies weather short-term fluctuations in service quality that might otherwise result in defection (Jones and Mothersbaugh, 2002).

Trust

Trust has been defined as the willingness to rely on an exchange partner in whom one has confidence (Moorman et al. 1993) or confidence in an exchange partner's reliability and integrity (Morgan & Hunt 2004). Chaudhuri & Holbrook (2002) define brand trust as the customer's willingness to rely on the ability of the brand to perform its stated function. Trust causes dedication because it reduces the costs of negotiating agreements (Berry, 2007) and lessens customers' fear of opportunistic

behaviour by the service provider (Bendapudi & Berry, 1997). In social psychology trust is considered to consist of two elements: trust in the partner's honesty, and trust in the partner's benevolence ('Wetzels et al. 1998). Honesty is the belief that a partner stands by his word, while benevolence is the belief that the partner is interested in the customer's welfare, and will not take actions with negative impact on the customer.

In the marketing literature, Morgan & Hunt (1994) also suggest that brand trust leads to brand loyalty and commitment because trust creates exchange relationships that are highly valued.

Commitment

Commitment is frequently defined as a desire to maintain a relationship (Moorman, Deshpande & Zaltman 1993; Morgan & Hunt, 1994). Dwyer et al. (1987) describe it as a pledge of continuity, and Pritchard, Havitz and Howard (1999) as resistance to change. In a conceptualization and study of employees' commitment to an organization, Allen and Meyer (1990) identified three types of commitment to an organization: *affective, continuance* and *normative.* Affective (or emotional) attachment exists when a strongly committed individual identifies with, is involved in, and enjoys membership in an organization (Allen & Meyer, 1990). Affective commitment is defined as an affective state of mind that is based on a person sharing, identifying with and internalizing the values of an organization and thereby implies *liking* and *emotional attachment* (Morgan & Hunt, 2004).

Trust in a relationship partner has been positioned as a central factor for customer loyalty (Chaudhuri & Holbrook, 2002) and is a principal factor causing dedication (Berry, 2007).

According to (Beerli, Martin & Quintana, 2004) the factors which have influenced the customer loyalty in banking industry have been selected

which are perceived quality, satisfaction and switching cost. Increase in perceived quality increases the satisfaction and increase in satisfaction increases the perceived quality. Satisfaction influences the loyalty positively which meant that the greater the satisfaction level of the customers, the greater would be their loyalty towards their respective banks. The original model of banking industry is mentioned in figure 1.
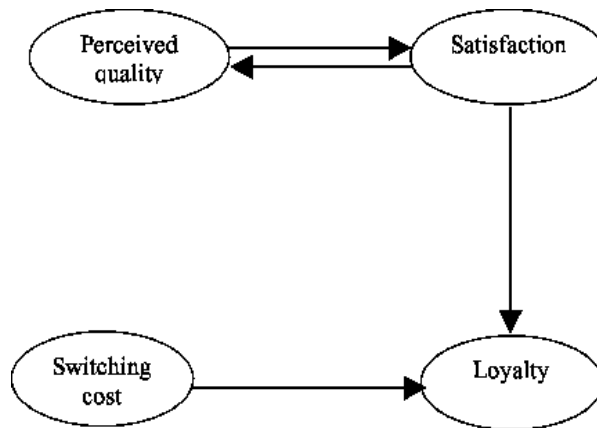
Figure 1. Loyalty Model (Beerli, Martin & Quintana, 2004)

Research Methodology

This research is *deductive* since the research starts with a literature overview which later is compared with the empirical findings and the main idea is drawn form already existing theories within the research area and then the hypotheses are developed and then the research strategy is designed. In this study, a lot of data has been collected by distributing questionnaires. All of this data was numerical and as a result the methodological research approach in his thesis is quantitative.The questions in the questionnaire tried to find the factors of customer loyalty in Pakistan. The above opinions were measured by requesting respondents to indicate, on a seven-point Likert-type scales, anchored on "1 = to a very little extent" through "7 = to a very great extent", their agreement or disagreement with a series of statements that characterize the factors for loyalty model of the customers in banking industry in Pakistan. A total of 350 questionnaires were distributed among the respondents out of which we got 325 filled questionnaires.

