Investigating drivers of bank loyalty: the complex relationship between image, service quality and satisfaction

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This article investigates how image, perceived service quality and satisfaction determine loyalty in a retail bank setting at the global construct level, as well as the level of construct dimensions. At the global level the results of a large-scale empirical study reveal that image is indirectly related to bank loyalty via perceived quality. In turn, service quality is both directly and indirectly related to bank loyalty via satisfaction. The latter has a direct effect on bank loyalty. At the level of the dimensions underlying aforementioned constructs, it becomes clear that reliability (a quality dimension) and position in the market (an image dimension) are relatively important drivers of retail bank loyalty.

Introduction

During the past decade, the financial services sector has undergone drastic changes, resulting in a market place which is characterised by intense competition, little growth in primary demand and increased deregulation. 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 and McDougall, 1996). Several strategies have been attempted to retain customers. In order to increase customer loyalty, many banks have introduced innovative products and services (Meidan, 1996). 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 judgements like service quality and satisfaction (Worcester, 1997; Yavas and Shemwell, 1996). Surprisingly, however, while there has been a large number of studies that focused on service quality and satisfaction issues (Lewis, 1993), research on the relationship between satisfaction, service quality and loyalty in retail banking has remained limited. Yet, in the present environment of increased competition with rapid market entry of new service concepts and formats, the challenge of increasing loyalty also presents a challenge of a more in-depth understanding of the complex relationship between aforementioned types of customer evaluative judgements and loyalty.

In addition, there is some evidence that loyalty may also be determined by image (Mazursky and Jacoby, 1986; Murphy, 1996; Osman, 1993). Again, it has remained unclear whether there is a direct relationship between image and loyalty or whether this relationship is mediated by, for instance, satisfaction and perceived service quality. In this article we address this issue. We propose a model that describes the relationship between service quality, satisfaction with a bank and loyalty, taking into account the effect of the image that a bank has in the market.

Our article unfolds as follows. First of all, we offer a brief outline of the construct of loyalty. Next, we will differentiate conceptually between service quality and satisfaction as determinants of customer loyalty. Subsequently, we will introduce the construct of image and focus on the relationship between image, satisfaction, service quality and loyalty by formulating a set of formal hypotheses. After dealing with the conceptual issues, we will discuss the results of an empirical study that was undertaken to test our research hypotheses for the setting of retail banking. In conclusion, we will address the theoretical as well as the managerial implications of our findings on the relationship between image, service quality, satisfaction and loyalty.

Service loyalty

Research into customer loyalty has focused primarily on product-related or brand loyalty, whereas loyalty to service organisations has remained underexposed (Gremler and Brown, 1996). Frequently, a high positive correlation between the constructs of satisfaction and quality and product loyalty is reported. Likewise, with regards to service loyalty, perceived service quality as well as satisfaction have been identified as key antecedents in banking as well as in other service industries (Dick and Basu, 1994; Lewis, 1993). However, there are a number of reasons why findings in the field of product loyalty cannot be generalised to service loyalty and more research into specific service sectors is needed (Gremler and Brown, 1996; Keaveney, 1995). Service loyalty is more

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dependent on the development of interpersonal relationships as opposed to loyalty with tangible products (Berry, 1983), for person-to-person interactions form an essential element in the marketing of services (Crosby *et al.*, 1990; Czepiel 1990; Czepiel and Gilmore, 1987; Surprenant and Solomon, 1987). Furthermore, the influence of perceived risk is greater in the case of services, as customer loyalty may act as a barrier to customer switching behaviour (Guiltinan, 1989; Klemperer, 1987; Zeithaml, 1981). Indeed, it has been demonstrated that loyalty is more prevalent among service customers than among customers of tangible products (Snyder, 1986). In the services context, intangible attributes such as reliability and confidence may play a major role in building or maintaining loyalty (Dick and Basu, 1994).

As most research originated from the field of packaged consumer goods (Jacoby and Chestnut, 1978), a strong emphasis has been on behavioural measures. In a services context, loyalty is frequently defined as observed behaviour (Liljander and Strandvik, 1995). Meidan (1996, p. 31) argues that the degree of loyalty in banking can be gauged by "tracking customer's accounts over a defined time period and noting the degree of continuity in patronage". However, behavioural measures, such as repeat purchasing or visiting sequence, have been criticised for a lack of a conceptual basis and for having a narrow, i.e. outcome-focused, view of what is in fact a dynamic process (Day, 1969). For instance, a low degree of repeat purchasing of a particular service may very well be the result of situational factors such as non-availability, variety seeking and lack of provider preference. Therefore, the behavioural approach to loyalty may not yield a comprehensive insight into the underlying reasons for loyalty, instead it is a consumer's disposition in terms of preferences or intentions that plays an important role in determining loyalty (Bloemer and Kasper, 1995; Jain *et al.*, 1987). Furthermore, repeat purchasing behaviour may not even be based on a preferential disposition but on various bonds that act as switching barriers to consumers (Liljander and Strandvik, 1995). We define bank loyalty as: the biased (i.e. non random) behavioural response (i.e. revisit), expressed over time, by some decision-making unit with respect to one bank out of a set of banks, which is a function of psychological (decision-making and evaluative) processes resulting in brand commitment.

