

# The Relationship between Customer Satisfaction and Customer Trust on Customer Loyalty

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## **Abstract**

Furious competition among the banks induces the owners to find out the ways to ensure the sustainability in the market and to gain competitive advantage even among competition. Thus, focus towards the customer loyalty has increased more than ever before which drew the attention of the researchers en route for the identification of the antecedents of customer loyalty. In this regard, the relationship between customer satisfaction and trust on customer loyalty has investigated in the commercial banks of Sri Lanka. The findings revealed a significant positive correlation between customer trust and loyalty; customer satisfaction and loyalty; and customer satisfaction and trust. Customer satisfaction has identified as an important influencer on customer loyalty. Further, customer trust impacted by customer satisfaction which proved that customer satisfaction is an antecedent of customer trust. Moreover, an indirect relationship between customer satisfaction and loyalty through customer trust was observed. The future studies may replicate in other service contexts and comparison of models of government and private banks will give more understanding.

**Key Words:** Customer Loyalty, Customer Satisfaction, Customer Trust, Commercial Banks

## **1. Introduction**

The banking industry has identified as a dynamic service industry subject to increasing competition with huge growth potential. The banking industry continues to grow even among tighter competition. As competition strengthens, the relationship between loyalty and competition deepens, especially in service industries (Stevens, 2000). Nowadays, customers are not loyal to one particular bank as they have accounts in different banks for different purposes. In Sri Lanka, post war developments paved a way for new market entries and expansion of new branches of existing banks, especially in Northern Province which is directly affected by war over past three decades. Number of banks recently entered into this market led to hyper-competition in the marketplace among the already existing and the new banks where the former focuses on retaining the existing customers and the latter on attracting new customers. Consequently, now the banks started to realize the prominence of customer loyalty and its contribution to its financial performance and growth. This scenario forced banks to consider more on the creation of loyal customer base for a long term relationship.

Search for the antecedents of customer loyalty has increased and drew the attention of the researchers in the contemporary environment. The findings of loyalty of tangible products

cannot be applicable to intangible products, which are services (Bloemer, Ruyter and Wetzels, 1999). Further, factors that determine the loyalty of customers of the service industry are less documented and the factors and its impacts vary across the countries (Han, Kwortnik and Wang, 2008). Hence, identifying the antecedents of customer loyalty, especially in services in different contexts is highly required.

Customer satisfaction has been discussed extensively by several researchers as a central element of a firm's marketing concept during the past two decades. Any business can move on to the upper level of advantage by achieving customer satisfaction in an intensely competitive market. Many researchers clearly established a positive relationship between customer satisfaction and customer loyalty (Anderson, Fornell and Lehmann, 1994; Taylor and Baker, 1994; Rust, Zahorik, and Keiningham, 1995; Fornell, Johnson, Anderson, Cha and Bryant, 1996) and they emphasized the significance of customer satisfaction in the studies of customer loyalty. Further, trust identified as one of the most widely examined and confirmed construct particularly in relationship marketing research (Aydin and Ozer, 2005). Furthermore, Ahmed, Riswan, Ahamad and Haq (2014) highlighted that, a customer can't enter in loyalty set without the trust of a brand. Therefore, this study specifically focuses on these two factors. These constructs used in the studies conducted especially in Europe and in some of the Asian countries. Since there is not much attention given to these constructs in the Sri Lankan context, this study attempts to fill the empirical gap.

## **2. Literature Review**

### **2.1 Customer Loyalty**

Customer loyalty has considered as an important factor which leads to gain competitive advantage over other firms under a highly competitive and dynamic environment. It is a multi-dimensional construct that is built on two components, attitude and behaviour. Oliver (1999) defined customer loyalty as a promise of buyers to purchase particular products, services and brands of an organization over a consistent period of time, irrespective of competitor's new products and innovations and these customers are not compelled to switch. Loyal customers positively view the organization, endorse the organization to others, and would engage in repurchase (Dimitriadis, 2006). Similarly, Lam et al. (2004) defined customer loyalty as an evidence of the repeated patronage of a service provider and the recommendations of a service provider to other customers. Further, it is considered as the intention of the buyers to make the purchases again and again to build a continuous relationship with the organization (Dick and Basu, 1994; Fornell, 1992).

