

**THE EFFECTS OF PERCEIVED
VALUE AND TRUST ON CUSTOMER
LOYALTY AND MEDIATING EFFECTS OF
CUSTOMER SATISFACTION: A STUDY OF
FOREIGN BANKS IN KOTA KINABALU SABAH**

PERPUSTAKAAN
UNIVERSITI MALAYSIA SABAH

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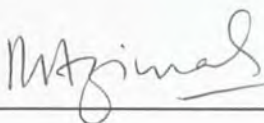
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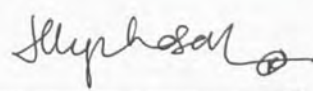
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ABSTRACT

THE EFFECTS OF PERCEIVED VALUE AND TRUST ON CUSTOMER LOYALTY AND MEDIATING EFFECTS OF CUSTOMER SATISFACTION: A STUDY OF FOREIGN BANKS IN KOTA KINABALU SABAH

Financial sector has become more internationalised because of global economic integration, new technology development and liberalisation of financial sector. In Malaysia context, entry of new competitors has increase the competitiveness in the banking industry. Even though government has limit and control on the entry of foreign bank and restriction on opening of more branches but the entry of new foreign banks still increase in this decade. Therefore, it is important for bank to understand the consumer behaviour and enhance the marketing strategy in order to retain and maintain long-term relationship with customers and to obtain the clientele loyal to the bank as customer loyalty is considered as the foundation of competitive advantage and has strong influences on company's performance and organization profitability. The main objective of this thesis is to examine the effects of perceived value and trust on customer loyalty and mediating effects of customer satisfaction towards the foreign banks in Kota Kinabalu Sabah. A total of 239 of foreign bank customers were surveyed. Perceived value, trust and customer satisfaction were found significant influenced the customer loyalty. At the same time, customer satisfaction was found has full mediation effect on the relationship between perceived value and customer loyalty where partial mediation effect on relationship between trust and customer loyalty. This study provides both theoretical and managerial implications. It has contributed to the literature review on the variables employed and provides empirical evidence supporting the relationship between all variables. Furthermore, it also proves an important justification for implementation of customer relationship management and customer loyalty program. In future studies, it would be interesting to include more variables included both attitudinal and behavioural dimensions to represent the entire relationship on customer loyalty in banking industry.

ABSTRAK

Sektor kewangan telah menuju ke arah antarabangsa disebabkan integrasi ekonomi global, pembangunan teknologi baru dan liberalisasi dalam sektor ini. Dalam konteks Malaysia, kemasukan bank asing telah meningkatkan daya saingan dalam industri perbankan. Walaupun usaha kerajaan dalam melindungi bank tempatan dan menyekat pembukaan cawangan baru untuk bank asing tetapi kemasukan bank asing masih menunjukkan penambahan sejak kebelakangan ini. Oleh itu, adalah penting bagi bank untuk memahami sifat pelanggan dan meningkatkan strategi pemasaran untuk mengekalkan hubungan jangka panjang dengan pelanggan serta mendapatkan kesetiaan pelanggan terhadap bank. Dalam industri perbankan, Kesetiaan pelanggan adalah penting dalam persaingan dan memberikan pengaruh yang kuat ke atas prestasi syarikat dan keuntungan organisasi. Objektif utama projek ini adalah untuk mengkaji tahap kepuasan, tanggapan terhadap nilai dan tahap kepercayaan pelanggan terhadap bank-bank asing di Kota Kinabalu Sabah. Seramai 239 pelanggan bank asing telah dikaji. Hasil kajian yang ditemui menunjukkan bahawa nilai tanggapan, tahap kepercayaan dan tahap kepuasan pelanggan memberi kesan yang ketara dalam mempengaruhi kesetiaan pelanggan. Kepuasan pelanggan didapati memberi kesan penuh terhadap hubungan pengantaraan antara nilai tanggapan dan tahap kesetiaan pelanggan dimana kesan separa pengantaraan antara kepercayaan dan kesetiaan pelanggan. Kajian ini telah memberikan kedua-dua implikasi teori dan pengurusan. Selain itu, ia juga menyumbangkan kepada kajian literatur terhadap pembolehubah yang digunakan dan memberikan bukti empirikal yang dapat menyokongkan hubungan antara semua pembolehubah. Tambahan pula, ia juga membuktikan justifikasi penting bagi pelaksanaan pengurusan perhubungan dan program kesetiaan pelanggan. Dalam kajian di masa depan, digalakkan merangkumi lebih banyak pembolehubah termasuk kedua-dua dimensi sikap dan tingkah laku untuk melihat hubungan keseluruhan terhadap kesetiaan pelanggan dalam industri perbankan.

