Dissertation

The Impact of Economic Recession on Customer Loyalty to Banks

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Abstract

The purpose of the research is to find out the impact of economic recession on customer loyalty to banks in the UK. This aim has been reached using methods of statistical analysis and through investigation of primary and secondary data. The methods of analysis that were implemented in the research included regression and correlation analysis of variance as well as chi-square tests. The data has been analysed for the period from 2005 to 2010 and recommendations have been based on the findings from the analysis. The main results of the study have shown that customer loyalty decreased after the economic recession. This can be explained by changes in consumer behaviour and economic adaptations in households. However, customer loyalty was not found to be dependent on any demographic factors but solely on economic and company related issues. Therefore, it is recommended that the management of financial institutions should improve customer service, make online banking easier to use and more secure, expand the types of deposits available to consumers, increase the size of the bank offers to clients and provide benefits to the long term customers.

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Chapter One: Introduction

Customer loyalty can be defined as the faithful behaviour of clients to a company or organisation. Customer loyalty implies that even if companies make minor errors or mistakes, customers are still willing to do business with them or maintain relations. The economic recession in the UK has changed consumer preferences; affected the income of households; and changed the financial sector. In light of these changes, the question arises whether customers remain loyal to the banks they used before the recession.

In accordance with Cahill (2007:6), the concept of customer loyalty was given much attention at the beginning of the 1990s when this topic was especially popular with business and marketing researchers. That period was marked by a growing degree of rivalry in the global market when companies attempted to develop efficient methods and techniques aimed at customer retention.

Customer loyalty may be defined as “a consumer behaviour, built on positive experience and value, which leads to buying products, even when that may not appear to be the most rational decision” (Kincaid, 2003:10). Peppers and Rogers (2004:57) differentiated between two types of customer loyalty concepts, namely behaviouristic and neo-behaviouristic. The behaviouristic approach to customer loyalty implies viewing and analysing evident consumer behaviour and purchase intentions, whereas the neo-behaviouristic approach implied greater focus on loyalty causes and customer attitudes to the provided goods and services (Peppers and Rogers, 2004:57).

As argued by Schweizer (2008:8), the contemporary understanding of customer loyalty incorporates two main dimensions of the concept, namely actual behaviour and customer intentions. Even though the topic has been widely studied in the past, relatively little attention has been paid to customer loyalty in the context of the banking industry after the economic recession of 2008-2009.

This period of economic recession followed the credit crunch in the banking industry. The crisis originated in the US mortgage sector but due to the financial integration of international economies, it quickly spread to the United Kingdom and Europe. As a result, many large banks in the UK became intoxicated with bad assets and underperforming investments. This led to a crisis in lending and declined profitability. In such difficult times, the consumers could be expected to be suspicious of their banks, dissatisfied with the changes and services. Therefore, a hypothesis is proposed that customer loyalty in banks has been negatively affected by the economic recession and a study of the problem is required.

1.1. Aims and Objectives

The aim of the research is to find out the impact of the economic recession on customer loyalty to banks in the UK. The objectives of the study are to:

- Discuss the theoretical frameworks of customer loyalty;
- Discuss the changes in the financial sector during the recession;
- Assess customer satisfaction within banks and loyalty;
- Assess how customer loyalty patterns have changed and provide forecast based on the trends identified
- Make recommendations on how banks can improve customer loyalty.

These aims and objectives are reached using the methods of statistical analysis and through investigation of primary and secondary data. The methods of analysis include regression, correlation, analysis of variance and chi-square tests. The data has been analysed for the period from 2005 to 2010 and recommendations have been based on the findings from the analysis. The scope of the dissertation is limited to retail banking operations of financial institutions in the United Kingdom.

The next chapter reviews the literature on customer loyalty. This is followed by a discussion regarding methods, an analysis of the findings and final conclusions.

Chapter Two: Literature Review

The present chapter raises and critically discusses relevant theoretical and empirical evidence on customer loyalty. The first part of the chapter concentrates on theoretical issues like the Four C's of Customer Loyalty, internal and external determinants of customer loyalty and customer loyalty strategies. The second part discusses the recent empirical research on customer loyalty in the banking sector and customer loyalty during economic recessions.

2.1. Theoretical Literature Review

2.1.1. Four C's of Customer Loyalty

Rowley (2005:547) attempted to critically approach the classification of customer loyalty, which is more widely known as Four C's of Customer Loyalty. This categorisation was originally developed by such researchers as Dick and Basu (1994:99) who identified the following types of customer loyalty: captive, convenience-seeker, contented and committed. It is argued that "the model proposed in the paper differentiates between those customers that are inertial in attitude and behaviour, and those that have a positive orientation" (Rowley, 2005:547). In accordance with the scholar's segmentation of loyalty, captive and convenience-seeker are representatives of inertial consumer attitudes, whereas contented and committed are considered to be representatives of positive attitudes (Rowley, 2005:547).

It is argued that captive customers demonstrate loyalty by patronising a specific brand, but they only make repeat purchases because they are limited in their choice. In the majority of cases, such customers remain committed to the same brand because switching costs are too high. It is interesting to note that products and services, which require infrequent and rare purchase decisions, attract more captive customers (Peck et al., 1999:172). For instance, car buyers tend to remain captive to the same car brand since they do not have alternative experience in using other brands. However, there is empirical evidence that suggests that captive behaviour does not imply higher customer loyalty because it lacks the company related factors and consumers continue purchasing the product repeatedly because they have no other choice; not because they choose to do so (Dick and Basu, 1994: 99). So, it may be argued that captive loyalty is the least stable form of loyalty as customers do not have real relationships with brands. This temporary commitment is explained by the absence of alternatives or unfamiliarity with the alternatives. In accordance with Knox (1998:729), captive loyalty is associated with neither positive nor negative behaviour attitudes.

In the case of the convenience-seeker form of customer loyalty, brand choice is determined by a variety of convenience factors such as opening hours, location, bank teller machines, package size, etc. Correspondingly, Birgelen et al. (1997:1255) differentiates between a number of convenience factors, namely convenience of access, convenience of product and convenience of service. These researchers argue that convenience factors play the leading role in the development of customer loyalty since customers will not shop in places that are inconvenient to them. However, it can be critically remarked that convenience-seeking customers do not have real and stable relationships with the chosen brands, with the exception of convenience associations that are temporary by nature. Furthermore, Hallowell (1996: 27) has provided a contradictory argument that convenience factors are only temporary and cannot be viewed as the main determinants of customer loyalty.

It is possible to state that contented customers tend to demonstrate inertial consumer behaviour, with a positive attitude to products and services. It can be argued that “they continue as a customer, but do not extend their involvement with the brand by subscribing to additional services or expanding their expenditure on products or services associated with the brand” (Rowley, 2005:547). Contented customers have relationships with brands as they realise some specific merits and advantages of the products and services. Rowley (2005: 547) also argues that companies can keep customers satisfied and loyal even by introducing extensions of the brands and innovations of the products. However, Kronich and Petty (1995: 22) assert that brand extension may in fact shatter customer loyalty of contented consumers because it takes a long time to adapt to the changes and develop trust in the extended brand of product.

Finally, committed consumers demonstrate the maximum degree of customer loyalty, which means that they make repeat purchases in the long-term and are ready to give good product and service recommendations to their relatives and friends. This positive consumer behaviour is associated with adding value to brands and building strong and stable relationships (Foss and Stone, 2001:73). However, it should be taken into account that it is predominantly large companies selling well-known products and services that attract committed customers. New brands require a prolonged period of time to cultivate this type of customer loyalty (Peck et al., 1999:193).

2.1.2. External and Internal Factors that Influence Customer Loyalty

A number of scholars in the field have attempted to classify factors that may influence customer loyalty. For instance, Cahill (2007:15) differentiates between the three main groups of customer loyalty determinants, namely customer-related factors, relationship-related factors and company-related factors. It can be specified that customer-related determinants of loyalty are derived from individual consumer characteristics. Relationship-related determinants are closely associated with the interaction between sellers and buyers. They include such factors as previous experience, quality, trust, normative feelings and emotional closeness (Cahill, 2007:15). It is reported that the key company-related determinants are the company’s reputation, the price-quality ratio and the appropriate customer loyalty programmes.

In contrast, Duffy (2003:480) singles out two main groups of customer loyalty determinants, namely internal and external. It is explained that internal factors refer to the customer perspective of loyalty to specific brands and services. In turn, external factors refer to the suppliers of goods and services and their ability to cultivate and maintain customer loyalty. As it may be observed, the classifications provided by Duffy (2003:480) and Cahill (2007:15) are similar. Internal and customer-related determinants refer to the same category of factors. Similarly, external and company-related factors have identical meanings. In accordance with Duffy (2003:480), internal factors represent psychographics and demographics of individual consumers. It has been revealed that different age groups, social classes, genders and people with different educational backgrounds may differ in forms of consumer loyalty (Duffy, 2003:480). It is contrasted by another group of researchers that “external factors such as the defensive marketing tactics of competitors, and the activities of supply chain members, could also be explored to assess their effect on the structural relationship between service quality, relationship quality and customer loyalty” (Singh and Waddell, 2004:100).

Kracklauer et al. (2004:116) are convinced that customer loyalty should be viewed as a combination of customer satisfaction and customer trust. Furthermore, the researchers developed the model of persistent and long-term customer loyalty, which is determined by such factors as short-term loyalty and commitment. Hence, the role of satisfaction, trust and commitment is emphasised by Kracklauer et al. (2004:116). Stone et al. (2000:12) agree that commitment and customer satisfaction prove to be important determinants of customer loyalty. Nevertheless, the researchers account for a wider range of factors including service experience, information exchange, efficient relationship management, customer involvement and participation, importance of the product, company size, product size, personal attitudes and household income. As it may be seen, Stone et al. (2000:12) identified both internal and external factors influencing customer satisfaction and their loyalty. If efficient, relationship management is a company-related factor, whilst household income appears to be a customer-related characteristic. It can be critically remarked that organisations do not have absolute control and power over customer loyalty as a variety of factors do not depend on them.