This definition is based on Jacoby and Chestnut (1978). The critical part of our definition of bank loyalty is bank commitment. In theories of interorganisational relationships the concept of commitment plays a central role (Morgan and Hunt, 1994; Shemwell *et al.*, 1994). Commitment in service provider-customer relationships has been defined as "an implicit or explicit pledge of relational continuity between exchange partners" (Dwyer *et al.*, 1987, p. 19). Likewise, Moorman *et al.* (1992) define commitment as an enduring desire to maintain a valued relationship. Parties identify commitment among exchange partners as key to achieving valuable outcomes for themselves, and they endeavour to develop and maintain this precious attribute in their relationship (Morgan and Hunt, 1994). We propose that bank commitment is a necessary condition for bank loyalty to occur. In case of absence of bank commitment, a patron to a bank is merely spuriously loyal, i.e. repeat visiting behaviour is directed by inertia (Dick and Basu, 1994).

We define bank commitment as: the pledging or binding of an individual to his/her bank choice (Kiesler, 1968; Lastovicka and Gardner, 1977). As a result of explicit and extensive decision-making, as well as evaluative processes, a consumer becomes committed to the bank and therefore, by definition, becomes bank loyal. When the decision-making and evaluative processes are not explicit and very limited, the consumer will not become committed to the bank and cannot be bank loyal. Consumers whose patronage is not based on bank loyalty may exhibit an attachment to bank attributes and can easily be lured away by competitors through, for instance, pricing strategies. In our view, the level of consumer commitment can differ considerably. Therefore, we assume there is a continuum of bank loyalty. At one end of the continuum, one finds true bank loyalty; the repeat visiting behaviour based on a maximum amount of commitment. At the other end of the continuum, one finds spurious bank loyalty; the repeat visiting of the bank not based on any commitment at all. In this way, bank commitment enables us to define a degree of bank loyalty.

As mentioned above, service quality and satisfaction have both been advanced as antecedents of service loyalty. Therefore, in the next section we will zoom in on these concepts and the relationship between them.

Service quality and satisfaction

In most models of client evaluations of retail banking services the focus has been on a comparative judgement of expectations versus perceived performance resulting in the two major evaluative judgements of perceived service quality and client satisfaction (Murphy, 1996; Smith, 1992). Both concepts have been frequently used and measured in the retail banking services area (Lewis, 1993; Lewis and Mitchell, 1990; Smith, 1992). However, it has been argued that problems of definition, delineation and conceptualisation concerning these evaluative judgements still exist (De Ruyter *et al*., 1997). Much of the confusion arises from the fact that both forms of evaluative judgements are based on comparable underlying constructs. Clients form expectations prior to their encounter with a bank (employee), they develop perceptions during the service delivery process and subsequently they compare their perceptions to their expectations in evaluating the outcome of the service encounter. While service quality and satisfaction are concepts that have a number of similar characteristics, they have points of differentiation as well, as becomes clear from major advances in the services marketing literature (Patterson and Johnson, 1993). In the first place, it is frequently argued that in order to form a satisfaction judgement, consumers must have experienced a service, whereas perceived service quality is generally viewed as being not necessarily experience-based. Second, it has been argued that the two concepts are determined by different antecedents. Evidence exists regarding a number of cognitive and affective processes (equity, attributions, cost/benefit analyses) that influence satisfaction. The number of antecedents to service quality is regarded as more limited (Oliver, 1993). Clearly the two types of evaluative judgement are not perceived as isomorphic and increasingly treated as separate constructs in research on services. There is a growing consensus on the sequential order of service quality and satisfaction. The latter is increasingly regarded as the superordinate construct based on conceptual work by Oliver (1993) and Rust and Oliver (1994), and empirical evidence provided by Cronin and Taylor (1992) and De Ruyter *et al*. (1997). Cronin and Taylor (1992) undertook an empirical test of the reciprocity between satisfaction and quality across several service industries. Using structural equation modelling, they found that service quality can be seen as a determinant of satisfaction which in turn influences purchase intentions. Lately, however, it has been suggested that, in addition to service quality and satisfaction, image is also an important determinant of customer patronage. We will discuss image in the next section.

