
Variables influencing the customer relationship management of banks

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Abstract Banks are important role players to the economy of any country. However, to survive in a competitive business environment banks need to focus on building and maintaining client relationships and to identify how their employees influence these relationships. This study investigates the influence of variables, with regard to bank employees, on the *customer relationship management* (CRM) of banks. A literature study explains CRM, the banking industry and employees' involvement with banking clients. To assess the impact of the predetermined variables from literature on the CRM of banks, a number of hypotheses were constructed and tested empirically among a sample of banking clients. The findings reveal that the variables *knowledgeability* and *attitude* of bank employees have a statistically significant impact on the effectiveness of the CRM strategies of banks. Based on the findings of the empirical investigation, strategies are provided for banks to improve their employees' knowledgeability and attitude in order to ensure more effective CRM strategies.

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INTRODUCTION AND PURPOSE OF THE RESEARCH

In an address, the Registrar of Banks of South Africa stated that '... financial stability serves as a precondition for the growth of the economy of any country'.¹ The banks of a country must be financially stable and

growing, as these institutions are responsible for the savings of communities. Four major banking groups control 81 per cent of South Africa's banking market share.^{2,3} These banks are Amalgamated Banks of South Africa Group Limited (ABSA), Standard Bank Investment Corporation Limited, FirstRand Holdings Limited and Nedbank Limited. However, the banking industry is a complex and competitive industry. A number of challenges are facing South African banks, on which they will have to focus to ensure their survival. These challenges include the catering

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for the un-banked segment of the South African population, the implementation of Basel II and globalisation.

Owing to this challenging business environment in which banks operate, these institutions need to focus on attracting and retaining clients. Many advantages result from client relationships for banks, including client loyalty and higher profitability.^{4,5} Additionally, sufficient customer relationship management (CRM) can improve a firm's level of service quality. Specifically, research has shown that CRM positively influences the level of service quality of a bank.⁶ In other words, if a bank can improve its relationships with clients (increase its CRM), it will increase its service quality level. Therefore, it is important to attract and retain banking clients through sufficient customer relationships. In other words, banks need to implement effective CRM strategies.

CRM is not simply a method used by leading service firms to gain a competitive advantage: it has become a necessity for their survival.⁷ As markets become increasingly competitive, the development of client relationships that can be maintained is seen as a method of creating a sustainable competitive advantage. Many professional services, including banking services, are rated and rewarded by the client relationships they manage.⁸

A relationship may be conceived as comprising two stages: first, attracting the client and, secondly, building, managing and maintaining the relationship over time so that the economic and social objectives of both parties are achieved. The first phase of 'attracting', 'establishing' or 'creating' entails customer relationship marketing that centres on developing or establishing a continuous or long-term relationship between a service provider and a client, for their mutual benefit.⁸ Relationship marketing is viewed as building relationships and networks and ensuring interaction.⁹ The second phase, during which the service provider attempts to maintain and enhance relationships and

retain the clients, is CRM.⁸ The CRM concept, as used in this study, suggests that a firm should instead focus on maintaining relationships with its markets.¹⁰

The relationships between a service firm and its clients are created and maintained by the firm's employees, who interact with the clients. All employees are involved with CRM, either through their direct interactions with clients or their involvement in and application of processes, tools and methods used to enhance client value. CRM can be implemented by employees on three levels within a firm, leading to strategic, operational and analytical CRM.⁷ Strategic CRM is focused on the development of a customer-centric business culture and involves executive management. Operational CRM may lead to marketing-, sales- and service-automation and is focused on the automation of the customer-facing activities of a firm and involves middle-level management, for example a branch manager of a bank. Analytical CRM is concerned with exploiting and understanding customer data with the application of data mining tools.