Perceived Quality, Satisfaction, Switching cost, Commitment and Trust are the factors which we have selected for our research after analyzing the cultural and socio economic situation of Pakistan.

Data Collection Method

The gathering of data may range from a simple observation at one location to an extravagant survey of multinational corporations at sites in different parts of the world. The method of research can determine how the data are collected. Questionnaires, standardized tests, observational forms, laboratory notes, and instrument calibration logs are among the devices used to recover raw data (Cooper & Schindler, 2003).Saunders, etc. al. (2000) explains that when gathering data and information to meet the objectives of the research questions,

there are two options to face, primary and secondary data.

After validating the model, in order to apply it in the Pakistani Banking Industry, a questionnaire was designed and distributed among the studied sample. So the method employed to gather primary data was through questionnaires. The sampling frame for any probability sample is a complete list of all cases in the population from which your sample will be drawn. As the research questions in this study concern bank customers, so the sampling frame is a complete list of all banking customers in Pakistan.

While employing all probability samples, it is very important to consider the response rate. According to (Saunders et al.,2000), response rates in business surveys are usually as low as 15-20 percent for postal surveys and also response rate of between 50 to 92 percent for questionnaire surveys and of 73 to 99 percent for telephone interviews.

Therefore we asked the customer in my sample population to fill the questionnaires. Those who didn't want to participate mentioned the lack of time was the reason. The response rate in this research performing the above method of data gathering was calculated as 93 percent and this is because the questionnaires were given one by one and face to face.

In this research, survey method is employed to have an analysis on the model of customer loyalty in banking industry of Pakistan. The research approach is deductive and quantitative; survey would be a good choice. In order to find the factors and also the relationship between these factors, a questionnaire is designed. For doing so the factors of models which were mentioned in the literature review are used. Because one of those models is for e-commerce industry, we had to check the factors to see whether they are appropriate for banking in Pakistan or not.

So we had a discussion with some experts in banking industry to show them the factors which were going to be used in the new model. After the discussion all of the considered factors were accepted. after finalizing the factors the questionnaire of those researches were combined together, then among those questions some had little changes, some were eliminated, some were added and the rest were not changed. Then a complete translated questionnaire was ready. In this research cross -sectional study is performed.

Sample Selection

The convenient random sampling technique was used in this thesis when all the members of the population had same chance to be selected and no specific characteristic more than being a customer of the bank, was considered while selecting them. Primary data is collected for a specific purpose by the researcher and the information is gathered for instance through interviews, questionnaires and observations (Weidersheim et. al., 2001).

Questionnaire Design

Because of the reasons mentioned above we used a self-administered questionnaire method for collecting the primary data. More importantly replicated a study that had been done in Taiwan by Lin and Wang, (2006) and in Spain by Beerli, Martin, Quintana, (2004)'s questionnaire and in Iran by Abdollahi, (2007).

Hence in this research we combine those three questionnaires and added some more to them. First the duplicated questions were omitted. Then because of the different environment between the banking industry of Pakistan and other countries, questions had to be checked to see whether they needed localization changes or not. Some of the questions were edited for this reason. And a few questions were added to some of the factors. Finally a questionnaire was designed which

comprised of 42 questions. The questionnaire also contained some personal questions to reach to some contextual sense of the answers collected such as name, age, position, etc.A total of 350 questionnaires were distributed among the respondents out of which we got 325 filled questionnaires. The response rate was 93% which was quite high.

