

Proposal

The Impact of Economic Recession on Customer Loyalty to Banks



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1. Introduction and Background

Customer loyalty can be defined as the adherence of customers to a company. Even if businesses make mistakes, loyal customers will not leave. The economy in the United Kingdom has been greatly affected by the recent recession and financial crisis. Changes in consumer preferences were observed, the income of families declined, and unemployment increased. After observing these changes, it is interesting to investigate whether customer loyalty has changed during the recession also. In particular, it is valid to explore customer loyalty within the context of the banking industry since the recession impacted greatly on it.

The term customer loyalty was widely researched in 1990's but considerably fewer investigations were conducted in later periods. However, the present business environment is characterised by the increase in rivalry and globalisation (Cahill, 2007:6).

Kincaid (2003:10) defines customer loyalty 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). Furthermore, the concept was later divided into behaviouristic and neo-behaviouristic dimensions where the latter is more focused on the underlying causes of customer loyalty and attitudes of consumers (Peppers and Rogers, 2004:57). So, in the investigation of customer loyalty, it is valid to explore two fields: the behaviour of consumers and their intentions (Schweizer, 2008:8).

The problem of customer loyalty is important to investigate in the context of the banking industry because there are rather few empirical evidences available on the effect of recession on customer loyalty and even fewer on the effects of recession on customer loyalty in the banking sector. Hence, this research will provide an important contribution to this area.

2. Aims and Objectives

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

- To discuss the theoretical framework of customer loyalty;
- To discuss the changes in the financial sector during the recession;
- To assess customer satisfaction with the banks and their loyalty to them;
- Assess how customer loyalty patterns have changed and provide a forecast based on the trends identified
- To make recommendations on how banks can improve customer loyalty.

The scope of the research is mainly focused on current accounts and the investigation will show to what extent the loyalty of consumers to their banks has changed since the economic recession.

3. Review of Literature

Although the studies on the effects of economic recession and customer loyalty are rather scarce, some empirical evidence is available. Williams and Naumann (2011:20) investigated the problem of customer loyalty and its changes during the times of economic crises and recessions. The largest companies from Fortune 100 were analysed in the research. However, these researchers have not conducted a primary study which would be considered a strength in this kind of investigation. Past researchers have only conducted secondary analysis of data and came to a conclusion that the recession of 2009 stimulated a decrease in customer loyalty to the large organisations. This can be explained by the worsened performance of the companies, shattered corporate governance and decreased trust of consumers in the companies. The decrease in trust can be interpreted as a result of future expectations of even worse performance that may put the customers and stakeholders of the companies at risk. So, according to Williams and Naumann (2011:20) one of the most important factors of customer loyalty during periods of economic recession is the financial performance of organisations and their solvency.

Stone et al. (2000: 12) argued that consumer loyalty is also dependent on a number of customer related factors, i.e. how customers perceive the business rather than what the business really does. For this reason it will be investigated whether consumer loyalty to banks is dependent upon the customers' age, gender and type of occupation.

Research into customer loyalty during economic recession with implementation of primary data was conducted by Chung et al. (2011:14). However, it was only conducted in the context of the retail sector in China. They used both interviews and questionnaire methods of primary data collection. Overall, almost a hundred retail stores in China participated in the primary study, which makes it strong from the viewpoint of generalisation. In the interviews, more than twenty top managers participated. However, it would be recommended to survey the customers rather than managers because it is the customers who express loyalty therefore, it can be better investigated. The conclusions achieved by Chung et al. (2011: 14) appeared to be consistent with the previous investigation conducted by Uncles et al. (2003: 249). In both cases, the researchers agree that both external factors and individual factors affect customer loyalty.

Chung et al. (2011:14) have found out that changes in the economic environment have had a negative impact on customer loyalty in the context of the retail stores in China. They also found that many marketing strategies were implemented by retailers to increase customer loyalty. For instance, changes in the distribution channels were made. However, it is also valid to note that the researchers failed to provide practical recommendations to the companies on improving customer loyalty.

The next empirical evidence on customer loyalty was provided by Lee et al. (2011: 150). It was a study with a narrow focus on the effects of commercial advertising on the changes in customer loyalty. The researchers also studied customer loyalty within the context of the economic crisis. It is interesting to add that this study also included an investigation of the banking sector. The analysis of more than two thousand

advertisements was conducted and the finding is that consumer loyalty has worsened since the beginning of the economic recession and financial crisis.

Lee et al. (2011: 150) also revealed that the number of ads published by banks was reduced during the economic recession. This was one of the reasons that allowed the researchers to conclude that advertising and customer loyalty were related. According to Lee et al, (2011: 150) companies use advertising to popularise the brand image, which in turn stimulates consumer behaviour. Consumer behaviour then determines whether customers become loyal to the brand or not. However, it can be argued that the number of ads fell because the banks and other companies attempted to cut their expenses and remain profitable.