### **2.2 Customer Trust**

All social relationships would fail or function irregularly without trust (Patrick, 2002). Trust defined as a generalized expectancy held by an individual that the word of another can be relied on (Rotter, 1967). Patrick (2002) viewed customer trust as thoughts, feelings, emotions, or behaviours manifested when customers feel that a provider can be relied upon to act in their best interest when they give up direct control. Morgan and Hunt (1994) defined trust as confidence that one party has on another because of honesty and reliability of the other partner.

Previous studies identified trust as a predictor of customer loyalty (Gul, 2014; Bibb and Kourdi, 2007; Hsu, 2008; Liang and Wong, 2004; Chaudhuri and Holbrook, 2001). A customer loyalty to an organization is enhanced by the trust created between the customer and the service provider (Kassim and Abdullah, 2008; Kishada and Wahab, 2013). Gul (2014) emphasized that when the customer is loyal towards a product or service he is basically trusting in it. Since trust establishes an important bond between the brand and customers, it is one of the determinants of brand loyalty (Morgan and Hunt, 1994). Further, Ranaweera and Prabhu (2003) highlighted that trust is a stronger emotion than satisfaction and it better predicts loyalty. Therefore, the following hypothesis are proposed:

*H1<sub>A</sub>: There is a positive relationship between customer trust and customer loyalty.*

### **2.3 Customer Satisfaction**

Fornell (1992) is considered the customer satisfaction as an attitude shaped on the basis of experience after clients acquire a product or use a service and pay for them. Similar to this Ningsih and Segoro (2014) defined satisfaction as an attitude, assessment and emotional response shown by the consumer after the purchase process. It is an indication of being pleased with a product or a service. The definition given by Yap, Ramayah and Shahidan (2012) posited satisfaction as an overall customer attitude towards a service provider.

Most frequently customer satisfaction is considered as an important antecedent of customer loyalty. In other words, customer loyalty is calculated as a straight outcome to customer satisfaction (Heskett, Sasser, and Schlesinger, 1997). Further, Consuegra et al., (2007) and Wong and Zhou (2006) pointed out that customer loyalty is partially improved by satisfaction as one of the most influential factors. Moreover, Wong and Sohal (2003) stated that satisfying more consumer expectations during a service generates a higher repurchase probability for a company. Most of the studies confirmed that contented clients have more possibility to repurchase and communicate positively toward an organization (Blodgett & Anderson, 2000; Maxham and Netemeyer, 2002). Though some of the researchers (Oliver, 1999; Seiders et al., 2005; Jones and Sasser 1995; Reichheld, 1996) noted that high customer satisfaction does not always indicate high loyalty, most of the researchers (Anderson 1996; Anderson et al. 1994; Fornell 1992; Fornell et al., 1996; Ping, 1993; Rust and Zahorik, 1993; Rust, Zahorik, and Keiningham 1995; Taylor and Baker 1994) clearly established a positive relationship between customer satisfaction and customer loyalty. Therefore deducing from the foregoing discussion, it is hypothesized that:

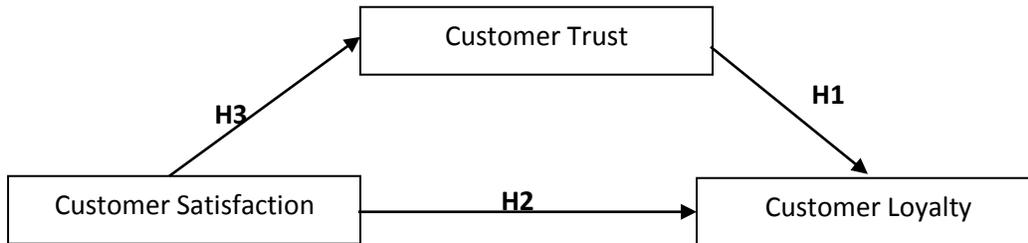
*H2<sub>A</sub>: There is a positive relationship between customer satisfaction and customer loyalty.*