According to (Beerli, Martin & Quintana, 2004) the factors which have influenced the customer loyalty in banking industry have been selected which are perceived quality, satisfaction and switching cost. Also more models in this category were reviewed to see whether there are more factors that can be considered in banking industry or not (Lin and Wang, 2006; Lauren and Lin, 2003). So the loyalty model for other industries was considered in the reviewing of the literature. And finally according to Lauren and Lin,2003; Lin and Wang,2006 two more factors which were mentioned in the loyalty model and could be considered in banking industry are trust and commitment. So we added them as well and tried to find their relation with the loyalty as well as their relationship among each other.
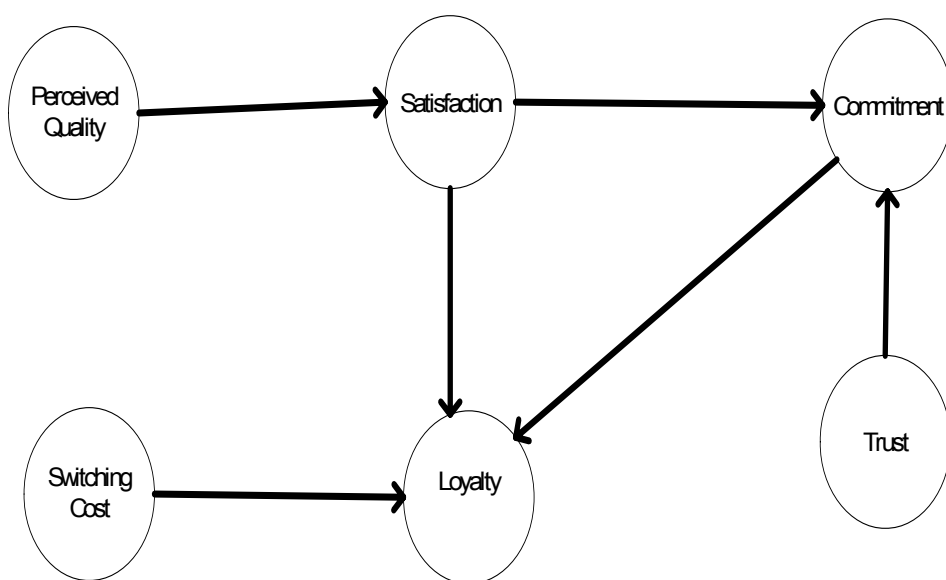
Figure 2. The Proposed Model for Customer Loyalty

Customer loyalty analysis

The reliability of the items was high as Cronbach's alpha for all the items was above 0.7. The validity determines the extent to which a scale measures a variable of interest. In this research, we have conducted a principal components factor analysis with varimax rotation to investigate the distinctions among Perceived Quality, Trust, Satisfaction, Switching Cost, Commitment and Loyalty (Beerli, 2004). The six factors emerged with no cross-construct loadings above 0.5, indicating good discriminant validity. The research also demonstrated convergent validity with factor loadings exceeding 0.5 for each construct. Consequently, these results confirm that each of the six constructs is unidimensional and factorially distinct and that all items used to operationalize a particular construct is loaded onto a single factor. The research has six factors in total with one dependent

factor and five independent factors which are determining their effect on the dependent factor i.e. Loyalty.

Table 1

Factor Analysis Results: Principal Component Extraction

Items	Extraction		Items	Extraction		Items	Extraction
PQ1	.941		T5	.521		S5	.897
PQ2	.591		T6	.825		S6	.733
PQ3	.833		T7	.928		S7	.842
PQ4	.624		T8	.862		S8	.956
PQ5	.799		T9	.924		CMT1	.849
PQ6	.944		SC1	.918		CMT2	.791
PQ7	.876		SC2	.836		CMT3	.615
PQ8	.936		SC3	.591		CMT4	.829
PQ9	.695		SC4	.582		CMT5	.579
PQ10	.589		SC5	.807		CMT6	.813
T1	.898		S1	.949		LOY1	.807
T2	.970		S2	.965		LOY2	.665
T3	.884		S3	.805		LOY3	.819
T4	.890		S4	.924		LOY4	.695

We have discussed each factor and the questions which identified these factors in detail, the relationship between questions in each factor through inter-item correlation matrices, the reliability of each factor, the validity of each factor, now it's time to analyze the correlation and relationship between the elements of the model. The

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Correlations procedure computes the pair wise associations for a set of variables and displays the results in a matrix. It is useful for determining the strength and direction of the association between two variables.

