

Nigerian SMEs - Commitment and Loyalty to their Retail Banks

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Purpose: Commitment in underpinning long-term business relationships is well established. Limited research exists involving relationships between SMEs and banks. The paper presents an instrument to assess such relationships and is evaluated for validity and reliability with reference to the Nigerian SME-banking environment.

Design/Methodology / Approach: Various scale sets from existing studies are combined to assess commitment and advocacy and repurchase intention. Data was collected from 199 SMEs via interviews with owners or senior managers. Analysis involved exploratory factor analysis to determine the underlying data structure, with internal reliability assessment.

Findings: Commitment is based on two components; affective and calculative, whilst advocacy and repurchase intention converged into a single factor. This SME-bank relationship has some way to mature with the banks affording only modest financial support, although SMEs' commitment and levels of loyalty appear relatively strong.

Originality / Value: The findings provide initial insight into this relationship within the SME-bank context from the SME perspective. Originality lies in the validation of commitment and behavioural intention constructs within this business arena and geographical location, as well as engaging with smaller organisations rather than their larger counterparts in the consideration of bank performance.

STUDY BACKGROUND

The essential role played by Small and Medium Enterprises (SMEs) within market economies is widely appreciated (Silver and Vegholm, 2009; Gill and Biger, 2012). SMEs account for 32 million employees and contribute 46% of GDP in Nigeria (National Bureau of Statistics, and Small and Medium Enterprise Development Agency of Nigeria, 2010). Reforms have been implemented here to support SME development, although the outcomes from an SME perspective are patchy, with banks exhibiting a greater desire to pursue short-term profitability through alternative activities (Anyanwu, 2010; Ezeoha, 2011). SME neglect is evidenced by the sizeable diminution of financial loans provided to them, declining from 48.79% in 1992 to 0.16% in 2010 (Central Bank of Nigeria, 2010). Against these challenges, this study seeks to determine the nature of the SMEs' commitment relationship by defining the dimensions of both commitment and potential outcomes in this context. An assessment of the extent to which the SMEs are declaring commitment to their banks and their resultant customer loyalty will be provided. This represents an important business-to-business contribution involving the banking sector, where previous work has typically centred on larger businesses (Iturralde *et al.*, 2010), with attention here given to the SME perspective as service receiver rather than that of the banks as provider.

LITERATURE REVIEW

Significant literature supports the importance of customer commitment, particularly around the delivery of mutual benefit and the creation of sustainable, long-term relationships. This includes key contributions from the early 1990s (Moorman *et al.*, 1992; Morgan and Hunt, 1994) to relatively recent studies (Cater and Zabkar, 2009; Keh and Xie, 2009), with the dual delivery of benefits being reported for the business-to-business (B2B) context (Morgan and Hunt, 1994; Cater and Cater, 2010; Chang *et al.*, 2012). The emanating consequences vary, covering financial outcomes (Palmatier *et al.*, 2009), repurchase intention (Keh and Xie, 2009), advocacy (Fullerton, 2005, 2011) and a reduction in customers switching to alternatives (Bansal *et al.*, 2004; Fullerton, 2005). Commitment is relevant to SMEs (Sharif *et al.*, 2005), including their banking sector relationships (Silver and Vegholm, 2009), where the SMEs need appropriate support to pursue growth and development (Berger, 2006). The banks also have the potential to win in this context, where a continuum of loyalty supports their sustained share of this vital sector, and with it, potential profitability (Connolly, 2000).

Commitment is afforded numerous definitions, although common to these are mutual importance and long-term existence. An important debate centres on the dimensionality of the commitment construct. One perspective is that commitment comprises a single composite measure (Morgan and Hunt, 1994; Keh and Xie, 2009), defined in terms of customer desire to maintain a sustainable, continual relationship with its service provider. This assessment has been criticised for narrowness, with the specifics of the afforded definition mapping to that given to *affective commitment* as a part component in more detailed commitment evaluations (Fullerton, 2003, 2011; Bansal *et al.*, 2004).