Further, buyer's overall satisfaction with the buying experience is proposed to have a positive impact on his or her trust of the service provider. Geyskens et al. (1999) found satisfaction to be an antecedent to trust. Studies conducted by Dabholkar and Sheng (2012), Yoon (2002), and Crosby et al., 1990, found a significant positive correlation between trust and satisfaction. On the other hand, some of the studies contradicted from this and proposed that trust precedes satisfaction (Lin and Wang, 2006; Ercis et al., 2012 and Chang, 2012; Gul, 2014) in which they argued that the first customers trust the service providers based on some factors which have an

effect on satisfaction. Therefore, the literature shows bi-directional relationships between satisfaction and trust. However, the current study considers satisfaction as the predictor of trust and argues that if the customers are satisfied with the services provided by the bank then eventually they trust the bank. Therefore, the subsequent hypothesis is tested.

*H3A: There is a positive relationship between customer satisfaction and customer trust.*

**Figure 1: Conceptual Model**



(Source: Developed for study purpose)

### 3. Methods

The study population comprises all the individual customers of selected Commercial Banks in Northern Province of Sri Lanka. Customers of four leading banks, which have a comparatively long history in the Northern Province, namely, Bank of Ceylon, Peoples Bank, Hatton National Bank Plc. and Commercial Bank Plc., were selected for the study. Questionnaires were developed (see table 2) and issued to 300 customers using convenience sampling method among which 210 were collected. Due to the high number of missing values six questionnaires were rejected. Further, SPSS and SmartPLS were used to analyse the data.

### 4. Analysis

#### 4.1 Confirmatory factor analysis using SPSS

Pre analysis testing for suitability of the entire sample for factor analysis was computed using Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett tests of sphericity. The KMO measure of sampling adequacy was 0.858, 0.797 and 0.800 respectively, for customer satisfaction, customer trust and customer loyalty and the Bartlett tests of sphericity were significant at 0.000 for all three constructs (see table 1). These results indicated that the sample was suitable for factor analytic procedures. Further, indicators of customer trust and customer loyalty explained 70% of the variance of the constructs and the indicators of customer satisfaction explained 68% of the variance.

**Table 1: Eigenvalues, KMO Measure of Sampling Adequacy and Bartlett's test Significance**

Constructs and dimensions	Eigenvalue	% variance	KMO Measure of Sampling Adequacy	Bartlett's test Significance
Customer Satisfaction	3.436	68.72	0.858	0.000
Customer Trust	2.827	70.68	0.797	0.000
Customer Loyalty	2.823	70.56	0.800	0.000

(Source: Survey data)

#### 4.2 Structural equation modelling

The examination of the conceptual framework was conducted with the use of structural equation modelling technique (SmartPLS Version 3.0) as it has the ability to examine a number of dependent and independent variables simultaneously where one or more constructs are both dependent and independent (Hair *et al.*, 1998). Moreover, it helps to calculate the direct and indirect effects between constructs. There are two sub models in the structural equation modelling viz. measurement model and structural model (Wong, 2013).

#### 4.3 Measurement model analysis

The measurement model specifies the relationship between the latent variables and their observed indicators (Wong, 2013). Before the testing of hypotheses, the measurement model should be tested as a basis. In order to complete the examination of structural model, the establishment of reliability and validity of latent variables is very essential.

The strength of the measurement model is ensured by the examination of factor loading and internal consistency reliability. Outer loadings of all indicators of all constructs were ranged between 0.424 and 0.871 (see table 2) and were statistically significant. Except LOY1, all other indicators were above the threshold value of 0.7 since the indicator reliability was established (Hair *et al.*, 2011).

**Table 2: Factor loadings**

Construct	Indicators	Loadings	p-value	References
Customer satisfaction	Based on all of my experience with my bank, I am very satisfied with the banking services it provides (SAT 1)	0.779	0.000	Gremler and Gwinner, 2000; Kaura, 2013; Fatima and Razzaque, 2014
	My choice to use this bank was a wise one (SAT 2)	0.834	0.000	
	Overall, I am satisfied with the decision to use this bank (SAT 3)	0.844	0.000	
	I think I did the right thing when I decided to use this bank for my banking needs (SAT 4)	0.871	0.000	
	My overall evaluation of the services provided by this bank is very good (SAT 5)	0.800	0.000	
Customer trust	Overall, I have complete trust in my bank (TRU 1)	0.829	0.000	Ball et al., 2004; Ball et al., 2006
	When the bank suggests that I buy a new product it is because it is best for my situation (TRU 2)	0.841	0.000	
	The bank treats me in an honest way in every transaction (TRU 3)	0.857	0.000	