The relationship between image, quality, satisfaction and loyalty

It has been suggested recently that retail banking has been suffering from an identity crisis and that image research studies should be undertaken with the objective of providing information that is as strategically important as financial performance data (Worcester, 1997). A favourable image is viewed as a critical aspect of a company's ability to maintain its market position, as image has been related to core aspects of organisational success such as customer patronage (Granbois, 1981; Korgaonkar *et al*., 1985).

Many conceptualisations of image have been advanced in the past (Doyle and Fenwick, 1974; James *et al*., 1976; Kunkel and Berry, 1968). Image has been treated as a "gestalt", reflecting a customer's overall impression. Keaveney and Hunt (1992) have argued that the image of a retail institution is formed along the lines of category-based processing theory, i.e. when a customer encounters a bank, he or she will form a mental picture as to whether the bank matches any other categories of banks experienced in the past. According to the category-based processing paradigm, it is proposed that incoming information, as well as customer evaluation of attributes, will be judged relative to the bank image.

The exact relationship between image and loyalty has remained a matter of debate. Sirgy and Samli (1989), for instance, report a direct positive relationship between image and loyalty. On the other hand, it has been demonstrated that the link between image and loyalty is mediated by customer evaluative judgements such as quality perceptions. Moreover, in the product literature there is ample evidence that image significantly affects perceptions of quality (Darden and Schwinghammer, 1985; Render and O'Connor, 1976; Stafford and Enis, 1969). Therefore, we propose that as customer evaluative judgements such as perceived service quality and satisfaction are established in a process of inference making of expectations, image will precede customer evaluations, rather than these evaluations being components of image (Hildebrandt, 1988; Mazursky and Jacoby, 1986). That is, image determines the nature of consumer expectations which, in turn, are a decisive influence on the formation of quality perceptions.

Based on our review of the literature we formulate the following hypotheses:

> *H1*: Image will have a direct positive effect on loyalty.

H2: Image will have an indirect positive effect on loyalty via satisfaction (i.e. a mediator effect).
H3: Image will have an indirect positive effect on loyalty via quality (i.e. a mediator effect).
H4: Quality will have an indirect positive effect on loyalty via satisfaction (i.e. a mediator effect).
H5: Satisfaction will have a direct positive effect on loyalty.

In the next section we will report the results of an empirical study designed to test these hypotheses.

An empirical study

Data collection

An empirical study was conducted among customers of a major bank in The Netherlands in 1996. Nationwide, 2,500 existing private customers were interviewed by phone with regard to their image of the bank, their quality perception of the bank, their satisfaction with the bank and their loyalty towards the bank. The sample was randomly drawn and found to be representative for the bank's private customers by checking the customer database. Moreover, the descriptive data gathered in the study were compared with demographic variables that were available from previous market research studies within this bank.

Questionnaire development

The design of the questionnaire was primarily based on multiple-item measurement scales taken from previous research. The items were adapted to the specific characteristics of our research setting. The image (IM) of the bank was measured with a scale containing 17 four-point Likert-scale items, ranging from 1 = completely disagree, to 4 = completely agree. The scale was developed on the basis of a qualitative research study conducted prior to the quantitative data collection phase. This scale was also pre-tested and found to be valid and reliable on the basis of our study. The Cronbach alpha for this scale was 0.83.

With regards to perceived service quality, items were based on the service quality literature (e.g. Parasuraman *et al.*, 1988) on the results of a qualitative study for the bank setting. The quality perception (QUA) of the bank was measured with a scale containing 19 four-point Likert-scale items. The Cronbach alpha for this scale was 0.73.

In order to measure satisfaction, customers were asked to state their satisfaction (SAT) with the bank ("how satisfied are you with the bank, in terms of a scale varying from 1 to 10").

A commitment scale, together with the chance of visiting the same bank again, was used to determine bank loyalty (Bloemer and Kasper, 1995). Customers had to rate the intention to visit the same bank next time they needed to visit a bank for personalised service, in contrast with a visit to the automatic teller machine – repeat visiting behaviour (RPB) – ranging from 0 per cent to 100 per cent). Bank commitment (COM) was measured with a scale containing four four-point Likert-scale items. The Cronbach alpha for this scale was 0.76. This operationalisation concerns the behavioural as well as the commitment aspect of loyalty. Therefore, it is in line with our definition of bank loyalty which stresses the two aspects. Non-Dutch items were translated into Dutch via a procedure of double-back translation by a qualified translator (Brislin, 1980).

