# An Examination of Customer Loyalty in Indonesian Banking Industry: Application of the Investment Model

**Keni[1], Hasnah Haron[2] and Ishak Ismail[3]**

**[1] Tarumanagara University (Economics Faculty), Kampus II, Jakarta 11470**

**[2]Universiti Sains Malaysia (Graduate School of Business), 11800 Minden, Pulau Pinang, Malaysia**

**[3]Universiti Sains Malaysia (School of Management), 11800 Minden, Pulau Pinang, Malaysia**

## ABSTRACT

The purpose of this paper is to provide a conceptual framework for the study of the relationship between service satisfaction, quality of alternative, investment size and customer loyalty in Indonesian banking industry. Previous studies have looked at factors influencing customer loyalty, but only a few of these studies applied an investment model to predict customer loyalty. The present study intends to fill this gap in the literature by applying the investment model that is originally developed in the psychology literature. The advantage of this model is that this model does not only examine the customer's internal but also investigate customer's external motives for loyalty. In this conceptual paper, a framework is presented on how to study the relationship between investment model and customer loyalty in banking industry in Indonesia. This framework can be used by researchers and practitioners to study and model empirical research into this area in the future..

**Keywords: Customer Loyalty, Indonesian Banking Indutry, Investment Model**

## 1. INTRODUCTION

Banking industry is one of the significant contributor towards economic development of a country. As a results of business dynamism and globalization of banking industry, competition among banks become stiff. In order to be sustainable, many banks have undergone mergers and alliances within banks in the country or abroad.

Indonesia as one of the Asian developing countries, definitely need a strong banking industry as a foundation to create strong economic base. Banking industry contribution to GDP is relatively stable over the last five years, about 2.30 percent (Bank Indonesia, 2012). Banking industry, as financial intermediary institution, plays an important role in economy growth. In year 2011, the total amount of loan given to third party was about Rp 2,200 trillion,equivalent to approximately 30 percent of GDP (Rp 7,427 trillion) (Bank Indonesia, 2012).

Indonesian banking industry has been consolidated since the Asian Crisis in year 1998. It is reflected by the decreasing number of total banks in Indonesia, from 222 banks in 1997 (Bank Indonesia, 2002) to 120 banks in December 2012 (Bank Indonesia, 2012). A series of merger, acquisition and closing down during the Asian crisis has resulted in the decreasing number of banks in Indonesia. The shrinking number of banks has triggered the competition between the surviving banks. Table 1 shows the list of mergers and acquisitions between 2000 and 2010.

**Table 1**
**The List of Mergers and Acquisitions between Year 2000 and Year 2010**

| Bank Category | Merging Bank | Year | Name of New Bank |
|---|---|---|---|
| Large Banks | PT Bank Niaga<br>PT Bank Lippo | 2008 | PT Bank CIMB Niaga Tbk |
| Medium sized banks | Bank Dai-Ichi Kanggo<br>Bank IBJ Indonesia | 2000 | PT Bank Mizuho Indonesia |
| | Bank Bali<br>Bank Artha Media<br>Bank Universal<br>Bank Prima Express<br>Bank Patriot | 2001 | PT Bank Permata Tbk |
| | PT Bank Sumitomo Mitsuo Indonesia<br>Sakura Swadarma Bank | 2001 | PT Bank Sumitomo Mitsuo Indonesia |
| | UFJ Indonesia Bank<br>Tokai Lippo bank | 2001 | UFJ Indonesia Bank |
| | UFJ Indonesia<br>PT Bank of Tokyo Mitsubishi | 2006 | PT Bank of Tokyo Mitsubishi UFJ Ltd |
| | Bank Hagakita<br>Bank Haga<br>Bank Rabobank Duta | 2008 | PT Bank Rabobank International Indonesia Bank |
| | Bank Buana<br>Bank UOB Indonesia | 2010 | PT Bank UOB Buana Tbk |
| Small banks | Bank Pikko<br>Bank CIC<br>Bank Danpac | 2001<br>2001<br>2004 | PT Bank Mutiara Tbk |
| | Bank Artha Graha<br>Bank Inter-pacific Tbk | 2005 | PT Bank Artha Graha International Tbk |
| | Commonwealth Indonesia<br>Artha Niaga Kencana | 2007 | PT Bank Commonwealth |
| | Bank Multicor<br>Bank Windu Kentjana | 2007 | PT Bank Windu Kentjana International Tbk |
| | Bank Harmoni International<br>Bank Index Selindo | 2008 | PT Bank Index Selindo |
| | Bank Haga<br>Bank Hagakita | 2008 | Rabobank Duta Bank |
| | Bank OCBC<br>Bank NISP | 2009 | PT Bank OCBC-NISP Tbk |

Source: Banks' Annual Report of Each Bank (2011)

The opening up of the banking system to foreign investors in 1998 has also created a higher level of competition in the Indonesian banking industry. To recapitalize the banking sector, foreign banks are allowed to become a majority shareholder (up to 99 percent) of Indonesian local banks (PP No. 29/1999). This has resulted in many foreign banks acquiring local banks, and the acquisition varies from small to large banks. Since the Asian crisis in 1998, the Indonesia economy has transformed into a strong and sustainable economic growth country with a reasonable profit margin in the banking sector compared to others regionally. Moreover, Indonesia is the fourth most populated country and backed-up by a growing middle class with a strong purchasing power. With the economic outlook, Indonesian banking industry is considered to be a prospective investment.