Based on this background, it is evident that CRM is important in banks and it is necessary to identify the influence of employees on the effectiveness of CRM strategies in banks in order to improve bank-client relationships. This paper addresses the need for a further understanding of CRM in banks. Based on the background provided, for the purpose of this paper, CRM refers to the process whereby a service provider (a bank) attempts to maintain and enhance long-term relationships with its clients.⁸ Specifically, the problem statement of this paper is as follows: *To identify the variables relating to bank employees which may have an impact on the effectiveness of customer relationship management strategies in banks.*

In particular, the purpose of this paper is to identify the independent variables (relating to bank employees) that influence the

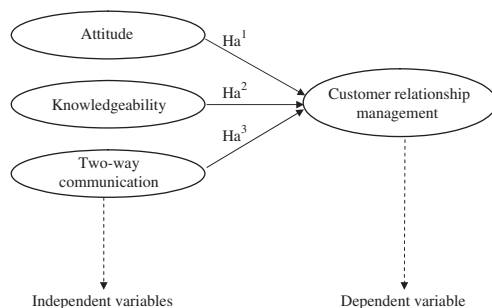


Figure 1 Conceptual framework

effectiveness of *CRM* strategies in banks (the dependent variable). The possible influences of the independent variables on *CRM* are indicated in Figure 1. The independent variables constitute three variables, as identified in the literature on *CRM*. These variables are *attitude*, *knowledgeability* and *two-way communication*. For the purpose of this paper, *attitude* is the reaction, response or behaviour displayed by bank employees towards their jobs. In a bank, an employee's *knowledgeability* will depend on his/her insight into or ability to remember and ability to implement banking procedures, policies, products and services. In a bank, *two-way communication* refers to the communication from bank management to clients and vice versa.

It is proposed that this paper will be beneficial for banks, as the results and conclusions drawn may be used to ensure more effective *CRM* strategies in banks. The findings of this paper could create a greater awareness among, specifically, South African banks of the advantages of superior *CRM*, how their employees influence the effectiveness of their *CRM* strategies and how they can adapt these variables (relating to bank employees) to positively influence their *CRM* strategies. Ultimately, this could lead to benefits for banks, their clients and the South African economy as a whole. Additionally, the findings may be applicable to international banks and their client relationships.

LITERATURE REVIEW

The following literature review section provides a discussion and argument for the selection of the variables for the empirical investigation. The literature review provides evidence for the anticipated relationships depicted in the hypothesised model (Figure 1). The research variables were selected from literature and are operationalised as follows.

Based on an argument from the literature, employee attitude was included as an independent variable in the hypothetical model. The rationale is that the attitudes of employees will shape their interactions, and therefore relationships, with clients.¹¹ For the purpose of this study, employee *attitude* is defined as the reaction, response or behaviour displayed by bank employees towards their jobs.

Given the broad and complex range of banking services on offer, knowledgeability of the services is an absolute precondition. It is common knowledge that banks operate in an information technology environment with the majority of services linked to this environment. As part of the knowledge 'explosion', it is a reality that bank employees can be classified as knowledge workers.¹² In the banking environment, employees' knowledgeability can be assessed by the level of their understanding of their changing work environment and the relevant banking procedures, policies and services. Based on this evidence, *knowledgeability* was included as an independent variable in the hypothetical model.

The increasing need to manage relationships with consumers has brought forth a wide variety of 'new' marketing approaches which can be labelled as customer-focused, market-driven, one-on-one marketing, relationship marketing and integrated marketing communication approaches.¹³ Each of these 'new' marketing approaches emphasises the importance of two-way communication. For the purpose of this study, *two-way communication* refers to the

degree of appropriate and sufficient communication from a bank's management to clients, and vice versa. The importance of two-way communication in the banking industry cannot be disputed. The changing role of bank employees is evident, for besides financial counselling, they need to possess outstanding communication, listening and persuasion skills.¹³ Based on this evidence, *two-way communication* was included as an independent variable in the hypothetical model.

As stated above, the importance of CRM in the banking industry cannot be undervalued. Therefore, *CRM* was used as the dependent variable of this study, where CRM is the process whereby a service provider, for example a bank, attempts to maintain and enhance long-term relationships with its clients.⁸ This definition of CRM was adopted for this research.