Results

In Table I, we present an overview of the correlations between the variables: image, quality, satisfaction and loyalty[1].

Table I shows that all the correlation coefficients are significant ($p < 0.001$). Furthermore, there is a clear positive relationship between image and quality ($r = 0.59$), image and satisfaction ($r = 0.44$), image and loyalty ($r = 0.53$), quality and satisfaction ($r = 0.55$), quality and loyalty ($r = 0.66$) and satisfaction and loyalty ($r = 0.59$).

Next, we used multivariate regression analysis to gain additional insight into the data and to test our hypotheses.

We expect a positive direct relationship between the image of a bank and the loyalty towards that bank. For this purpose we specify a model to test the relationship between image and loyalty, and the effects of quality and satisfaction on loyalty:

$$\text{LOY} = b0 + b1 * \text{SAT} + b2 * \text{QUA} + b3 * \text{IM} + \varepsilon 1 \quad \text{(Model 1.1)}$$

where SAT = satisfaction; QUA = quality perceptions; IM = image; and LOY = loyalty of the customers towards the bank. The results of this analysis are shown in Table II.

Table II shows that both quality perception and satisfaction have a positive impact on loyalty (beta = 0.38 and beta = 0.42 respectively). Image has no significant influence on loyalty. The explained variance of loyalty by quality and satisfaction is 53 per cent.

We expect an indirect positive effect between the image of a bank and the loyalty towards that bank through satisfaction (i.e. a mediator effect). For this purpose we specify

Table I
Pearson correlations between the central variables

	IM	QUA	SAT	LOY
IM		0.59[a]	0.44[a]	0.53[a]
QUA			0.55[a]	0.66[a]
SAT				0.59[a]

Notes: IM = image; QUA = quality perceptions; SAT = overall satisfaction; LOY = loyalty; [a] = one-tailed significance < 0.001

Table II
Results of regressions analysis based on model 1.1[a]

	b	beta	*p*
Intercept	–1.48		0.00
SAT	0.44	0.42	0.00
QUA	1.30	0.38	0.00
IM[b]			
R^2	0.53		

Note: [a]LOY = $b_0 + b_1$ * SAT + b_2 * QUA + b_3 * IM + ε_1; [b] = not significant ($p > 0.05$); IM = image; QUA = quality perceptions; SAT = overall satisfaction; LOY = loyalty

a model to test the relationship between image and satisfaction, we also incorporated the effects of quality.

SAT = $b0 + b1$ * QUA + $b2$ * IM + ε1 (Model 1.2)

where SAT = satisfaction; QUA = quality perceptions; and IM = the image of the bank. The results of this analysis are shown in Table III.

Table III shows that only quality perception has a significant effect on the loyalty of the customers towards this bank (beta = 0.55). The explained variance of the loyalty of the customer by the quality perception is 30 per cent. Image seems to have no impact on loyalty here.

We expect an indirect positive effect between the image of a bank and the loyalty towards that bank through quality (i.e. a mediator effect). For this purpose we specify a model to test the relationship between image and quality.

QUA = $b0 + b1$ * IM + ε1 (Model 1.3)

where QUA = quality perceptions; and IM = the image of the bank. The results of this analysis are shown in Table IV.

Table IV shows that the image of the bank has a clear positive influence on the quality perception (beta = 0.59). The explained variance is 34 per cent.

Furthermore, we expected that quality has an indirect positive effect on loyalty via satisfaction and that satisfaction will have a direct positive effect on loyalty. Based on the analysis presented above, we conclude that indeed quality has an indirect effect via satisfaction (beta = 0.55) and that satisfaction has a direct effect on loyalty (beta = 0.42).

The results of the former analyses in terms of the significant beta coefficients are depicted in Figure 1. Figure 1 shows image does not have a direct positive effect on loyalty. Therefore, *H1* has to be rejected. We also found that no indirect effect of image through satisfaction could be detected. We therefore have to reject *H2* too. In addition, we found that quality has a direct and an indirect impact on loyalty. The indirect influence is via satisfaction. Altogether this implies that although image has no indirect influence on loyalty directly via satisfaction, it nevertheless has an impact on satisfaction via quality. Next, Figure 1 shows the mediator effect of the quality perception in the relationship between image and loyalty. Therefore *H3* can be accepted. Likewise, *H4* and *H5* can be accepted on the basis of our analysis.