Post-acquisition, the foreign-owned banks have advantages to greater access to capital, foreign exchange fund and network. During the expansionary, the foreign-owned banks with the backup of their parent company (mostly world top foreign bank) have a higher power to generate capital. Meanwhile, it was further supported by the multinational companies from their country of origin. Table 2 shows the list of foreign-owned banks in Indonesia.

**Table 2**
**The List of Indonesia Foreign – Owned Banks**

| Acquired Bank | Owner | Share (%) |
|---|---|---|
| Bank Central Asia | Farallon capital-led consortium - Mauritius | 49.15 |
| Bank CIMB Niaga | CIMB Group Sdn Bhd - Malaysia | 77.24 |
| Bank Danamon | Asia Financial (Temasek) – Singapore | 67.63 |
| Bank Ekonomi Rahardja | HSBC Asia Pacific Holdings Limited – UK | 98.96 |
| Bank Hana | Hana Bank – Korea<br>International Finance Corporation | 72.10<br>19.90 |
| Bank Internasional Indonesia | Sorak Financial Holdings Pte Ltd<br>Maybank Offshore Corporate Services Sdn Bhd – Malaysia | 54.33<br>43.19 |
| Bank Nusantara Parahyangan | ACOM Co Ltd<br>The bank of Tokyo-Mitsubishi UFJ Ltd | 55.68<br>20.00 |
| Pan Indonesia Bank | Votraint No 1103 PTY Limited | 38.82 |
| Bank Permata | Standard Chartered - UK | 44.51 |
| Bank Swadesi | Bank of India - India | 76.00 |
| Bank UOB Buana | UOB International Investment Private Limited | 98.97 |

Source: Prasetyantoko (2011)

The launching of ASEAN Economic Community (AEC) in year 2015 is predicted to increase further the competition among the banks. AEC aims to create a (i) single market and production base, (ii) highly competitive economic region, (iii) region of equitable economic development, and (iv) region fully integrated into the global economy. It will be initiated by free flow of goods, services, investment, capital and labors. Therefore, the integration of ASEAN financial and capital markets will be implemented in 2015 through financial services liberalization, capital account liberalization and capital market development (MITI, 2008).

Financial services liberalization may allow ASEAN members' bank to operate in all lines of banking operations. Limited asset and capital of Indonesian banks limits their competition with international banks operating in Indonesia. On the other hand, regional banks with great reputation might have lower entry barrier to penetrate ASEAN countries, such as DBS and Maybank.

One of the ways for Indonesian banks to be sustainable in the business is through creating and retaining loyal customers. However, creating and retaining customers needs time, money and great effort. Banks may create products with great feature but their competitors could replicate it easily. Therefore, bank has to build a strong relationship with customers in order to make them satisfied and loyal.

There are many complaints about bank services and dispute between bank and its customer. For example: data shows that customer complaints received Bank Indonesia has increased significantly to 510 complaints in 2011 compared to only 278 complaints in 2010 (83.4% increase in a year) (Yoga, 2011, as cited by Syafrizal, Nabsiah & Ismail, 2012). Consistent with the report issued by Bank Indonesia, Yayasan Lembaga Konsumen Indonesia (YLKI), Indonesian Consumers Organization also receive 620 complaints in 2012. According to Sudaryatmo, the chairman of Indonesian Consumers Organization, the highest level of customer complaints is from banking services (18.46%) (Wiyanto, 2013).

To prevent customers' switching, it is important to know how to maintain customer loyalty. Creating and maintaining customer loyalty has become a strategic mandate in today's service market (Ganesh, Arnold, & Reynolds, 2000). Customer loyalty is an essential factor in business survival and development (Chen, 2012). An important element to lead to the company's is the company's ability to retain customers and keep customers loyal (Dekimpe, Steenkamp, Mellens, & Abeele, 1997). Loyal customers will build the company's business by buying more; paying a premium price and providing new referrals through recommend new customers positive word of mouth from time to time (Ganesh et al., 2000). This is consistent with the results of Reichheld and Sasser (Reichheld, 1993; Reichheld & Sasser, 1990) which shows a significant contribution from a loyal customer to the financial performance of a business. They found that between 25% and 95% of the increase in the net present value of profits derived from increased customer retention by 5% in 14 industries.

The importance of loyalty in marketing practice is based on the fact that it is much cheaper to retain existing customers rather than finding new customers (Bellizzi & Bristol, 2004; Boora & Singh, 2011; Rust & Zahorik, 1993). In relation to that, some surveys show that it is six times more expensive to acquire a new customer than to retain existing customer (Rosenberg & Czepiel, 1983). Customer loyalty allows companies to reduce operating costs and marketing cost, such as to obtain a new customer (Griffin, 1995, 2002).Customer loyalty is beneficial not only in the short term (O'Brien & Jones, 1995) but also in long-term as it will lead to spread positive word of mouth (Reichheld & Teal, 1996 in Ganesh et al., 2000). Oliver (1997) suggested that loyal customers directly influence profitability through a guaranteed steady flow of customers.

According to Murray (1991), financial service is very real and heterogeneous, and the perceived risk is often greater so there is a tendency to give a stronger emphasis on customer loyalty as a strategy to reduce risk. Related to that, in the context of banking, it has been found that the increase in customer retention can substantially affect profits. An increase in bank customer retention by 5% can increase profits by 85% (Veloutsou, Daskou, & Daskou, 2004).

