

Social Impact Of Bank Closures On A Small Rural Community: The Case Of Merriwa

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Abstract

Despite consumer criticism of the rationalization strategies adopted by the Australian financial institutions, no identified research has examined the social impact of such strategies. This paper addresses this lacuna by first quantifying the extent of banking customer discontentment in a rural community affected by the closure of its only bank, and then exploring the impact of this discontentment on quality of life. Results reveal that consumer satisfaction with their personal well-being is perceived to improve marginally despite increasing discontentment with banking services. This finding has significant implications for theory and practice.

Keywords: discontentment, quality of life, social marketing, financial services.

Introduction

Banking in Australia has changed in the past two decades as a result of financial deregulation and economic rationalization initiatives from banks. This has resulted in banks appraising the cost efficiency of their branch structures (Argent and Rolley, 1997). A recent Financial Services Inquiry (1997:149) stated that “the process of rationalization, including the closure of bank branches, is likely to occur irrespective of regulatory change, since it is driven by the fundamental competitive forces unleashed by new technologies”. Recent media attention on the closure of bank branches has centred on the amoral way in which the banking sector has pursued profit at the expense of their corporate social responsibility (eg. Edmonds, Dennehy and Danaher, 2004; Bawden and Kelton, 2004).

In effect, the principles of free market economics have become absolute and as such the retail banks have all but ignored significant resistance by customers to the strategies of reducing branch networks and introducing remote servicing innovations. Customer resistance has been motivated by loss of jobs, accessibility of services and lack of security (Arend, 1993; Marthur and Moschis, 1994; Rugimbana and Iversen, 1994; Corby 1995; Baczak et al., 1997). This decline in branches, however, has not been evenly distributed throughout the nation. Many small country towns have experienced a disproportionate loss of branches, with a recent report by the Australian Finance Sector Union claiming that 259 (42%) of the 615 branch closures in NSW during this period were in rural and remote areas. A report by the NSW Department of Fair Trading contended that the rationalistic strategies had left many small rural towns with significantly reduced banking services, and in many cases no services at all (NSW Dept. Fair Trading, 1999). The social impact of branch closures on rural communities' access to services can be much wider than simply the loss of a key business. For instance, branch closures often lead to retail leakage, as residents tend to combine banking and shopping activities. The flow-on impact of such consequences can include loss of employment, and a further reduction in public services such as education and health, as families leave the towns in search of greener pastures (Smailes, 1997). While initiatives such as rural transaction centers, community banks, and in-store banking kiosks, are a direct result of the consumer backlash that has resulted from the changes in the financial sector, the exact nature of the social impact of bank closures in rural communities is still unclear. This study

seeks to address this lacuna by investigating the extent to which bank rationalization has impacted on the consumer's contentment with banking service provision, and the resulting impact on the quality of life of rural communities.

Consumer contentment/discontentment

The issue of contentment/discontentment has been central to consumer research for decades (Aaker and Day, 1972; Buskirk, 1970; Quazi, 2002). This study defines the contentment/discontentment construct as the collection of attitudes held by consumers toward the particular strategies of a given business (Lundstrom and Lamont, 1976). Specifically, we will measure the extent to which rural banking consumers are content/discontent with current strategies of the banking sector in following four areas: the range and quality of product offerings; the quality of communication between banks and their customers; the nature of financial service delivery; and the practices of the banking sector in response to emerging social, economic and political forces. Consumer views, as reported in the mainstream media, appear consolidated in their discontentment with the strategic direction of the Australian financial services sector. One of the principle objectives of this study is to evaluate the extent to which this assertion holds true. The level of contentment/discontentment is measured using a modified version of the consumer discontentment scale (Lundstrom and Lamonth, 1976). The scale incorporates a bi-polar measure to assess the intensity of contentment/discontentment, and was previously observed to be a reliable and valid measurement instrument. This study uses a subset of 32 items from the original pool of 82 items by modifying item wordings to reflect the objectives of the study.

