

## **Impact of Customer Satisfaction on Customer Retention: A Case Study of a Reputable Bank in Oyo, Oyo State. Nigeria**

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**Abstract:** *This paper examined the impact of customer satisfaction on customer retention. The objectives were: to determine the relationship between customer satisfaction and customer retention, and to examine the impact of customer satisfaction on customer retention.*

*Survey research design was adopted for this study. Primary and secondary sources of data were used. The primary data includes a structured questionnaire used to elicit information from the target respondents who were customers of the reputable bank in oyo while the secondary data encompass the use of related materials, journals and periodicals. Anova and t-statistics were used to test the hypothesis while regression analysis was used to analyzed the data.*

*The findings show the  $R^2$  value of 0.717 which reveals that customer satisfaction independently accounts for 71.7% of the variation in customer retention. The f-statistics of 41.173 reveals that the model is statistically significant at 0.05 significant level.*

*It was concluded that the effective satisfaction of customers will give room for customer retention. More so, there is a significant relationship between customer satisfaction and customer retention.*

**Keywords:** *Customers, retention, customer satisfaction, customer retention and organizational objectives.*

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### **1. INTRODUCTION**

It is an obvious fact that every organization tends to move to a position where customer satisfaction is given a favourable consideration. In other words, customer satisfaction is a construct that must be met optimally for efficient and effective achievement of stated objectives, and for smooth continuation of business. Customer satisfaction is an integral part of organizational objectives that must be fulfilled for an organization to maintain its customers.

Customers are valuable asset that must be properly kept satisfied. The existence of any business oriented organization is the performance of business activities that will flow from the organization to identified target customers through the provision of need satisfying packages in order to satisfy the needs of the customers, and achieve the stated objectives set by the organization. The satisfaction of the needs of the respective customers thereby gives room for an opportunity to retain the customer and create customer loyalty for continuous patronage. In a similar manner, customer retention is a strong indicator of organizational objectives. The level of customer retention dictates to some extent the level of achievement of organizational, objectives. In other words, if customers fail to patronize or repeat the purchase of the products of the organization, definitely sales and profitability of the organization will drop which will adversely affects the entire performance of the firm. In a nut shell, the degree at which organization retain their customers depends to a large extent the degree of satisfaction derived from the products of the organizations.

Importance of customer satisfaction in today's dynamic corporate environment is obvious as it greatly influences customers repurchase intentions whereas dissatisfaction has been seen as a primary factor for customers' intention to switch (Faiza et al 2001). It is therefore obvious for business organization to create and maintain favourable relationship with their customers in order to not only give room for repeat purchase but also create room for customer retention. When there is a favourable relationship between the organization and the customers, customers tend to repeat

purchase and continue patronizing the organization, thereby telling their favourable experiences with other members of the society which can have positive effect on the organization. More so, dissatisfied customers are more likely to tell people about their unfortunate experiences which will negatively affect the performance of the organization. In other to achieve customer satisfaction, organization must be able to build and maintain long lasting relationship with customers through satisfying various customers needs and demand which resultantly motivates them to continue to do business with the organization on on-going basis.(La Barbera and Mazursky,1983). Ibojo (2014) was of the view that, for an organization to constantly retain its numerous customers in this competitive global village, there is the need to strategically constantly satisfying the needs of the customers. He was of the opinion that a satisfied and retained customer will give room for repeat purchase while unsatisfied customer may decide to switch to other brands or competitive brands of other organizations.

Customer satisfaction is an integral part of business objectives of any organization irrespective of the nature of the organization and however, more pronounced in business oriented organizations can be achieved through understanding the needs of the target market and the provision of needs satisfying packages in meeting and satisfying these needs at a greater extent, thus, building and maintaining long lasting and favourable relationship with the target market. (Ibojo, et al 2013)

The need to create and maintain customer satisfaction has been emphasized by researchers and academicians. This is because the realization of other business objectives leans on the level and degree of satisfaction received by the target market. This is the reason why organizations are focusing on customer satisfaction and customers' retention.

Customer satisfaction is the foundation for any organization to retain its existing customers (Khan, 2002). He was of the opinion that customers who are satisfied are likely to have positive relationship with the organization. It is therefore necessary for organizations to make sure that all activities tend to the satisfaction of their customers. This will create a path way for customers to see the possibility of integrating their loyalty with the organization, taken into cognizance continued purchasing and repurchasing of the organization's products.

