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## Determinants of Micro Enterprise Owners' Loyalty towards Their Favourite Banks

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### Abstract

Banking is a service that lies in a very competitive industry in most developed and developing countries, with different brands competing in a scenario of increasing banking and credit penetration. In a business-to-professional setting for banking, the range of services that a client uses with a bank is very high compared to retail banking. Thus, this paper would like to examine the loyalty of the micro-enterprise owners towards their favourite banks. Using both local and international banks in Malaysia as the focus of the study, an exploratory research was carried out to assess micro-enterprise owners' level of loyalty to their banks. Self-administered questionnaires were collected from 356 banks' business customers of various conventional and Islamic banks. The findings from this research have shown that a bank's reputation, quality services as well as customer relationship have a direct relationship to micro-enterprise owners' loyalty. The micro-enterprise owners believed that as long as the bank provides good services, a good income is being generated through them with the security factor taken into consideration. This study's findings could provide important directions for the development of a holistic framework to explain the formation and structure of micro-enterprise owners' loyalty towards banking and financial services industries.

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## 1. Introduction

The role of micro-enterprises in economic growth and development has been widely emphasized by governments of all economies across the globe, and increased efforts have been made to strengthen this sector. Yet, the most critical aspect behind the success of micro-enterprises in any country is access to capital. Major financial institutions are reluctant to lend to small businesses that are left dependent on their own sources of finance or less reliable and informal sources of capital. The consequence of such attitude is reflected in the stagnation of the SME sector and weakening economic environment. The government should help gaining access to financing and equity markets for firms which implement corporate governance. In order to encourage entrepreneurial culture, venture capital firms should also be encouraged through enabling regulatory environment (Mahmood, 2008). Major banks and financial institutions have launched a wide range of products to cater to the needs of the micro-enterprise sector. The consumers now have improved choices of products and services offered by both conventional and Islamic financial institutions. However, the decision between these two financing sources is impacted by a number of factors that drive customer decision at the end of the day. No single factor can be identified as the sole decision-making influencer, but the choice is guided more by instincts and personal experiences than any others.

The scenario has changed that now Islamic banking has become a vehicle for industrial growth and they are keen to attract businesses from other banks and also to retain their customers (Wilson, 1997) while maintaining the basic functions of traditional banks. In fact, Malaysia has a dual banking system, with Islamic banking growing at the rate of 18% per year since 2000 (Aziz, 2006). Despite competition from long entrenched traditional multinational banks, Islamic banks are viewed as ethical investment channels by consumers, in line with the best of corporate social responsibility (CSR) practicing traditional multinational and domestic banks. Islamic banks have been strong in their social orientation in the market, and thus have created a widespread appeal in Malaysia resulting in the growth of the second banking channel. The challenge for these banks lies in giving out the priorities of social orientation and profit making and financial health (Wilson, 1997). There is the argument that customers prefer Islamic banking over traditional banking only when the hygiene factors expected from any service organisation are fulfilled, like quality of service, reputation of the brand and their willingness to retain their customers (Dusuki & Abdullah, 2006).

Above all these considerations is the factor of cost and benefits to the customers. Thus, there is a strong influence of peer opinion on the consumption and exploration decisions of micro-enterprise owners. This creates a need for studying the implications of such behaviour among entrepreneurs and enterprise owners towards customer loyalty in the banking services they choose. This paper aims to investigate the relationship as well as the influence of banks' reputation, perceived service quality and relationship quality towards micro-enterprises owners' loyalty towards their favourite banks.

## 2. Literature review

### 2.1. Micro-enterprise owner's loyalty

Micro-enterprise owners are more loyal to banks when they are assured that their requirements will be met and at the right time. For a customer to be satisfied, he/she wants his/her interest to be cared for by the bank that is serving him/her. As a result, the level of profit will rise in the micro-enterprise owners' businesses due to the ability to produce varieties of products for their customers. There are many principles which govern micro-enterprise owners' loyalty towards the bank; most common of which are ethics and integrity, trust, honesty and willingness to disclose the information. There is a need for the business to maintain contact with the customers by showing interest in the customers to make them feel part of the business. The business should at times surprise customers by providing them with what they anticipate, and this in turn could help to generate loyalty among the customers. The management should uphold the following as a principle to safeguard loyalty among the customers: reinforcing behaviours of staff, internal benchmarking, resolving of customer requirements, observing competitive ability, determining loyalty among the customers, listening to customers, and improving business practice. Various research studies have shown that loyalty in customers is a result of attitude and behaviour (Capezzi & Cuthbertson, 2004). Loyalty is observed as the relationship between the attitudes of the customers towards the business as compared to other competing businesses. Customer loyalty is directly related to other variables researched in the paper, i.e.

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