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

The trend towards globalization has lead to many changes in the world economy and business environment. Financial sector is one of the sectors that being affected by this trend which growing rapidly into globalization especially during recent two decades (Rehman and Ahmed, 2008). Financial sector has been undergoes drastic changes causes by global economic integration, new technology development and the increase of the financial sector liberalisation (Angur, Nataraajan and Jahera, 1999). Internationalisation of financial sector has enabled the larger cross border trade and investment transactions, accelerating mobilisation of funds more efficiently, providing employment opportunities and creating of new businesses to both host and home countries. According to Herrero and Simon (2006), internationalisation of financial sector has growth significantly during the 1990s. Most of the established bank has expanded the business into the international market place and cross border operations. The key reasons that bank expanding the operation into the international market are to achieve the competitive advantage, efficiencies and geographical risk diversification. At the same time, it has also increased the competition in the financial market as more players in the industry (Blankson, Cheng and Spear, 2007). In order to survive in this competitive market, bank has to differentiate themselves and their offerings from their competitors as a mean of attracting the value customers (Blankson *et al.*, 2007). Competitive market environment has encouraged banking sector development and growth through increasing of efficiency, market discipline, across to credit, as well as introducing more sophisticated products and services.



Katircioglu, Tumer and Kilinc (2011) have also highlighted the importance of services industry in world economy. According to Thwaites and Vere (1995), financial institutions are continually experiencing pressure to increase their profitability as a result of low growth and more strong competition in the market. This aggressive competition has weakened the relationships between the customers with the financial institutions. Hence, offensive strategies for acquiring new customers and defensive strategies in strengthen customer loyalty have become important (Miles, 1994). Furthermore, changes in technologies and information systems have encourage the industry to offer the better quality services to their customers in order to achieve competitive advantage. Internationalization of banking and financial services has become more popular nowadays which today's international financial institutions try to differentiate itself from the competitors by providing quality of services and increase the product range to achieve the customer expectation and customer satisfaction. Mokhlis, Mat and Salleh (2008) have argued that banking behaviours of customers in bank selection is an important study to understand the expectation of the customers. A varied of marketing theories related to this study has been conducted including the market segmentation, attitudes, intention, preferences, bank loyalty, bank selection decision, bank image, bank service quality, customer satisfaction and multiple bank user.

According to Thomas, Judith, Cesar and Chia (2009), develop and maintain of customer loyalty is crucial especially in service industry because loyalty has a strong correlation in increased of sales and profit through the repeat patronage or repurchase the goods or products, positive word-of-mouth to the public and less price sensitivity. Customer loyalty has become the important factor in defining market share and profitability (Jones and Sasser, 1995; Meidan, 1996). Pont and Mcquilken (2005) have stated that financial institutions must be conscious and mindful with all those factors that lead to the customer satisfaction in order to achieve customer loyalty. Molina, Martin-Consuegra and Agueda (2007) had indicated that loyalty might differ in each customer segments group. Hence, identification and selection of customer segments that are loyal to the banks has

become a critical study in banking industry (Speed and Smith, 1992; Harrison, 1994).