Customer loyalty	I say positive things about my bank to other people (LOY 1)	0.424	0.000	Zeithaml et al., (1996); Tam (2012); Ganguli and Roy (2011); Caruana (2002)
	I recommend my bank to someone who seeks my advice (LOY 2)	0.851	0.000	
	I encourage friends and relatives to do business with my bank (LOY 3)	0.842	0.000	
	I consider my bank as first choice to buy banking services (LOY 4)	0.827	0.000	
	I will do more business with my bank in the next few years (LOY 5)	0.793	0.000	

(Source: Survey data)

Further, the composite reliability of the constructs customer satisfaction, customer trust and customer loyalty were correspondingly 0.915, 0.906 and 0.871 (see table 3) which were above the widely recognized rule of thumb of 0.7, the internal consistency reliability was proved.

The measurement models' validity assessment focuses on convergent validity and discriminant validity where the convergent validity is attested based on the value of Average Variance Extracted (AVE). The values of each construct; customer satisfaction, customer trust and customer loyalty were correspondingly 0.683, 0.706 and 0.585 and all the values were above the threshold value of 0.5, the convergent validity was confirmed.

**Table 3: Composite reliability, Cronbachs alpha and AVE**

Construct	Composite reliability	Cronbachs alpha	AVE
Customer satisfaction	0.915	0.883	0.683
Customer trust	0.897	0.827	0.743
Customer loyalty	0.871	0.811	0.585

(Source: Survey data)

Discriminant validity assesses the extent to which a measure does not correlate with other constructs from which it is supposed to differ (Hair et al., 1998). Table 4 shows the inter correlation of research constructs and the diagonal of this matrix represent the square root of the average variance extracted. For adequate discriminant validity, the diagonal values should significantly larger than the correlation of specific construct with any other constructs (Hair et al., 2011; Fornell and Larcker, 1981). As all the diagonal values are larger than the correlation of specific construct with any other constructs, the discriminant validity also established.

**Table 4: Discriminant validity**

Constructs	Customer satisfaction	Customer trust	Customer loyalty
Customer satisfaction	<b>0.826</b>		
Customer trust	0.609	<b>0.862</b>	
Customer loyalty	0.736	0.588	<b>0.765</b>

(Source: Survey data)

Moreover, Hair *et al.* (2011) emphasized that loadings of indicators should be higher than its cross loading. Table 5 shows the cross loadings of the indicators with its' constructs. As

expected, all the indicators had high loading with its' predestined construct. Thus, the discriminant validity is confirmed and sufficient to support the model of this study.

