

# A Factor Analytic Investigation of Generating Positive Word-of-Mouth towards Banking Industry

Saraniya Devendra<sup>1</sup>, R.H.Asari Tharuka Perera<sup>2</sup>

<sup>1</sup> Lecturer, Department of Business and Management Studies, Faculty of communication and Business studies, Trincomalee Campus, Eastern University, Sri Lanka.

<sup>2</sup> Assistant Lecturer, Department of Business and Management Studies, Faculty of communication and Business studies, Trincomalee Campus, Eastern University, Sri Lanka.

## ABSTRACT

The contemporary study is introduced on factor analytic investigation of Generating Positive Word-of-Mouth towards Banking Industry. Because of tough competition in the service sector particularly in the banking industry, just those organizations are successful that they can use the most innovative techniques to fascinate their customers. One of the best way that banks can be differentiated from others and accomplish competitive advantage is using positive word of mouth. Therefore, this research is contributed to the key element that influencing on Generating Positive Word-Of-Mouth (GPWOM) in selective banks. To achieve the goals of this research, the data were collected from convenience sample of 200 banking customers in Colombo Divisional Secretariat Division. The respondents provided the data by means of a close-ended questionnaire. Cronbach's alpha scale as a measure of reliability. Its value is estimated to be 0.600. Sophisticated statistical model as 'Exploratory Factor Analysis (EFA)' has been used. The results show that Generating Positive Word of Mouth extracted from the analysis that together accounted 55.411 percent of the total variance. The results of factor score these groups were ranked, Encouragement, In depth explanation, Differentiation and contacts got the ranks of fourth, third, second and first respectively and constitute the key dimension of Word of Mouth.

**Keywords:** Positive Word of Mouth (PWOM), Exploratory Factor Analysis (EFA), Banking Industry

## 1. INTRODUCTION

Word-of-mouth communication was bone with human communication; it has become a dynamic part of many key marketing communication campaigns over the past years, due in part to the power inherent in such a social phenomenon. Hence, the word-of-mouth communication is an important feature in marketplace phenomenon too, by which customers obtain information relating to organization and their offerings (Laczniak, DeCarlo and Ramaswami, 2001). It is usually perceived as more essential for services than goods. Dhillon (2013) suggests that most of the service providers get their consumers through word-of-mouth communication referrals. The term word -of-mouth communication is used to describe verbal communications either positive or negative between groups such as the product provider, independent experts, family and friends and the actual or potential consumer (Stokes and Lomax, 2002).

The positive word -of-mouth communication defined as the favorable word -of-mouth which includes relating pleasant vivid, or novel experiences; recommendations to others; and even conspicuous display (Anderson, 1998). On the other hand Gremler and Gwinner (2000) point out that word -of-mouth often negative because it may be the only source they likely to hear about the negative of the product or service, it is only form an independent source, it is the habit of people to tell others about a negative experience than a positive one.

In Sri Lanka because of some changes in banking system for example emerging and developing private banks, competition in this industry is increasing day by day. In this kind of circumstances retaining existing consumers and attracting new customers need an effective administration in all aspects. Gremler, Gwinner and Brown (2001) recommend that one of the best tools for banks to be distinguished from other banks and reach profit maximization is using word-of-mouth. Further, Dhillon (2013) indicates that by its nature, this form of communication is outside the formal control of banks and yet its effect is such that the ability to influence or encourage word-of-mouth could be a powerful marketing tool.

Therefore, this study particularly in the Sri Lankan context empirically investigates the GPWOM; since banks have considerable faith in positive word-of-mouth communication as a means of fascinating new customers and

a variety of customer choice of bank highlight the importance of personal recommendation, thus need to explore the main factor that has significant impact on GPWOM in Sri Lanka. Hence, this study specifically focuses on selected popular banks for testing the PE that influences on GPWOM in Colombo Divisional Secretariat (CDS) Division.

## 2. PROBLEM STATEMENT AND OBJECTIVES OF THE STUDY

There is a lack of literature in Sri Lanka to examine the relationship between Promotional Efforts (PE) and Generating Positive Word-Of-Mouth (GPWOM). Thus, there exists a clear empirical gap with respect to the influences of various factors on GPWOM within the context of banking industry. This empirical gap becomes a problem to banks to know whether their banking service is successful or not among the customers. Indeed, there is a need to evaluate to what the factors are influenced on GPWOM in banking sector.