### **1.1. Objectives of the Study**

1. To determine the relationship between customer satisfaction and customer retention.
2. To examine the impact of customer satisfaction on customer retention.

## **2. LITERATURE REVIEW**

The Subject Matter has gained a lot of attention from researchers and practitioners across the globe. It is a necessity that must be put in place for organization to constantly achieve it stated objective in the face of competitive globalization. The issue of consumer satisfaction cannot be over emphasized because it is a factor that must be considered in order to give room for consumer retention. In the service industry, strong emphasize is placed on the significant importance of service quality perceptions and association between service quality and consumer satisfaction (Cronin and Taylor, 1992; Taylor and Baker, 1994). It is therefore presumed that some researchers concluded that service quality is an important indicator of customer satisfaction. In essence, consumers will be loyal to a bank if the services rendered are satisfiable to the consumers. Faizan et al (2011) were of the opinion that satisfaction is a critical scale of how well a customer's needs and demands are met while customer loyalty is a measure of how likely a customer is to repeat the purchase and engage in relationship activities. They were of the opinion that customer satisfaction has a positive significant relationship with customer loyalty. They also concluded that it is impossible to have loyalty without satisfaction.

According to Rahim et al (2012), consumer satisfaction is a critical focus for effective marketing programs. Oliver (1999) viewed the fact that consumer satisfaction remains a worthy pursuit among the consumer marketing community. Yi (1991) stated that consumer satisfaction is a collective outcome of perception, evaluation and psychological reactions to the consumption experience with a product or service. Consumer satisfaction is regarded as how consumers can get more benefits than their cost

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Oliver (2000) suggests that 'customer satisfaction is the core philosophy of marketing strategy of any organisation and plays a key role in an organisation success. He opines that customer satisfaction is vital for the brand loyalty as it is an important reason to attach someone with a particular brand. Customer satisfaction has traditionally been regarded as a fundamental determinant of long term customer behaviour. According to Ranaweera and Prabhu (2003) the more satisfied customers are, the greater is their retention, the positive word of mouth generated through them and the financial benefits to the firms who serve them. It is not surprising therefore that the fundamental aim of firms is to seek to manage and increase customer satisfaction at least in this era of competitive global marketing. Customer satisfaction is defined as an overall evaluation of a firm's products (or services)' (Anderson et al., 1997). In the marketing literature, satisfaction has been established as a major antecedent of customer retention. In the context of relationship marketing, satisfaction is conceptualized as an element of the relationship quality concept.

In the same vein, Mohsam, et al. (2011) observed that the issue of customer satisfaction has been gaining increasing attention among researchers and practitioners as a fundamental tool in financial institutions for enhancing organizational performance and profitability. Mohsam et al. (2011) further observed that the issue of customer satisfaction cannot be easily dismissed because the happier the customers, the easier they disseminate information about the products.

Gerpott, et al (2001), states that the continuity of the business relations between the customer and organization depends on the relationship between the two parties. For organization to continue staying in business, there is the need create a link with the customers through the satisfaction of customers' needs. The vital issue in relationship marketing research was the effects of relationships and quality on customer's retention (Lin and Wu, 2011). Retention and attraction of new customer are used as drivers for increase in market share and revenues (Rust et al, 1995). In the retention of customer, it is important for firm to know who to satisfy and how to effectively satisfy their customers. Post sales services are the important drivers for customer retentions (Saeed et al, 2005). It is important for product/service provider to emphasis on the quality of product and service. As it is stated (Lin and Wu, 2011) that there is statistically significant relationship between quality commitment, trust and satisfaction and customer retention and future use of product, as retention is influenced by future use of product..