Expanding upon this is a two-component proposition for commitment, typically presented as strands defined as *affective* and *calculative commitment* (Gilliland and Bello, 2002; Davis-Sramek *et al.*, 2009). Affective commitment, as indicated through the work of Fullerton (2010) considers the consumer's bonds to the service provider based on "*identification*" and "*attachment*" from an emotional standpoint, whilst their work has also provided the complimentary perspective of calculative commitment which gauges consumer assessment from an objective position of cost cutting, selection benefit and the favourability of alternatives (Allen and Meyer, 1997).

Various studies have extended this dimensionality further into three aspects (Bansal *et al.*, 2004; Kelly, 2004; Fullerton, 2011; Beatty *et al.*, 2012). The addition is *normative commitment* (Allen and Meyer, 1997), which seeks to further compliment the consumer assessment involving emotion and choice with measurement of consumer appreciation of moral obligation to the service provider. There is recognition that the normative dimension has received less attention in the various relationship marketing studies (Fullerton, 2011; Beatty *et al.*, 2012), although its relevance is additionally noted elsewhere, Meyer and Parfyonova (2010) providing conceptual support to counter its potential redundancy. Evidence is provided of its positive and significant impact on the loyalty behaviour of businesses (Bansal *et al.*, 2004; Fullerton, 2011; Beatty *et al.* 2012), whilst its pertinence and predictive power take on greater significance in settings where collectivism prevails (Meyer and Parfyonova, 2010).

Where business commitment is strong, there is an expectation that sustained loyalty and positive behaviours directed towards the service provider are realised (Cater and Zabkar, 2009). The loyalty construct, like its commitment counterpart, differs within the extant literature around dimensionality. Very simply, it is observed as a single, composite construct (Cater and Zabkar, 2009), although in terms of variation, there is consideration given

specifically to behavioural loyalty and its attitudinal equivalent (Cater and Cater, 2010). Context and setting are further seen to determine the actual behaviours delivered (Keh and Xie, 2009). Examples of consideration include consumers' switching intention (Bansal *et al.*, 2004; Fullerton, 2005), price premiums realisation and repurchase intentions (Keh and Xie, 2009), word-of-mouth based advocacy (Fullerton, 2011), and relationship maintenance to deliver long-term bonds (Sharif *et al.*, 2005). In this particular study, repurchasing intention and advocacy are the key areas of consideration.

STUDY DESIGN

Study Instrument – Development, Sources and Piloting

Affective commitment assesses involvement, attachment and identification. Involvement and attachment are assessed here by three items adapted from Bansal *et al.* (2004), with identification being evaluated through two items from Fullerton (2005). These scales are established in marketing research, including banking (Aurier and N'Goala, 2010). The same origin provides the assessment of normative commitment which is centred on moral obligation, customised subsequently by Melancon *et al.* (2011) and Bansal *et al.* (2004), four and two items respectively combining to form the implemented scale. Calculative commitment measures the degree of SMEs' sacrifice should they depart banking relationship. The scale comprises three items from Fullerton (2005), one from Fullerton (2003) and one from Gilliland and Bello (2002). The combination of items brought together here has the potential to give the fullest assessment of commitment in this research setting. For the commitment related outcomes, advocacy assessment has involved instruments with established application in banking services research (Fullerton, 2005). Four items have been selected, three from Fullerton (2005) based on the work of Zeithaml *et al.* (1996) and one from Gremler and Gwinner (2000). The measurement of repurchase intention also originates from Zeithaml *et al.* (1996), with subsequent marketing applications. Two items have been provided by both Keh and Xie (2009) and Bell and Eisingerich (2007). Each item affords evaluation using a balanced seven-point option set, comprising "very strongly disagree", via "neither disagree nor agree" to "very strongly agree", providing definable alternatives in sufficient quantity to assess differing levels of participant agreement, scale-size being consistent with previous commitment-related studies (Bansal, *et al.*, 2004; Cater and Zabkar, 2009). The wording direction of the items is consistent with the validated original equivalents, with negative-positive balance afforded within the presentation. Piloting was undertaken by experts with understanding of local language interpretation and with realistic expectations of what could be achieved through primary research within the SME sector. This incorporated feedback provided by five Nigerian researchers located in two UK Universities and three academics with Marketing expertise specific to Marketing. Representatives from three Nigerian SMEs provided further instrument consideration around it being understandable, particularly phraseology customisation, and assessment being potentially completed in a timely way. For example, the term "retail banks" has been used in the instrument; this local definition encompassing corporate banking relationships as well as personal accounts, assessment of the role of only the former was stressed at the point of instrument application. Comparable piloting approaches pertaining to Nigerian bank research have been demonstrated in recent studies (Jamal and Adelowre, 2008).