In the Malaysian context, domestic banks are well protected from foreign competition by local government regulations (Alejandro, Powell, Brady and Wohi, 2010). In 2001, Central Bank of Malaysia (BNM) has introduced and implemented the Financial Sector Master Plan with the objective to strengthen the domestic financial institutions by preparing domestic players for increased competition from foreign banks challenged as well as to increase the financial sector's contribution to the country economic growth on the other hand (BNM, 2001). Under the BNM Guidelines, all foreign banks that entering into Malaysia must operate as locally controlled subsidiaries. Government has set and limit the equity stake at 49% for foreign investment bank and 30% for the foreign commercial banks. Foreign banks are only allowed to open new branches if they also add other branches as directed by Central Bank of Malaysia (Alejandro *et al.*, 2010). BNM allowed those existing foreign banks that entered Malaysia financial market before year 2001 to open one branch in an urban commercial market, two in semi-urban centres, and one in a rural area in 2006 (United States Trade Representative, 2008). Besides that, foreign banks are not allowed to connect their ATM network with the domestic players.

Malaysia's foreign banking sector has developed quickly despite the restrictions on market entry and operations from the local government in protecting the domestic players (United States Trade Representative, 2008). More foreign banks have entered into Malaysia market to compete with the local financial services provider as compare to past decade. With growing of the competitiveness in the banking industry (Grady and Spencer, 1990) and similarity of services offered by banks (Holstius and Kaynak, 1995), it is important that banks to enhance their marketing strategies for acquiring new customer strengthen the customer loyalty and provide cross selling opportunities. Customer loyalty is considered as the foundation of competitive advantage and has strong influence on company's performance (Rust, Zeithaml and Lemon, 2000). The fundamental objectives for a

business is to construct, sustain and develop customer loyalty toward the brands, products or services offered by the firms (Dick and Basu, 1994). Previous studies stated that the companies that focusing on development of customer loyalty would brings the better profitability to the organization and able to maintain a long-term relationship with the customers. Besides that, loyalty also increases the customer retention rate and reduces the marketing cost as well as achieving the competitive advantages (Reichheld and Sasser, 1990; Aaker, 1991). Therefore, it is very important for banks to understand the major factors that lead to loyalty and customer loyalty development process especially in this competitive environment.

Many researchers and academicians have highlighted the important of customer in service industry. Zairi (2000) stated that customers are the purpose of what the business do and rather than them depending on the business, the business is very much depending on them. According to Hansemark and Albinsson (2004), satisfaction is an overall customer attitude towards a service provider, or an emotional reaction to the different between an expectation and what they receive regarding the fulfilments of need, goal or desire. Customer loyalty is the actual result of benefits for the customers that created by the service provider so that customers will maintain or increase their purchases from the organization (Anderson and Jacobsen, 2000). Oliver (1997) stated that customer loyalty refers to a deeply held commitment to repurchase or repatronage a preferred product or service consistently in the future notwithstanding situational influences and marketing efforts having the potential to cause switching behaviour. True customer loyalty is created when the customer becomes a supporter or advocate for the organization that without incentive. According to Hoyer and MacInnis (2001), customer retention is the practice of operating and controlling to satisfy the customer expectations and needs with the objective of developing a long-term relationship with them. On the other hand, Zineldin (2000) defined retention as a commitment of an organization in continuing doing business or exchange with a particular company on an ongoing basis.

