The Roles of Reputation on Retention and Cross-buying in Premium Banking Services

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Abstract

This study explores how reputation affects customer retention and cross-buying in premium banking services. In this study we suggest retention and cross-buying as the extension of continuance commitment for more comprehensive and objective measurement in a long-term commitment. A quantitative study was undertaken with 525 respondents in a main city in Australia. Results indicate that whilst reputation influenced customer retention, it has no impact on cross-buying. The findings also provide insights into how customer retention could be extended into cross-buying for more profitable customers. One of the recommendations in the study is due to customer passiveness; customer-oriented strategy could be applied. Implications of our research are discussed as well as limitations and guidelines for future research.

Keywords: Reputation, retention, cross-buying, continuance commitment, premium banking services
1. Introduction

With the uncertainty of the business world, a good reputation is a must for a firm for strengthening public confidence and maximising revenues from its product and services. Long-term dedication is required for a firm to establish a strong reputation. There are at least three major benefits of a strong corporate reputation (Greyser, 1999): customers’ preferences from similar competitors, customers’ support in bad times and financial market value. Likewise, customer retention is very important for companies within a stagnant market and with minimum differentiation in products or services (Brunner et al., 2008), such as those in the banking industry (Ioanna, 2002). Some of the benefits of customer retention include increasing revenues through sales volume and/or premium prices with lower cost expenses (Ahmad & Buttle, 2001), extending the life of the loan relationship and cross-selling opportunities (PricewaterhouseCoopers, 2008). In fact, the importance of customer retention has been the second top priority for Australian foreign banks, with the first priority being improving revenue growth (PricewaterhouseCoopers, 2005).

Despite the growing literature on commitment in relationship marketing, insufficient research has been undertaken into the banking sector (Heffernan et al., 2008). This sector is characterised by utilitarian and hedonic values for its products (Chiu et al., 2005), and is therefore sensitive to profit and market share movements due to differing levels of customer commitment (Keaveney, 1995; Colgate & Hedge, 2001).

While customer retention is considered to be very important for premium banking services in Australian foreign banks (PricewaterhouseCoopers, 2005), extending the relationship into cross-buying in order to improve revenue growth is still somewhat challenging. Hence, it has been argued that cross-buying is still under-researched (Reinartz & Kumar, 2003; Liu & Wu, 2007) with little understanding of the key driving forces behind cross-buying (Vyas & Math, 2006). Therefore, the objective of this study is to investigate the role of reputation on retention and cross-buying in premium banking services while at the same time measuring continuance commitment into more objective measurements.

2. Theoretical Framework and Hypotheses

This study based on relationship marketing as it focuses on the close relationship between the customer and the premium banking services for enhancing their commitment. The most common three components of commitment studied in the literature are affective commitment, calculative commitment, and continuance (or continuous) commitment (e.g. Allen & Meyer, 1990; Gundlach et al., 1995; Kim & Frazier, 1997; Meyer & Herscovitch, 2001; Fullerton, 2003; Bansal et al., 2004). Affective commitment is defined as the desire for continuing a relationship due to the emotional engagement of the partner (Meyer & Allen, 1984) and emotional attachment to the brand or organisation (Allen & Meyer, 1990), while calculative commitment is founded on cognitive attachment through experience and the
realisation of benefits and sacrifice in a relationship (Geyskens et al., 1996). Continuance commitment refers to the motivation and intention to continue a relationship considering switching costs and alternatives scarcity and the level of dependency on the product or service provider (Bendapudi & Berry, 1997; Johnson et al., 2008).

While there is no doubt that each component of commitment is important in long-term relationship marketing (Anderson & Weitz, 1992; Morgan & Hunt, 1994; Brown et al., 1995; Kumar et al., 1995), literature in this area is still developing. This study argues that continuance commitment could be extended into retention and cross-buying for more comprehensive and more measurable measurements. Firstly, continuance commitment is a long-term commitment (Allen & Meyer, 1990) that reinforces qualitatively over time (Anderson & Weitz, 1992) and a lack of options (Dwyer et al., 1987; Bendapudi & Berry, 1997; Gilliland & Bello, 2002). Secondly, the longer a customer is retained, the more volume he or she purchases, and, therefore, customer referrals increase (Ang & Buttle, 2006). When a retained customer has been with a bank for a period of time, this bank is deemed to be the preferred provider. Finally, the construct in the study also responds to the call for more comprehensive studies to further examination of the importance of customer retention in commitment (Bansal et al., 2004) and understanding the antecedents of cross-buying (Vyas & Math, 2006).

