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Factors Influencing Customer Loyalty in the Banking Industry: A Case Study of Selected Private Commercial Banks in Hawassa City

Debebe Dangiso¹

¹ Furra College

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Abstract

In the current competitive environment, customer loyalty is crucial for businesses to survive and thrive. This study aims to identify the factors that influence customer loyalty in selected private commercial banks in Hawassa city. Through a descriptive and explanatory research design, data was collected from 323 respondents and analyzed using SPSS software 26. The findings revealed that customer satisfaction, trust, and service delivery quality significantly impact customer loyalty. However, factors like switching cost, image, and commitment did not show a significant influence. The study highlights the importance of focusing on customer satisfaction, trust, and service quality to build and maintain brand loyalty in the banking industry.

Debebe Dangiso Dakucho

Furra College Hawassa Gudumale Campus, Department of Business Management

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1. Introduction

In today's dynamic and competitive banking industry, customer loyalty plays a crucial role in ensuring long-term success and profitability (Bejou et al., 1998). This study aims to investigate the factors that influence customer loyalty in selected private commercial banks in Hawassa city (Mulu & Pauwels, 2018). Building customer loyalty is essential for banks to stay ahead of the competition and retain customers in the long run (Keaveney, 1995).

Brand trust is the willingness of a consumer to rely on the ability of a brand to perform its stated function while seeing the engagement with the brand as supportive and enforcing of personal values (Hart et al., 1990). Brand trust is found to be a mediating variable that is related to brand predictability, competency, reputation, satisfaction, experience, trust in the company, and brand liking with brand loyalty (Caceres & Paparoidamis, 2007). Trust is a critical variable in relationships, with customers expecting reliability, integrity, and honesty from the brand (Ganesan, 1994). Research shows that brand trust leads to brand loyalty as trust creates valuable exchange relationships (Morgan & Hunt, 1994).

Customer satisfaction is the result of purchase expectations and post-purchase experiences compared with incurred costs (Oliver, 1980). Many studies have focused on the satisfaction-loyalty relationship, with findings suggesting that customer satisfaction leads to increased customer loyalty (Fornell et al., 1996). Service quality is another determinant of customer loyalty, with tangible and intangible aspects of service quality impacting customer trust and loyalty (Parasuraman et al., 1988). Switching costs, the cost incurred by a customer when switching to another brand, have been found to influence customer loyalty (Jones et al., 2002). Reputation also plays a crucial role in customer brand loyalty, with a positive corporate reputation leading to increased customer trust and loyalty (Dowling, 2001).

The existing research provides valuable insights into the factors influencing customer loyalty in the banking sector, but there is a need for a more comprehensive and integrated approach to studying these factors. Future research should aim to address the gaps in the literature by considering multiple variables simultaneously and exploring the complex relationships between them. By taking a more holistic approach, researchers can gain a deeper understanding of the key drivers of customer brand loyalty in the banking sector and develop effective strategies for enhancing customer loyalty.

This study contributes to the existing literature on brand loyalty in the banking industry by identifying and measuring the key determinants of brand loyalty in private commercial banks. The findings can help banks' management understand the factors influencing customer loyalty and design effective marketing strategies to enhance customer loyalty and retention.

2. Research Hypothesis

- Ha1: Customer Satisfaction has a significant influence on customer loyalty
- Ho1: Customer Satisfaction has no significant influence on customer loyalty

- Ha2: Trust has a significant influence on customer loyalty
- Ho2: Trust has no significant influence on customer loyalty
- Ha3: Service Quality has a significant influence on customer loyalty
- Ho3: Service Quality has no significant influence on customer loyalty
- Ha4: Commitment has a significant influence on customer loyalty
- Ho4: Commitment has no significant influence on customer loyalty
- Ha5: Switching Cost has a significant influence on customer loyalty
- Ho5: Switching Cost has no significant influence on customer loyalty
- Ha6: Image has a significant influence on customer loyalty
- Ho6: Image has no significant influence on customer loyalty

3. Methodology

The study used a descriptive and explanatory research design to collect and analyze data from 323 respondents. The data was analyzed using SPSS software 26. Various statistical methods, such as correlation and regression analysis, were employed to examine the relationship between independent variables (customer satisfaction, trust, service quality, etc.) and the dependent variable (customer loyalty).

4. Results

Table 1. Regression analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.394	.295		1.336	.183
	CusSat	.304	.044	.305	6.886	.000
	Trust	.318	.040	.369	7.944	.000
	SeDeli	.175	.075	.179	2.327	.021
	Commit	.071	.092	.057	.768	.443
	SwitCos	.024	.056	.018	.430	.667
	Image	.010	.046	.010	.229	.819

Source: Survey result, 2024

Based on the regression table provided: Customer Satisfaction (CusSat) has a significant positive effect ($\beta = 0.305$, $p = 0.000$) on the dependent variable. Trust has a significant positive effect ($\beta = 0.369$, $p = 0.000$) on the dependent variable. Service Delivery (SeDeli) has a significant positive effect ($\beta = 0.179$, $p = 0.021$) on the dependent variable. Commitment

(Commit), Switching Costs (SwitCos), and Image do not have a significant effect on the dependent variable ($p > 0.05$).

Therefore, based on the results of the regression analysis, hypotheses 1, 2, and 3 are supported, while hypotheses 4, 5, and 6 are not supported. The results of the study indicate that customer satisfaction, trust, and service delivery quality significantly influence customer loyalty in the banking industry. However, factors like switching cost, image, and commitment did not show a significant impact on customer loyalty.

5. Conclusion

In this study, the factors influencing customer loyalty in selected private commercial banks in Hawassa city were examined. The study focused on six variables, namely trust, service delivery quality, image, commitment, satisfaction, and switching cost, to determine their impact on customer loyalty. The regression analysis revealed that customer satisfaction, trust, and service delivery quality had a significant influence on customer loyalty. However, commitment, switching cost, and image showed a weak relationship and no significant influence on customer loyalty.

The findings of the study emphasize the importance of customer satisfaction and trust in driving customer loyalty. It is recommended that banks prioritize customer satisfaction and build trust with their customers to enhance long-term loyalty. Additionally, banks should focus on improving service delivery quality and address any issues related to switching costs to retain customers. Regular customer surveys and feedback incorporation are also recommended to improve customer satisfaction and loyalty.

For future research, it is suggested to explore additional factors that may influence customer loyalty, such as service quality, perceived value, perceived enjoyment, and technology. Further studies can also consider the impact of moderating variables and mediating variables on the relationship between satisfaction and loyalty. By expanding the scope of research and applying additional statistical techniques, researchers can gain a deeper understanding of the factors influencing customer loyalty in the banking sector.

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