Based on the background of this study and the operationalisation of the variables, it is evident that CRM is important in banks and that the three independent variables (*attitude*, *knowledgeability* and *two-way communication*) may influence the effectiveness of *CRM* strategies in banks. Therefore, the possible relationships between the independent and dependent variables were empirically investigated.

RESEARCH OBJECTIVES

Following the background to the study and the literature review provided, it is possible to state the research objective of the study. The primary objective of this paper was to investigate the influence of bank employees (specifically their *attitude*, *knowledgeability* and *two-way communication*) on the effectiveness of *CRM* strategies in banks.

RESEARCH HYPOTHESES

To give effect to the problem statement and research objective, a number of hypotheses were formulated, as depicted in Figure 1.

Relationships between the independent variables and the dependent variable (CRM)

- Ho₁:** *There is no relationship between the perceived attitude of bank employees and the effectiveness of CRM strategies in banks.*
- Ha₁:** *There exists a relationship between the perceived attitude of bank employees and the effectiveness of CRM strategies in banks.*
- Ho₂:** *There is no relationship between the perceived knowledgeability of bank employees and the effectiveness of CRM strategies in banks.*
- Ha₂:** *There exists a relationship between the perceived knowledgeability of bank employees and the effectiveness of CRM strategies in banks.*
- Ho₃:** *There is no relationship between the perceived two-way communication of bank employees and the effectiveness of CRM strategies in banks.*
- Ha₃:** *There exists a relationship between the perceived two-way communication of bank employees and effectiveness of CRM strategies in banks.*

METHODOLOGY

Measurement instrument and data source

The measurement instrument used was a self-developed structured questionnaire. All the items pertaining to the three independent variables (*attitude*, *knowledgeability* and *two-way communication*) and items pertaining to the dependent variable (*CRM*) were based on the relevant secondary sources.

The questionnaire consisted of two sections. Section A was in the format of a

seven-point Likert-type scale, comprising of 47 items. The statements in this section referred to banking clients' perceptions regarding the CRM and service quality of banks. Items included, related to the bank's CRM and service quality in terms of the independent variables, namely *two-way communication, attitude, knowledgeability* and efficiency of banking services. However, for the purpose of this paper, only the influence of three independent variables, namely *attitude, knowledgeability* and *two-way communication* on the effectiveness of the CRM strategies of banks will be investigated, as the focus of this paper is only on the influence of variables relating to bank employees (and not banking systems), on the CRM strategies of banks. The statements' response continuum ranged from 1 to 7, where 1 = strongly disagree; 2 = disagree; 3 = somewhat disagree; 4 = neutral; 5 = somewhat agree; 6 = agree and 7 = strongly agree. The biographical data of the respondents were gathered through eight questions in Section B of the questionnaire, namely the gender, population group, age, years of being a client of the bank, the type of bank accounts the client uses and the level of education of the respondents. The respondents were also requested to identify the bank(s) of which they were clients.

The population consisted of all the banking clients in the Nelson Mandela Metropolitan area (the fourth largest metropolitan area in South Africa including Port Elizabeth, Uitenhage and Despatch). Specifically, this area was selected as no similar research has been conducted in this area and, in addition, the research will be used in a comparative study with similar research conducted in other areas in South Africa. Stratified sampling was used, as banking clients were included in the sample according to their banking institution and location. Only banking clients of the four largest banking groups in the Nelson Mandela Metropolitan area were included in

the sample. Random sampling was used, and questionnaires were distributed among a sample of 290 banking clients. Fieldworkers distributed and collected the questionnaires, with permission, in bank branches of the four banking groups. A satisfactory response rate of 91.03 per cent was achieved, as 264 questionnaires were usable for analysis.