The correlation matrix between different factors is shown in the following table.

Table 2

Correlation Result

		LOY	PQ	T	SC	S	CMT
OY	L	1	.516	.254	.376	.741	.563
Q	P	.516	1	.303	.291	.608	.200
	T	.254	.303	1	.171	.125	.405
C	S	.376	.291	.171	1	.035	.162
	S	.741	.608	.125	.035	1	.127
MT	C	.563	.200	.405	.162	.127	1

Correlation is significant at the 0.05 level (2-tailed).

By looking at the correlation matrix between the factors we can understand that satisfaction is the most correlated element with loyalty. The correlation of 0.741 between these two factors shows that a little change in the satisfaction has a major influence on the loyalty of the customer towards his/her bank. the managers must meet the basic needs of the customers to make them satisfied such as the prompt and error free services and pricing issues(margins on loans, charges on usage of ATM services).once the customer is satisfied, the chances of his/her becoming loyal to the bank increases considerably.

The next factor which is more important is the commitment. The correlation between commitment and loyalty is 0.563 which shows that the highly committed customers are always loyal to the bank. The next factor which is more important is the tangible perceived quality with a correlation of 0.516 which shows a strong relationship with loyalty.

The managers should emphasize on the quality factors such as the availability of modern looking equipment and services and ensure that all the services of the bank are present in every branch. By giving the seen aspects of quality to the customer, the loyalty can be increased.

These are the most important factors which show strong correlation with the loyalty. The rest of the factors are also correlated but not as much as the satisfaction, commitment, perceived quality. Then we analyze the correlation of each factor with other factors. The perceived quality is most correlated with the satisfaction factor and least correlated with trust factor.So for having more satisfied customers, perceived quality factors are more important to be considered by the banks. If the banks are successful in increasing the tangible quality of the services, they also become successful in increasing the number of satisfied customers. Intangible perceived quality has a good correlation with commitment and satisfaction. This means by providing error free services and paying special attention to the queries of the customers, the commitment of the customers can be increased. The highly committed customers are those who received high standard of intangible quality of services provided by the banks.

In trust column, the commitment factor is more correlated than the others. This means that when a customer is committed to a bank, his/her trust on the bank is increased more and more. Trust on the services of the banks is also increased depending on the standard of the tangibility provided by banks in their services. So changes in commitment or tangibility cause changes in the trust of the customer on the bank. The switching cost factor is most correlated with the loyalty. This means that when the customers are loyal in using the services of the bank, they do not switch easily from their bank. The more loyal the customers are, the higher the number of the barriers in switching from one bank to another bank.

The hypothesized relationships were tested using the multiple regression analysis using SPSS. The average scores of the items representing each of the six factors were used in the data analysis. The R^2 was used to assess the model's overall predictive fit. Properties of the causal paths, including standardized path coefficients, t-values, and variance explained for each equation in the hypothesized model are presented in Figure 2.

The regression model is as follows:

LOY= 1.05 + 0.32 SC + 0.46 S + 0.38 CMT

where,

LOY is Customer Loyalty (

dependent variable)

and the independent variables are:

SC for Switching Cost

S for Satisfaction

CMT for Commitment

In our model, two factors have strong influence on commitment which are satisfaction and trust. So the regression model for commitment is:

CMT= 0.75 + 0.34 T + 0.28 S

where,

CMT is commitment(dependent variable)

And the independent variables are;

T for trust

S for Satisfaction

As expected, perceived quality (β=0.196, t-value=3.033, p<0.01) had a strong positive influence on the satisfaction. Similarly, satisfaction (β=0.393, t- value=6.367, p<0.001), commitment (β=0.378, t-value=5.948, p<0.001) and switching cost (β =0.321, t-value=5.992, p<0.001) had a significant positive effect on the loyalty. Therefore, hypotheses H2b, H3 and H4 are supported. We found that the proposed model explained a significant

percentage of variance in loyalty (R^2=79.9%, F-value=84.571, p<0.001).It means that about 80 percent of the variance in loyalty was accounted for by satisfaction, switching cost and commitment. According to the path coefficients, satisfaction exhibited the strongest direct effect on loyalty.