Sampling Frame and Study Participants

The National Bureau of Statistics (NBS) and Small and Medium Enterprises Development Agency of Nigeria (2010) define the nation's (almost) 23,000 SMEs as having between 10 to 199 employees and total assets between 5-500m Naira (£20K - £2m UK Sterling). Those

participating were targeted using business-district based cluster sampling. Structured interviews underpinned data collection, utilising a team directed by this study's lead author, their presence being to enhance participation and ensuring with success across the study, a full completion of the presented questionnaire. Ethical research practice was maintained with observance to the researchers' University Ethics policy, which were presented accordingly to the participants via pre-correspondence and at interview. 199 SMEs participated in the study representing nine sub-sectors and three distinct geographical locations.

Methods of Data Analysis

From the perspective of this particular study around the participants in the B2B relationships alongside its cultural and economic setting, a priori scales with constituent items (described above) were proposed from the literature evaluation, but at this stage without any specific empirical support. To avoid limitations in any subsequent analysis, evidenced by one or more of loading irregularities, low internal reliability or poor goodness of fit, preliminary evaluation based on principal components analysis (PCA) and associated exploratory factor analysis (EFA) is presented here. Tabachnick and Fidell (2013) support the role of PCA as an evaluator of the underlying structure of a data set, the combined contribution of PCA/EFA in assessing a priori hypotheses is recognisable in the literature (Bansal *et al.*, 2004; Wallace *et al.*, 2013). Within these studies, scales assessment to confirm relevance within the proposed research context is provided; factor derivation from the data being central to the evaluation. PCA with varimax rotation is employed separately for the commitment and loyalty items, factors extracted based on the Kaiser criterion and factorability potential being measured using the Kaiser-Meyer-Olkin (KMO) coefficient and Bartlett's test. Post-hoc analysis using Cronbach's alpha coefficients assesses internal reliability within the identified factors. A preliminary descriptive analysis of the associated items is provided, giving an initial indication of the strength of the various defined commitment and outcome constructs.

STUDY FINDINGS

Considering all 14 commitment items, the PCA/EFA identified two factors, presented in Table 1. The data were factorisable, demonstrated by a KMO statistic of 0.917 and Bartlett's test being statistically significant (sig = 0.000). Issues emerged relating to item 6, because of cross loading between factors 1 and 2. This suggests departure from required levels of discriminant validity and therefore its deletion from the commitment measurement scales. For item 7, low communality (0.312) prompts removal, likewise for item 9 (0.411). Item 8 was deleted for its high loading with both extracted factors indicating violation of discriminant validity and low communality (0.499). In each of the three communality cases above, the deleted items exhibited a percentage lying below the adequacy cut-off of 0.50 proposed by Hair *et al.* (2010). Three of the four deleted items relate to *normative commitment*, whilst item 7 helps to assess *calculative commitment* (as defined from the previously validated item/scale). Repeating the analysis on the remaining 10 items, the data were again factorisable, with a KMO statistic of 0.900 and a statistically significant Bartlett's test (sig = 0.000). Two factors were extracted (indicated by the respective eigenvalues of 5.839 and 1.370), the first providing 58.4%, the second 13.7%, giving a total 72.1% of the explained variance. The loading of ten retained items onto two extracted factors led to no additional issues around discriminant validity or low communality. The loadings within the rotated solution suggest that factor 2, comprising four items relates to "*affective commitment*". Factor 1 primarily comprises items pertaining to calculative commitment accompanied by two items relating to guilt at leaving a business relationship and owing a great deal to the bank, hence on balance may be defined as "*calculative commitment*".