Data analysis

Data processing and analysis was executed by using the computer programs BMDP4M,¹⁴ SAS¹⁵ and SPSS. The data were analysed in three phases. During the first phase of analysis, the discriminant validity of the measuring instrument was subjected to an exploratory factor analysis by using the computer program BMDP4M.¹⁴ An exploratory factor analysis was used to reduce many variables to a manageable number of variables that belong together and have overlapping measurement characteristics.¹⁶ Maximum likelihood was used as the method of factor extraction, and a direct quartimin oblique rotation was specified. Once a clear factor structure emerged, the internal reliability of each factor was assessed, using Cronbach's alpha coefficient scores. The factors that emerged after the exploratory factor analysis phase were then used as independent variables in a multiple regression analysis to assess the relationships predicted by the hypotheses in the conceptual model (Figure 1).

EMPIRICAL RESULTS

Discriminant validity results

During the first phase of data analysis the items of the questionnaire loaded onto six distinct factors, which were labelled knowledgeability, CRM, attitude, efficiency of banking services, service quality and two-way communication. The six factors explained 50.46 per cent of the variance (R^2) of the

data. For the purpose of this paper, only the influence of three independent variables on CRM will be focused on, as the research focuses only on the influence of variables which relates to bank employees. Therefore, the influence of *attitude*, *knowledgeability* and *two-way communication* on the effectiveness of CRM will be discussed. Only items that loaded significantly (above 0.4) on the factors were used for further statistical analyses.

Factor one was named *knowledgeability* (KNOW), because all five items expected to measure *knowledgeability* loaded significantly on this factor. Additionally, two items expected to measure *two-way communication*, COMM4 (information) and COMM6 (availability), and two items expected to measure the *efficiency of banking services*, EFF4 (security) and EFF10 (law), loaded significantly on this factor. The loading of these four items onto this factor can be explained through their relationship with *knowledgeability*. All the items that significantly loaded on factor two were expected to measure CRM. Therefore, factor two was named CRM (CRM). Factor three was named *attitude* (ATT), because the items expected to measure *attitude* loaded significantly on this factor. Two additional items loaded on this factor, namely an item expected to measure *two-way communication* (COMM2 — managers) and an item expected to measure the influence of CRM on *service quality* (CRMSQ3 — relationship). The loading of these two items on factor three can be explained by their relationship with *attitude*. Factor four was named *two-way communication* (COMM), as an item expected to measure two-way communication (COMM5) loaded significantly on this factor. In addition to this item, three other items ATT6 (employee client), EFF6 (variety) and EFF7 (fees), all related to communication from a bank to its clients and vice versa, loaded onto this factor.

The actual statements can be viewed in the Appendix.

The reliability assessment

The second phase of the data analysis was to assess the internal reliability of the measuring instrument used to test the variables in the model. This was done by calculating Cronbach's alpha coefficient scores using the computer program SAS.¹⁵ It is recommended that Cronbach's alpha coefficient scores are above the 0.7 cut-off value.¹⁷ Table 1 shows that all the Cronbach's alpha coefficient scores were above the recommended 0.7 cut-off value. Therefore, the measuring instrument and items can be regarded as reliable.

Multiple regression analysis results

During the third phase of data analysis only the items that showed construct validity in the exploratory factor analysis were used in the subsequent multiple regression analysis. Multiple regression analysis is a descriptive tool used to test and explain relationships.¹⁶ In this study, a multiple regression analysis was used to test and explain the relationships between the independent and dependent variables. The results of the multiple regression analysis are shown in Table 2.

Table 2 shows that two of the independent variables, namely *knowledgeability* (KNOW) and *attitude* (ATT), exert a statistically significant positive influence on the dependent variable CRM (CRM). The independent variable *two-way communication* (COMM) has no significant positive relationship with the dependent variable CRM (CRM).

The complete results of the data analysis are evident in Figure 2.

The empirical results summarised in Figure 2 suggest that:

- H_{01} had to be rejected, while H_{a1} can be accepted. There exists a positive relationship between *attitude* and the effectiveness of CRM strategies (at the 99 per cent significance level).