## 3. OBJECTIVES

- To identify the factors which determine the GPWOM.
- To recognize the factors that determines the GPWOM.

## 4. LITERATURE REVIEW

**Word-of-Mouth Communication-** The term word-of-mouth communication is used to define verbal communications either positive or negative between groups such as the product provider, independent experts, family, friends and actual or potential consumer (Laczniak, DeCarlo and Ramaswami, 2001).

This study considers selective banks (Bank of Ceylon (BOC), Peoples Bank, Commercial Bank, Hatton National Bank (HNB), Seylan Bank and Sampth Bank) in CDS Division of Sri Lanka. Therefore, the specific research question of this study is:

***“What are the factors that determining the GPWOM of Popular Banking Services in Colombo Divisional Secretariat Division?”***

GPWOM is made with Willingness (e.g., Anderson, 1998), Praise (e.g., Anderson, 1998), Intensity (e.g., Brown and Reingen, 1987), Content (e.g., Harrison-Walker, 2001) and Valance (e.g., Herr, Kardes and Kim, 1991). Hence, the GPWOM is evaluated through these measures as dimensions.

## 5. METHOD

Primary data are collected through structured questionnaires with closed statements measured with Likert's scale (1-5 as strongly disagree, disagree, marginal, agree and strongly agree, respectively), based on six popular banks (namely BOC, Peoples Bank, Commercial Bank, HNB, Seylan Bank and Sampth Bank) in the CDS Division in Colombo District in Sri Lanka. In the CDS Division, there are 35 Grama Niladhari Divisions and the population is 318,048. Among 318,048 peoples in these 35 Niladhari Divisions, about two hundred (200) respondents who consume such popular banking services for their personal consumption have been identified using convenient sampling technique (see Table 1).

**Table 1: Sampling Framework**

Study Setting	Bank customers in Colombo District
Time Horizon	Cross Sectional Research
Unit of Analysis	Bank customers in Colombo Divisional Secretariat Division (35 Grama Niladhari Divisions)
Sample Size	Two Hundred (200) Bank customers
Sample Method	Convenient Sampling Technique

## 6. RELIABILITY

The reliability value of our surveyed data was 0.60 for WOM variables. If we compare our reliability value with the standard value alpha of 0.6 as recommended by Bagozzi & Yi's (1988). Researchers find that the scales used by us are relevant for data analysis.

## 7. RESULTS ANALYSIS AND DISCUSSION

### 7.1 Bank Choice

There are several popular banks available in the banking sector. Within these banks, Bank of Ceylon, Peoples Bank, Commercial Bank, Hatton National Bank, Seylan Bank and Sampth Bank are selected for this research purpose. From 200 respondents 30.5% of user's bank choice is HNB, 24% of user's bank choice is BOC, 18% of user's bank choice is Commercial Bank, 15.5% of user's bank choice is Peoples Bank, 7% of user's bank choice is Seylan Bank and 5% of user's bank choice is Sampath Bank (see Table 2).

**Table 2 : Reliability Statistics**

Cronbach's Alpha	N of Items
.60	12

**Table 3: Bank Choice Distribution**

	BOC	Peoples Bank	Commercial Bank	HNB	Sampath Bank	Seylan Bank
Frequency	48	31	36	61	10	14
Percent	48%	31%	36%	61%	10%	14%

(Source: Survey Data)

### 7.2 Correlation Matrix

After checking the reliability of scale, an examination of the correlation matrix reveals moderately correlations between variables. But no correlation comes out as damaging as to cause multicollinearity and so, the matrix is suitable for factoring.