As we developed a number of multi-dimensional scales to measure the constructs introduced above, we decided to perform a number of additional analyses in order to gain a deeper and more comprehensive insight into the relationships between our variables. These analyses were used to examine the dimensional distinctiveness of both the image and quality constructs. In fact, we used exploratory factor analysis to determine the

Table III
Results of regressions analysis based on model 1.2[a]

	b	beta	p
Intercept	0.92		0.00
QUA	1.85	0.55	0.00
IM[b]			
R^2	0.30		

Notes: [a]SAT = $b_0 + b_1$ * QUA + b_2 * IM + ε_1;
[b] = not significant (p > 0.05);
IM = image; QUA = quality perceptions; SAT = overall satisfaction

Table IV
Results of regressions analysis based on model 1.3[a]

	b	beta	*p*
Intercept	0.44		0.00
QUA	0.47	0.59	0.00
R^2	0.34		

Notes: [a]QUA = $b_0 + b_1$ * IM + ε_1;
IM = image; QUA = quality perceptions

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different dimensions of image and quality. In each of the factor analyses, the number of factors retained were those with eigenvalues greater than 1. The results of those factor analysis for the image items are shown in Table V.

The overall pattern of rotated factor loadings suggested a six-dimensional solution, accounting for 63.8 per cent of variance extracted. We labelled the factors as following: customer contacts, advice, relationship driven, position in the market, society-driven and prices.

The results of the factor analysis for the quality items are shown in Table VI.

The overall pattern of rotated factor loadings suggested a seven-dimensional solution, accounting for 58.7 per cent of variance extracted. The factors found could be called reliability, empathy, efficiency, interest rates, procedures, expertise and access to money.

Next, we used again multivariate regression analysis to gain additional insight into the data in terms of the importance of the different image and quality dimensions in relation to loyalty. According to the outcome of the factor analysis we specify a new model to test the relationship between loyalty, satisfaction, quality and image dimensions. On the basis of factor analyses we are now able to zoom in on the relationships between determinants of loyalty.

$$\text{LOY} = b0 + b1 * \text{SAT} + b2 * \text{QF1}\ldots\ b8 * \text{QF7} + b9 * \text{IF1}+\ldots+ b14 * \text{IF6} + \varepsilon 1 \quad \text{(Model 2.1)}$$

where SAT = satisfaction; QF1 = factor scores quality perceptions first factor etc.; QI1 = image factor scores first factor and LOY = loyalty of the customers towards the bank. The results of this analysis are shown in Table VII.

Table VII shows that satisfaction (beta = 0.38), reliability (beta = 0.36), efficiency (beta = 0.18) and position in the market (beta = 0.30) have a significant positive impact on loyalty. The total explained variance of the model rises significantly from 53 per cent to 58 per cent, as compared to the original model that did not include the different factors for quality and image.

According to the outcome of the factor analysis we also specify a model to test the relationship between image and satisfaction. Here we incorporated the effects of quality:

$$\text{SAT} = b0 + b1 * \text{QF1}\ldots\ b7 * \text{QF7}+ b8 * \text{IF1} +\ldots+ b13 * \text{IF6} + \varepsilon 1 \quad \text{(Model 2.2)}$$

where SAT = satisfaction; QF1 = factor scores quality perceptions first factor etc.; and QI1 = image factor scores first factor of the bank. The results of this analysis are shown in Table VIII.

Table VIII shows that only reliability and empathy have a significant positive impact on satisfaction (beta = 0. 39 and beta = 0.32 respectively, explained variance is 25 per cent).

We also expected an indirect positive effect between the image factor scores of a bank and the loyalty towards that bank through quality (i.e. a mediator effect). For this purpose we specify a model to test the relationship between image and quality.

Figure 1
Model based on ordinary multivariate least squares analyses

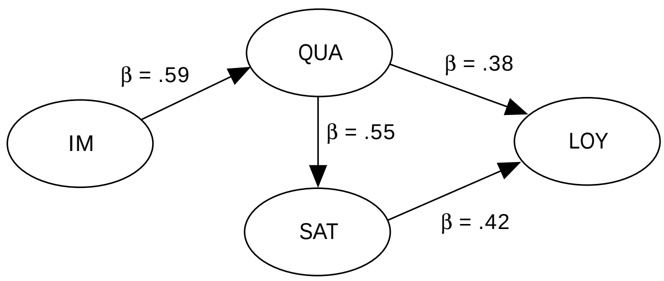

Table V
Result factor analysis[a] on image items

Item	Description	Factor loadings[b]
Customer contacts (IFI)		
8	Little or no mistakes	0.76436
5	Customer treated respectfully	0.75255
7	Time arrangement	0.64440
10	Time and attention to customer	0.58235
Advice (IF2)		
13	Advice on investment funds	0.82671
4	Advice on insurances	0.68525
6	Expertise in advising	0.66151
Relationship driven (IF3)		
15	Taking other than business aspects into account	0.77410
16	Efforts for local community	0.67089
17	Own interest not on the first plan	0.62373
Position in the market (IF4)		
1	New products or services	0.74323
9	Attractive advertisements	0.61260
11	Strongest financial institutions of the world	0.51652
2	Modern	0.49383
Society-driven (IF5)		
12	Financial institution for everyone	0.81116
14	Strong commitment to society	0.60782
Prices (IF6)		
3	Reasonable prices	0.74857
Total explained variance		63.8%