There have been a few studies investigating factors influencing customer loyalty but this article focuses only on investment model to predict customer loyalty. One of the most common model that is widely used is service quality model. However, this generic model only looked at customer's internal motives for loyalty. Recently the Investment model, initially introduced in the psychology literature, has been used in marketing to examine customer loyalty in restaurants. Investment model is not only looking at customer's internal motives but also customer's external motives for loyalty. Therefore, this study would like to extend the investment model to the banking industry.

Firstly, investment model is developed to predict commitment and persistence across many types of relationship (Le & Agnew, 2003; Rusbult, 1980a, 1980b). Although the investment model was originally proposed to examine interpersonal relationships, its application can be extended to explain firm-person relationships (Le & Agnew, 2003). According to the investment model, commitment to maintain relationships should be determined by three factors: (i) satisfaction with the relationship or to the degree that a relationship is satisfying, commitment should be stronger; (ii) a comparison of perceive best availability of alternative to the relationship (quality of relationship). It means that persons should feel more committed to the extent that they have only poor alternatives to their current involvements; (iii) individual's investment in their relationship (investment size), commitment should be greater to the degree that the individual has invested numerous resources in the relationship either intrinsically or extrinsically (Rusbult, 1980a; Rusbult, Johnson, & Morrow, 1986; Rusbult, Martz, & Agnew, 1998).

Further study of the Investment Model suggests that, it not only influence the interpersonal relationship, but also others relationship such as: employees and employers relationship, individual's commitment to their hobbies, brand's commitment and so on (Farrell & Rusbult, 1981; Gable & Hunting, 2001; Geyer, Dotson, & King, 1991; Koslowsky & Kluger, 1986; Ping, 2007; Rusbult & Farrell, 1983; Sung & Choi, 2010). Studies among students have shown that the investment model can also be used to demonstrate students' commitment to their courses (Hatcher, Kryter, Prus, & Fitzgerald, 1992). Through these three decades, Investment Model has been empirically supported by a large number of similar studies. This article is to examine the factor that influence customer loyalty in Indonesian banking industry. It is expected to increase the Indonesian banking competitiveness and to reduce customer dissatisfaction, so the customer will not invest their money in other countries.

# 2. LITERATURE REVIEW

## Customer Loyalty

Customer loyalty is thought to be an important concept for marketing practitioners. Loyalty initially is rooted during feudal times when allegiance to the sovereign was fundamental to the success, perhaps even the survival (Hill & Alexander, 2000). Customer loyalty is a deeply held commitment to rebuy or re-patronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior (Oliver, 1997, 1999). Thus, loyalty includes readiness to act (repurchase) and resistance over existing alternatives. M. D. Johnson and Gustafsson (2000) explain the definition of

customer loyalty by differentiating between customer loyalty and retention. Loyalty is a customer's intention or predisposition to buy, while retention is the behavior itself.

An increase of 5% in customer loyalty can double a firm's profitability and the economic benefits of high customer loyalty are considerable and, in many industries, explain the differences in profitability among competitors (Reichheld, 1993; Reichheld & Sasser, 1990). They found that 80% of the profits generated by 20% of the company's customers - some companies actually be argued that 20% of customers generate 120% of the profits. Customer loyalty is achieved by providing the highest quality services and ensures that customers are fully satisfied. Hence, they recognize that customer loyalty is earned by consistently delivering superior value.

According to Griffin (2002), the concept of customer loyalty is geared more to behavior than to attitude. When a customer is loyal, he or she exhibits purchase behavior defined as nonrandom purchase expressed over time by some decision-making unit. Further, she explains that a loyal customer is one who: makes regular purchases, purchases across product and services lines, refers others and demonstrate immunity to the pull of the competition (Griffin, 2002). A customer repurchases the same brand, not whether they actually like the brand more than other brands, is often referred as brand loyalty (Neal, Quester, & Hawkins, 1999; Sheth & Mittal, 2004).

From the above description it can be seen that loyalty not only involves making a purchase or even repeat purchases, but also represents a positive level of commitment by the customer to the supplier it is the degree of positive commitment which distinguishes truly loyal customers (Hill & Alexander, 2000).

The objectives of loyalty strategies are to increase customer loyalty, increase the purchase amount of loyal customers, decrease customer loyalty to competitors, and decrease customer switching (Jacoby, Chestnut, & Fisher, 1978). Therefore, it is important to investigate factors that influencing customer loyalty to understand how customer loyalty can be improved and customers can be retained.

Customer loyalty is comprised of many dimensions and its conceptualization has been defined and measured in different ways (Uncles, Dowling, & Hammond, 2003). There is no consensus among researchers concerning the operationalization of loyalty. Operationalization of loyalty can be categorized by behavioral approach, attitudinal approach, behavioral and attitudinal approach (two-dimensional or composite approach). Comprising many dimensions and customer loyalty conceptualization has been dominated by the behavioral and attitudinal approaches (Lewis & Soureli, 2006). More recently, three-dimensional conceptualizations have been proposed where loyalty includes behavioral, attitudinal and cognitive approach (T. Jones & Taylor, 2007).

A large part of loyalty may involve behavioral and attitudinal approach. Several authors suggested that the conceptualization of loyalty as the relationship between the relative attitude toward an entity (brand/service/store/vendor) and patronage behavior (Dick & Basu, 1994; Morgan & Hunt, 1994; Oliver, 1999) This is consistent with Ganesh et al. (2000) that customer loyalty as a combination of both commitment to the relationship and other overt loyalty behavior.