**Table 4: Correlation Matrix**

	WOM1	WOM2	WOM3	WOM4	WOM5	WOM6	WOM7	WOM8	WOM9	WOM10	WOM11	WOM12
WOM1	1.000											
WOM2	.442	1.000										
WOM3	.447	.426	1.000									
WOM4	.054	-.036	.229	1.000								
WOM5	.118	.299	.399	.185	1.000							
WOM6	.426	.164	.296	.195	.335	1.000						
WOM7	.382	.258	.407	.175	.303	.384	1.000					
WOM8	-.008	-.101	-.139	-.010	-.036	-.075	.093	1.000				
WOM9	-.018	-.040	-.089	.047	.043	.165	.105	-.024	1.000			
WOM10	.179	.056	.011	.010	-.041	.076	-.051	.018	.118	1.000		
WOM11	.060	.030	.230	.051	.089	.013	.058	-.078	.260	.111	1.000	
WOM12	-.109	-.119	-.087	-.092	-.083	-.039	-.135	.218	.138	.054	.026	1.000

**Table 5: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.640
Bartlett's Test of Sphericity	Approx. Chi-Square
	df
	Sig.
	389.944
	66
	.000

The appropriateness of factor analysis is dependent upon the sample size. In this connection, Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is still another useful method to show the appropriateness of data for factor analysis. The KMO statistics varies between 0 and 1. Kasier (1974) recommends that values greater than 0.5 are acceptable. Between 0.5 and 0.7 are mediocre, between 0.7 and 0.8 are good, between 0.8 and 0.9 are superb (Field, 2000). In this study, the value of KMO for overall matrix is 0.640, thereby indicating that the sample taken to process the factor analysis is in moderate level.

**Table 6: Total Variance Explained**

Component	Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.850	23.750	23.750	2.143	17.861	17.861
2	1.410	11.751	35.502	1.832	15.269	33.129
3	1.201	10.007	45.508	1.389	11.574	44.703
4	1.188	9.903	55.411	1.285	10.708	55.411

Four variables extracted from the analysis with an Eigen value of greater than 1 (i.e., 'rule of thumb'), which explained 55.41 percent of the total variance. The first component explains the most and about 17.861 percent, second component explains 15.269 percent, third component explains 11.574 percent and fourth component explains 10.708 percent. The remaining variance, as we know, is explained by other components.

**Table 7: Rotated Component Matrix<sup>a</sup>**

	Component			
	1	2	3	4
WOM1	.820			
WOM2	.739			
WOM3	.585			
WOM4		.661		
WOM5		.617		
WOM7		.597		
WOM6		.527		
WOM9			.729	
WOM11			.707	
WOM10				
WOM8				.800
WOM12				.631

The PCA are further Orthogonally Rotated using Varimax with Kaiser Normalization algorithm. It is worth mentioning out here that factor loading greater than 0.30 are considered significant. 0.40 are considered more important and 0.50 or greater are considered very significant. The rotated (Varimax) component loadings for the four components (factors) are presented in table. For parsimony, only those factors with loadings above 0.50 were considered significant (Pal, 1986; Pal & Bagi, 1987; Hair, Anderson, Tatham, & Black, 2003).

**Table 8: Ranking of Characteristics according to their importance**

Dimensions of Word of Mouth	No. of Variables	Factor Score <sup>1</sup>	Rank
Word of Mouth – I (Encouragement)	03	0.255	4
Word of Mouth – II (In depth explanation)	04	0.204	3
Word of Mouth – III (Differentiation)	02	0.373	2
Word of Mouth – IV (Contacts)	02	0.409	1

Word of Mouth – I: Encouragement - These are represented by three variables with factor loadings ranging from 0.820 to 0.585. They are ability to work Encouragement; Recommendation and Involvement.

Word of Mouth – II: In depth explanation - Four variables ranging from 0.661 to 0.527 belongs to In depth explanation; Positive Implication; Frequency and Brand Image.

Word of Mouth – III: Differentiation - These are represented by two variables with factor loadings ranging from 0.729 to 0.707. They are ability to work Differentiation and Careful.

Word of Mouth – IV: Contacts - Four variables ranging from 0.800 to 0.631 belongs to Contacts and Response.

According to this table, Word of Mouth – I (Encouragement); Word of Mouth – II (In depth explanation); Word of Mouth – III (Differentiation) and Word of Mouth – IV (Contacts) got the ranks of fourth, third, second and first respectively and constitute the key dimension of Word of Mouth.

## 8. CONCLUSION

Sophisticated statistical model as ‘Exploratory Factor Analysis (EFA)’ has been used. The results show that Generating Positive Word of Mouth extracted from the analysis that together accounted 55.411 percent of the total variance. The results of factor score these groups were ranked, Encouragement, In depth explanation, Differentiation and contacts got the ranks of fourth, third, second and first respectively and constitute the key dimension of Generating Positive Word of Mouth.

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