2.1 Reputation

Corporate reputation is used to judge an organisation’s qualities over time (Balmer, 1998) and cannot be manipulated (Dolphin, 2004). Thus, it can create competitive advantage and affect corporate performance (Devine & Halpern, 2001). For the purpose of the study, bank reputation is only seen from a customer point of view, as it is customers who assure business growth and market share domination. Further, they consider corporate reputation as a company’s previous actions and future expectations about a firm’s performance compared with competitors (Roberts & Dowling, 2002) and considered as the only factor in the purchase decision (Dowling, 2004).

2.2 Retention

Customer retention can be defined as the future propensity of a customer to stay with the service provider (Ranaweera & Prabhu, 2003). However, Reinartz and Kumar (2000) find that the relationship between lifetime duration and revenues are not always positive. For example, short-term customers with high revenues are also important and long-term customers do not lower promotion costs due to the ratio of mailing costs per dollar sales in the long-term. Therefore, customer retention and defection are complex processes (Akerlund, 2005). One of the common programs in premium banking services for retaining customers is to apply rewards benefits. For the banks, this increases retention and prevents customers from switching to other banks because they keep higher balances and maintain their accounts for longer. On the other
hand, for customers, they could have enjoyed all of the benefits offered by the programs, such as points/rewards redeemable for plane tickets, merchandise, shopping vouchers or cash.

2.3 Cross-buying

Cross-buying refers to the customer’s practice of buying additional products and services from the existing service provider in addition to the ones s/he currently has (Ngobo, 2004, p. 1129). It is more likely to occur when a customer with high purchase power has more needs and a one-stop solution is preferred because of time pressures and convenience. For example, a customer who already has a credit card would take out a personal loan from his or her current bank to avoid unnecessary hassle such as financial and character background assessments. Kumar et al. (2008) also suggested that cross-buying is likely to occur when a customer purchases at intermediate intervals with the firm over time. In other words, the opportunity to perform cross-buying is larger for a committed customer.

2.4 Hypotheses Development

Although reputation has a positive relationship with repurchase intention (Hess, 2008) and even though customers are willing to pay more for a better reputation (Graham & Bansal, 2007), it is also possible for losing market share despite a great reputation as Westpac Bank has experienced (Inglis et al., 2006). It may be the case that either a high reputation is not a true reflection of a company’s real reputation or the company is not managing its reputation well enough for financial results (Inglis et al., 2006). Nevertheless, it is believed that buying intention is driven by a good reputation (Gotsi & Wilson, 2001). One could argue that extensive success in the past can overcome one unfortunate failure. Therefore, this study argues that reputation leads to continuance commitment, as customers will only buy from a company with a good reputation (Dowling, 2004). Hence, reputation leads to retention (Nguyen & Leblanc, 2001) and cross-buying intentions (Jeng, 2008). Therefore:

\[ H1: A \text{ bank's perceived reputation has a positive effect on retention.} \]
\[ H2: A \text{ bank's perceived reputation has a positive effect on cross-buying.} \]