Loyalty is often gauged by behavioral measures such as frequency of purchase or word of mouth, because behavior reflects what customers actually do (Dekimpe et al., 1997). Behavioral measures such as repeat purchase have been criticized for a lack of conceptual basis, and for failing to yield a comprehensive insight into the underlying reasons for loyalty (Day, 1969). The attitudinal approach, in contrast, see a loyal customer as attached to a brand, and when their positive beliefs are reinforced, these customers are said to buy a brand more often (Riley et al., 1997). Behavioral patterns are thus one of the components loyalty, however if a customer does not also demonstrate a favorable attitude towards a brand or company, there is a possibility of brand switching (Bloemer & Kasper, 1995).

With regard to behavioral loyalty in service setting, Parasuraman, Zeithaml, and Berry (1994) proposed comprehensive behavioral loyalty taxonomy. This taxonomy initially comprised the following four main categories: (i) word-of-mouth communication, (ii) repurchase intention, (iii) price sensitivity, and (iv) complaining behavior (Parasuraman et al., 1994). However, based on factor analysis, using 13-item scale, they identified the following five behavioral intention dimensions: loyalty to company, propensity to switch to another service provider, willingness to pay more, external response to problem, and internal response to problem. According to Assael (2001), there are three limitations of behavioral approach measures of loyalty: (i) measurement of loyalty based on past behavior may be misleading; (ii) consumer purchases may not reflect

reinforcement; (iii) brand loyalty is not merely a function of past behavior. Further, he states that loyalty is a multidimensional concept that must incorporate the consumer's commitment to the brand. Therefore, he suggests that there is the need a cognitive as well as a behavioral view.

Customer loyalty can be viewed as developing in three phases (Oliver, 1997): (i) cognitive loyalty, the information base available to the consumer compellingly points to one brand over another (loyalty based on cognition only); (ii) affective loyalty, loyalty is based on affect. Attitude is shown as a function of cognition (expectations) in the early purchase periods and as a function of cognition (expectancy disconfirmation); (iii) conative loyalty (behavioral intention), as influenced by changes in affect toward the brand. Conation implies an intention or commitment to behave toward a goal in a particular manner.

## The Investment Model

The investment model is initially developed in psychology literature to predict commitment and persistence in a wide range of settings – in dating relationships (Rusbult, 1980a, 1983; Rusbult et al., 1986) in friendships (Rusbult, 1980b) and also on the job (Farrell & Rusbult, 1981; Rusbult & Farrell, 1983). The Investment model is based on several principles of interdependence theory and assumes that individuals are in general motivated to maximize rewards while minimizing cost (Kelley & Thibaut, 1978 in Rusbult (1980a). Interdependence theory identifies two main processes through which dependent grow (Rusbult et al., 1998). First, individual become increasingly dependent to the extent that they experience high satisfaction in a relationship. Satisfaction level refers to the positive versus negative affect experienced in a relationship. Satisfaction is influenced by the extent to which a partner fulfills the individual's most important needs. Second, dependence is not only affected by satisfaction, but also affected by the quality of available alternatives. Quality of alternatives refers to the perceived desirability of the best available to a relationship. It is based on the extent to which the individual's most important needs could effectively be fulfilled outside of the current relationship.

The investment model further extends interdependency theory and states that commitment is affected not just by the outcome values of the current relationship and alternatives, but also investment size (Rusbult, 1980a; Rusbult et al., 1998).

In conclusion, according to the investment model, commitment to maintain relationships should be determined by three factors. First, satisfaction with the relationship or to the degree that a relationship is satisfying, commitment should be stronger. Second, a comparison of perceive best availability of alternative to the relationship (quality of relationship). It means that persons should feel more committed to the extent that they have only poor alternatives to their current involvements. Third, individual's investment in their relationship (investment size), commitment should be greater to the degree that the individual has invested numerous resources in the relationship either intrinsically or extrinsically (Rusbult, 1980a; Rusbult et al., 1986; Rusbult et al., 1998).

Further study of the Investment Model suggests that, it not only influence the interpersonal relationship, but also others relationship such as: employees and employers relationship, individual's commitment to their hobbies, brand's commitment and so on (Farrell & Rusbult, 1981; Gable & Hunting, 2001; Geyer et al., 1991; Koslowsky & Kluger, 1986; Ping, 2007; Rusbult & Farrell, 1983; Sung & Choi, 2010). Studies among student have shown that the investment model can also be used to demonstrate student commitment to their courses (Hatcher et al., 1992). Through these three decades, Investment Model has been empirically supported by a large number of similar studies. A recent meta-analysis (Le & Agnew, 2003) involving 52 studies and almost 12,000 subjects confirmed the value of the investment model. This meta-analysis showed that relationship satisfaction, the quality of alternatives and investment in the relationship all correlated significantly with commitment. The next section will explain each variable of the investment model.

### Satisfaction

Satisfaction will occur when the degree of rewards relative to costs obtained in relationship exceed his expectations. Satisfaction refers to the degree of positive affect associated with a relationship (Rusbult, 1980a; Rusbult & Buunk, 1993; Rusbult et al., 1998). In line with marketing literature, satisfaction is a judgment that a product or service feature, or the product or service itself, provides a pleasurable level of consumption-related

fulfillment (Oliver, 1997). It means that customers who feel satisfied if they meet the needs, desires, goals, etc. as compared with the standard pleasant than unpleasant.

Satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectation. If the performance falls short of expectations, the customer is dissatisfied. If the performance matches the expectations, the customer is satisfied. If the performance exceeds expectations, the customer is highly satisfied or delighted (Kotler & Keller, 2006).

The most commonly used conceptualization is based on two approaches: cumulative and transaction (Boulding, 1993). As a cumulative approach, customer satisfaction can be defined as overall evaluation based on the total purchase and consumption experience with a good or service over time, whereas transaction approach defines customer satisfaction is expressed as a function of pre purchase expectations and post purchase perceived performance of the respective product/service.

## Quality of Alternatives

The quality of alternatives refers to an individual's judgment of the attractiveness of available alternatives – another relationship, dating around or the option of non-involvement (Rusbult & Buunk, 1993). While, Impett et al. (2001) define alternatives as an individual's subjective assessment of the rewards and costs that could be obtained outside the current relationship, including specific other partners, spending time with friends and family or spending time alone (Impett et al., 2001; Rusbult et al., 1998). That is, an individual's choice of either staying put or terminating the relationship is influenced by the availability of quality or attractive alternatives (Boakye, Kwon, Blankson, & Prybutok, 2012).

Applied to consumer-brand relationships, the quality of alternatives refers to a consumer's judgment or evaluation of the attractiveness of available alternative brand choices or option, for example: number of competing brands or quality of competing brands (Sung & Choi, 2010).

## Investment Size

Investment size refers to the magnitude and importance of the resources that are attached to a relationship and would lose if the relationship were to end (Impett et al., 2001; Rusbult et al., 1998). Investments can be divided into two types: 1) extrinsic investment occurs when initially extraneous resources become inextricably connected to the relationship (e.g., mutual friends, shared memories or material possessions, activities/persons/objects/events uniquely associated with the relationship); 2) intrinsic investments are those resources that are put directly into the relationship, such as time, emotional effort, or self-disclosures (Rusbult, 1980a, 1983). Invested resources may also prove to be rewarding or costly, for example, shared memories or mutual friends could also serve as rewards, whereas emotional effort or monetary investments could be costly (Rusbult & Farrell, 1983).

In an interpersonal relationship, investment include direct resources such as time, effort, and money that an individual has devoted to the relationship, as well as indirect resources that become linked to the relationship, including shared memories, mutual friends, and objects uniquely associated with the relationship (Rusbult & Buunk, 1993).

In marketing literature, investment is closely related to the concept of switching costs and termination cost (Boakye et al., 2012; Bügel, Buunk, & Verhoef, 2010; Sung & Choi, 2010), with refers to the technical, financial or psychological factors which make it difficult or expensive for a customer to change brand (Beerli et al., 2004). Investment in customer-company relationship will raise the switching costs and hence make it more difficult for customers to change producers. In brief, making investments in customer relationships is of the utmost importance in terms of customer commitment (Bügel et al., 2010).

Investment in relationships is not a clear concept in marketing literature. There are two perspectives to explain about investment in relationship. First, according to Hart & Johnson (1999) in Sung and Choi (2010) the perspective that consumers exhibit loyalty to a company and stay in the relationship with the company if the company has invested a great deal in the relationship with them. Second, in the other way round, investment in relationship is customers' own investment in the relationship with a brand or a company (Sung & Choi, 2010). Human relationship literature suggests that an individual's personal investment in a relationship should be an

important predictor of relationship commitment. This article examines investment from the customer's perspective that customer can invest time, money and effort in relationships with their banks.

Previous studies show that only few marketing literature has been done into the applicability of the investment model in examining factors that influencing customer loyalty; a lot of research has been into the role of individual variables from the investment model. According to Bügel et al. (2010) the Investment Model is believed that relative impacts to be exist in the service industry. On their study, they have examined the applicability of the psychological investment model to customer-company commitment. One of the limitations stated from the authors that they only examined self-reported customer commitment, not actual customer loyalty (Bügel et al., 2010). More recently, Boakye et al. (2012) examine the applicability of the investment model to attitudinal loyalty in casual dining restaurant. On their study, they did not consider behavioral loyalty to examine factors that influencing customer loyalty.

## 3. Theoretical Framework

Based on the literature review concerning the study variable on investment model and customer loyalty, the framework of this study is as shown in Figure 1.

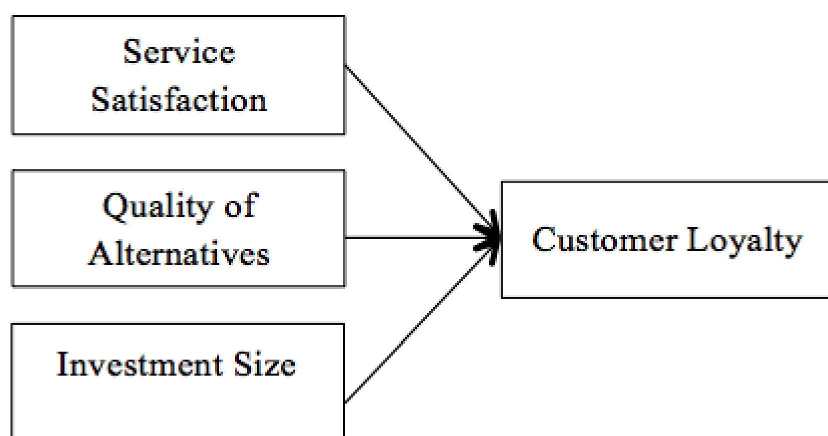


**Figure 1. Proposed conceptual framework**

From the conceptual framework, the research hypotheses for this study are as follows:

Many studies show that satisfaction has a positive and significant impact on loyalty (Beerli et al., 2004; J. Bloemer et al., 1998; Ganguli & Roy, 2011; Lewis & Soureli, 2006; Mouthinho & Smith, 2000; Nguyen & LeBlanc, 1998).