Satisfaction is defined in different studies in different ways. Satisfaction can be obtained based on the expectation of the receiver. If the supply of a firm were according to expectations of customers, they would be satisfied. The amount of high or low satisfaction depends upon the level of supply that meets the level of expectation or fall below the level of expectation (Gerpott et al, 2001). Satisfaction of customer is used for indication of future possible revenue (Hauser et al 1994). Customer satisfaction is the necessary foundation for the company to retain the existing customers (Guo, et al 2009). The customers who are unsatisfied with the received services would not be expected to have long run relationships with the company (Lin and Wu, 2011). Poor services can also lead to dissatisfaction. Poor services or unsatisfactory level of services, which cannot meet customers' expectation, may be one of the causes of dissatisfaction in customers (Rust and Zahorik, 1993). Variation in the quality and value of products and services provided to customer creates variation in customer satisfaction and that create variation in customer loyalty (Auh and Johnson, 2005). For developing customer satisfaction, reliability in the provision of services and commitment to service relationships is a must if a company must attempt to increase customers future expectations.

Satisfaction is an overall customer attitude or behaviour towards the difference between what customers expect and what they receive, regarding the fulfillment of some desire, need or goal (Hansemark, 2004; Kotler, 2000; Hoyer, and MacInnis, 2001).

Customer retention on the other hand is defined by different studies in different ways like Gerpott (2001), Rams (2001) and Schindler (2001). They stated that customer retention 'is the continuity of the business relations between the customer and company'. Customer retention is more than giving the customer what they expect; it is about exceeding their expectation so that they become loyal advocates for your brands. Retention and attraction of new customer are used as drivers for

increasing market share and revenues (Rust, et al 1995). In the retention of customers, it is important for firm to know how to serve their customers because post sales services are the important drivers for customer retentions (Saeed, et al 2005).

Mary et al.(2007) observe that financial service institutions like the banking sector are focusing on retaining their existing customers and in doing this, they work on the services provided, develop smarter use of technological use e.g ATM etc revisit processes to improve the customer experiences and ensures that the organizational culture supports retention. The sole purpose of a business according to Drucker (1973) is 'to create a customer'. However, keeping the customer has become regarded as equally, if not more important, since Dawkins and Reichheld (1990) reported that a 5 per cent increase in customer retention generated customer net present value of between 25 per cent and 95 per cent across a wide range of business environments.

Gets and Thomas (2001) state that 'customer retention occurs when customer purchase a product or services again and again, this phenomenon is called customer retention over an extended period of the time.' Huit (2000) defined customer retention as 'the process by which consumers interpret price and attribute value to a good or service.' Khan and Hussain (2013) opine that customers who are willing to pay higher prices for a product or service tend to be brand conscious and prestige sensitive. Crosby et al. (1990) define customer satisfaction as reliance on or confidence in the person or process services are acts, deeds or performances. Buttle (2004) customer retention is the number of customers doing business with a firm at the end of a financial year expressed as a percentage of customers that were active at the beginning of the year.

Customer retention has been shown to be a primary goal in firms that practice relationship marketing. While the precise meaning and measurement of customer retention can vary between industries and firms there appears to be a general consensus that focusing on customer retention can yield several economic benefits (Buttle, 2004). As customer tenure lengthens, the volumes purchased grow and customer referrals increase.

Building long-term relationship with customers is considered an essential precondition for the economic survival and success of most service firms today (Berry, 1995; Heskett et al., 1994). Day (1994) said that the identification and satisfaction of customer needs leads to improved customer retention.(Clark, 1997): 'Customer retention is potentially one of the most powerful weapons that companies can employ in their fight to gain a strategic advantage and survive in today's ever- increasing competitive environment. It is vitally important to understand the factors that impact on customer retention and the role that it can play in formulating strategies and plans'.

### **3. METHODOLOGY**

#### **3.1. Research Design**

This study examines the impact of customer satisfaction on customer retention in one of the banks in oyo, Oyo State. It is a survey study and so this research adopted a descriptive design to elicit information on the characteristics of the respondents in terms of age, sex and occupational level.

#### **3.2. Study Population/Sample**

Customers of the bank in Oyo, Oyo State, situated inside Federal College of Education (Special), Oyo campus and outsiders constitute the study population. The sample used in the study is drawn from the population and it represents the characteristics of the larger group that is the population. The total population is 200 customers of the bank in Oyo. Out of 150 subjects given the questionnaire, 107 returned the questionnaire

#### **3.3. Sampling Method and Sample Size**

The samples are account holders of the bank in Oyo. They consist of high ranking academicians, students, business individuals of high level to low level salary and wage earners. The customers are males and females of different ages.