Schweizer (2008:183) critically approaches the most powerful determinants of customer loyalty, which have been identified by the previous researchers in the field. The scholar does not classify them into internal and external, but rates them according to their importance. The identified determinants are purchase conditions, companies’ pricing policies, product quality, product availability, reputation and image, consumer trust, previous experience, positive recommendations, available customer loyalty programmes, customer commitment, customer involvement and participation, switching barriers, customer attributes, customer behaviour patterns, product importance, individual expectations, etc. Schweizer (2008:183) is convinced that customer loyalty is influenced by a combination of factors, which is always unique for different situations. It may be argued that “customer loyalty yields significant benefits when its pursuit is part of an overall business strategy” (Duffy, 2003:480). The major company-related benefits are cost efficiency, channel migration and greater consumer awareness.

2.1.3. Strategies of Customer Loyalty

Taking into consideration that stronger customer loyalty has a positive impact on the companies’ sales, organisations need to develop efficient strategies and programmes of customer loyalty in order to attract and retain more customers. Uncles et al. (2003:249) differentiate between individual perspective and market perspective on loyalty strategies. From an individual viewpoint, firms need to study consumer behaviour and attitudes prior to the formulation of loyalty strategies. In other words, all programmes should be developed on the basis of regular occurrences in customer behaviour. Alternatively, the market perspective implies that the developed loyalty strategies should rely on market tendencies, degree of rivalry in the market and the relationships between brands (Uncles et al., 2003:249).

In accordance with Reinartz and Kumar (2002:86), customer-driven loyalty strategies should take into consideration that the majority of customers tend to buy more than one brand in a product or service category. In this sense, the key aim of every customer loyalty strategy or programme is to achieve single-brand orientation. It is argued that the transition from multi-brand loyalty to single-brand loyalty is a complex process, which takes much time and efforts. Companies can implement such strategies and programmes such as special discount cards, regular client cards and personal relationships with customers (Reinartz and Kumar, 2002:86). In the case of market-driven loyalty strategies, it should be taken into consideration that greater loyalty can be achieved by widening distribution channels, increasing perceived value and providing more occasions of purchase and usage. Kahn et al. (1988:384) accounts for such market-driven loyalty strategies as niche brands and fly-buys programmes. The niche brand strategy implies that the total number of customers is comparatively low, but they tend to make frequent purchases. It is argued that “this could be achieved by reducing the distribution coverage of the brand and using the money saved to better support/promote the brand to current customers” (Uncles et al., 2003:249).

Day and Moorman (2010:39) provide a number of principles for building efficient customer loyalty programmes and strategies. Firstly, it is argued by the researchers that staff loyalty should be achieved by organisations. Day and Moorman (2010:39) identify close relationship between stuff loyalty and customer loyalty. The management of the company should serve their employees so that they can serve customers. Secondly, service quality should be improved to the maximum degree. Thirdly, it is important to note than organisations should carefully analyse and respond to the complaints of customers. As reported by Day and Moorman (2010:39), only 10% of customer complaints are given appropriate attention by the management. Fourthly, efficient customer loyalty strategies consist in winning back lost customers. If companies remain focused on only new customers, consumer loyalty will not be achieved. Finally,, a centralised customer database should be created and used by all departments and branches of companies (Day and Moorman, 2010:39).

Timm (2007:103) suggests a series of efficient customer loyalty strategies that can be practised in companies. First, the researchers emphasise the importance of high-quality corporate websites, which contribute to communication with customers and their loyalty. Second, all official statements and public speeches made by the management should start from customer evaluations, opinions and reviews (Timm, 2007:103). Third, customer profiles and target groups must be clearly recognised by companies. The fourth strategy, which can increase consumer loyalty, is sophisticated and makes use of social media such as Facebook, Twitter, LinkedIn and YouTube. Finally, innovative and creative marketing campaigns are increasingly important for the growth of customer loyalty (Timm, 2007:103).

2.2. Empirical Literature Review

The following section provides empirical evidence on customer loyalty in the banking sector and customer loyalty during the recent economic recession.

2.2.1. Customer Loyalty in the Banking Sector

Ehigie (2006:494) conducted an empirical investigation, which attempted to evaluate the impact of factors such as customer satisfaction, perceived service quality and individual expectations on customer loyalty to financial institutions in Nigeria. In accordance with the classification provided by Duffy (2003:480), the investigation is focused on both internal and external determinants of customer loyalty. In particular, satisfaction and individual expectations are customer-related factors, whereas service quality is a company-related factor. Ehigie (2006:494) used a complex research strategy that consisted of two stages. The first stage conducts in-depth interviews in focus groups with 24 operators of banking services. The second stage sent over 240 questionnaires to bank customers in Nigeria. The scholar arrives at the conclusion that customer satisfaction proves to be the strongest determinant of customer loyalty. It is also noted that perceived service quality has strong influence on customer loyalty, but this impact is less powerful than in the case of satisfaction. Finally, the influence of individual expectations is insignificant (Ehigie, 2006:494).

One of the main strengths of the research pursued by Ehigie (2006:494) is that the scholar identified the influence of both internal and external factors on customer loyalty. These findings are consistent with the theoretical considerations provided by Duffy (2003:480) and Cahill (2007:15). Nevertheless, the researcher fails to provide practical recommendations to the management of Nigerian banks, which is a serious limitation. Another limitation consists in the fact that only three determinants were considered by the author.

In another empirical study, Bowen and Chen (2001:213) analysed the relationship between customer satisfaction and customer loyalty with reference to the hotel and banking industries. The researchers conducted a mail survey, delivering more than 560 questionnaires to the clients of hotels and financial institutions in the US. The scholars were given access to client databases of three US-based hotels and banks. Bowen and Chen (2001:213) identified a close relationship between customer satisfaction and customer loyalty. However, it is concluded that satisfaction is not the only factor that influences customer loyalty. The researchers emphasise the importance of such determinants as the previous experience of clients, perceived service quality, customer involvement and the availability of special services to regular clients. The survey pursued by the researchers may be criticised for the choice of two different industries, which do not resemble each other.

Baumann et al. (2011:247) pursed an alternative study with the main purpose “to model both current behaviour (measured as share of wallet) and future intentions as measures of customer loyalty, to quantify the link between current and future behaviour” (Baumann et al., 2011:247). This investigation has direct reference to the banking industry. The methodological approach chosen by the researchers consisted of building a new hybrid model, which combined formative and reflective constructs and explained the phenomenon of customer loyalty. It is important to note that the hybrid model identifies three main determinants of customer loyalty, namely resistance to change, variety seeking and risk taking behaviour. The scholars come to the conclusion that the most important determinants of customer loyalty in the banking industry are resistance to change and variety seeking.

However, it may be argued that the empirical investigation pursued by Baumann et al. (2011:247) is associated with a number of limitations. First, the researchers attempted to view the problem exclusively from a customer perspective having ignored company-related determinants of customer loyalty. Second the link between the future and current behaviour of bank customers is not clear. At the same time, the main strength of the investigation conducted by Baumann et al. (2011:247) is a unique model incorporating formative and reflective constructs.

Alternatively, Ganguli and Roy (2011:168) made an attempt to evaluate the role of company-related or external factors, which may influence customer loyalty of bank clients in India. The researchers implemented the methodology of exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) to achieve the primary research aim of the investigation. In their study they found “four generic service quality dimensions in the technology-based banking services – customer service, technology security and information quality, technology convenience, and technology usage easiness and reliability” (Ganguli and Roy, 2011:168). The scholars are convinced that these dimensions should be viewed as the main company-related determinants of customer loyalty in financial institutions including commercial banks.

The researchers also estimated the role of technological factors influencing customer loyalty. Their study refers predominantly to on-line banking and e-payment technologies, which are gaining more and more popularity today. However, Ganguli and Roy (2011:168) failed to identify specific dimensions of service and information quality, which should be given particular attention. Finally, the outcomes of the empirical investigation are only limited to the country in question.

In another empirical research, Sangeetha and Mahalingam (2011:83) identified the most important factors having impact on consumer loyalty in Islamic financial institutions. The researchers implemented a complex methodology, which was two-fold. First of all, Sangeetha and Mahalingam (2011:83) developed as many as 14 service quality models, which can be applied to the banking sector. Secondly, primary data was collected from more than 500 respondents using the survey research strategy. The researchers arrive at the conclusion that the most significant determinants of customer loyalty with the reference to Islamic banking are perceived quality of service, positive recommendations of friends and relatives, personal experience, security of on-line banking, customer involvement and efficient customer relationship management (Sangeetha and Mahalingam, 2011:83).

It may be critically remarked that the findings obtained by Sangeetha and Mahalingam (2011:83) are consistent with the theoretical statements of Kracklauer et al. (2004:116) and Stone et al. (2000:12). These researchers argued that customer loyalty is a result of a set of factors. At the same time, the obtained results are limited from the viewpoint of generalisation as they refer to Islamic banking only. In this sense, the importance of recommendations is overestimated by the researchers (Sangeetha and Mahalingam, 2011:83).

2.2.2. Customer Loyalty during Economic Recession

Williams and Naumann (2011:20) conducted a significant empirical investigation, which studied the changes in customer loyalty during economic slowdowns and recessions. To be more specific, the scholars analysed consumer reactions, behaviour and attitudes to Fortune 100 companies during the recent economic recession. The collected secondary data was subjected to statistical analysis and evaluations. It is concluded that the overall degree of consumer loyalty to the world's largest companies decreased during the economic recession in 2008 and 2009. It is explained by the fact that companies' annual revenues, financial performance, market performance, stock prices and earnings per share decreased during the turbulent times. As a result, consumer trust and consumer satisfaction declined because the fears arose among the customers. These fears were associated with the future solvency of the companies and hence the wellbeing of the stakeholders who are the customers of the financial institutions.

