

## **Drivers of Bank Loyalty among Students in Nigeria: Positing the 12-Point Student Customer Bank Loyalty Index Model**

Steve Ukenna<sup>1\*</sup>, Moses C. Olise<sup>2</sup>, Victoria C. Chibuike<sup>3</sup>, Carol Anionwu<sup>4</sup>, Nick N. Igwe<sup>5</sup> and Ifeanyi E. Okoli<sup>6</sup>

<sup>1</sup>Marketing Unit, Department of Business Management, Godfrey Okoye University, Enugu, Nigeria

<sup>2</sup>Department of Marketing, Nnamdi Azikiwe University, Anambra, Nigeria

<sup>3</sup>Department of Technology and Vocational Education, Enugu State University of Science and Technology, Enugu, Nigeria

<sup>4</sup>Department of Business Management, Cross River University of Technology, Cross River State, Nigeria

<sup>5</sup>Department of Business Management, Godfrey Okoye University, Enugu, Nigeria

<sup>6</sup>Madonna University, Okija, Anambra State, Nigeria

This paper identifies key determinants of bank loyalty among student customers of banks in Nigeria. Data were collected from a sample of 423 student bank customers from 4 tertiary institutions in southeast Nigeria. Factor analysis was used to reduce 39 variables on student customer loyalty into 12 underlying factors explaining loyalty behaviour among student bank customers, which are collectively labeled *12-Point Student Customers Bank Loyalty Index Model*. We recommend that banks located around University campuses should employ the model as an invaluable strategic tool for marketing strategy design, student customers' bank loyalty assessment, and competitors' customer loyalty analysis.

Keywords: bank loyalty, student customer, 12-point student customer bank loyalty index model

### **Introduction**

The rate of growth of the Nigerian University System could be described as phenomenal, doubling every four or five years and probably faster than anywhere else in the world. From a modest enrolment of 3,646 students in 1962/63, the system recorded a student enrolment of 20,889 in 1972/73 rising to 104,774 in 1982/83. Five years later, in 1987/88 the total enrolment in all federal and state universities jumped to 160,767 students. By 1962, there were four universities, growing to twelve by 1977 and rising by an additional eight in 1983 (Adesola, 1991).

This growth is also true for all other Higher Educational Institutions (HEIs) comprising of polytechnics, monotronics, colleges of education, and innovation enterprise institutions (IEIs). Nigeria now has 82 universities, 68 polytechnics, 37 monotronics, 80 colleges of education, and 27 innovation enterprise institutions (IEIs) (Joint Admission and Matriculation Board, 2009). With a population of over 140 million people, Nigeria has over 1 million students enrolled in over 250 HEIs (Jibril, Teferra & Altbach, 2003). With the growth in the Nigeria's student bank customer segment, the need to understand this segment has become urgent and timely.

This is even true now that customer loyalty is fast being recognized as key determinant of long-term profitability in the banking sector (Ehigie, 2006). Despite this trend, past studies appear to have paid scanty attention to this. In effect, research into customer loyalty has focused primarily on product-related issues, whereas loyalty to service organizations has remained under exposed (Ehigie 2006; Gremler & Brown, 1996; Bloomer, Ruytler, & Peters, 1998). Even where research attention is focused on customer loyalty in service organizations, knowledge gap still exist specifically in bank loyalty determinants among students in tertiary institutions in developing economies. To contribute in filling this gap, this paper examines the factors that fosters the loyalty level of student bank customers in Nigeria.

### **Literature Review**

There are no common definitions of loyalty. Dick and Basu (1994) defined loyalty as a consumer commitment to the brand or approach to the brand (service, product category, etc.). Loyalty is also interpreted as an expectation to continue a relationship with a particular brand (Wilson, 1995).

Fisher (2001) describes a loyal customer to a bank as one that will stay with the same bank, is likely to

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\*Corresponding author. Email: stephenukenna@yahoo.com

take out new products with the bank and is likely to recommend the bank's services. We modified the definition of customer loyalty by Bloomer, Ruymer, and Peters (1998) to put forward our definition of bank loyalty as:

*The biased (i.e. non random) behavioral response (i.e. revisit), expressed over time, by some decision-making unit with respect to one bank out of psychological (decision-making and evaluative) processes resulting in bank commitment.*

Research on the drivers of loyalty dominates customer loyalty literature. There are various views of how customer bank loyalty can be achieved. Bank customer loyalty can be achieved through customer satisfaction (Fisher, 200); through service quality (Jacoby & Chestnut, 1978); through relationship marketing (Nkamnebe & Olise, 2003); through switching cost (Beerli, Martin & Quintana, 2004); through communication (Ball, Coelho, & Machas, 2004; Ehigie, 2006; Morgan & Hunt, 1994); and through trust (Morgan & Hunt, 1994). The use of state-of-the-art technologies in the banking sector has been proposed as a driver of loyalty in the banking sector (Colgate & Hedge, 2001). Sequel to the varied perspectives to what constitute the drivers of loyalty, we agree with Ivanauskiene and Auruskeviciene (2009) that there are no one commonly accepted description of loyalty and even now still many debates take place on what customer loyalty is and what the key drivers that cause loyalty are.