Conceptualising quality of life

While it is acknowledged that there is neither an agreed definition nor a standard form of measurement for the quality of life construct, this study defines quality of life as the aggregate of material well being, health, productivity, intimacy, safety, community, and emotional well being (Cummins, 1997). The multi-dimensional nature of the construct is, in part, responsible for the difficulty in conceptualization. Some of the earlier attempts to quantify the construct tended to limit its scope, or focus on too narrow a context. Cummins (1996) reports that there have been as many as 100 different conceptualizations of the construct, with very little agreement within and between these studies. Recent work by the Australian Centre on Quality of Life (ACQOL) at Deakin University has attempted to consolidate the disparate streams of research, resulting in the development of the Comprehensive Quality of Life Scale (ComQOL). While the ComQOL scale has undergone much refinement over a number of years, the most recent version – the Personal Wellbeing Index (PWI) (Cummins, 2002) – is a 7 item subjective measure of the construct based on the seven constituent dimensions of the original ComQOL scale. The index measures an individual's satisfaction with quality of their life, and has been constructed for use with the general population. The Personal Wellbeing Index has been the subject of more than 40 empiricalisations, and has been observed to be a reliable and valid measure of the construct.

Purpose of the Study

The purpose of this study is to analyse the extent to which the changing patterns of banking service provision have impacted on the quality of life of regional banking customers in New South Wales, Australia. This principle objective and the preceding discussion have led to the following hypotheses being proposed:

- H1: Rural banking customers are likely to be discontent with the current levels of banking service provision.
- H2: The degree of discontentment is likely to be negatively associated to quality of life of rural banking customers.

The first hypothesis is intended to measure the response of consumers to emerging banking strategies, and in particular, their contentment with services provided and their response to emerging social factors. The second hypothesis is intended to examine whether the impact of these strategies has any identifiable implications for consumer well being.

Methodology

This project applied a single cross sectional research design, comprising of a mail-administered questionnaire. The questionnaire was divided into four sections. The first section helped to form a profile of the respondents banking practices. The second and third sections incorporated the Consumer Discontentment Scale and Personal Wellbeing Index respectively. The final section included a range of demographic questions. The population consisted of banking customers from a small Australian rural community. To investigate the perceptions of this general population, we surveyed a sample frame of residents from the Merriwa Shire of New South Wales. According to recent census data, the shire has a population of 2,257, with the majority of residents (41%) employed in the farming/agricultural area. While the community lost its last bank branch (National Australia Bank) in 2000, it has access to financial services via the Upper Hunter Credit Union, and limited transaction service offered through the Merriwa Post Office. The sample frame was chosen for convenience, and was derived from the Merriwa Shire Council's ratepayer database. Respondents were given equal opportunity to participate, as long as they were over 18 years, and were a Merriwa Shire resident. We received 199 usable responses, resulting in a response rate of 23 percent responses were used for analysis.

Analysis and Findings

Preliminary Analysis – dimensionality, normality and reliability

Prior to exploring the relationship between the two principle constructs, namely contentment/discontentment and quality of life, it is necessary to perform some preliminary analysis to examine the underlying factor structure, the reliability of the underlying dimensions and resulting scales, and the associated descriptive statistics for the scales, their underlying dimensions and the constituent items.

Table 1. Descriptive statistics

Variable	Factor	Mean	St.Dev	Skew	Alpha	Eigen	Var. Exp
<i>Content/ Discontentment</i>	1: Product	4.1648	.65555	-1.18	0.7784	3.53	16.1
	2: Communication	3.9799	.55376	-1.11	0.7286	2.29	10.4
	3: Service delivery	3.6610	.40394	.585	0.6496	2.29	10.4
	4: Environment	3.6285	.61578	-.338	0.7530	2.11	9.6
<i>Combined Scale – CDS</i>		3.883	.3700	-.27	0.8179	10.22	46.4
<i>Quality of Life</i>	1: Importance	4.037	.4303	-.22	0.7614	3.23	23.1
	2: Satisfaction	3.634	.5341	-.32	0.7961	3.03	21.6
<i>Combined Scale – PWI</i>		2.944	.5908	.30	0.7801	6.26	44.7

An examination of the above table reveals that after undertaking confirmatory factor analysis on the original 32 items, four underlying dimensions are represented by a reduced set of 20 items – products, communication, service delivery and environmental influences. All of the eigenvalues for the underlying factors exceeded the required level (eigenvalue > 1.0), with the combined scale explaining about 46% of total variance. Confirmatory factor analysis conducted on the 14 PWI items preserved the item set and revealed two underlying dimensions – satisfaction and importance. Each factor exceeded the eigenvalue threshold, with the combined scale accounting for approximately 45% of total variance. Analysis was also undertaken to examine normality and reliability. While two of the six subscales for the underlying factors of the CDS and PWI were observed to be skewed negatively, the normality of both combined scales was observed to exhibit normality (skewness < 1.0). Reliability is defined as the extent to which a measure is free from variable errors (Nunnally, 1978). The internal consistency method was used to assess the reliability of the scales. The internal consistency method assesses the Cronbach alpha statistic, which indicates strong reliability if the alpha coefficient exceeds 0.7 and moderate reliability if the alpha coefficient exceeds 0.6 (Nunnally, 1978). Table 1 shows that both of the combined scales and all of the subscales exceeded Nunnally's requirement for strong internal consistency.