Williams and Naumann (2011:20) are convinced that the financial performance of companies determines customer loyalty to a considerable degree. However, it should be taken into account that economic recession is not only a company-related factor, but also a customer-related determinant. Indeed, the individual income of customers decreased during the economic slowdown, which led to the decrease in spending. Some products and services ceased to be affordable to consumers, which had a negative influence on consumer loyalty (Williams and Naumann, 2011:20). It is valid to argue that these findings are consistent with the theoretical statements of Stone et al. (2000:12) who argued that the income level and financial stability within countries influence customer loyalty.

Chung et al. (2011:14) conducted an empirical investigation of customer loyalty during turbulent economic times with reference to the Chinese retail sector. The scholars collected primary data by means of questionnaires and interviews. It is important to note that questionnaires were distributed amongst 99 retail outlets in China. Furthermore, in-depth interviews with open-ended questions were conducted with 25 managers. By analysing the primary data, Chung et al. (2011:14) achieved the results that were consistent with the theoretical arguments provided by Uncles et al. (2003:249) who singled out individual and market perspectives of customer loyalty.

Chung et al. (2011:14) came to the conclusion that the overall customer loyalty to Chinese retailers decreased during the global recession. The supermarkets implemented a number of loyalty strategies that attempted to widen distribution channels and increase the perceived value of products and services. However, it could be argued that customer loyalty did not decrease because customers lost faith in products or companies but because they had less money to spend during the recession. One of the key limitations of the research carried out by Chung et al. (2011:14) is that the scholars did not provide sufficient practical recommendations on how the companies can improve customer loyalty.

A decrease in customer loyalty to financial institutions and banks was also documented in a number of developed countries. Specifically, in the UK two empirical studies have shown worsening customer loyalty to banks (Longbottom and Hilton, 2011; Jones and Farquhar, 2009). These researchers had an objective to explore how minor failures and mistakes in the services of the banks in the United Kingdom affected customer loyalty to these banks. These researchers achieved their objectives by collecting primary data from over two thousand research participants who had been approached online. Questionnaires were emailed to them and an online survey has helped to assess the changes in customer loyalty to the banks. The main results of the studies suggested that even minor failures and mistakes in the bank services can have a strong negative impact on customer loyalty. This worsening of customer loyalty can be explained by the wide choice of financial institutions which customers can bank with and the unwillingness of consumers to forgive failures in service. These results have practical implications for bank managers. During the period of the global economic crisis and recession, the customers can be expected to become even less loyal especially if their bank is reported to start having financial problems. In order to retain customer loyalty, it is recommended that the banks' managers improve their service to customers since the latter were found to be very important in the determination of customer loyalty.

A similar study in the context of banks in developed countries has been conducted by Bloemer et al. (1998:276). These researchers also investigated how the overall image of the banks and the services they provide affect customer loyalty. Both factors were found to be significant in the study. This has important implications for management during the recession. The banks should make the effort to keep a positive image through adequate corporate governance and risk management. During the recession, the image of many banks was negatively impacted upon due to losses in financial markets (e.g. RBS). Hence, this can explain changes in customer loyalty.

Lee et al. (2011:150) pursued a narrow-focused empirical research, which attempted to explore the influence of advertising on customer loyalty in pressing economic conditions. Similarly to the focus of the present dissertation, the study conducted by Lee et al. (2011:150) was concentrated on the banking industry. The methodological approach implemented by the scholars consisted of in-depth analysis of more than 2,500 bank advertisements printed in journals and magazines. It is interesting to note that Lee et al. (2011:150) compared the effect of advertising on customer loyalty before and after the global recession.

It is concluded that the total number of bank advertisements had decreased by 2008. Furthermore, it was observed by the researchers that advertising message to customers had changed. It is critically remarked by Lee et al. (2011:150) that the observed decrease in advertising cannot be viewed as a cause for the decline in customer loyalty to banks. The number of bank advertisements decreased because financial institutions were forced to cut down expenditure on advertising. However, customer loyalty decreased because bank clients had lost trust in financial institutions. It is summarised that advertising cannot be viewed as an effective technique to retain customers and cultivate loyalty (Lee et al., 2011:150).

It is valid to criticise the approach chosen by Lee et al, (2011:150) in relation to their limitations. Firstly, they fail to consider non-print ads such as Television and the Internet . The latter plays a very important role in communication to the banks clients. Ignoring these forms of media is a serious limitation. Secondly, the researchers failed to consider more determinants of customer loyalty and did not provide an insight in to what factors in Western banks have a significant impact on loyalty.

Chapter Three: Methodology

This chapter aims to discuss the methodological instruments and tools implemented in the study for reaching the aims and objectives. The chapter discusses issues such as the philosophical stance of the research, approach to the study, methods of data collection, strategy of the investigation and methods of data analysis.

3.1. Philosophy and Approach

The investigation has been approached using the positivist philosophical stance which uses a scientific form of research that would be able to test hypotheses with statistical methods and tools. This philosophy can be contrasted to the philosophies of interpretivism and realism, which are used in social studies and require a more flexible approach. Interpretivism and realism are also more associated with the inductive approach and grounded theory, which are used to create new theories and hypotheses (Saunders et al, 2009).

The choice of positivism in this research project can be justified by the need to test the available theories on consumer loyalty and support or to reject the research hypothesis using quantitative data. According to Bryman and Bell (2008) interpretivism will lead the research in a completely different direction since these types of philosophical stance and approach are more concerned with the exploration of the context of the problem rather than testing.

Deduction has also allowed for setting an initial hypothesis of the research, which is stated as follows:

H_0: The economic recession in the UK has had a negative impact on the customer loyalty to large financial institutions.

This hypothesis is tested using a case study strategy in combination with a survey.

3.2. Strategy of Investigation

Case studies and surveys have been selected as the main strategies for the investigation. One of the strengths of case studies is that they focus on the context of the problem and enrich the research with qualitative information (Robson, 2002). However, it is valid to argue that the context can also be presented with quantitative data as well. In this study, the financial performance of the banks has created the context in which the customer loyalty was investigated.

Nevertheless, the case study alone would not have allowed for an effective exploration of customer loyalty, primary data is required to achieve this. According to Saunders et al (2009) and Bryman and Bell (2008) the survey is the most common and effective strategy for working with primary data. It implies that the data can be retrieved from respondents by means of interview, questionnaires or even observations.

The strength of the survey strategy is that a large number of responses can be generated with little effort. Questionnaires have been preferred to interviews because the former help to gather the information faster and in a standardised form that eases the process of quantification of the data. More detailed information on the data is discussed in the following section of the chapter.

3.3. Data

The research is based on the case studies of six largest banks in the UK, namely the Royal Bank of Scotland Group, Barclays, HSBC, the Lloyds Banking Group, Standard Chartered and Citigroup. The strategy of the case study approach triangulates data, i.e. collection of variables from multiple sources. Primary and secondary data have been used to provide triangulation. Secondary data has been collected form the annual reports of the banks. The data includes the following variables:

- Revenue of banks
- Net profit of banks
- Total amount of deposits

- Total amount of lending to customers.
- Total number of customers and annual changes

These indicators are analysed in the period from 2005 to 2010.

Primary data has been gathered using a survey of customers in each of the six banks. The respondents were randomly selected using social network websites such as Facebook. Snowball sampling has been used to attract people to participate in the survey. It started from asking friends and acquaintances to participate who were, in turn, asked to invite their friends. As a result of this sampling technique, 300 people joined the survey.

The form of the questionnaire that was spread amongst the bank customers is provided in the Appendix. The first part of the questionnaire aims to separate the respondents into several demographic groups in order to reveal the links between customer loyalty to banks after the recession and their demographic characteristics. The second part of the questionnaire is aimed at evaluating the loyalty of consumers to the banks that they use. The questionnaire uses a Likert scale that helps to rank the responses and respondents' attitudes towards the statements (Saunders et al, 2009; Bryman and Bell, 2008).

3.4. Methods of Data Analysis

Several statistical tools in SPSS have been used to test the research hypothesis and reach the aim of the study. The tools include the chi-square test, ANOVA, regression analysis and correlation analysis. Firstly, the secondary data on the changes in financial performance of the banks in the period from 2005 to 2010 has been analysed using graphical methods that allowed for the identification of trends and patterns. Secondly, primary data has been quantified using the Likert scale and statistical instruments were implemented.

The data has been presented with frequency tables that showed a breakdown of responses and helped estimate the percentages. Cross tabulation and chi-square tests were used to assess whether there was a difference in customer loyalty to banks in different demographic groups. These groups were distinguished by gender, age, occupation education and experience in banking.

The ANOVA test helped to explore the relations between the number of different banks the customers bank with and their loyalty to one particular bank. This test is based on the hypothesis that the mean values of two groups of variables are statistically identical. Then F-test is applied to reject the hypothesis. If the p-value of the test is lower than 0.05, the hypothesis of equality of means is rejected.

In order to establish a degree of association between factors such as satisfaction with the services and customer loyalty, correlation coefficients have been estimated. These coefficients range from -1 to 1, where the extreme points reflect strong negative and positive correlation respectively and zero indicates no correlation at all.

Finally, the factors that are assumed to affect customer loyalty to banks have been included in the regression model as independent variables. The dependent variable was represented by the responses to Question 9. Statistical significance of the factors of customer loyalty has been assessed with t-statistic, which tests the null hypothesis that the regression coefficients are insignificant. The hypothesis is rejected at a 90% confidence level if the p-value of the t-test is lower than 0.1 and at a 95% level if the p-value is lower than 0.05.

3.5. Limitations

The research project is limited by the number of customers that could be surveyed. It is valid to argue that 100% response ratio is very rare and often only a proportion of the people who are invited to take part in a survey would actually participate. From the 1,000 potential respondents that had been invited, only 300 agreed to participate. Hence, the response ratio is equal to 30%.

The next limitation concerns the number of banks that could be analysed. Besides the large financial institutions, there are smaller banks that could also be used in the study. However, increasing the sample would mean collecting data from banks for which not much information is available at present.

The next limitation is the quality of the responses. The research project has not been insured against the respondents' bias and errors. Since a number of questions were constructed using a Likert scale, there is a chance that customers could overreact or under react to certain statements.