Table 1 Rotated exploratory factor analysis

Items	Factor 1 (KNOW)	Factor 2 (CRM)	Factor 3 (ATT)	Factor 4 (COMM)
KNOW5 — procedures	0.763	0.000	0.000	0.000
KNOW4 — advise	0.731	0.000	0.000	0.000
COMM6 — availability	0.699	0.000	0.000	0.000
KNOW3 — policies	0.618	0.000	0.000	0.000
EFF10 — law	0.558	0.000	0.000	0.000
COMM4 — information	0.532	0.000	0.000	0.000
KNOW2 — knowledgeable	0.505	0.000	0.000	0.000
KNOW1 — inform	0.481	0.000	0.000	0.000
EFF4 — security	0.409	0.000	0.000	0.000
CRM3 — bond	0.000	0.813	0.000	0.000
CRM4 — benefits	0.000	0.680	0.000	0.000
CRM5 — committed client	0.000	0.669	0.000	0.000
CRM2 — confidence	0.000	0.481	0.000	0.000
ATT3 — family	0.000	0.000	0.719	0.000
CRMSQ3 — relationship	0.000	0.000	0.567	0.000
COMM2 — managers	0.000	0.000	0.552	0.000
ATT2 — job satisfaction	0.000	0.000	0.477	0.000
ATT8 — happiness	0.000	0.000	0.400	0.000
EFF6 — variety	0.000	0.000	0.000	0.687
COMM5 — extensive	0.000	0.000	0.000	0.507
ATT6 — employee client	0.000	0.000	0.000	0.458
EFF7 — fees	0.000	0.000	0.000	0.455
Cronbach's alpha	0.878	0.812	0.783	0.733

Table 2 Multiple regression analysis — influence of independent variables on CRM

Dependent variable: CRM					
Source	d.f.	Sum of squares	Mean square	F-value	Pr > F
Model	4	1624.791	406.198	21.96	0.0001
Error	259	4791.693	18.501		
Corrected total	263	6416.485			
R-Square	C.V.	Root MSE	CRM mean		
0.253221	23.15518	4.3012493	18.575758		
Parameter	Estimate	T for H ₀ : Parameter=0	Pr > T	Std error of estimate	
INTERCEPT	4.290	2.18	0.0301	1.967	
KNOW	0.100	2.12	0.0353*	0.047	
ATT	0.367	5.87	0.0001**	0.063	

*p < 0.05
**p < 0.001

- Ho₂ had to be rejected, while Ha₂ can be accepted. There exists a positive relationship between *knowledgeability* and the effectiveness of CRM strategies (at the 95 per cent significance level).
- Ho₃ can be accepted, while Ha₃ had to be rejected. There exists no significant relationship between *two-way communication* and the effectiveness of CRM strategies.

MANAGEMENT IMPLICATIONS

The results showed that there is no significant relationship between *two-way communication* and the effectiveness of CRM strategies. The empirical results indicated positive relationships between perceived *attitude* and the effectiveness of CRM strategies and between perceived *knowledgeability* and the effectiveness of