## Methodology

The researcher purposively selected Nnamdi Azikiwe University (UNIZIK), University of Nigeria (UNEC), Federal Polytechnic Oko, and Institute of Management Technology (IMT) because they are institutions with large student population size and with high bank presence in southeast Nigeria. As such, the presence of these banks has the potential of creating high banking culture among the students. We obtained the estimate of the total number of registered students of each of the four institutions from the Registrars of the institutions. The population of registered undergraduate students of

the four institutions is 122,382 as at 2011 when the study was executed. After using the Yaro Yamani formula, the estimated sample size for the study was 423 undergraduates. A structured questionnaire of Five-Point Likert Summating Rating Scale was designed, ranging from "not important at all" to "very important".

The questionnaire contains 49 likely variables that determine student bank customer loyalty. The variables were drawn from literature and from pilot survey responses of a group of 30 students in UNIZIK, who were asked to state the factors that makes them love their bank. Out of a total of 423 copies of the questionnaire that were produced and distributed, 13 were not returned and 410 were returned, and 10 from the 410 returned were found invalid thus leaving a total of 400 valid copies of the questionnaire. This represents a response rate of 97%. The high response rate was due to the fact that the questionnaires were administered to students while in their classes with assistance from their lecturers. The questionnaire was further subjected to reliability test which yielded a 0.7634 cronbach alpha.

## Result

A variable item is grouped in a component where it has the highest factor loading, which means such a variable item do not only belong to such component, but it also strongly correlates or explains such a component. Take for instance; ITEM1 has its highest factor loading that satisfies the 0.400 benchmark (Schumacher & McMillian, 2003) in component 5. Thus ITEM1 best explain and belongs to component 5.

The Eigen values were calculated for each component. The Eigen values and Scree test were used to determine the number of extracted components from the observed data. The size of an Eigen value indicates the amount of variance in the principal component explained by each component. The table below shows the extraction of 12 components from 46 variables (note that 3 variables that produced negative Eigen values were neglected):

Table 1. Extracted factor component and their names.

Component (Extracted)	Factor loadings	Variables (items on questionnaire)	Naming the component*
1.	0.672 0.663 0.649 0.567 0.547 0.505 0.496 0.464	ITEMS26: My bank listens to me ITEMS21: Good understanding of customer ITEMS20: Skillful Bank workers ITEMS27: Swift Response to customer complain ITEMS37: My bank has my best interest at heart ITEMS17: Satisfactory personal services ITEMS 18: Perceived honesty of bank staff ITEMS36: My bank gives me personal attention.	Good customer bank relationship and satisfactory services.

Table 1. (continued).

2.	0.772 0.718 0.557	ITEM3: Speed of transaction ITEM2: Efficient services ITEM4: Friendly Staff	Efficient Staff
3.	0.761 0.712 0.476	ITEM16: Social relationship with bank staff ITEM15: Family relationship with bank staff ITEM5: Bank recommended by parent and family	Family and social relationship with bank
4.	0.713 0.675 0.615 0.546 0.427	ITEM40: Branches are close to customers ITEM39: Use of ATM even in other banks ATM ITEM41: Very strong capital base ITEM11: Convenient location ITEM43: Sound and experienced management	Accessibility of bank services to customers
5.	0.647 0.577 0.497 0.473	ITEM23: Physical safety to customers ITEM1: Solid security and safety arrangement for customers ITEM1: Safety of funds ITEM24: Confidentiality of transactions	Physical and psychological safety of customers
6.	0.785  0.693 0.686	ITEM35: To change to another bank involves a risk in choosing another bank which might turn out not to satisfy me ITEM34: To change to another bank involves investing time. ITEM33: Opening a new account with another bank involves a difficult process.	Perceived high cost of switching to another bank.
7.	0.646 0.630 0.500 0.480	ITEM45: Easy, fast and efficient money transfers system. ITEM44: No queuing during transactions ITEM22: Zero or low bank charges ITEM46: low incidence of fraud	Relative time and cost savings
8.	0.686 0.627 0.500 0.407	ITEM12: Perceived bank size ITEM8: Credit availability ITEM13: Ethnic consideration in bank ownership ITEM7: Bank reputation	Strong capital base of bank
9.	0.724 0.583 0.471 0.406	ITEM48: Mobile banking services ITEM47: Good looking and attractive staff ITEM32: Length of relationship with bank ITEM49: No hidden bank charges	Caring Staff
10.	0.575 0.444	ITEM19: My bank is socially responsible ITEM6: Bank recommended by friends	Good corporate social responsible schemes
11.	0.526 0.507 0.505 0.457	ITEM28: Weekend banking ITEM25: Efficient ATM ITEM30: Extended banking closing hour ITEM29: Introduction of ATM	Constant availability of banking services.
12.	0.663 0.486	ITEM42: Online banking ITEM38: Update of customers account via SMS	Use of ICT in banking.