Finally, it is valid to mention the limitations that relate to the methods of data analysis. The regression had a low indicator of goodness of fit, which has put a threat to the viability of the results. The trends in consumer loyalty to banks was established using the method of historical extrapolation but this method does not guarantee that the actual changes in customer loyalty will be in line with the trend.

The ANOVA test is limited in its ability to compare customer loyalty of different groups of respondents. Its results are only based on the changes in the variance of responses and if these variances do not coincide, the statistics indicate the lack of association. Similarly, there are limitations with the t-test that was used in regression analysis. Its value may become inaccurate if there is a problem with serial correlation and multicollinearity. For this reason the Durbin Watson test was applied. It was needed to show the absence of serial correlation. The test indicates the absence of serial correlation when its value is approaching 2.

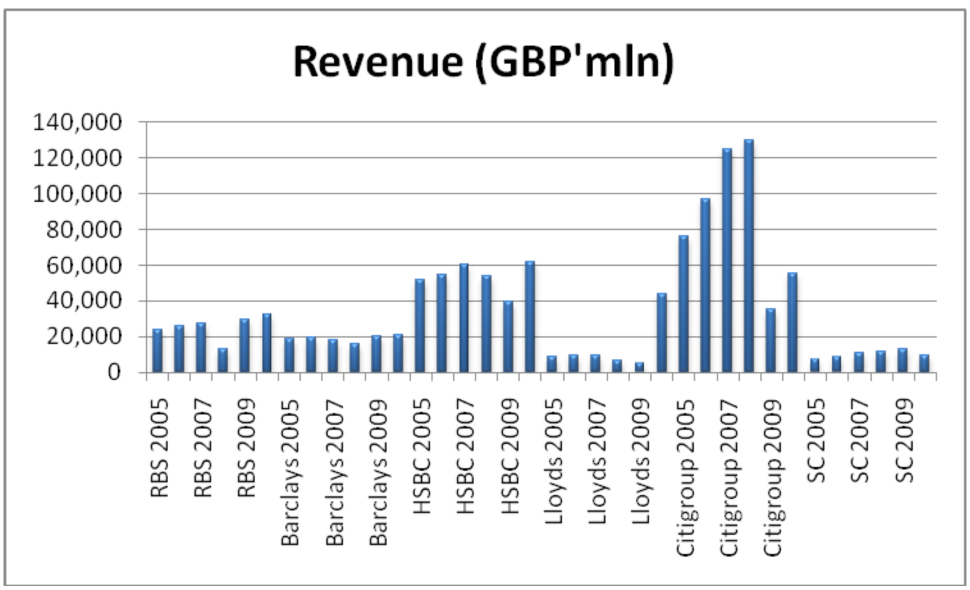
Chapter Four: Findings and Analysis

This chapter provides the analysis of the results. The analysis is conducted in SPSS using statistical tools and instruments. The analytical techniques used in the chapter include the analysis of variance (ANOVA), t-test, chi-square test, correlation analysis and regression analysis. ANOVA is used to find the differences in the customer loyalty between the different demographic groups of the respondents. Regression analysis is used to determine the factor that affected customer loyalty to banks after the economic recession in the UK.

4.1. Bank Performance after Recession

Customer loyalty to banks after the economic recession is likely to be changed because the crisis has had an impact on the performance of the major banks. The following figure reports that the revenue in several large banks such as the Royal Bank of Scotland, Barclays and HSBC declined in 2008.

Figure 1 Revenue of Banks

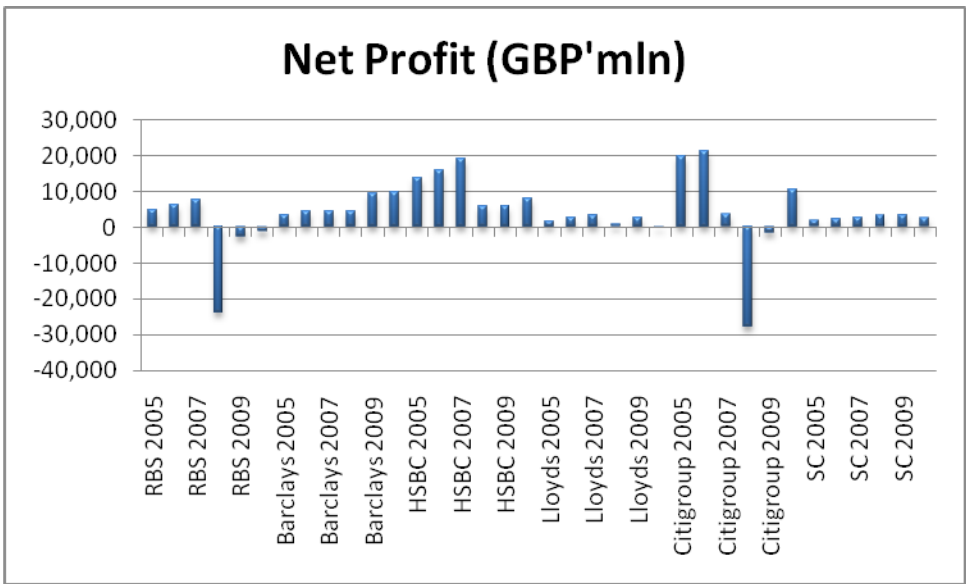


Source: Annual Reports of Banks

In Citigroup, the decline in total revenue was observed in 2009. However, at the same time some banks such as the Standard Chartered did not see a decline in revenue up until 2010. By 2010, other banks started showing signs of expansion as the figure above suggests.

However, revenue only demonstrates the size of the economic activity of the banks but it fails to reflect the financial performance of the institutions. This indicator has been captured with net profits for the period from 2005 to 2010 (Figure 2).

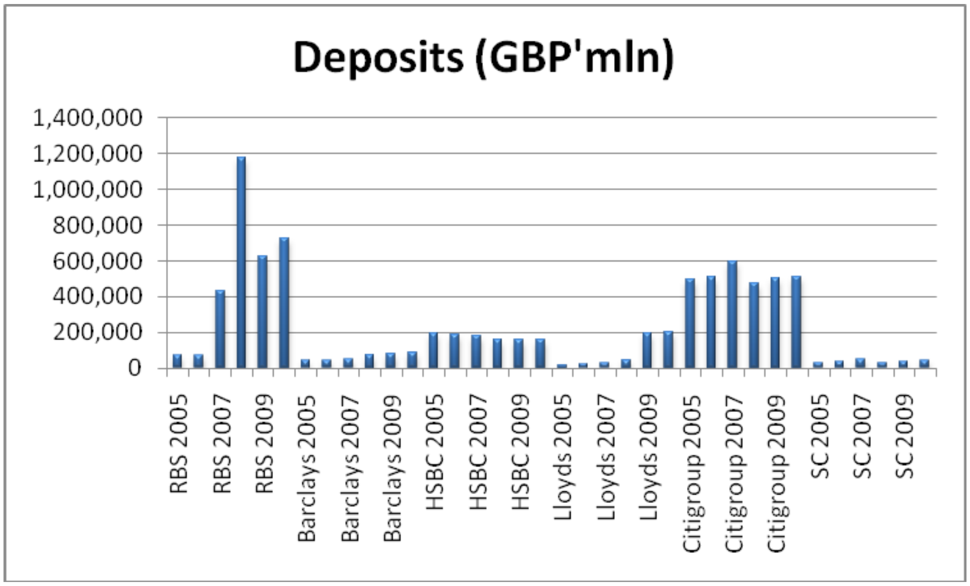
Figure 2 Net Profit of Banks



Source: Annual Reports of Banks

Amongst the six banks that are analysed, two have shown net losses for the periods of economic recession in the UK. The largest losses were in the Royal Bank of Scotland (they reached £22 billion) and Citigroup. Other banks reported declines in profitability. However, it is valid to argue that this worsened profitability was often a result of non-core operations such as derivative trading, investments in collateralised debt obligations and mortgage backed securities, etc. The core operations of the banks are represented by lending to customers and taking deposits (Figure 3 and Figure 4).

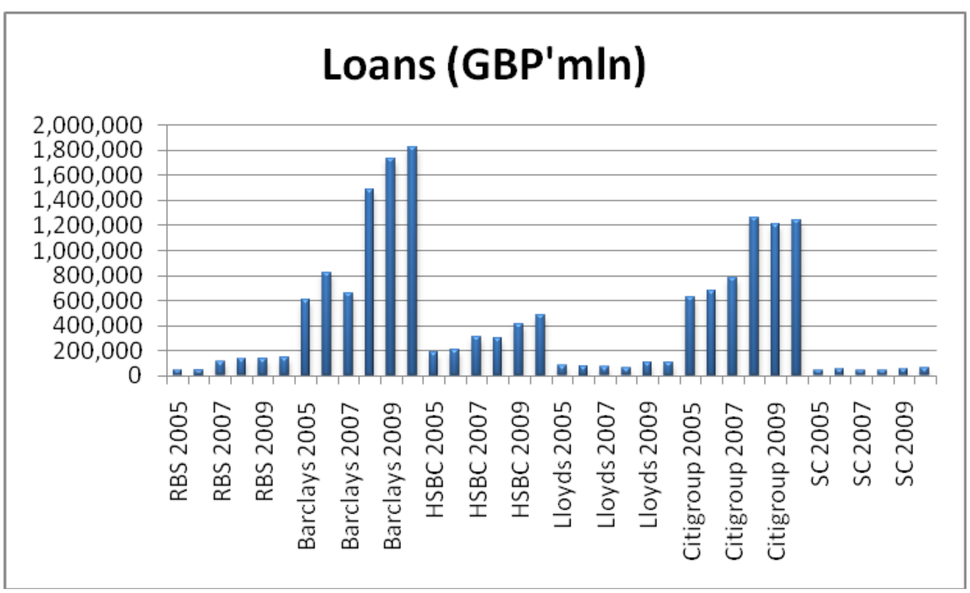
Figure 3 Deposits with Banks



Source: Annual Reports of Banks

In some banks such as the Royal Bank of Scotland and Barclays, the core operations remained strong and the companies attracted more deposits from customers. However, others such as Citigroup suffered a declined in the core operations as well. The credit crunch caused a negative impact on the availability of loans but a number of large banks continued demonstrating increasing values of total loans to customers (Figure 4).