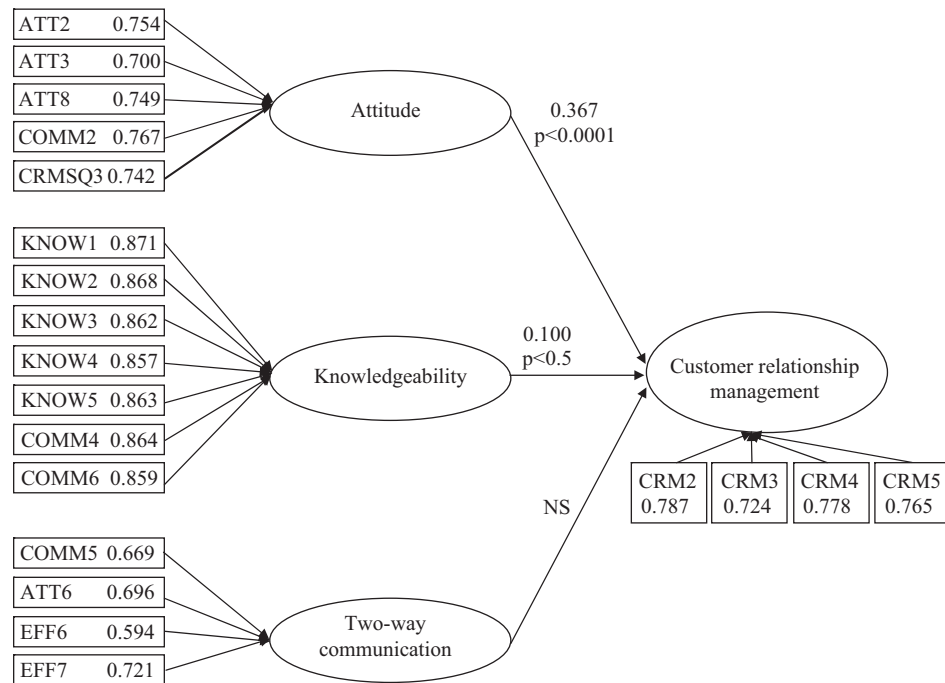


Figure 2 Empirical model

CRM strategies. In other words, if the *attitude* of employees improves, the effectiveness of the CRM strategies in a bank would improve, and if the *knowledgeability* of employees increases, the effectiveness of the CRM strategies in a bank would also improve. These results satisfied the primary research objective, which stated that the paper aims to investigate the influence of independent variables (with regard to bank employees) on the effectiveness of CRM strategies in banks. Based on the empirical findings, this paper provides banks with recommendations in order to improve their employees' knowledgeability and attitude, which will ensure more effective CRM strategies.

As the knowledgeability and attitude of bank employees are considered to be important aspects in a bank–client relationship, it is evident from the research findings that the face-to-face personal contact and interaction between banking clients and their bank's employees are very important. Therefore, it is evident that bank employees, especially those who directly interact with

banking clients, play a vital role in the effectiveness of a bank's CRM strategies. Specifically, this indicates that the bank employees at the front enquiry desk and tellers, whom clients directly interact with, should be knowledgeable regarding bank matters and should display positive attitudes towards their working environment and the banking clients. Various strategies can be implemented in order to ensure the development of employees' knowledgeability and a positive change in their attitudes.

Training sessions for bank employees, emphasising knowledgeability and attitude as key bank values, can be made compulsory to attend for new bank employees and can be repeated every year for all employees. A bank can ensure that each employee has a copy of and understands the bank's mission statement where the focus on knowledgeability and attitude is clearly stated. In order to have knowledgeable employees with positive attitudes, awards, for example an 'employee of the month' award, can be issued to acknowledge employees displaying these

characteristics and to motivate other employees to demonstrate these characteristics.

Recommendations concerning bank employee knowledgeability

The following recommendations are provided for banks in order to improve the knowledgeability of their employees:

- Educate employees about the bank's complex, ever-changing business environment.
- Continuously inform all employees of new and changed products and/or services.
- Motivate employees to notify clients about new and changed products and/or services.
- Inform employees of all the banking policies and procedures.
- Immediately inform employees when banking policies, procedures, rules and/or regulations change.
- Encourage employees to admit to clients if they do not fully understand a product, service, policy and/or procedure or if they are unable to inform them immediately about certain aspects.
- Encourage employees to consult other bank employees if needing help with client queries.

Recommendations concerning bank employee attitude

The following recommendations are provided for banks in order to improve the attitude of their employees:

- Friendliness should be a key value of the bank and should be practically displayed by superior bank employees.
- A bank can apply the principle of job rotation; in other words, employees can be stationed in one position in a bank for a specified time period and then be

moved to another position in the bank. For example, a bank employee arranging appointments for consultants may be moved to assist clients at the enquiries desk after six months. This strategy might lead to increased knowledgeability and job satisfaction, which will ensure a positive attitude displayed by bank employees.