Consumer contentment with banking services

From the table above, it can be seen that consumers in the small rural community of Merriwa were relatively discontent with the level of banking services received. On a scale ranging from 1 (Extremely content) to 5 (Extremely discontent), the respondents had mean value of approximately 3.9. Further examination of the underlying dimensions, indicates that consumers were particularly discontent with the banking industry's product strategies ($\mu=4.2$) followed by their communication strategies ($\mu=4.0$). As such, the first hypothesis was supported.

Exploring the relationship between Contentment and QOL

The relationship between consumer contentment and quality of life was examined using regression analysis. Pallant (2001) asserts that prior to undertaking regression analysis, it is necessary to ensure that the data meets certain assumptions regarding the sample size, multicollinearity, outliers, normality and homoscedasticity. While the assumptions were met, the analysis identified a very weak model fit and insufficient evidence of a relationship between contentment and quality of life, with overall contentment only accounting for 10% of the variance in the quality of life variable ($r^2=0.01$, $F=1.978$, $p=0.161$). Further analysis was undertaken to explore if the dimensions of contentment and quality of life were related in any

meaningful way. From the table below, it can be seen that in the CDS only the product and environmental dimensions are strongly correlated to overall contentment but in the PWI both constituent dimensions exhibit a statistically significant correlation. In terms of the inter-scale correlations, the only statistically significant relationship identified was a relatively weak positive association between overall contentment and the quality of life dimension of satisfaction ($r=0.144$, $p<0.05$). This would suggest that despite being discontent with the current levels of banking services, residents of the Merriwa community are still relatively satisfied with their quality of life. Though, it must be acknowledged that this relationship, while statistically significant, is at the lower end of the range (Pallant, 2001). As such, the second hypothesis must be rejected.

Table 2. Inter-scale correlations

	Prods ^a .	Comm ^a .	Service	Enviro.	Overall Content	Import.	Satis.	Overall QOL
<i>Prods^a.</i>	..							
<i>Comm^a.</i>	0.010	..						
<i>Service</i>	0.264**	0.032	..					
<i>Enviro.</i>	0.558**	0.067	0.257**	..				
<i>Overall Content</i>	0.675**	0.111	0.030	0.696**	..			
<i>Import.</i>	0.019	0.255	0.104	0.066	-0.013	..		
<i>Satis.</i>	-0.001	-0.056	-0.030	-0.023	0.144*	0.199**	..	
<i>Overall QOL</i>	-0.009	0.089	0.031	0.066	0.100	0.670**	0.856**	..

^a Non-parametric correlations, * Correlation is significant at the 0.05 level, ** Correlation is significant at the 0.01 level.

Conclusion

Despite the finding that banking customers in Merriwa were discontent, quality of life was not negatively affected. Modest support existed for reverse scenario as satisfaction with quality of life was found to improve with growing discontentment. This may attribute to the unrelated benefits of banking deregulation. For example, the quality of life for Merriwa residents could be improved by access to greater diversity of shopping and recreational opportunities. Other issues may include emerging technologies such as internet banking and banking substitutes. Despite initial resistance, customers could actually achieve greater perceived efficiencies and satisfaction that could, in effect, mitigate the negative impacts of retail banking discontentment. These findings have significant implications for both theory and practice. Theoretically, the findings support the classical view of CSR that the best interests of community are served when commercial enterprises are profitable (Quazi and O'Brien, 2000; Rugimbana et al, 2004). Practical implications extend to banking strategists and government policy makers. In particular, the findings suggest that the pursuit of a considered rationalization strategy may actually be in the best interest of consumers. The findings also support the need for more informed public debate in the area of financial services, and consequently, more appropriate intervention by government policy makers. However, any implications need to be tempered by the decision to focus only on the Merriwa population, and as such, the limited generalisability of the findings. Further research needs to be undertaken to explore whether these findings extend to other contexts.

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