Customer loyalty to banks was also studied by Ehigie (2006:494) and Baumann et al. (2011: 247). Ehigie (2006: 494) evaluated the influence of customer satisfaction, expectations and perceived service quality on customer loyalty to banks. He found that customer satisfaction was the strongest factor among the rest. However, the study was conducted in the context of an emerging economy.

Baumann et al (2011: 247), in contrast found that the seeking of variety and resistance to changes were the most significant factors of customer loyalty to banks. In the following section, it is explained how the research will be conducted to explore customer loyalty in the banking sector in the UK and its changes during the economic recession.

4. Methodology

The main research hypothesis that will be tested is the following:

H0: The economic recession in the UK has had a negative impact on the customer loyalty to large financial institutions.

A combination of the case study and survey strategy will be used to pursue the research and achieve the aims and objectives.

The six largest banks in the UK will be used as case studies, and an analysis will be conducted. The Royal Bank of Scotland Group; Barclays; HSBC; Lloyds Banking Group; Standard Chartered; and Citigroup will be used as case studies. As the case study strategy implies, the data has to be collected from several sources. That is why both primary and secondary studies will be conducted. The main sources of secondary data used are the annual reports of the six banks that are available online. The following indicators will be retrieved from annual reports to assess the performance of the bank before and after the recession:

- 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 will be evaluated for the period from 2006 to 2010. The assessment of the financial performance of banks during the recession period will be made through analysis of the dynamics of the factors stated above. Since customer loyalty is determined by both firm related factors and individual related factors, the changes in the financial performance indicators will help to assess the firm related factors, i.e. to what extent the revenue of the banks from consumer departments declined, to what extent net operating profits declined, etc. Correlation analysis would then demonstrate whether the changes in financial performance during the recession were associated with the changes in customer loyalty, which would be assessed by analysing the primary data.

For the primary study, the data has been collected using a structured questionnaire that is presented in the appendix. The questionnaire is one of the main methods of data collection used with the survey strategy (Saunders et al, 2009; Bryman and Bell, 2008).

The questions have been designed to assess both the demographic characteristics of the respondents and their customer loyalty to the major banks.

The demographic factors will be used for the following reasons. Firstly, it will be investigated whether older customers tend to be more loyal than young customers. Secondly, it will be interesting to explore whether women are more loyal to banks than men. Thirdly, it will be researched whether affluent customers are more loyal to their primary bank than less wealthy customers. Finally, the research aims to investigate whether less educated consumers are more loyal to banks than their more educated peers.

The Likert scale has been used to make the data quantitative in nature so that it could be analysed using statistical software such as SPSS. The main methods with which the data will be analysed will include analysis of variance or ANOVA, regression, correlation and the chi-square test. Frequency tables will also be constructed to demonstrate a breakdown of customers according to their responses. Cross tabulation is also used in combination with the chi-square tests.

The frequency tables are intended to be used to show the percentage of respondents that agreed or disagreed with each of the statements in the questionnaire. It will therefore show the dominant trends in responses. Cross tabulation and the chi-square test are intended to show the differences in consumer loyalty depending on demographic factors such as age, gender and education.

The ANOVA test will demonstrate whether customer loyalty to the customer's primary bank is affected when customers bank with several other banks. Correlation analysis will allow one to assess the degree of association between the factors that determine customer loyalty to banks. Regression analysis will reveal the statistical significance of each factor that is assumed to have an impact on customer loyalty to banks.

5. Ethical Considerations

The research project will be mostly based on the primary study that implies the participation of customers in the survey. This strategy is often associated with ethical issues that have to be considered. The first ethical issue that has been encountered is the confidentiality of the respondents. When the banks' customers were asked to participate in the survey, they were guaranteed anonymity. Furthermore, an agreement was made that the information that they provided for the study would not be used in any other project or area.

The second ethical issue that had to be considered is political correctness. The questions had to be chosen and prepared in a way that avoided uncomfortable situations in the respondents. Therefore, a pilot study that involved only 5 respondents has been conducted to assess the reaction of the respondents to the questions. After the pilot study was completed, it was clear that all of the questions were polite and correct, so they were used in the final questionnaire.

6. Intended Outcomes

It is expected that the findings from the research will reveal that consumer loyalty to their primary banks has declined since the economic recession in the UK. This expectation may be justified by the fact that the recession has had a negative effect on the income of many consumers, shattered the confidence with large financial institutions and changed the spending and saving patterns of households. It is also expected to find that demographic factors do not have a substantial impact on customer loyalty to financial institutions. The findings will be communicated to the banks and will contribute to the effective management of financial institutions. Recommendations will be aimed at the management of the banks on how to improve customer loyalty amongst the banks' consumers. So, the main stakeholders of the research are the managers of the banks in the UK. However, recommendations will also be provided for the marketing researchers who can explore the problem on a deeper level in the future.

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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 altogether do you bank with (have current account)?

- 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
- Other

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