#### **3.4. Sources of Data**

This involves the use of descriptive and inferential statistics. The descriptive statistics incorporate the use of tables and percentages while the inferential statistics give room for the use of regression analysis.

### **3.5. Data Collection Instrument**

Questionnaires were distributed to the subjects used in the study. The researcher appealed to the respondents to complete the questionnaire in the bank premises to ease out the stress of collecting the questionnaires back.

### **3.6. Methods of Data Analysis**

This involves the use of descriptive and inferential statistics. The descriptive statistics incorporate the use of tables and percentages while the inferential statistics give room for the use of t-statistics and regression analysis.

### **3.7. Research Hypotheses**

1. Ho - There is no significant relationship between customer satisfaction and customer retention.  
H1- There is a significant relationship between customer satisfaction and customer retention.
2. Ho- Customer satisfaction has no significant impact on customer retention.  
H1- Customer satisfaction has a significant impact on customer retention

## **4. DATA PRESENTATION AND ANALYSIS**

### **4.1. Demographics**

**Table4.1.1.** *Distribution of respondents by sex*

Category	Frequency	Percent	Valid Percent	Cumulative Percent
Male	50	46.7	46.7	46.7
Female	57	53.3	53.3	100.0
Total	107	100.0	100.0	

*Source: Author's Computation, 2014*

Table 4.1.1 shows the distribution of respondents by sex. The table reveals that out of a total of 107 respondents, 50 were males while 57 were females. 46.7% of the population were males while the females make up 53.3% of the total sample of the respondents. With these we conclude that most of our respondents are females.

**Table4.1.2** *Distribution of respondents by age*

Years	Frequency	Percent	Valid Percent	Cumulative Percent
16-25	37	34.6	34.6	34.6
25-40	60	56.1	56.1	90.7
40-60	10	9.3	9.3	100.0
Total	107	100.0	100.0	

*Source: Author's Computation, 2014*

The tables above revealed that the age of respondents were divided into three distinct groups. 34.6% of the respondents fall between the age brackets of 16-25 years. Majority of the respondents fall within the age bracket of 25-40 years with 56.1% and 9.3% represent the respondent within the age brackets of 40-60.

**Table4.1.3** *Distribution of respondents by marital status*

Category	Frequency	Percent	Valid Percent	Cumulative Percent
Single	76	71.0	71.0	71.0
Married	20	18.7	18.7	89.7
Others	11	10.3	10.3	100.0
Total	107	100.0	100.0	

*Source: Author's Computation, 2014*

The table above revealed that the marital status was divided into three distinct groups.71.0% of the respondents is single, 18.7% are married and 10.3% of the respondents are neither married nor single. Because the bank is sited in Federal College of Education campus it is not surprising that most of the respondents are single and are students.

**Table4.1.4** *Distribution of respondents by years of account*

Category	Frequency	Percent	Valid Percent	Cumulative Percent
1 year	6	5.6	5.6	5.6
2 years	11	10.3	10.3	15.9
3 years	15	14.0	14.0	29.9
Above 3 years	75	70.1	70.1	100.0
Total	107	100.0	100.0	

Source: Author's Computation, 2014

The table above revealed that 5.6% of the respondents are just one year old as account holders in the bank.10.3% of the respondents are two years old as account holders,14.0% of the respondents are three years old as account holders while 70.1% of the respondents are above three years old as account holders in the bank

**Table4.1.5** *Distribution by type of account*

Category	Frequency	Percent	Valid Percent	Cumulative Percent
Current account	28	26.2	26.2	26.2
Savings account	79	73.8	73.8	100.0
Total	107	100.0	100.0	

Source: Author's Computation, 2014

The table above revealed that the respondents have only two types of accounts in the bank.26.2% of the respondents are current account holders while 73.8% are saving account in the banks. This implies that the majority of the respondents have saving account in the banks.

**Table4.1.6** *Distribution by occupation*

Category	Frequency	Percent	Valid Percent	Cumulative Percent
Lecturer	18	16.8	16.8	16.8
student	64	59.8	59.8	76.6
Admin Staff	12	11.2	11.2	87.9
Banker	4	3.7	3.7	91.6
Others	9	8.4	8.4	100.0
Total	107	100.0	100.0	

Source: Author's Computation, 2014

The table above revealed that out of a total 107 respondents 18 were lecturers, 64 were students, 12 were administrative staff, 4 were bankers and 9 belong to other categories not specified. Findings here revealed majority of the respondent were students with59 .8% while lecturer constitute 16.8% of the population, administrative staff constitute 11.2%, bankers constitute 3.7%, another category constitute 8.4% of the population.