Figure 1 Research Model

3. Methodology

This study applied cross-sectional research with a non-experimental approach. Non-experimental study was chosen to generate a set of generalised results because a survey was needed and external validity was sought. The context of the study is premium banking...
services because, despite a relatively small population in Australia, premium banking services are growing and proving to be a promising area. In 2011, the average wealth in Australia amounted to US$397,000, with the median wealth of US$222,000. That makes Australia as the highest median wealth in the world (CreditSuisse, 2011). A non-probability convenience sample of the population in wealthy suburbs in the Perth metropolitan area was selected. The non-probability convenience sampling method was chosen due to its ability to reach a large number of respondents quickly and economically (Swartz & Iacobucci, 2000). Perth was selected for the study because it has the biggest population growth (2.7%) compared to other states in Australia (Lind et al., 2008). A self-administered survey was distributed in these wealthy suburbs. In total there was 525 usable responses participating in the survey, 290 (55%) were men and 235 (45%) were women. The questionnaire was developed based on previous research instruments measuring the specific model variables. While reputation measurement were adapted from Doney and Cannon (1997), retention scale measurements were adapted from Morgan and Hunt (1994). All of the questions used the Likert 7-point scale; “1 for strongly disagree” to “7 for strongly agree”. For cross-buying, The measurement were operationalised from Kumar et al. (2008) because the construct covered the width and depth of cross-buying and represented the products offered by leading banks in Australia. The operationalisation of cross-buying includes: everyday accounts, credit cards, loans (home loans, car loans, student loans, etc.), insurance policies, investments (term deposits, savings plan, etc.) and international (bought travellers cheques and foreign exchange).

To test the hypotheses, Exploratory Factor Analysis (EFA) was performed. The second phase involved the reliability consistency of the measuring instrument by assessing the means of the construct reliability function (Hair et al., 2006) and Cronbach’s alpha coefficients (Cooper & Schindler, 2001). However, cross-buying used a multiple choice, single-response scale. To investigate cross-buying behaviour, it is essential to know the product categories that respondents currently possess. Therefore, the mean for cross-buying was generated from slightly modified data in the survey. Originally, the options in the survey were the number of accounts/products used with nominal data (none, one, two, more than two). For more accurate results, the data were transformed and modified to interval data (none or one or more).

The final phase involved a series of regression analyses was performed using Analysis of Variance (ANOVA) for simple regression between independent variables and dependent variable and Multivariate Analysis of Variance (MANOVA) for regression between independent variables and dependent variable with intervening variables using IBM SPSS Statistics 19 software.

4. Results and Discussions

As indicates in Table 1, the total number of products that respondents currently possessed, international products such as travellers cheques and foreign exchange were the
most unlikely (65.3%), while everyday accounts were most likely with 92%, followed by credit cards (73.3%), investments (52.6%), loans (45.7%), insurance policies (40.8%) and international products (34.7%).

Further, as shown in Table 2 all of the Exploratory Factor Analysis (EFA), with the exception of item 1.2, values are over .50 which is considered acceptable for factor loading significance (Hair et al., 2006). For reliability test, the reputation variable had a Cronbach’s alpha of .801 and it showed reliable and fell into the respectable category (DeVellis, 2003). Likewise, the retention had a Cronbach’s alpha of .753 that was considered to have good measurement quality and it fell into the very good category for high internal consistency (DeVellis, 2003). A composite score was then computed for each dimension by totalling the scores for the items in a dimension and dividing it by the total number of items. While reputation had a mean of 5.20, retention had 5.02 and cross-buying had a mean of 3.39.

<table>
<thead>
<tr>
<th>Product</th>
<th>None Frequency</th>
<th>None %</th>
<th>1 or more Frequency</th>
<th>1 or more %</th>
<th>Total Frequency</th>
<th>Total %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Everyday accounts</td>
<td>42</td>
<td>8%</td>
<td>483</td>
<td>92%</td>
<td>525</td>
<td>100%</td>
</tr>
<tr>
<td>Credit cards</td>
<td>140</td>
<td>26.70%</td>
<td>385</td>
<td>73.30%</td>
<td>525</td>
<td>100%</td>
</tr>
<tr>
<td>Loans</td>
<td>285</td>
<td>54.30%</td>
<td>240</td>
<td>45.70%</td>
<td>525</td>
<td>100%</td>
</tr>
<tr>
<td>Insurance policies</td>
<td>311</td>
<td>59.20%</td>
<td>214</td>
<td>40.80%</td>
<td>525</td>
<td>100%</td>
</tr>
<tr>
<td>Investments</td>
<td>249</td>
<td>47.40%</td>
<td>276</td>
<td>52.60%</td>
<td>525</td>
<td>100%</td>
</tr>
<tr>
<td>International</td>
<td>343</td>
<td>65.30%</td>
<td>182</td>
<td>34.70%</td>
<td>525</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 1 Total Number of Products Currently Owned