Regarding two of the loaded items here, inclusion represents something of a misspecification based on the allocated definition. They have therefore been removed as the next iteration of the assessment. Table 2 presents the factor analysis results for the eight retained items. Regarding loadings and communalities, no further issues emerge for the presented rotated solution. The first and more dominant factor extracted is defined as “*calculative commitment*”; the second factor is assessed to be “*affective commitment*”.

The items measuring outcome are also factorisable, indicated by the KMO statistic of 0.862 and a significant Bartlett’s test (sig = 0.000). The extraction suggests one emerging factor (eigenvalue is 5.372) explaining 67.14% of the data’s variance. Table 3 suggests all eight items load strongly onto the single extracted factor extracted. A high level of communality also exists for each item. There appears to be no demarcation between repurchase intention and advocacy, the individual extracted factor is defined as “*behavioural intention*”.

The three constructs identified and defined here also exhibit high internal reliability levels, assessed by the Cronbach’s alpha coefficients presented in Table 4. These coefficients range in value between 0.873 and 0.929, this post-hoc assessment confirming that no further adaptation through deletion of constituent items needs to be undertaken. Based on the empirical analysis presented, the commitment constructs can be reduced from three to two, the outcomes constructs from two to one.

An overview of SME Perception

Items pertaining to *affective commitment* indicate relatively high mean scores ranging from 4.95 to 5.26, presented in Table 2. This suggests a typical level of agreement with the statements across the board, where the SMEs have relatively higher levels of identification and belonging, but a marginal challenge around emotional attachment to their banks, the latter mean score being 4.95. The mean scores are relatively lower for *calculative commitment*, values ranging from 3.93 to 4.64, typically representing a position of neutrality for the statement set and suggesting that leaving these banking relationships represents rather less of a sacrifice for the SMEs. *Calculative commitment*, as highlighted by the PCA/EFA, provides the greatest explanation of the variation in the commitment data, so the relatively low scores attached to its constituent items should represent potential concern to the retail banks being assessed through their SME customers’ perception. For behavioural loyalty, the SMEs again score relatively highly, mean scores ranging from 4.69 to 5.12 as displayed in Table 3. Endorsement covers both repurchase intention, centring on greater predisposition towards banking business and willingness to stay in the business relationship, as well as advocacy, the latter signposted by the SMEs saying positive things and encouraging business partners to engage with the retail bank. A relative challenge exists around the SMEs going out of their way to recommend a bank with which they have a business relationship, with a mean score of 4.69.

CONCLUSIONS

This preliminary study has reported on the development of an adapted scale set to assess commitment to banks by Nigerian SMEs and the associated behavioural intention consequences. The analysis has led to the presentation of a two-dimensional assessment of commitment, based on affective and calculative dimensions, making the normative dimension of commitment redundant, as well as a single construct termed behavioural intention that encompasses assessment of loyalty and advocacy. The redundancy of normative commitment, and therefore ambivalence towards the idea of a SMEs exhibiting any form of

moral obligation over their service provider, is arguably at odds with the collectivist setting of the work, but perhaps very much in keeping with the modest record of the nation's banking sector in both quality of governance and in terms of supporting its SME sector through financial assistance. The collectivist nature of the setting has been beneficial, however, with high levels of organisational access and associated interest in contributing to the study being realised, affording a complete data set across a SME cohort which is large in an absolute sense. This participation clearly points to the value of assessing banking relationships by the SMEs, given the former's potentially crucial role in SME sustainability.

The identification of the separate dimensions of affective and continuance commitment in this banking context is in itself valuable. The existence and role of the former accords with Barroso and Picon (2012) who point to the significant part played by bank employees in underpinning the personal aspects of account relationships with their customers leading to an appreciable level of bonding. Kim *et al.* (2003) recognise the challenges around switching suppliers in such business relationship situations given the associated cost and contractual implications. Nevertheless, the summary measures presented in Table 2 indicate the relative challenge posed by the Nigerian SMEs is more towards the calculative dimension of commitment, notwithstanding the practical difference between intention and actuality. In contrast, Table 3 would suggest the existence of a relationship driven identification and attachment that supports greater levels of service endorsement. These challenges and strengths are clearly issues worthy of further investigation. The research presented represents a preliminary study, its intention being to evaluate the level of complexity associated with the commitment and outcomes constructs as described, alongside assessing the potential for SME access and engagement. It will form the basis of further study within this sector and geographical setting. Various antecedents to commitment will join the (adapted suite of) scales determined here to be empirically tested within this wider study, as well as following up on the findings presented above.