Notes: [a] = Using principal axis factoring and varimax rotation; [b] = Factor loadings > 0.4

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$QF1 = b0 + b1 * IF1 + ... + b6 * IF6 + \varepsilon 1$ (Model 2.3)
$QF2 = b0 + b1 * IF1 + ... + b6 * IF6 + \varepsilon 1$ (Model 2.4)
$QF3 = b0 + b1 * IF1 + ... + b6 * IF6 + \varepsilon 1$ (Model 2.5)

where QF1 = factor scores quality perceptions first factor etc.; and IF1 = factor scores image of the bank first factor etc. The results of this analysis are shown in Table IX.

Table IX shows that customer contacts have a significant positive influence on reliability (beta = 0.32; explained significant variance 11 per cent); that customer contacts and society-driven have a significant positive influence on empathy (beta = 0.20 and beta = 0.18 respectively, explained significant variance seven per cent) and that position in the market has a significant positive impact on efficiency (beta = 0.16, explained significant variance three per cent).

The results of the former analyses in terms of the significant beta coefficients are depicted in Figure 2.

Figure 2 shows that, from most to least important, the major determinants of loyalty are: reliability (beta = 0.51), satisfaction (beta = 0.38), position in the market (beta = 0.30), efficiency (beta = 0.18), customer contacts (beta = 0.16), empathy (beta = 0.12) and society-driven (beta = 0.02) (taking into account both direct and indirect effects).

Table VI
Result factor analysis[a] on quality items

Item	Description	Factor loadings[b]
Reliability (QFI)		
10	Accuracy of employees	0.69945
7	Expertise of employees	0.59682
6	Handling complaints	0.57773
16	Personalised consulting	0.57432
14	Privacy at the office	0.40249
18	Proactive suggestions	
Empathy (QF2)		
17	Attention of employees	0.74234
9	Kindness of employees	0.73697
13	Efforts for the customer	0.58296
11	Recognition by employees	0.40747
Efficiency (QF3)		
15	Queuing time at the office	0.79880
8	Speed of handling at the office	0.75316
Interest rates (QF4)		
4	Level of savings rates	0.75083
5	Level of mortgage rates	0.74595
Procedures (QF5)		
1	Sending invoices	0.76423
3	Cost of using an account	0.66828
Expertise (QF6)		
19	Expertise on investment funds	0.86090
Access to money (QF7)		
2	Hours of opening	0.73091
12	Trouble-free cash dispenser	–0.55281
Total explained variance		58.7%

Notes: [a] = Using principal axis factoring and varimax rotation; [b] = Factor loadings > 0.4

Table VII
Results of regressions analysis with factor scores according to model 2.1[a]

	b	beta	*p*
Intercept	0.54		0.05
SAT	0.38	0.38	0.00
QF1	0.36	0.36	0.00
QF2	not significant ($p > 0.05$)		
QF3	0.14	0.18	0.01
QF4	not significant ($p > 0.05$)		
QF5	not significant ($p > 0.05$)		
QF6	not significant ($p > 0.05$)		
QF7	not significant ($p > 0.05$)		
IF1	not significant ($p > 0.05$)		
IF2	not significant ($p > 0.05$)		
IF3	not significant ($p > 0.05$)		
IF4	0.27	0.30	0.00
IF5	not significant ($p > 0.05$)		
IF6	not significant ($p > 0.05$)		
R^2	0.58		

Notes: [a]$LOY = b_0 + b_1 * SAT + b_2 * QF1 + ...+ b_8 * QF7 + b_9 * IF1 + ... + b_{14} * IF6 + \varepsilon_1$;
IF1 ... IF6 = factor scores image; QF1 ... QF6 = factor scores of quality perceptions; SAT = overall satisfaction; LOY = loyalty