- Incentives schemes can be used to increase job satisfaction and ultimately ensure positive attitudes.
- Superior bank employees, for example bank managers, should ensure good relations between bank employees.

Customer relationship management

It is evident that the CRM of banks are very important and that banks can improve the effectiveness of their CRM strategies by improving the knowledgeability and attitude of their employees.

Additionally, specifically to maintain long-term client relationships (improve CRM), a bank may provide special benefits to loyal clients, for example lower bank charges. Bank employees should be motivated to acknowledge clients, personally know regular clients, interact with clients and generally make clients feel welcome. A pleasant atmosphere should be created in a bank branch to ensure that clients feel relaxed, important and that they can trust the bank. These actions might increase the bank's level of CRM, as perceived by clients.

FINAL CONCLUSION

It is important to note that although the research was conducted in the Nelson Mandela Metropolitan area, the same findings and recommendations may be applicable to banks in other areas within South Africa and other emerging countries with complex, competitive banking industries.

Banks should be aware of the fact that a bank's interaction with its clients, through

employees, influences the effectiveness of the institution's CRM strategies. Specifically, two variables influence the effectiveness of the CRM strategies in banks, namely the *knowledgeability* and the *attitude* of the bank employees. The *knowledgeability* of bank employees with regard to banking products, services, policies and/or procedures and the *attitude* of bank employees in each banking branch should be positively adapted in order to improve a banks' CRM.

Strategies to improve, specifically, the *knowledgeability* and *attitude* of bank employees can and should be implemented by banks in ways to positively influence their CRM. In effect, this will increase the service quality of the bank. Ultimately, this will contribute to the bank's success, which will ensure economic stability and prosperity for a country.

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APPENDIX A

See Table A1.

Table A1 Table of statements

Items	Statements
KNOW5 — procedures	I will have a better relationship with my bank if the employees of my bank know the bank's procedures of delivering services.
KNOW4 — advise	I will have a better relationship with my bank if the employees of my bank can advise me on banking products and services.
COMM6 — availability	If a bank regularly informs me when certain services will be available and/or unavailable, I will have a better relationship with my bank.
KNOW3 — policies	My relationship with my bank depends on whether the employees of my bank can inform me of banking policies and procedures.

Table A1 Continued

<i>Items</i>	<i>Statements</i>
EFF10 — law	My relationship with my bank will be better if I know with certainty that the bank operates within the boundaries of the law.
COMM4 — information	If my bank regularly informs me of new or important banking information through various media, for example, on the television or radio, I will have a better relationship with my bank.
KNOW2 — knowledgeable	If the employees of my bank have extensive knowledge regarding the banking products and services, I will have a better relationship with my bank.
KNOW1 — inform	My relationship with my bank depends on whether employees of my bank can fully inform me on banking products and services.
EFF4 — security	My relationship with my bank depends on whether it implements strict measurements to ensure the security of my funds.
CRM3 — bond	I feel that I have a strong bond with my bank.
CRM4 — benefits	I receive many benefits due to my relationship with my bank.
CRM5 — committed client	I am completely committed to my bank.
CRM2 — confidence	I have confidence in my bank and know that my bank will always act in my best interest.
ATT3 — family	My relationship with my bank depends on whether the employees of my bank seem like a coherent family, caring about each other and the institution.
CRMSQ3 — relationship	My bank's level of service quality depends on my relationship with the bank.
COMM2 — managers	My relationship with my bank depends on whether senior managers are always available for appointments.
ATT2 — job satisfaction	If the employees of my bank appear satisfied with their jobs, I feel more positive towards my bank.
ATT8 — happiness	My relationship with my bank depends on whether the employees of my bank appear really happy and without stress.
EFF6 — variety	My relationship with my bank depends on its variety of services.
COMM5 — extensive	The more extensively I communicate with my bank, the better relationship I develop with my bank.
ATT6 — employee client	If an employee of my bank informs me that he/she is also a client of the bank, I will have a better relationship with my bank.
EFF7 — fees	I selected my bank based on its fees for services.