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Table 1 - Initial factor extraction for measures of commitment - PCA with varimax rotation

No.	Commitment Items	Components		Communalities Extraction
		Factor 1	Factor 2	

1	My company would not shift business from my retail bank because our losses would be significant.	0.877		0.800
2	It would be costly to my company to leave my retail bank right now	0.820		0.760
3	My company`s operations would be disrupted if we leave my retail bank	0.807		0.745
4	My company owes a great deal to my retail bank	0.757		0.676
5	My company will feel guilty to leave my retail bank now	0.733		0.598
6	My company would not leave my retail bank right now because of a sense of obligation to the bank	0.726	0.411	0.695
7	Right now, my company staying with my current retail bank is a matter of necessity	0.721		0.312
8	My retail bank deserves my company`s loyalty	0.539	0.455	0.499
9	Even if it were to our advantage, My company do not feel it would be the right thing to leave my retail bank now	0.508		0.411
10	It would be very hard for my company to leave my retail bank right now, even if we wanted to	0.684		0.602
11	My retail bank has a great deal of personal meaning to my company		0.841	0.727
12	My company feels a sense of identification with my retail bank		0.810	0.745
13	My company feels a sense of belonging to my retail bank		0.791	0.683
14	My company feels emotionally attached to my retail bank		0.775	0.699

Table 2 - PCA result with Varimax rotation – Iteration III (8 retained items)

Item	Item Definition	Mean	St Dev	Factor Loadings/ Components		
				CC	AC	Communalities Extractions
1	My company would not shift business from my retail bank because our losses would be significant.	3.93	1.55	0.888		0.822
2	My company`s operations would be disrupted if we leave my retail bank	4.24	1.56	0.889		0.868
3	It would be costly to my company to leave my retail bank right now	4.14	1.59	0.870		0.842
4	It would be very hard for my company to leave my retail bank right now, even if we wanted to	4.50	1.46	0.736		0.663
5	My company feels a sense of identification with my retail bank	5.26	0.99		0.788	0.740
6	My company feels a sense of belonging to my retail bank	5.16	1.17		0.814	0.719
7	My retail bank has a great deal of personal meaning to my company	5.07	1.17		0.837	0.720
8	My company feels emotionally attached to my retail bank	4.95	1.27		0.801	0.721

Table 3 - PCA test result for Loyalty Items (Advocacy and Repurchase Intention)

No	Scale Items	Mean	SD	Factor Loadings	Communalities Extractions
				Behavioural Intention (Advocacy and Repurchase Intention)	
1	My company will consider my retail bank as the main bank in the next few years	5.02	1.15	0.861	0.742
2	My company will do more banking with my retail bank in the next few years	5.10	1.007	0.844	0.712
3	My company chances of staying in the relationship with my retail bank are very good	5.10	1.08	0.818	0.670
4	My company will use my retail bank for most of my company's investment needs	5.03	1.21	0.814	0.663
5	My company says positive things to other people about my retail bank	5.12	1.05	0.811	0.657
6	My company recommends my retail bank to other companies that seek advises	5.03	1.12	0.808	0.652
7	My company encourages business partners to bank with my retail bank	5.10	1.13	0.803	0.645
8	When the topic of my retail banks comes up in conversation, my company goes out of its way to recommend my retail bank.	4.69	1.26	0.794	0.630

Table 4 - Construct reliability test scores

No	Constructs	Cronbach's Alpha score	Cronbach's Alpha if Item Deleted
1	Affective commitment	0.873	0.833 0.832 0.835 0.834
2	Calculative Commitment	0.913	0.886 0.864 0.874 0.922
3	Behavioural Loyalty	0.929	0.920 0.920 0.920 0.921 0.922 0.916 0.917 0.922

Note: Cronbach's Alpha if item deleted is in the same order with factors extracted – see Tables 2 and 3.