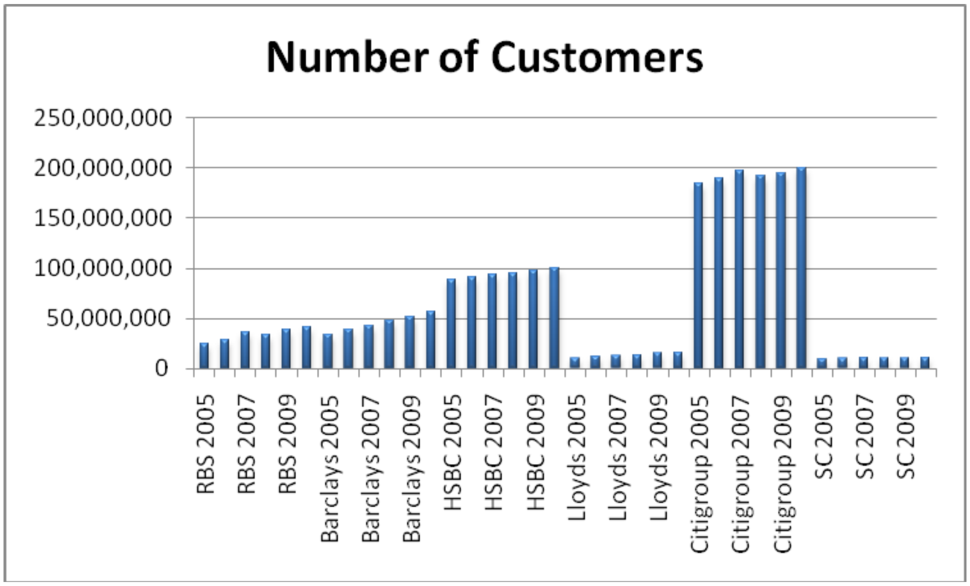
Figure 4 Loans to Customers



Source: Annual Reports of Banks

The number of customers, in spite of the economic recession, has been growing in most of the large banks.

Figure 5. Number of Customers



Source: Annual Reports of Banks

The largest bank in terms of the customers served is Citigroup. The figure above shows the approximate changes in the number of customers from 2005 to 2010 based on the estimates of the bank provided in the annual report. The Group saw a slight decline in the number of customers during the economic crisis but the client base later increased. In HSBC, Lloyds and Standard Chartered, the number of customers has been increasing on average by 2.5% per annum. In Barclays, the number of customers has shown a positive change equal to 10% a year. Royal Bank of Scotland was another dynamically growing company with their customer base increasing by approximately 11% a year.

It is valid to notice the lack of strong correlation between bank performance and the number of customers. In spite of the weak results demonstrated by Citibank and RBS in 2009, the number of customers at both banks increased. However, it may also be noticed that an increase in customers was also found in HSBC and Standard Chartered who did relatively well during the recession. This evidence suggests that there is little correlation between the performance of financial institutions and the number of customers they attract.

4.2. Analysis of Customer Loyalty to Banks

Three hundred random customers in the UK have taken part in a survey that was aimed at finding the changes in customer loyalty to financial institutions after the economic recession. The sample has been divided into six groups differentiated by the primary bank. Each group comprised of a sufficient number of customers to make the sample representative. The results are summarised in the following frequency table.

Table 1 Groups of Customers by Primary Bank

Primary Bank

	Frequency*	Percent	Valid Percent	Cumulative Percent
RBS	54	18.0	18.0	18.0
Barclays	47	15.7	15.7	33.7
HSBC	55	18.3	18.3	52.0
Citigroup	45	15.0	15.0	67.0
Lloyds	51	17.0	17.0	84.0
SC	48	16.0	16.0	100.0
Total	300	100.0	100.0	

*Number of respondents

The largest subsample of respondents comprised of the HSBC customers. However, other groups of customers were not that much smaller in size and the sample can be considered quite representative of the population.

The customers that were surveyed were also found to have different length of experience with their primary bank (Table 2).

Table 2 Experience as a Customer

How long have you been a customer of the bank?

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than a year	65	21.7	21.7	21.7
1-3 years	83	27.7	27.7	49.3
3-5 years	71	23.7	23.7	73.0
More than 5 years	81	27.0	27.0	100.0
Total	300	100.0	100.0	

The table reports that the largest customer group had 1 to 3 years worth of experience with their primary bank. These customers constituted almost thirty per cent of the sample. The smallest group had the shortest experience of less than a year.

The customers were represented by different age groups that were broadly divided into 18-21, 22-29, 30-40, 41-50 and older than 50 (Table 3).

Table 3 Age of Customers

Age

	Frequency	Percent	Valid Percent	Cumulative Percent
18-21	74	24.7	24.7	24.7
22-29	55	18.3	18.3	43.0
30-40	50	16.7	16.7	59.7
41-50	69	23.0	23.0	82.7
Above 50	52	17.3	17.3	100.0
Total	300	100.0	100.0	

The largest demographic group was comprised of young customers between eighteen and twenty one who constituted almost a quarter of the sample. This can be explained by more willingness of the young customers to participate in the survey in comparison to older demographic groups.

Male respondents were also found to be more active in the research as the following table suggests.

Table 4 Gender

Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	158	52.7	52.7	52.7
Female	142	47.3	47.3	100.0
Total	300	100.0	100.0	

The sample is almost equally divided between males and females; however, the latter constitute 47% of the sample while the former comprise up to 53% of the sample.
The customers were represented by different income groups. The average annual income of the two largest groups of respondents was from £25,000 to £34,999 and from £50,000 to £69,999 (Table 5).

Table 5 Annual Income

Annual Income

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than £25,000	55	18.3	18.3	18.3
£25,000 - £34,999	65	21.7	21.7	40.0
£35,000 - £49,999	56	18.7	18.7	58.7
£50,000 - £69,999	65	21.7	21.7	80.3
More than £70,000	59	19.7	19.7	100.0
Total	300	100.0	100.0	

In terms of education, the sample was almost equally divided among the respondents who only finished school, those who attended University but did not get a degree, those who got an undergraduate degree and those with postgraduate degree.

Table 6 Education

Education	Frequency	Percent	Valid Percent	Cumulative Percent
High school	73	24.3	24.3	24.3
College courses	77	25.7	25.7	50.0
Undergraduate	77	25.7	25.7	75.7
Postgraduate	73	24.3	24.3	100.0
Total	300	100.0	100.0	

The analysis of the respondents' occupation has shown that the majority of the people surveyed performed non-skilled manual labour.

Table 7 Job Position

Job	Frequency	Percent	Valid Percent	Cumulative Percent
Non-skilled	87	29.0	29.0	29.0
Skilled manual	74	24.7	24.7	53.7
Skilled non-manual	67	22.3	22.3	76.0
Manager	72	24.0	24.0	100.0
Total	300	100.0	100.0	

Non-skilled labour force comprised almost thirty per cent of the total sample. The smallest group of respondents was represented by those who performed a skilled non-manual labour, i.e. professionals such as engineers.

The customers were also asked how many banks they bank with. The breakdown of the responses is presented in the following table.

Table 8 Number of Banks Customer Bank with

Number of Banks Customers Bank with

	Frequency	Percent	Valid Percent	Cumulative Percent
1	152	50.7	50.7	50.7
2	62	20.7	20.7	71.3
3	44	14.7	14.7	86.0
4	31	10.3	10.3	96.3
5 and more	11	3.7	3.7	100.0
Total	300	100.0	100.0	

Over fifty per cent of the sample banked with predominantly one financial institution. More than twenty per cent of the respondents were found to be customers of two banks. 14.75 of the customers banked with three banks and 10% of the respondents had up to four banks. The respondents who were the customers of more than five banks comprised only less than 4% of the total sample. The predominance of the population who bank with a single bank indicates rather strong customer loyalty towards the institutions.

The respondents have been asked to rate their satisfaction with their banks. The scale was from 1 (the lowest satisfaction) to 5 (the highest satisfaction). The results are summarised below.

Table 9 Customer Satisfaction with Bank Services

Satisfaction with Bank Services

	Frequency	Percent	Valid Percent	Cumulative Percent
1.00	6	2.0	2.0	2.0
2.00	59	19.7	19.7	21.7
3.00	58	19.3	19.3	41.0
4.00	116	38.7	38.7	79.7
5.00	61	20.3	20.3	100.0
Total	300	100.0	100.0	

The majority of the customers (39% of the respondents) have agreed that they were satisfied with their primary banks. Up to 20% of the customers even strongly agreed with this statement. Hence, almost 60% of the banks' customers were found to be mostly satisfied and unwilling to change their primary banks. However, almost twenty per cent of the respondents did not demonstrate any satisfaction with bank services and 19% of the customers could neither agree nor disagree.

The survey of the banks' customers has revealed that there are many factors that can affect consumer loyalty to financial institutions. Among the multiple choices of answers, the respondents selected the following.

Table 10 Factors Determining Customer Loyalty to Banks

Factors of Customer Loyalty to Banks

	Frequency	Percent	Valid Percent	Cumulative Percent
Good customer service	67	22.3	22.3	22.3
Internet and mobile service	58	19.3	19.3	41.7
Bank's charges	60	20.0	20.0	61.7
Account types and offers	64	21.3	21.3	83.0
Location	51	17.0	17.0	100.0
Total	300	100.0	100.0	

More than twenty per cent of the customers believed the good customer service produce loyalty to banks. This was the most popular answer in comparison to other choices. The least popular answer was the customer loyalty was determined by the location of the bank. However, for as many as 17% of the respondents, the location of the bank played an important role.

The customers in the banks were asked to share their thoughts on how the economic recession impacted on their behaviour and habits. The results are summarised below.