## 4.2. Frequency Distribution of Responses of Customers

**Table4.2.1.** *There is a significant relationship between customer satisfaction and customer retention.*

Category	Percentage (%)
Strongly Agreed	69
Agreed	28
Neither-agree/disagree	3

Source: Author's Computation, 2014

**Table4.2.2** *Customer satisfaction has positive impact on customer retention*

Category	Percentage (%)
Strongly Agreed	71
Agreed	28
Neither-agree/disagree	1

Source: Author's Computation, 2014

Research questions. There is a relationship between customer satisfaction and customer retention.

Table 4.2.1 above revealed that there is a strong relationship between customer satisfaction and customer retention. Out of the total respondents it is observed that 69 % strongly agreed, 28%

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agreed while only 3% of the respondents neither agreed nor disagreed that there is a relationship between customer satisfaction and customer retention.

Table 4.2.2 revealed that customer satisfaction has positive impact with customer retention with 71% of the respondents strongly agreed, 28% agree and only 1% neither agreed nor disagreed. This therefore revealed that customer satisfaction has positive impact on customer retention

### 4.3. Test of Hypotheses

Hypothesis 1-There is significant relationship between customer satisfaction and customer retention.

**Table4.3.1 ANOVA<sup>a</sup>**

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.078	1	.078	41.173	.001 <sup>b</sup>
	Residual	19.142	106	.255		
	Total	19.221	107			

Source: Author's Computation, 2014

a. Dependent Variable: customer retention

b. Predictors: (Constant), customer satisfaction

**Table4.3.2 Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.256	.762		5.587	.000
	CUS. SAT	.899	.483	.857	.540	.005

Source: Author's Computation, 2014

Dependent Variable: customer retention

Statistical analysis reveals that there is a significant relationship between customer satisfaction and customer retention. This can be seen in table 4.3.1 the f-statistics shows the value of 41.173 at 5% significant level. The implication is that organizations should constantly take cross functional decisions on marketing and non marketing activities in order to continuing increasingly retaining their customers. In line with this, the null hypothesis is rejected, thereby accepting the alternative hypothesis which states that there is a significant relationship between customer satisfaction and customer retention.

## 5. DISCUSSION OF RESULTS

The regression result as displayed in appendix 1 relates to the effect of customer satisfaction on customer retention. The value of the  $R^2$  (0.717) reveals that customer satisfaction independently accounts for 71.7% of the variation in customer retention. Both the value of standard error and the t-statistics show that the parameters are statistically significant at 5% level of significant. The value of the adjusted  $R^2$  indicates that the model has a good fit. The f-statistics of 41.173 shows that the model as a whole is statistically significant at 5% level of significance.

## 6. CONCLUSION

The issue of customer satisfaction is a critical factor that must be given constant attention in order to achieve stated organizational objectives. From the findings of this study, it can be concluded that customer satisfaction as a whole has independently contributed immensely to the retainment of respective customers. More so, there is a significant relationship between customer satisfaction and customer retention.

## 7. RECOMMENDATIONS

In line with this study, the researcher hereby recommended the following:

1. Organizations should embrace and adopt the marketing concept that allows for being more effective than competitors in creating, delivering, and communicating superior customer value to their chosen target markets.

2. Organizations should also take cross functional decisions on marketing and non marketing activities in order to satisfy their customers for more effective customer retention.
3. Organizations should constantly conduct research in order to understand the needs of their target market and how to effectively satisfy the needs.
4. Organizations should create favorable relationship with their target markets.
5. Organization must also monitor the strategies and moves of competitors to avoid switching or attraction of customers by competitors.

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**Appendix 1**

**Table1.** *Model Summary<sup>b</sup>*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.847 <sup>a</sup>	.717	.709	.505	1.052

*Source: Author's Computation, 2014*

*a. Predictors: (Constant),*

*b. Dependent Variable: SATISFACTION*

The value of  $R^2$  (0.717) indicates that customer satisfaction independently explain 71.7% of the variation in customer retention.