Most of previous studies have stated and agreed that building a strong customer loyalty will leads to positive outcomes to the organization such as increase in sales revenue, more predictable profit flows (Ostrowski, Terrence and Geoffrey, 1993), increase competitive advantage (Bharadwaj, Varadarajan and Fahy, 1993), reduction in costs, and determinants to an organization's survival and growth (Reichheld, 1996). This is consistent with customer relationship management theory (CRM) which argues that a firm's principal strategy should be the attraction and retention of profitable customers, because loyal customers will buy more and maintained the long term business relationship with those they trust and like (Peppers and Rogers, 2004). According to Oliver (1999), the conceptualization and measurement of loyalty has significant difference in a number of studies. Loyalty in relation to tangible goods and brands has been wisely studied but only limited theoretical or empirical studies have been conducted on service loyalty (Bloemer, De Ruyter and Wetzels, 1999). A review of the literature indicates that loyalty is still a complicated and conflicting area of research till date because the term loyalty does not have a common accepted definition or measurement among researchers with respect of goods or services.

Previous research in this field has typically studied on customer satisfaction, affective attitudes and service quality as predictors' of customer loyalty (Bloemer and De Ruyter, 1998; Zins, 2001; Caruana, 2002) but there is also researcher that disagree the relationship between customer satisfaction and customer loyalty as some satisfied customers switch banks when their personal conditions changed (Jones and Sasser's, 1995). Tullberg (2008) stated that trust holds an important role in a relationship whether it is an interpersonal or a business relationship despite the debate by some researchers on the positive and negative impacts of trust. Harjit, Sanjit, Gurvinder and Adrian (2013) supported that trust as an important component of both relationship development and maintenance, especially in the context of consumer relationships on the service sector such as financial industry. Researcher further suggested study on the relationship of trust and loyalty in different countries and investigate the trust dimensions on word-of-mouth behaviour, service loyalty and cross buying to support the findings.

According to Jacoby and Chestnut (1978), service providers should attempt to maintain long-term relationship with their customers in order to obtain the advantages of a customer loyalty. Berry (1983) has stated that perceived value is an important component in relationship marketing which consists of creating, maintaining and growing of long term relationship in order to benefit from customers' loyalty. Johnston (1997) stated that although bank has trying hard to generating perceived value for the customer but still experienced high level of dissatisfaction because bank has not fully understand what the customers want. Hence, values that customer generates towards a bank is more important and effective compare to the values generate by bank to the customer (Payne, Holt and Frow, 2000) as higher perceived value is the source of competitive advantage in today's competitive market (Woodruff, 1997). Thomas *et al.* (2009) stated that Generation-Y or youth market is one of the segment markets that today's financial industry focusing on because this segment market have significant flexible purchasing power. Furthermore, Generation-Y is also the largest group in many developed countries and is also a highly profitable segment (Solomon, 2007). Furthermore, researchers also suggested examining this segment markets as it is not homogenous as the result may differ in markets with different structures of the banking industry and financial markets (Lewis and Bingham 1991; Bartlett, 2004).

The above discussion has led to the current study to explore the variables such as perceived value and trust; and mediation effect of customer satisfaction on relationship between both variables and loyalty which supported by previous empirical studies that holds a significant influences toward the customer loyalty. The aim of this study is to explore the foreign banks customer in Kota Kinabalu City. In addition, to examine the moderating effects of demographic variables such as generations' group in customer satisfaction.

1.2 Research Problem

The banking sector in Malaysia has become increasingly competitive as the trend moved towards the globalization. Similar to banks in developed countries, commercial and retail banking in Malaysia has started focusing and providing more facilities and services to meet their customer requirements and needs. Changes in the government policy have encouraged the entry of foreign banks into Malaysia financial market resulting increased competition among the local and foreign banks. Today's customers are becoming more sophisticated and demanding in terms of the quality of services provided by the banks. Hence, it is very important for banks to understand the development process of customer loyalty because those it would directly helps in generating the organization profitability, long-term business relationship as well as increase the competitive advantage (Reichheld and Sasser, 1990; Aaker, 1991).