Table 11 Impact of Economic Recession on Consumer Behaviour

Impact of Economic Recession on Consumer Behaviour

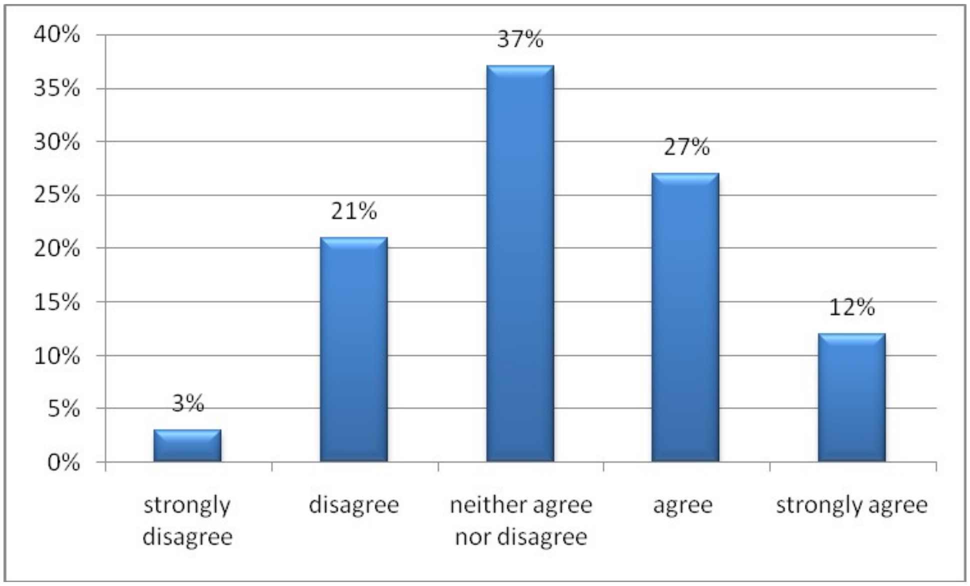
	Frequency	Percent	Valid Percent	Cumulative Percent
Less shopping and spending	143	47.7	47.7	47.7
Changed bank	44	14.7	14.7	62.3
Increased savings	42	14.0	14.0	76.3
Has not changed	71	23.7	23.7	100.0
Total	300	100.0	100.0	

The majority of the respondents, which comprised almost 48% of the sample, stated that they reduced their spending and spent less time on shopping. Only 15% of the respondents indicated that they had to change their bank. This finding suggests that the majority of the customers still remained loyal to their primary banks in spite of the economic recession that overtook the United Kingdom. It is also interesting to note that almost 24% of the customers stated that their behaviour has not changed significantly. Only 14% of the respondents increased their savings, which speaks of the crisis in the savings rates especially during the economic recession.

4.3. Impact of Economic Recession on Customer Loyalty to Banks

The impact of the economic recession on customer loyalty to banks has been measured by the regression of the variables that represented the willingness of customer to change their primary bank on a number of factors that relate to demographics and economics. This variable is represented by Question 9 from Appendix for which the chart is provided below.

Figure 6 I have considered changing my primary bank after the economic recession



Up to 39% of the customers were found to agree and strongly agree with this statement while up to 37% of respondents could not provide a definite answer. Only 24% of respondents disagreed and strongly disagreed.

The backward elimination method of regression has been used, i.e. maximum factors are included in the first regression and they are gradually removed from the model using the t-test. The estimated coefficients at the first step of the regression are shown below.

Table 12 Impact of Factors on Customer Loyalty to Banks (Step 1)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.252	.643		5.054	.000
	Q1	-.089	.076	-.069	-1.168	.244
	Q2	-.016	.058	-.016	-.271	.787
	Q3	.101	.166	.035	.606	.545
	Q4	-.043	.060	-.043	-.727	.468
	Q5	.059	.075	.046	.788	.432
	Q6	-.060	.074	-.048	-.804	.422
	Q8	.079	.078	.060	1.003	.317
	Q10	-.028	.060	-.028	-.473	.637
	Q12	.058	.058	.058	1.000	.318
	Q13	-.119	.059	-.117	-1.998	.047
	Q14	.006	.067	.005	.087	.931

a. Dependent Variable: Q9

Q1 – Q14 represent the index number of the question, which can be assessed in Appendix. The t-test has shown that customer loyalty depended on the factors such as good customer service, good Internet and mobile banking service, bank charges, account types, bank offers and the location of the bank. The model summary is presented below.

Table 13 Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.190[a]	.036	-.001	1.42264	1.961

a. Predictors: (Constant), Q14, Q6, Q12, Q5, Q13, Q3, Q4, Q2, Q10, Q1, Q8

b. Dependent Variable: Q9

The model had an adequate indicator of Durbin-Watson statistics that suggests that there is no problem regarding serial correlation but the fit of the regression was quite low. The next step was to remove the worst three independent variables, i.e. those with the highest p-values of the t-test.

Table 14 Impact of Factors on Customer Loyalty to Banks (Step 2)

Coefficients

Model		Unstandardised Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.294	.559		5.892	.000
	Q1	-.087	.075	-.068	-1.154	.249
	Q4	-.043	.059	-.043	-.727	.468
	Q5	.058	.075	.045	.779	.437
	Q6	-.063	.073	-.051	-.860	.391
	Q8	.075	.078	.057	.967	.334
	Q12	.056	.057	.057	.983	.326
	Q13	-.120	.058	-.119	-2.059	.040
	Q14	.010	.066	.008	.147	.883

a. Dependent Variable: Q9

Table 15 Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.184[a]	.034	.007	1.41681	1.955

a. Predictors: (Constant), Q14, Q6, Q12, Q5, Q13, Q4, Q1, Q8

b. Dependent Variable: Q9

The changes in the model did not make other independent variables significant. The following step implies eliminating three more variables.

Table 16 Impact of Factors on Customer Loyalty to Banks (Step 3)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.311	.461		7.187	.000
	Q1	-.090	.075	-.070	-1.206	.229
	Q6	-.068	.073	-.055	-.928	.354
	Q8	.086	.077	.066	1.131	.259
	Q12	.057	.057	.058	.995	.320
	Q13	-.122	.058	-.121	-2.099	.037

a. Dependent Variable: Q9

Table 17 Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.173[a]	.030	.013	1.41251	1.951

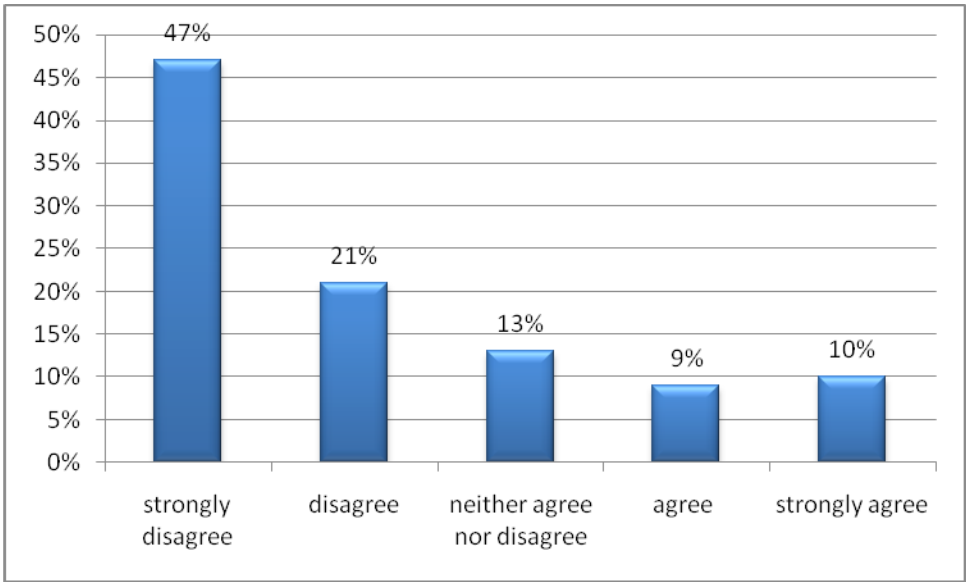
a. Predictors: (Constant), Q13, Q1, Q8, Q12, Q6

b. Dependent Variable: Q9

As a result of the transformation, the Durbin-Watson statistic has not changed significantly but the R-squared has worsened. The independent variable was found to be significant in all three steps of the regression. Based on the R-squared, the first regression model is considered the best.

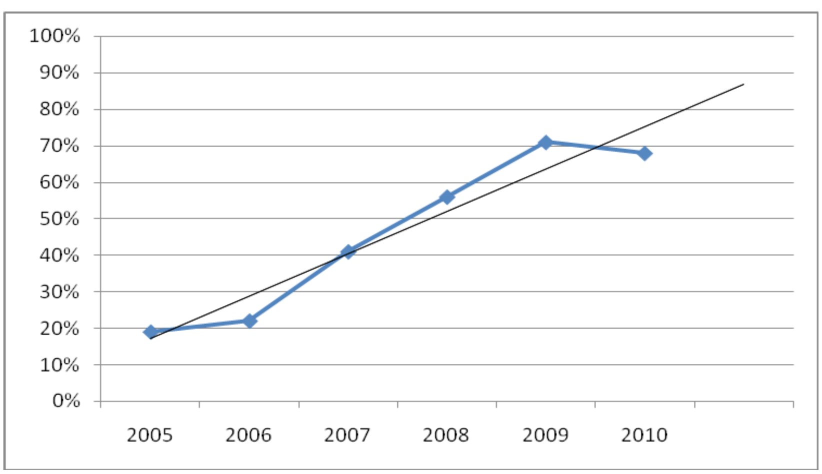
It was also important to track the trends and changes in the customer loyalty to banks since 2005. For this reason the customers were asked to agree or disagree with the following statement.