Satisfaction is considered to act as an antecedent of loyalty, arising out of direct prior experience (Dick & Basu, 1994). Customers who are satisfied with their bank probably develop a positive attitude towards the bank. As a result, their intention to stay with the bank in the future is likely to be high. Customer satisfaction is the main antecedent and also has a significant effect for both affective and conative loyalty (Methlie & Nysveen, 1999).

Higher levels of loyalty behaviors were recorded when customers were very satisfied with the way in which a service failure was addressed. When the customer is very satisfied, and then intended loyalty behaviors would appear to be enhanced. The study demonstrates a relationship between satisfaction and loyalty and the importance of ensuring customer satisfaction in seemingly minor service failures appears evident (H. Jones & Farquhar, 2007). Customer satisfaction is of great importance for loyalty. The result shows that satisfaction was a significant antecedent of both behavioral and attitudinal loyalty (Matos et al., 2009).
Rauyruen and Miller (2007) examine relationship quality influence attitudinal loyalty, however, only satisfaction and perceived service quality influence behavioural loyalty (purchase intentions). Harris and Goode (2004) surveyed customers in two distinct key online markets, that is: online purchasers of books and online

buyers of flights. The result shows that the satisfaction associations with loyalty from book.com were positively significant. On the contrary, this result is not supported for flights.com.

Satisfying customer needs and wants is the key to gaining customer loyalty (Oliver, 1997). More recent, research shows that customer satisfaction has a direct and positive effect in customer loyalty in the e-service context (Chen, 2012). Finally, Boakye et al. (2012) suggest that a customer's satisfaction directly and positively affect his or her attitudinal loyalty. This suggests that service satisfaction is important for customers. The positive relationship between satisfaction and attitudinal loyalty is consistent with previous research.

Few studies investigate about the relationship between quality of alternatives, investment size and customer loyalty. Ping (1993) finds the alternative attractiveness associations with loyalty were not significant. In contrast, Boakye et al. (2012) show that attractiveness of alternatives has a negative but weak effect on a customer's attitudinal loyalty towards casual dining restaurants.

Investment size is the last factor in investment model. According to Ping (1993), the relationship between investment and loyalty was not significant. In contrast, Boakye et al. (2012) find that huge investment directly and positively affect his or her attitudinal loyalty. This suggests that investment size is important for customers.

Therefore, the hypotheses of the study area:

Hypothesis 1: Service satisfaction is positively related to customer loyalty.
Hypothesis 2: Quality of alternatives is negatively related to customer loyalty.
Hypothesis 3: Investment size is positively related to customer loyalty.

# 4. CONCLUSION

Based on the introduction and theoretical background, in order for the Indonesian banks to become more competitive and sustainable, customer loyalty plays a vital role. In this paper, a conceptual framework to study the relationship between the investment model and customer loyalty in the banking industry in Indonesia is proposed. The outcome of this study will contribute towards individuals, practitioners and academic involved in customer loyalty in the banking industry in Indonesia.

# REFERENCES

Assael, H. (2001). *Consumer Behavior and Marketing Action* (Sixth ed.). Singapore: Thomson Learning.

Beerli, A., Martín, J. D., & Quintana, A. (2004). A model of customer loyalty in the retail banking market. *European Journal of Marketing, 38*(1), 253-275.

Bellizzi, J. A., & Bristol, T. (2004). An Assessment of Supermarket Loyalty Cards in One Major US Market. *Journal of Consumer Marketing, 21*(2), 144-154.

Bloemer, J. M. M., & Kasper, H. D. P. (1995). The Complex Relationship between Consumer Satisfaction and Brand Loyalty. *Journal of Economic Psychology, 16*, 311-329.

Bloemer, J., Ruyter, K. d., & Peeters, P. (1998). Investigating Drives of Bank Loyalty: The Complex Relationship Between Image, Service Quality and Satisfaction. *International Journal of Bank Marketing, 16*(7), 276-286.

Boakye, K. G., Kwon, J., Blankson, C., & Prybutok, V. R. (2012). The Attraction of the Sizzle: A Service Investment Model. *The Quality Management Journal, 19*(4), 24-38.

Boora, K. K., & Singh, H. (2011). Customer Loyalty and Its Antecedents: A Conceptual Framework. *Asia Pacific Journal of Research in Business Management, 2*(1), 151-164.

Boulding, William, Kalra, Ajay, Staelin, R., & Zeithaml, V.A. (1993). A Dynamic Process Model of Service Quality: From Expectation to Behavioral Intentions. Journal of Marketing Research, XXX(February 1993), 7-27.

Bügel, M. s., Buunk, A. P., & Verhoef, P. C. (2010). A Comparison of Customer Commitment in Five Sector Using the Psychological Investment Model. *Journal of Relationship Marketing, 9*, 2-29.

Bank Indonesia. (2002). *Statistik Ekonomi Keuangan Indonesia: Indonesian Financial Statistics*. Vol. IV (02). Jakarta: Bank Indonesia.