Hypotheses H2a and H5 examine the paths from satisfaction and trust to commitment. Trust (β =0.345, t-value=5.370, p<0.001) and satisfaction (β =0.181, t-value=2.393, p<0.001) had a significant positive effect on commitment thus supporting the hypotheses. About 53 percent of the variance in commitment was accounted for by trust, customer satisfaction, and perceived value. The influence of trust on loyalty was not strong as t value was 1.034 and p value was 0.065 which is not significant.

The total effect of customer satisfaction on loyalty was 0.461 = (0.393 + 0.281 * 0.378).

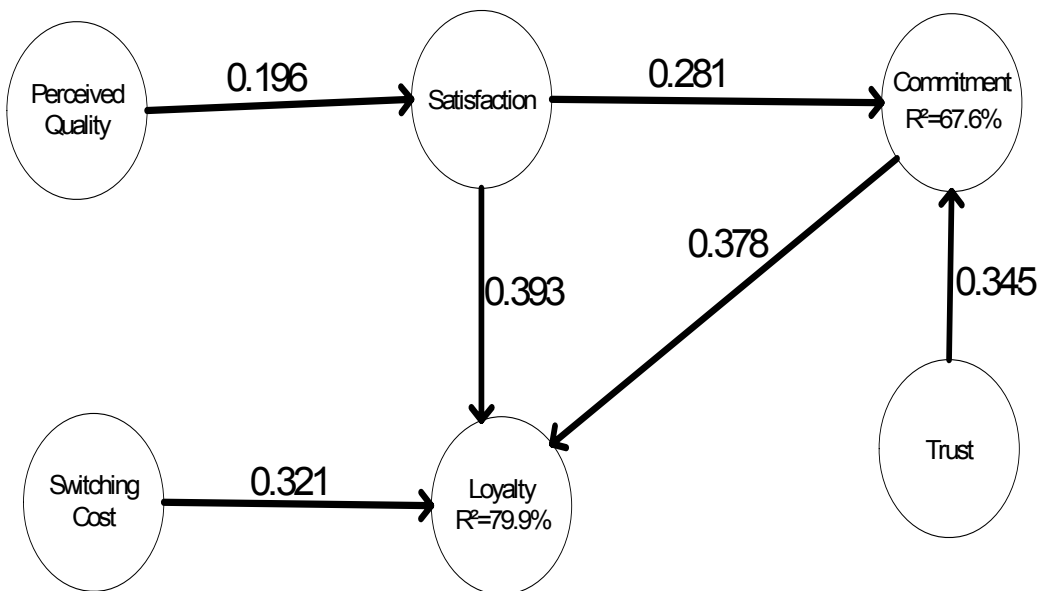The model with the regression coefficients values is given below.

Figure 3. The Loyalty Model with Beta values

The analysis shows that satisfaction has a link with loyalty. This link is very strong, and it shows that if the bank managers want to make the customers loyal, they should have some special strategies to satisfy the customer. A satisfied customer never takes the risk of changing or moving to other competitors.

So, managers should always consider the needs of the customers. The loyalty comes in the customers once their stated as well as unstated needs are fulfilled by the managers of the banks. It can be the current needs or the ones which could be desired in the future. The unstated needs can be the future needs of the customers. The point is, the managers should not only think of few basic needs of the customers. They should focus on providing extra pleasures to their customers.