Figure 7 My loyalty to bank has been constantly increasing since 2005



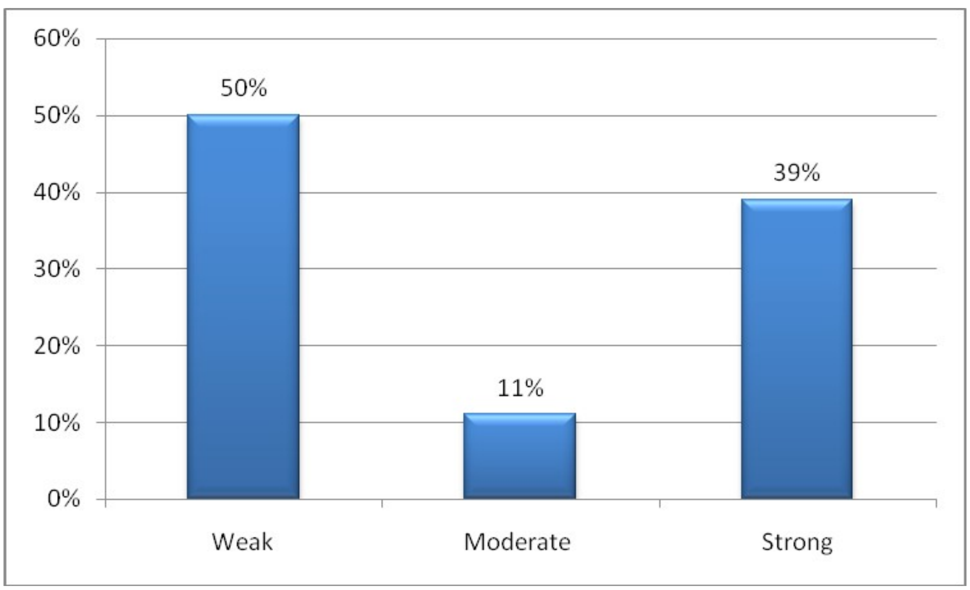
Almost fifty percent of customers strongly disagreed and more than twenty per cent of the respondents disagreed that they loyalty has been constantly increasing. In fact, when asked in what year the customers considered changing their bank, the following results were obtained.

Figure 8 Trend and Forecast of Customer Loyalty to Banks



In 2005, only 20% of the respondents considered changing their bank, which demonstrated the lack of loyalty. However, by 2010 this percentage had grown to almost 70%. Based on historical values, a linear trend has been identified. It forecasts that the customer dissatisfaction with the bank services and their willingness to change banks may increase up to more than 80%. However, since the company related factors were found to influence the customer loyalty, it can be forecasted that during the next five years the loyalty can be improved and dissatisfaction can be reduced if the banks implemented effective strategies for developing customer loyalty. One of the main aspects that should be looked at is the corporate image of the banks and the news that customers receive about the financial institution because the survey has revealed that 39% of the customers are very sensitive to the negative information they receive about the bank from public sources.

Figure 9 Impact of published information about banks on the customer loyalty



Furthermore, a half of the respondents agreed that positive information stimulates their loyalty to the bank.

Another way to establish the degree of association amongst customer loyalty and its factors is to construct a correlation matrix. It is demonstrated below.

Table 18 Correlation Matrix

Correlations

		Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14
Q7	Pearson Correlation	1	-.002	.017	-.044	.082	.032	.034	-.053
	Sig. (2-tailed)		.973	.771	.451	.154	.575	.559	.363
	N	300	300	300	300	300	300	300	300
Q8	Pearson Correlation	-.002	1	.065	.012	-.020	-.102	.016	.028
	Sig. (2-tailed)	.973		.262	.842	.731	.079	.777	.632
	N	300	300	300	300	300	300	300	300
Q9	Pearson Correlation	.017	.065	1	-.028	-.026	.043	-.114*	.001
	Sig. (2-tailed)	.771	.262		.634	.653	.458	.049	.987
	N	300	300	300	300	300	300	300	300
Q10	Pearson Correlation	-.044	.012	-.028	1	-.044	.021	.131*	-.068
	Sig. (2-tailed)	.451	.842	.634		.445	.719	.023	.242
	N	300	300	300	300	300	300	300	300
Q11	Pearson Correlation	.082	-.020	-.026	-.044	1	-.011	-.050	-.010
	Sig. (2-tailed)	.154	.731	.653	.445		.846	.392	.859
	N	300	300	300	300	300	300	300	300
Q12	Pearson Correlation	.032	-.102	.043	.021	-.011	1	.061	.014
	Sig. (2-tailed)	.575	.079	.458	.719	.846		.291	.813
	N	300	300	300	300	300	300	300	300
Q13	Pearson Correlation	.034	.016	-.114*	.131*	-.050	.061	1	.043
	Sig. (2-tailed)	.559	.777	.049	.023	.392	.291		.457
	N	300	300	300	300	300	300	300	300
Q14	Pearson Correlation	-.053	.028	.001	-.068	-.010	.014	.043	1
	Sig. (2-tailed)	.363	.632	.987	.242	.859	.813	.457	
	N	300	300	300	300	300	300	300	300

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

The estimated coefficients have shown that none of the variables were found to be significantly correlated. This can be explained by the random sampling used in the research and multiple factors that determine customer loyalty. On the one hand, the lack of correlation amongst these variables indicates that there is no significant relationship between the economic factors and customer loyalty to banks. On the other hand, it is valid to argue that the correlation only shows associations between the variables and fails to reveal causal relations. That is why additional research is required besides the correlation analysis.

The respondents were asked how many banks they bank with. It was assumed that this factor would also affect their loyalty to their primary bank. After all, if customers use the services of many banks, they tend to be less loyal to each individual bank. The results of the ANOVA test that compares the relations between the number of banks and the customer loyalty are reported below.

Table 19 Analysis of Variance (ANOVA) by Number of Banks

ANOVA

Customer Loyalty to Banks

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	14.914	4	3.729	1.865	.117
Within Groups	589.682	295	1.999		
Total	604.597	299			

The test has supported the null hypothesis that there were no differences in the mean answers, i.e. customer loyalty was not found to be stronger among those who banked with a single bank in comparison to those who banked with several banks. This can be explained by the fact the needs of the individual customers that use services of several banks are not determined by dissatisfaction with the services of other banks. The following section tests whether customer loyalty was different amongst the demographic groups.

4.4. Demographic Factors and Customer Loyalty to Banks

In order to find the differences in customer loyalty to banks between the demographic groups, the chi-square test was applied and cross tabs were constructed.

Table 20 Customer Loyalty and Experience

Crosstab

Count

		Experience				Total
		1.00	2.00	3.00	4.00	
Loyalty	1.00	11	17	12	22	62
	2.00	10	15	11	15	51
	3.00	16	13	19	13	61
	4.00	12	23	15	16	66
	5.00	16	15	14	15	60
Total		65	83	71	81	300

Table 21 Chi-Square Test

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.342[a]	12	.673
Likelihood Ratio	9.115	12	.693
Linear-by-Linear Association	1.767	1	.184
N of Valid Cases	300		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 11.05.

The two tables above have reported that there is no significant association between the customer loyalty and the years of experience with the bank. On the one hand, this contradicts the assumption that loyal customers would be long term customers. On the other hand, customer loyalty was assessed after the recession and the variables indicated the intention of customers to change their primary bank. Hence, it could be the case that experience with the bank was not a key variable that determined customer loyalty. The next table explores the relations between loyalty and the customers’ age.

Table 22 Customer Loyalty and Age

Crosstab

Count

		Age					Total
		1.00	2.00	3.00	4.00	5.00	
Loyalty	1.00	11	12	13	13	13	62
	2.00	14	7	10	11	9	51
	3.00	15	18	9	14	5	61
	4.00	19	12	10	12	13	66
	5.00	15	6	8	19	12	60
Total		74	55	50	69	52	300

Table 23 Chi-Square Test

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.109[a]	16	.379
Likelihood Ratio	17.557	16	.350
Linear-by-Linear Association	.001	1	.980
N of Valid Cases	300		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 8.50.

According to the chi-square statistic, these variables are not related and tend to be independent since the p-value is quite high (0.379). Similarly, customer loyalty was not found to be very different amongst males and females (Table 24).

Table 24 Customer Loyalty and Gender

Crosstab

Count

		Gender		Total
		1.00	2.00	
Loyalty	1.00	33	29	62
	2.00	30	21	51
	3.00	30	31	61
	4.00	36	30	66
	5.00	29	31	60
Total		158	142	300

Table 25 Chi-Square Test

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.626[a]	4	.804
Likelihood Ratio	1.630	4	.803
Linear-by-Linear Association	.402	1	.526
N of Valid Cases	300		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 24.14.

When the customers were divided into groups determined by the size of their annual income, customer loyalty was not found to be dependent on the income of the respondents (Table 26 and Table 27).

Table 26 Customer Loyalty and Annual Income

Crosstab

Count

		Annual Income					Total
		1.00	2.00	3.00	4.00	5.00	
Loyalty	1.00	11	13	13	15	10	62
	2.00	9	9	8	13	12	51
	3.00	8	14	15	14	10	61
	4.00	12	12	10	16	16	66
	5.00	15	17	10	7	11	60
Total		55	65	56	65	59	300

Table 27 Chi-Square Test

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.974[a]	16	.746
Likelihood Ratio	12.305	16	.723
Linear-by-Linear Association	.993	1	.319
N of Valid Cases	300		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 9.35.

These findings are consistent with the results from regression analysis. The last two variables that were tested for association with customer loyalty are education and occupation.

Table 28 Customer Loyalty and Education

Crosstab

Count

		Education				Total
		1.00	2.00	3.00	4.00	
Loyalty	1.00	19	18	17	8	62
	2.00	8	12	17	14	51
	3.00	17	17	9	18	61
	4.00	15	13	19	19	66
	5.00	14	17	15	14	60
Total		73	77	77	73	300

Table 29 Chi-Square Test

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.652[a]	12	.323
Likelihood Ratio	14.872	12	.249
Linear-by-Linear Association	1.173	1	.279
N of Valid Cases	300		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 12.41.