Table VIII
Results of regressions analysis with factor scores according to model 2.2[a]

	b	beta	*p*
Intercept	3.51		0.00
QF1	0.39	0.39	0.00
QF2	0.32	0.32	0.00
QF3	not significant ($p > 0.05$)		
QF4	not significant ($p > 0.05$)		
QF5	not significant ($p > 0.05$)		
QF6	not significant ($p > 0.05$)		
QF7	not significant ($p > 0.05$)		
IF1	not significant ($p > 0.05$)		
IF2	not significant ($p > 0.05$)		
IF3	not significant ($p > 0.05$)		
IF4	not significant ($p > 0.05$)		
IF5	not significant ($p > 0.05$)		
IF6	not significant ($p > 0.05$)		
R^2	0.25		

Notes: [a]$SAT = b_0 + b_1 * QF1 + ... + b_7 * QF7 + b_8 * IF1 + ... + b_{13} * IF6 + \varepsilon_1$;
IF1 ... IF6 = factor scores image; QF1 ... QF6 = factor scores of quality perceptions; SAT = overall satisfaction

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Table IX
Results of regressions analysis with factor scores according to models 2.3[a], 2.4[b] and 2.5[c]

	b	beta	*p*
Model 2.3[a]			
Intercept	not significant ($p > 0.05$)		
IF1	0.32	0.32	0.00
IF2	not significant ($p > 0.05$)		
IF3	not significant ($p > 0.05$)		
IF4	not significant ($p > 0.05$)		
IF5	not significant ($p > 0.05$)		
IF6	not significant ($p > 0.05$)		
R^2	0.11		
Model 2.4[b]			
Intercept	not significant ($p > 0.05$)		
IF1	0.18	0.20	0.01
IF2	not significant ($p > 0.05$)		
IF3	not significant ($p > 0.05$)		
IF4	not significant ($p > 0.05$)		
IF5	0.15	0.18	0.02
IF6	not significant ($p > 0.05$)		
R^2	0.07		
Model 2.5[c]			
Intercept	not significant ($p > 0.05$)		
IF1	not significant ($p > 0.05$)		
IF2	not significant ($p > 0.05$)		
IF3	not significant ($p > 0.05$)		
IF4	0.18	0.16	0.03
IF5	not significant ($p > 0.05$)		
IF6	not significant ($p > 0.05$)		
R^2	0.03		

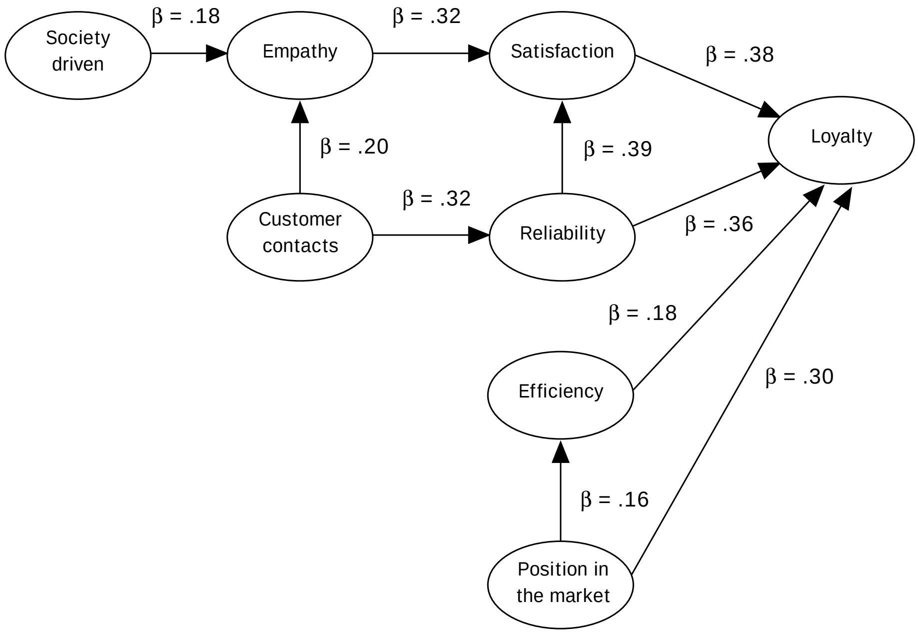
Notes:
[a]QF1 = $b_0 + b_1$ * IF1 + ... + b_6 * IF6 + ε_1;
[b]QF2 = $b_0 + b_1$ * IF1 + ... + b_6 * IF6 + ε_1;
[c]QF3 = $b_0 + b_1$ * IF1 + ... + b_6 * IF6 + ε;
IF1 ... IF6 = factor scores image;
QF1 ... QF6 = factor scores of quality perceptions