<table>
<thead>
<tr>
<th>Construct</th>
<th>Items in the Questionnaire</th>
<th>Factor Loading</th>
<th>Mean</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation</td>
<td>1.1 My bank is highly regarded in the finance industry</td>
<td>.838</td>
<td>5.41</td>
<td>.801</td>
</tr>
<tr>
<td>Retention</td>
<td>1.2 My bank is known to be concerned about customers</td>
<td>.472</td>
<td>4.96</td>
<td></td>
</tr>
<tr>
<td>Retention</td>
<td>1.3 My bank is one of the most capable firms in</td>
<td>.825</td>
<td>5.25</td>
<td></td>
</tr>
<tr>
<td>Retention</td>
<td>the finance industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retention</td>
<td>2.1 I am not looking for another bank to replace</td>
<td>.674</td>
<td>5.26</td>
<td></td>
</tr>
<tr>
<td>Retention</td>
<td>my current bank</td>
<td></td>
<td></td>
<td>.753</td>
</tr>
<tr>
<td>Retention</td>
<td>2.2 The relationship is important to me</td>
<td>.811</td>
<td>4.82</td>
<td></td>
</tr>
<tr>
<td>Retention</td>
<td>2.3 I wish to retain my relationship with my current</td>
<td>.896</td>
<td>4.98</td>
<td></td>
</tr>
<tr>
<td>Retention</td>
<td>bank</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As indicates in Figure 2, Hypothesis 1 posited that a bank’s perceived reputation has a positive effect on retention is supported with significance level .000 at significant .01. However, Hypothesis 2 posited that a bank’s perceived reputation has a positive effect on cross-buying is not supported with significance level .864.
Figure 2 Results of Hypotheses Testing

- Reputation
- Cross-buying
- Retention

.000**
.864

5. Implication of Results, Limitation and Future Research

This study has demonstrated empirical findings about the roles of reputation on customer retention and cross-buying in premium banking services. First, the statistical findings suggest that reputation has a positive effect on retention. This is in consistent with previous studies (Shapiro, 1983; Nguyen & Leblanc, 2001) because strong reputation is associated with high-quality products and services (Carmeli & Tishler, 2005). Hence, customers have been found willing to pay more for a better corporate reputation (Graham & Bansal, 2007). In other words, reputation is a competitive advantage for customer retention.

Secondly, it has been found in this study that reputation does not influence cross-buying. Customers may reject the idea of cross-buying because they do not like the idea to depend on one single entity for risk, business and security purposes (Burand, 2001; Green, 2002). This finding is inconsistent with the finding of Jeng (2008) that suggested that reputation has a positive effect on cross-buying intention. The possible explanation for this different result is that the current study focused on premium banking services and that Australia is a mature market in contrast to that in Taiwan. The absence of a significant relationship between perceived reputation and cross-buying could be attributed to the fact that in this specific market, customers tend to diversify their portfolios with more providers. With better offers such as better interest rates and low fees, it is easy for customers to have more than one account with many banks. Hence, even though a finance service provider has a good reputation, customers are more likely to buy a product from other service providers (Jeng, 2008).

There is no research without any limitations, and this study is no exception. These limitations suggest directions for future research. First, one limitation can be attributed to the fact that the current study is based on cross-sectional data over a short period of time. Therefore, further research could use longitudinal data for a longer period of time. Longitudinal studies with a longer time period would then be able to classify customers by their relationship characteristics; the length, depth and breadth (Bolton et al., 2004). Secondly, as the competition is very fierce in premium banking services, customers were also considered for price (interest rates and service fees), convenience, switching costs and personalised services. Therefore, future study may include personal interactions and share of wallets. Li et al. (2005) found that some customers may feel “trapped” in a relationship.
because of high switching costs and hence may take on more products, perhaps relying more on the convenience of doing so (see also Garbarino & Johnson, 1999). Arguably, customers who have a large number of accounts in a bank make it more difficult for them to switch to other banks. The relationship is more complex than customers who have only one or two accounts with their current bank. Finally, this study had focussed on the banking sector, specifically, premium banking services. It is recommended that empirical research in various customer segments and industries are needed to further understand the relationship marketing in these different contexts.

References