According to the chi-square test, neither education (Table 29) nor occupation (Table 31) show significant relations with customer loyalty to the banks.

Table 30 Customer Loyalty and Occupation

Crosstab

Count

		Job Position				Total
		1.00	2.00	3.00	4.00	
Loyalty	1.00	14	14	14	20	62
	2.00	16	10	11	14	51
	3.00	20	18	14	9	61
	4.00	19	18	14	15	66
	5.00	18	14	14	14	60
Total		87	74	67	72	300

Table 31 Chi-Square Test

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.079[a]	12	.852
Likelihood Ratio	7.307	12	.837
Linear-by-Linear Association	1.511	1	.219
N of Valid Cases	300		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 11.39.

From these analyses, it can be concluded that customer loyalty in the banking industry after the economic recession is not determined or affected by demographic factors but is rather dependent on the bank related factors and economic issues. The following chapter summarises the main conclusions from the research and provides recommendations to the management of the banks.

Chapter Five: Conclusions

This chapter provides a summary of the findings that were achieved in the research project. These findings are compared to the results of previous empirical studies and theoretical works. Final conclusions are drawn from the discussion and recommendations are made.

The purpose of the research was to find out the impact of economic recession on customer loyalty to banks in the UK. This aim has been reached using the methods of statistical analysis applied to primary and secondary data. The methods of analysis that were implemented in the research included regression, correlation, analysis of variance and chi-square tests. The data has been collected and analysed for the period from 2005 to 2010.

The first objective of the dissertation was to discuss the theoretical frameworks of customer loyalty. This objective was reached in literature review. Using the findings from the literature review, it can be summarised that the Four C's of Customer Loyalty are captive, convenience-seeker contented and committed. Captive customers have loyalty to specific brands, but they make repeat purchases only because they are limited in their choice. Convenience-seeker customer loyalty implies that brand choice is determined by manifold convenience factors such as opening hours, location, bank teller machines, package size, etc. Contented customers have stable relationships with companies, but they do not naturally react to brand extensions. Committed customer loyalty is associated with positive consumer behaviour and strong and stable relationships between brands and buyers. The main internal determinants of customer loyalty were found to be individual consumer characteristics, psychographics and demographics, individual expectations and previous experience. However, the role of demographics in the development of customer loyalty was not supported with the findings from the primary research. The results have revealed that customer loyalty was independent of the demographic factors.

The most important external determinants of customer loyalty that were found through the literature review are the company's reputation, image, involvement and participation, price-quality ratio and the appropriate use of customer loyalty programmes.

Critical discussion of the relevant empirical evidence has revealed that customer loyalty in the banking sector is determined by such factors as customer satisfaction, perceived service quality, individual expectations, previous experience of clients, customer involvement, availability of special services to regular clients, customer service, technology convenience, technology security and positive recommendations given by friends and relatives. Taking into account that customer loyalty to financial institutions decreased during the global recession, it is possible to summarise that financial stability, performance of banks and personal income level prove to be other important factors influencing customer loyalty.

The next objective of the research project was to discuss the changes in the UK financial sector during the global financial crisis and economic recession. This objective has been reached through the analysis of secondary data retrieved from annual reports of the largest banks operating in the country.

The findings have reported that the largest banks in the UK saw a decrease in profitability in 2008 and 2009. However, this decline in performance was not found to be a result of the core operations because the values of loans and deposits had increased. Furthermore, the number of customers in the majority of the banks continued to grow. Even though customers in the banks increased, the results also revealed that loyalty to the financial institutions after the economic recession had substantially declined.

The third objective of the study was to assess customer satisfaction with the banks and loyalty to them. In the literature review it was shown that customer satisfaction was one of the main factors of customer loyalty and it was argued that it is impossible to develop strong customer loyalty without customer satisfaction (Duffy, 2003: 480; Singh and Waddell, 2004:100). About 40% of the respondents were found to have low satisfaction with the banks' services. Up to 60% of the customers were mostly satisfied. When these customers were asked if they considered changing the primary bank after the economic recession, 39% of the respondents showed agreement and even strong agreement. Only, 24% of the customers didn't consider changing their primary bank after the recession. However, it is also valid to argue that a large part of the respondents, i.e. 37%, neither agreed nor disagreed with the statement and therefore, could not provide a specific answer. Nevertheless, customer loyalty was found to have decreased because more customers were considering changing the bank.

The fourth objective was to assess how customer loyalty has changed since 2005 and what forecasts could be made on the basis of the current trends. The customers were asked to agree or disagree with the statement that their loyalty to the banks had increased since 2005 and was not impacted by recession. Forty seven percent of the customers strongly disagree with this and twenty one per cent of respondents disagreed. Hence, a declining trend in customer loyalty to their banks has been found. Based on that trend, it has been forecasted that customer loyalty will continue to fall in 2011 unless financial companies improve their financial performance and restore reputation. It has also been forecasted that over the next five years, customer loyalty will improve but it will be dependent on the actions taken by the companies to restoring customer loyalty. Based on the findings of the research practical recommendations have been developed to help financial companies to improve customer loyalty in the future. These are summarised in the last section of the chapter.

5.1. Recommendations

The results of the study have reported that customer loyalty decreased after the economic recession. This can be explained by changes in consumer behaviour and the economic life of households. Customer loyalty, however, was not found to be dependent on any demographic factors but solely on economic and company related issues. Therefore, it is recommended that the management of financial institutions should improve customer service, make online banking easier to use and more secure, expand the types of deposits available to consumers, improve the quality of the promotional offers to clients and provide benefits to the long term customers. These aspects have been found to be important according to the responses received from the participants in the research.

Customer service can be improved by training staff to treat customers with respect and by providing them with helpful services. It may also be recommended that banks should promptly respond to the questions that arise from the customers in emails or through complaints.

Online banking and mobile banking should also be improved in order to increase customer loyalty. The improvements can be realised by updating the software and creating a fast working server with secure coding of the information. Furthermore, in order to inspire more security in the customers, the banks can be recommended to introduce temporary passwords for online banking that would be sent via SMS messages to the clients every time they access online banking. The research originally has shown no correlation between financial performance of the companies and the number of customers they attract. However, companies can introduce better customer service even when their financial performance declines and, in fact, that will even help them to improve profitability and performance in the future.

Customer satisfaction and loyalty can be positively affected by the banks if they expand the number of offers that relate to loan and deposits. It can be recommended that more flexible loans should be introduced that will allow customers to choose the best timing and terms for repayment. Furthermore, it can be recommended that the number of different types of deposits should also be increased where customers would be offered higher interest rates on the deposits that they cannot withdraw for a certain period of time. At the same time, it can be recommended that flexibility in deposits should be the main factor for the banks to aim at.

It may also be recommended that strategies to increase customer loyalty should involve creative marketing campaigns and social networks. The banks can create a positive image and inspire trust amongst consumers that will eventually help them improve customer loyalty to banks. The main recommendations to the bank managers are summarised below:

- To lead an adequate risk management and avoid the mistakes made in the pre-crisis period which led to the deterioration of corporate governance, worsening profitability and, as a result, declining customer loyalty.
- To emphasise the importance of high quality customer service; this was found to be an important determinant of customer loyalty in the literature review.
- To expand the range of services.
- To create a positive image of the bank that would be perceived by consumers.

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Appendix

Questionnaire

Q1: How long have you been the customer of the bank?

- Less than a year
- 1 – 3 years
- 3 – 5 years
- More than 5 years

Q2: What is your age?

- 18 – 21 years old
- 22 – 29 years old
- 30 – 40 years old
- 41 – 50 years old
- Older than 50 years old

Q3: What is your gender?

- Male
- Female

Q4: What is your annual income?

- Less than £25,000 a year
- £25,000 - £34,999 a year
- £35,000 - £49,999 a year
- £50,000 - £69,999 a year
- More than £70,000 a year

Q5: What is your education?

- High school
- Some college courses

- Undergraduate
- Post Graduate

Q6: What is your job?

- Non-skilled labour
- Skilled manual labour
- Skilled non-manual labour
- Managerial position

Q7: How many banks do you bank with?

- One
- Two
- Three
- Four
- Five or more

Q8: How would you rank your satisfaction with the bank services on a scale from 1 to 5 (5 being the best)?

- 1
- 2
- 3
- 4
- 5

Do you agree or disagree with the following statements:

Q9: I have not been loyal to my primary bank and even started considering changing the bank after the economic recession

- Strongly disagree
- Disagree
- Neither agree nor disagree
- Agree

- Strongly agree

Q10: I can tolerate minor mistakes at my bank and they do not affect my loyalty negatively

- Strongly disagree
- Disagree
- Neither agree nor disagree
- Agree
- Strongly agree

Q11: The bank did not satisfy my needs fully even before the recession and I considered changing it.

- Strongly disagree
- Disagree
- Neither agree nor disagree
- Agree
- Strongly agree

Q12: The bank's services worsened during the economic recession

- Strongly disagree
- Disagree
- Neither agree nor disagree
- Agree
- Strongly agree

Q13: What factors affect your loyalty to a particular bank?

- Good customer service
- Good internet and mobile banking service
- Bank's charges
- Account types and Bank's offers

- Bank’s location

Q14: How did the economic recession impact your behaviour?

- I started shopping and spending less
- I have changed my bank
- I increased my savings in the bank
- My spending behaviour has not changed

Q15: What is your primary bank?

- Royal Bank of Scotland
- Barclays
- HSBC
- Citigroup
- Lloyds Banking Group
- Standard Chartered

Q17: How does the information that you obtain about the bank affect your attitude to the financial institution?

- Positive information and earnings announcements usually make me more confident with the bank and improve my loyalty
- I do not track such information and it has no impact on my loyalty to the bank
- I am more sensitive to negative information about the bank that appears in the press; such information can have a negative impact on trust and my loyalty to the bank.

Q18: My loyalty to the bank has been constantly increasing since 2005 and the economic recession has not had an impact on it.

- Strongly disagree
- Disagree
- Neither agree nor disagree

- Agree
- Strongly agree