Bank Indonesia. (2012). Indonesia Banking Statistics - December 2012. Retrieved 22nd March, 2013, from http://m/bi.go.id/web/en/Statistik/Statistik+Perbankan/Statistik+Perbankan+Indonesia/spi_1012.htm.

Chen, S.-C. (2012). The Customer Satisfaction-Loyalty Relation in an Interactive E-Service Setting: The Mediator. *Journal of Retailing and Consumer Service, 19*, 202-210.

Day, G. S. (1969). A Two Dimensional Concept of Brand Loyalty. *Journal of Advertising Research, 9*(3), 29-35.

Dekimpe, M. G., Steenkamp, J.-B. E. M., Mellens, M., & Abeele, P. V. (1997). Decline and Variability in Brand Loyalty. *International Journal of Research in Marketing, 14*, 405-420.

Dick, A. S., & Basu, K. (1994). Customer Loyalty: Toward an Integrated Conceptual Framework. *Journal of the Academi of Marketing Science, 22*(2), 99-113.

Farrell, D., & Rusbult, C. E. (1981). Exchange Variables as Predictors of Job Satisfaction, Job Commitment, and Turnover: The Impact of Rewards, Costs, Alternatives, and Investments. *Organizational Behavior and Human Performance, 28*(1), 78-95.

Gable, S., & Hunting, M. (2001). Child Care Providers' Organizational Commitment: A Test of the Investment Model. *Child and Youth Care Forum, 30*(5), 265-281.

Ganesh, J., Arnold, M. J., & Reynolds, K. E. (2000). Understanding the Customer Base of Service Providers: An Examination of the Differences Between Switchers and Stayers. *Journal of Marketing, 64*(3), 65-87.

Geyer, P. D., Dotson, M., & King, R. H. (1991). Atlantic Journal of Business. *Predicting Brang Commitment: An Empirical Test of Rusbult's Investment Model, 27*(2), 129-137.

Griffin, J. (1995). *Customer Loyalty. How to Earn It. How to Keep It*. New York: Lexington Books.

Griffin, J. (2002). *Customer Loyalty: How to Earn It. How to Keep It*. San Fransisco: Jossey-Bass. A Wiley Imprint.

Harris, L. C., & Goode, M. M. H. (2004). The Four Levels of Loyalty and the Pivotal Role of Trust: a Study of Online Service Dynamics. *Journal of Retailing, 80*, 139-158.

Hatcher, L., Kryter, K., Prus, J. S., & Fitzgerald, V. (1992). Predicting College Student Satisfaction, Commitment, and Attrition from Investment Model Constructs. *Journal of Applied Social Psychology, 22*(16), 1273-1296.

Hill, N., & Alexander, J. (2000). *Handbook of Customer Satisfaction and Loyalty Measurement* (Second ed.). Vermount: Gower Publishing Limited.

Impett, E. A., Beals, K. P., & Peplau, L. A. (2001). Testing the Investment Model of Relationship Commitment and Stability in a Longitudinal Study of Married Couples. *Cureent psychology: Development, Learning, Personality, Social, 20*(4), 312-326.

Jacoby, J., Chestnut, R. W., & Fisher, W. A. (1978). A Behavioral Process Approach to Information Acquisition in Nondurable Purchasing. *Journal of Marketing Research, XV*(November), 532-544.

Johnson, M. D., & Gustafsson, A. (2000). *Improving Customer Satisfaction, Loyalty and Profit. An Integrated Measurement and Management System*. San Fransisco: Jossey-Bass, A Wiley Company.

Jones, H., & Farquhar, J. D. (2007). Putting It Right: Service Failure and Customer Loyalty in UK Banks. *International Journal of Bank Marketing, 25*(3), 161-172.

Jones, T., & Taylor, S. F. (2007). The conceptual domain of service loyalty: how many dimensions? *Journal of Services Marketing, 21*(1), 36-51.

Koslowsky, M., & Kluger, A. (1986). Commitment to Participation in Musical Activities: An Extension and Application of the Investment Model. *Journal of Applied Social Psychology, 16*(9), 831-844.

Kotler, P., & Keller, K. L. (2006). *Marketing Management* (12 ed.). Upper Saddle River, New Jersey: Pearson Education Inc.

Le, B., & Agnew, C. R. (2003). Commitment and Its Theorized Determinants: A Meta-Analysis of the Investment Model. *Personal relationships, 10*, 37-57.

Lewis, B. R., & Soureli, M. (2006). The antecedents of consumer loyalty in retail banking. *Journal of Consumer Behaviour, 5*, 15-31.

Matos, C. A. d., Henrique, J. L., & Rosa, F. d. (2009). The Different Roles of Switching Costs on the Satisfaction-Loyalty Relationship. *International Journal of Bank Marketing, 27*(7), 506-523.

Methlie, L. B., & Nysveen, H. (1999). Loyalty of On-line Bank Customers. *Journal of Information Technology, 14*, 375-386.

MITI. (2008). ASEAN Economic Community (AEC). Retrieved 22nd December, 2012, from http://www.miti.gov.my/cms/content.jsp?id=com.tms.cms.article.Article_b5e22087-c0a81573-aba0aba0-ab12873b.

Morgan, R. M., & Hunt, S. D. (1994). The Commitment-Trust Theory of Relationship Marketing. *Journal of Marketing, 58*(3), 20-38.

Moutinho, L., & Smith, A. (2000). Modelling Bank Customer Satisfaction through Mediation of Attitudes towards Human and Automated Banking. *International Journal of Bank Marketing, 18*(3), 124-134.