As shown in Table 1, 8 of the 46 variables relate to the first principal component, which is *good customer-bank relationship and satisfactory services* is constituted of 8 factors: (1) My bank listens to me (2) Good understanding of customer (3) Skillful Bank Workers (4) Swift response to customer complain (5) My bank has my best interest at heart (6) Satisfactory personal services (7) Perceived honesty of bank staff (8) My bank gives me personal attention. The first principal component makes up the largest proportion of the total variability in the set of indicators used. Hence, the first principal component is considered the most important or significant component factor

that determines or explains student's loyalty to their bank. *Efficient staff*, which is determined by Items 3, 2, and 4, is the second most important principal component that determines students' loyalty to their bank. It accounts for the next largest amount of variability not accounted by the first principal component. This is so explained for the other principal components (see Figure 2). Therefore, in the same manner, the researcher generated twelve principal components that determine student loyalty to their bank (see last column of figure 2 for the name of each component).

**Discussion**

As clearly seen from the 12 principal components, *good customer-bank relationship and satisfactory services* is the most important principal component or determinant of bank loyalty among students. Among the predictor variables examined, customer satisfaction accounted for the largest variation in customer loyalty, which supports Beerli et al (2002) that customer satisfaction is the only immediate antecedent of customer loyalty.

*Family and social relationship with bank* as bank loyalty factor is not surprising in that family and social ties are deep rooted in Nigerian culture; they influence the choices we make. A customer choice and stay with a bank is sometimes strongly influenced by family or social ties the customer has with bank staff or management. The fourth component, *accessibility of*

*bank services to customers*, sustains that bank customer loyalty can be stimulated and retained if the customer, at all times, can access both staff and services without restraint. Adequate safety measures put in place for the customer can stimulate loyalty behavior, which is explained by the fifth component.

*Perceived high cost of switching to another bank* can also influence loyalty behavior; however, switching cost as a loyalty stimulant has received heated debated among scholars (see for example Beerli et al, 2002; Bloomer et al, 1998). It has been argued that when the costs of switching brand are high for the customer, there is a greater probability that the customer will remain loyal in terms of repeat purchase behaviour, because of the risk or expenses involved in switching and because of the accompanying decrease in the appeal of other alternatives (Bloomer et al, 1998). Other factors are contained in model of figure 1 below:

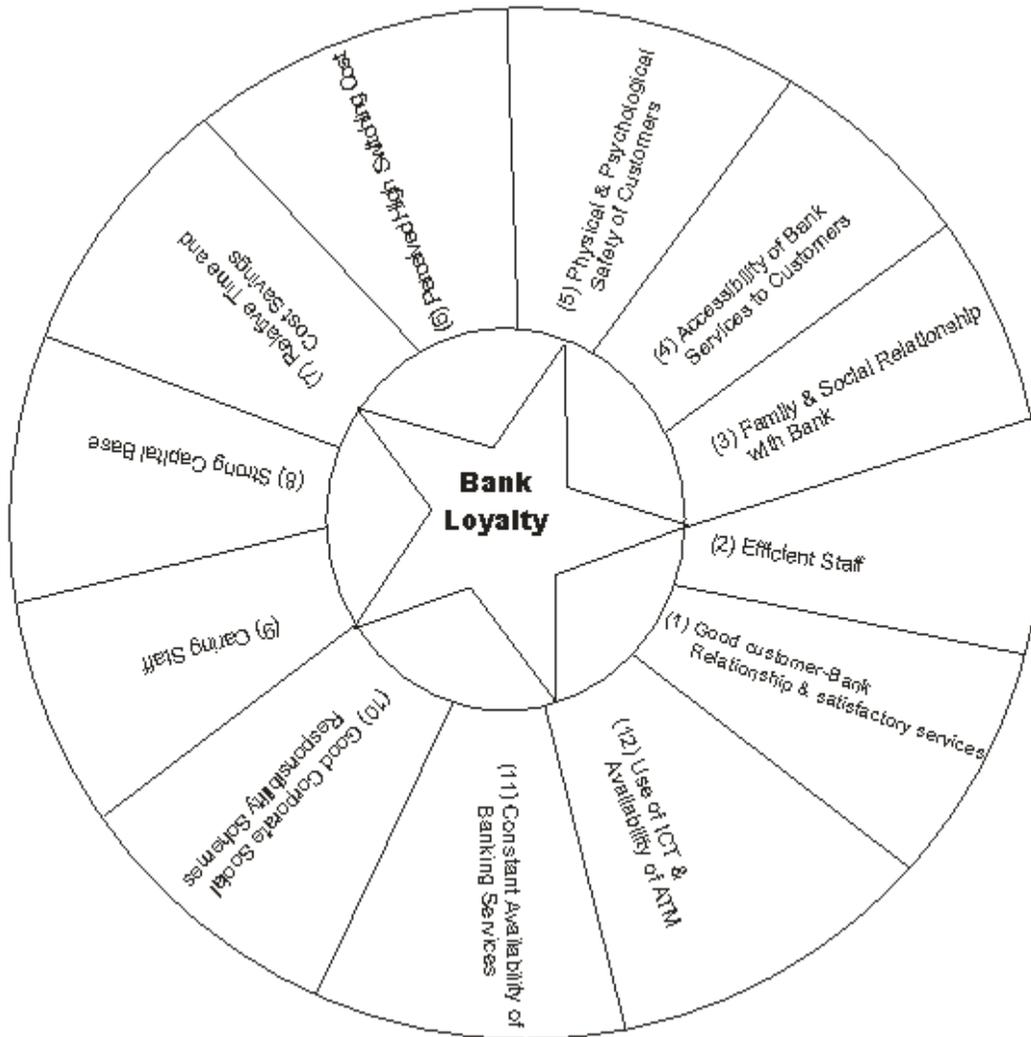


Figure 1. The 12-point student customer bank loyalty index model.

## Implications and Recommendations

Since this study shows that customer satisfaction is the most important in explaining customer loyalty, it means that the impact satisfaction has on loyalty is considerably stronger than the cost of switching. This implies that banks should place greater emphasis on achieving high level of customer satisfaction than on creating switching barriers. There is need for banks located in campuses to increase tailor-made CSR schemes for student customers; employ and train the staff with the right attitude to serve the student segment more effectively; install a student-segment friendly costs/charges regime; customer friendly culture should be promoted, encouraged, and rewarded; and banks situated at the campuses can initiate context-specific loyalty program for their student segment.

Accordingly bank management is to emphasize the 12 principal components in their marketing strategy and service delivery and they should, from time to time, use the *12- Point Student Customers Bank Loyalty Index Model* as criteria for monitoring and assessing their student customer loyalty level. Thus the *12- Point Student Customers Bank Loyalty Index Model* is an invaluable strategic tool for marketing strategy design, bank customer loyalty assessment, and competitors' customer loyalty analysis.

## Conclusion, Limitations and Direction for Future Research

We conclude that customer satisfaction is most critical in bank customer loyalty, much as other component are also critical in explaining and promoting loyalty behavior among student customers of banks, which the banks must emphasize to increase student customer loyalty level. We also conclude that these components may also be viewed as factors that can influence the choice of banks by students in campuses, but should be done with caution since loyalty drivers may differ from choice drivers. Accordingly, banks that emphasize these components are likely to be included in the *consideration set* of the student when about to make a choice among banks. Each component is an index which, collectively, can be scaled and used to measure loyalty level of student bank customers from time to time. In the same vein, banks can also use it to measure the level of loyalty other competing banks are enjoying in the same segment. Although it provides theoretical and substantive explanations, our research has several limitations. Overcoming them could be a direction for future research. First, our study is on a model development carried out in

Nigeria. Our model needs to be validated in other contexts; therefore, generalization of result is done with serious caution. Second, our study did not show the possible interaction (or impact) of each principal component and how the interaction can ultimately impact on bank loyalty. Thus, research has to be executed in this area to unearth the relationship of each component on one another in explaining bank loyalty. Our model needs to be subjected to more rigorous and tougher test. For example, there is need to formulate hypothesis on each component and then test their degree of relationship to bank loyalty.

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