Theoretical implications

An important implication of our results is that analysis on the level of the various underlying dimensions of elusive and difficult to operationalise constructs like image and quality provides additional insight into the relationship among them. Our analysis shows that, although we did not find a direct relationship between the overall image construct and loyalty, one distinct dimension (position in the market) has a direct positive effect on customer loyalty. Likewise, in addition to the direct positive effect of the overall quality construct, we are now able to nuance that finding as it becomes clear that specifically reliability and efficiency could be viewed as important determinants of loyalty. Therefore, our initial rejection of *H1* could be revoked on the basis of the multi-dimensional approach that was taken subsequently. Thus, we are able to obtain a more detailed insight into the relationship between image and quality on the one hand and loyalty on the other. In essence, our conclusion is that all three constructs (i.e. image, quality and satisfaction) exert an influence on customer loyalty with banks. Furthermore, we encountered a relatively strong relationship between reliability and satisfaction. This points to the relative importance of the reliability factor in retail banking. Finally, we found that factors like society-driven, empathy and customer contacts have an indirect effect on loyalty via satisfaction and quality. It should also be noted that customer contacts have a direct impact on empathy.

A number of theoretical shortcomings follow from our research, suggesting a number of issues that merit further research. First of all, it seems important to validate the distinction between image and quality in other financial services settings (e.g. insurance, corporate banking) and to verify whether the multi-dimensional approach taken here is valid for these settings. Second, this study was limited to loyalty as an expression of consumer preference. Future research should focus on other attitudinal and behavioural outcomes, such as word-of-mouth communication, the compositions of the evoked set and information search behaviour, and investigate whether dimensions of satisfaction also has an effect on these consequences. Additional research is needed to investigate whether a distinction can be made between cognitive and affective dimensions of satisfaction. Third, the literature on customer-firm relationships has suggested various types of commitment, such as affective, calculative and moral commitment (Allen and Meyer, 1990; Kumar *et al*., 1994). The obvious implication would be to investigate whether the type of commitment to a bank can further nuance the satisfaction-image-quality-loyalty relationship. Fourth, as our study replicates and extends findings from the consumer product literature to bank image, bank quality and bank satisfaction and loyalty, additional research is required to test our model in business-to-business relationships. Obviously, the external validity of our findings needs additional attention in terms of the replication of our study in a similar research setting. Fifth, although we found significant relationships, it should be taken into account that the levels of variance explained are relatively modest. Further research is needed to gain additional insight into the explanation of bank loyalty. Finally, all constructs were measured at one point in time, thus essentially from a static perspective. It may be worthwhile to study bank loyalty over time, in order to be able to

Figure 2
Model based on factor analyses in combination with ordinary multivariate least squares analyses



take into account the dynamics in consumer patronage behaviour. Should such an approach be taken, then measures of actual behaviour and bank objective performance (e.g. switching behaviour, vulnerability to price competition, turnover, relative market share), in addition to perceptual gauges, could be taken into account.

Managerial implications

In terms of the practical relevance of our research, a number of managerial implications may be derived. First of all, reliability seems to be the most important factor influencing customer loyalty with banks. Looking at the individual indicators of this quality dimension, it follows that banks should invest in monitoring employees in order to make a trustworthy impression on the customers, both in the case of the general service encounter, as well as in the handling of customer complaints. In the dialogue with bank customers, management and employees should strive to find out what customers expect in terms of accuracy, expertise, complaint handling and proactive suggestions. This implies an extensive and continuous training program.

Following from the importance of the reliability dimension, customers apparently look for "external cues" in order to be able to evaluate the bank in terms of the relative position it has within the market place. After all, retail banking is very much a service depending on credence properties. Therefore, the use of corporate advertising creating the perception of a strong financial institution, with innovative products and services and modern facilities, seems important for the establishment of customer loyalty in retail banking.

A third managerial implication is that satisfaction is not the sole determinant of customer loyalty in retail banking. Many banks have a customer satisfaction measurement program, providing customer feedback. Our study shows that although there is a direct positive relationship between satisfaction and loyalty, other determinants play an important role too. Just focusing on satisfaction may result in overlooking other important drivers of customer loyalty.

Fourth, efficiency, i.e. queuing time and speed of handling, has a direct influence on loyalty. Customers are not willing to spend their valuable time waiting for services. Banks that take this into account promote loyalty among their customers. Although customer contacts, empathy and society-driven seem to be of lower order importance, they still have an indirect effect on customer loyalty and should be handled with "customer" care. Finally, caution should be taken with regards to the impact of image, which seems to be a construct that has a relatively low direct impact on bank loyalty, especially when one considers the influence of the individual dimensions of image.

Note

1. Additional information on the data set may be obtained from the authors.

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