A number of studies have been undertaken to analyze factors that affecting customer preferences in the banking services. Among these studies include Mokhlis, Mat and Salleh (2008) who examined the factors that undergraduates consider important in bank selection criteria in Malaysia. Rehman (2012) has stated that the study of customer's perception toward banking services is very important for bank to determine the business strategy and to improve the quality of services to fulfil customer's need. Kaynak and Kucukemiroglu (1992) also agreed that this study is important, as it will help the financial institution to adopt proper marketing strategies in attracting new customer and retaining the existing. Another study conducted by Hedayatnia and Eshghi (2011) have stated that banks need to identify the selection criteria which bank customers consider important when selecting a bank in order to plan the marketing strategies and survive in this competitive atmosphere.

Retaining customers is a financial imperative for electronic vendor (e-vendor), especially as attracting new customers is considerably more expensive than for comparable, traditional, bricks-and-mortar stores (Reichheld and Schefter,

2000). The same goes to banking industry as understanding on how or why in customer loyalty development is still one of the critical management issues. Aaker (1991) has discussed the role of loyalty in the brand equity process and has specifically noted that brand loyalty leads to certain marketing advantages such as reduce in marketing costs, obtaining more new customers, and greater trade leverage. Building and developing of customer loyalty in consumers market is seen as the key factor in winning the market share (Jarvis and Mayo, 1986) and developing sustainable competitive advantage (Kotler and Singh, 1981) in this increasingly competitive markets.

With growing of the competitiveness in the banking industry (Grady and Spencer, 1990) and similarity of services offered by banks (Holstius and Kaynak, 1995), it is important that banks to enhance their marketing strategies in order to sustain in the business especially those foreign banks in Malaysia due to government control and limitation in opening more branches. Hence, customer loyalty is one of the marketing strategies that the foreign bank should focus on in order to achieve the profitability and competitive advantages. Customer loyalty is considered as the foundation of competitive advantage and has strong influence on bank performance (Rust *et al.*, 2000). Customer loyalty is evident itself in variety of the behaviour, the more common being repeated patronizing the service provider and recommending the service provider to other customer (Lam, Shanker, Erramilli and Murthy, 2004). Candler (2005) has highlighted that customer loyalty has becoming increasingly important in banking industry because most of the western banking markets is suffering from limited growth, high fees and the extensive costs of winning new customers and retaining of profitable customers. Generation-Y is also the largest group in many developed countries and is also a highly profitable segment (Solomon, 2007) because Generation-Y is one of the segment market that having significantly flexible purchasing power but the result may differ between the countries as different structures of the banking industry and financial markets (Lewis and Bingham 1991; Bartlett, 2004).

Although factors that influencing the customer loyalty has been widely studied by varies of researcher in the different city but their finding are varies from each other's and may not be applicable to other countries like Malaysia due to the cultural, economical and legal environments differences. According to Oliver (1999), the conceptualization and measurement of loyalty has differed significantly in a number of studies that supported the important of research in loyalty. Loyalty in relation to tangible goods and brands has been wisely studied but only limited theoretical or empirical studies have been conducted on service loyalty (Bloemer *et al.*, 1999). Even the term loyalty does not have a universally accepted definition or measurement among researchers with respect to goods or services. A review of the literature indicates that loyalty is still a complicated and conflicting area of research to this day. Therefore, this study is important to explore the factors (perceived value and trust) and mediating effects of customer satisfaction that influence the customer loyalty in foreign banks in Kota Kinabalu City. At the same time to fill the gap in literature by examine the factors that influence the customer loyalty in the Kota Kinabalu context.

1.3 Research Questions

This research main question is to explore the factors that influencing the customer loyalty in the context of foreign bank customers in Kota Kinabalu City. The research questions in this study addresses in line with research objectives are as:

- a) Does perceived value and trust have a positive relationship with customer loyalty toward foreign banks in Kota Kinabalu?
- b) Does perceived value and trust have a positive relationship with customer satisfaction towards foreign banks in Kota Kinabalu?
- c) Does customer satisfaction have a positive relationship with customer loyalty towards foreign banks in Kota Kinabalu?

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