Murray, K. B. (1991). A Test of Services Marketing Theory: Consumer Information Acquisition Activities. *Journal of Marketing, 58*(3), 10-25.

Neal, C., Quester, P., & Hawkins, D. (1999). *Consumer Behaviour: Implications for Marketing Strategy* (Second ed.). Australia: The McGraw-Hill Companies, Inc.

Nguyen, N., & LeBlanc, G. (1998). The Mediating Role of Corporate Image on Customers' Retention Decisions: An Investigation in Financial Services. *International Journal of Bank Marketing, 16*(2), 52-65.

O'Brien, L., & Jones, C. (1995). Do Rewards Really Create Loyalty? *Harvard Business Review, 73*(May-June), 75-82.

Oliver, R. L. (1997). *Satisfaction. A Behavioral Perspective on the Consumer*. New York: McGraw-Hill Inc.

Oliver, R. L. (1999). Whence Customer Loyalty. *Journal of Marketing, 63*(Special Issue 1999), 33-44.

Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1994). Reassessment of Expectations as a Comparison Standard in Measuring Service Quality: Implications for Further Research. *Journal of Marketing, 58*(Januari 1994), 111-124.

Ping, R. A. (1993). The Effects of Satisfaction and Structural Constraints on Retailer Exiting, Voice, Loyalty, Opportunism and Neglect. *Journal of Retailing, 69*(3), 320-353.

Ping, R. A. (2007). Salesperson-employer relationships: Salesperson responses to relationship problems and their antecedents. *Journal of Personal Selling & Sales Management, 27*(1), 39-57.

PP No. 29/1999.

Prasetyantoko, A. (2011). Saatnya Pembatasan Kepemilikan Asing di Perbankan. Retrieved 28 December, 2012, from http://www.indonesiafinancetoday.com/read/8482/Saatnya-Pembatasan-Kepemilikan-Asing-di-Perbankan.

Rauyruen, P., & Miller, K. E. (2007). Relationship Quality as a Predictor of B2B Customer Loyalty. *Journal of Business Research 60*, 21-31.

Reichheld, F. F. (1993). Loyalty-Based Management. *Harvard Business Review, March-April*, 64-73.

Reichheld, F. F., & Sasser, W. E. (1990). Zero Defections: Quality Comes to Services. *Harvard Business Review, September-October*, 105-112.

Rosenberg, L. J., & Czepiel, J. A. (1983). A Marketing Approach for Customer Retention. *Journal of Consumer Marketing, 2*, 45-51.

Rusbult, C. E. (1980a). Commitment and Satisfaction in Romanctic Associations: A Test of the Investment Model. *Journal of Experimental Social Psychology, 16*, 172-186.

Rusbult, C. E. (1980b). Satisfaction and Commitment in Friendships. *Representative Research in Social Psychology, 11*(2), 96-105.

Rusbult, C. E. (1983). A Longitudinal Test of the Investment Model: The Development (and Deterioration) of Satisfaction and Commitment in Heterosexual Involvements. *Journal of Personality and Social Pychology, 45*(1), 101-117.

Rusbult, C. E., & Farrell, D. (1983). A Longitudinal Test of the Investment Model: The Impact on Job Satisfaction, Job Commitment, and Turnover of Variations in Reward, Costs, Alternative, and Investments. *Journal of Applied Psychology, 68*(3), 429-438.

Rusbult, C. E., Johnson, D. J., & Morrow, G. D. (1986). Predicting Satisfaction and Commitment in Adult Romantic Involvements: An Assessment of the Generalizability of the Investment Model. *Social Psychology Quarterly, 49*(1), 81-89.

Rusbult, C. E., Martz, J. M., & Agnew, C. R. (1998). The Investment Mode Scale: Measuring commitment level, satisfaction level, quality of alternatives, and investment size. *Personal relationships, 5*, 357-391.

Rust, R. T., & Zahorik, A. J. (1993). Customer Satisfaction, Customer Retention, and Market Share. *Journal of Retailing, 69*(2), 193-215.

Sheth, J. N., & Mittal, B. (2004). *Customer Behavior: A Managerial Perspective*. Ohio: Thomson, South-Western.

Sung, Y., & Choi, S. M. (2010). "I Won't Leave You Although You Disappoint Me": The Interplay Between Satisfaction, Investment, and Alternatives in Determining Consumer-Brand Relationship Commitment. *Psychology & Marketing, 27*(11), 1050-1074.

Syafrizal, Nabsiah, A. W., & Ismail, I. (2012). *Retail Banking and Customer Relationship Quality Issues in Indonesia.* Paper presented at the International Congress on Interdisciplinary Business and Social Science.

The Central Bureau of Statistics. (1999). *Statistical Year Book of Indonesia 1999*. Jakarta: BPS - Statistics Indonesia.

Uncles, M. D., Dowling, G. R., & Hammond, K. (2003). Customer Loyalty and Customer Loyalty Programs. *Journal of Consumer Marketing, 20*(4), 294-316.

Veloutsou, C., Daskou, S., & Daskou, A. (2004). Are the determinants of bank loyalty brand specific? *Journal of Financial Services Marketing, 9*(2), 113-126.

Wiyanto. (2013). Didominasi Perbankan: YLKI Terima 620 Pengaduan Konsumen. Retrieved 22nd Feb, 2013, from http://ekonomi.inilah.com/read/detail/1950403/ylki-terima-620-pengaduan-konsumen#.UWo-rqNmOSo.