This means that the managers should have a team which can estimate the future requirements by having the fast movement in the world and technology, specially in the developing countries like Pakistan, this movement could be a little faster, so the research team of the banks should consider the environment and by having the focus on the culture requirements estimate the future needs of the customer.

The next link which is valid, and its t-value is greater than 2 is the link between switching cost and loyalty. By analyzing the answers of the three questions of this part, the relationship between the loyalty of the customer and the switching cost can be explained as below:

When a customer is not sure about the new bank which might be chosen, it makes him/her not move simply and suddenly. He or she thinks that should spend more time in order to be able to make a good decision. This process makes the customer stay more with the current bank, because he/she considers the risk of not being satisfied with the new bank and tries to think more about switching. By doing so, staying with the bank for a longer time is more possible than choosing a new one carelessly.

The next factor is influence of perceived quality on the satisfaction of the customer. It means that by providing a better service, banks can make their customers more satisfied. At the next step, they can make them loyal.

Main Findings

- The effect of satisfaction and trust on commitment is positive and significant and the greater the satisfaction the greater is commitment and the greater the trust the greater is the commitment.

For Similar results also see (Lin, 2003 ; Shergill and Li 2006 ;Aydin & Ozer, 2005; Turkyilmaz & Ozkan 2007)

- The effect of perceived quality on satisfaction is positive and significant but low. The value of path coefficient is 0.196 which is in accordance to the literature .

For similar results see also(Ladebo,2006; Hang,2008 and Laurn,2003).

- The effect of satisfaction,switching cost and commitment on customer loyalty is positive and significant. However, the effect of satisfaction on customer loyalty is quite low as compared to Beerli(2004) model. Switching cost has more influence on loyalty than mentioned in original model.

Recommendations

- The managers must try to maintain long term relationship with their customers. The customers must believe firmly that their respective banks deliver what they promise in their advertisement and they are not opportunistic but honest .The managers should regularly take the feedback of the customers and should incorporate the changes desired by the customers in their feedbacks.

- The managers must arrange training programs for their employees in

order to make them more effective while dealing with the customers.

• There should be spacious parking facilities for the customers' vehicles.

• The ATMs should be prompt and managers must try to minimize inconvenience at ATMs for the customers.

• Managers must ensure that customer complaints are addressed with top most priority.

• Managers must ensure that all main services are available in each branch of bank.

• The customer service representatives should be knowledgeable.

• The customer should feel secure when they use products and services of the bank and consider it an honest and worthwhile bank.

• Managers must ensure efficiency in their operations so that customers do not have to suffer or wait for long time for their intended work.

• The managers should ensure that whatever services they advertise should be available to the customers in every branch of the banks in order to increase their trust.

• The managers should always consider the needs of the customers. The loyalty comes in the customers once their stated as well as unstated needs are fulfilled by the managers of the banks. It can be the current needs or the ones which could be desired in the future. The unstated needs can be the future needs of the customers. The point is, the managers should not only think of few basic needs of the customers. They should focus on providing extra pleasures to their customers.

• This means that the managers should have a team which can estimate the future requirements by having the fast movement in the world and technology, specially in the developing countries like Pakistan, this movement could be a little faster, so the research team of the banks should consider the environment and by having the focus on the culture requirements estimate the future needs of the customer.

Further research

• These days the loyalty concept has great importance and its different aspects can be studied in different situations.

• This research tries to investigate more factors which have links with the customer loyalty in banking industry in comparison to the previous researches. Also different relations were found during this study.

• It is hoped that the findings could stimulate further research in other parts of the world; especially in the other developing countries .If this happens, the model can be presented in a wider area not only in Pakistan.

• The other people who are interested in modeling could analyze, find and test more factors according to their environment, or also the same factors in other industries.

• Also a research which is about the factors that influence the "loyalty model" can also be done in order to find the external points which could differ from one environment to another, in case of existence. In this way, a general model for the banking industry's customer loyalty can be presented after the analysis of the factors in all the countries.

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