**Table 5: Cross loadings**

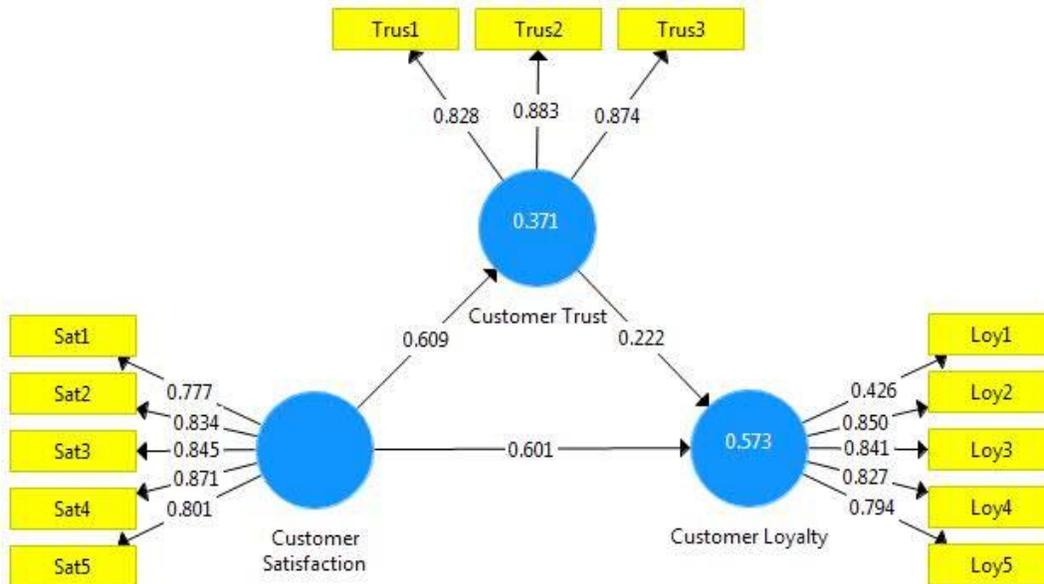
Indicators	Customer loyalty	Customer Trust	Customer satisfaction
Sat1	0.587	0.550	<b>0.777</b>
Sat2	0.593	0.488	<b>0.834</b>
Sat3	0.605	0.474	<b>0.845</b>
Sat4	0.629	0.495	<b>0.871</b>
Sat5	0.624	0.505	<b>0.801</b>
Tru1	0.474	<b>0.828</b>	0.471
Tru2	0.525	<b>0.883</b>	0.564
Tru3	0.520	<b>0.874</b>	0.537
Loy1	<b>0.426</b>	0.226	0.253
Loy2	<b>0.850</b>	0.467	0.675
Loy3	<b>0.841</b>	0.437	0.572
Loy4	<b>0.827</b>	0.534	0.622
Loy5	<b>0.794</b>	0.517	0.588

(Source: Survey data)

#### 4.4 Structural model analysis

The structural model was used to determine the model's explanatory power and to test the developed hypotheses based on the cause-effect relationship among the constructs. The model's explanatory power was assessed by the coefficient of determination,  $R^2$ . The coefficient of determination ( $R^2$ ) is 0.573 for the "customer loyalty" construct (see figure 2). This means that the two constructs (customer satisfaction and customer trust) moderately explains 57.3% of the variance in customer loyalty since the  $R^2 > 0.50$  (Hair *et al.*, 2011). Further, the coefficient of determination ( $R^2$ ) of "customer trust" construct is 0.371 means that, the construct of customer satisfaction alone explains 37.1% of the variance in customer trust.

**Figure 2: Structural model**



(Source: Survey data)

Another important assessment of the structural model is the models' capability to predict. Predictive relevance postulates that the model must be able to adequately predict each endogenous latent construct's indicators (Hair *et al.*, 2011). The Q<sup>2</sup> value was obtained using blindfolding procedure with omission distance seven. The Q<sup>2</sup> of cross validated redundancy was selected since it uses the PLS-SEM estimates of both the structural model and the measurement models for data prediction. Table 6 shows the Q<sup>2</sup> values of the constructs and indicators of endogenous latent construct (dependent variables). As all the values were larger than zero, the model adequately predicts each indicator of the endogenous latent constructs.

**Table 6: Cross validated redundancy**

Construct/ Indicators	Q <sup>2</sup>
Customer loyalty	0.309
Loy1	0.061
Loy2	0.414
Loy3	0.323
Loy4	0.389
Loy5	0.355
Customer trust	0.259
Tru1	0.209
Tru 2	0.295
Tru 3	0.272

(Source: Survey data)

#### 4.5 Hypotheses testing

As shown in Table 7, the hypotheses were tested using the path coefficient ( $\beta$ ) indicating the strength of the cause-effect relationship between the research constructs using the  $p$  value. The bootstrapping procedure was used to assess the significance of path coefficient values ( $\beta$ ). The statistical significance was tested at 5% ( $p < 0.05$ ).

**Table 7: Research hypotheses testing**

Hypotheses	Path coefficient ( $\beta$ )	P values	Supported/Not Supported
<b>Hypothesis 1<sub>A</sub>:</b> Customer trust → Customer loyalty	0.222	0.001	Supported
<b>Hypothesis 2<sub>A</sub>:</b> Customer satisfaction → Customer loyalty	0.601	0.000	Supported
<b>Hypothesis 3<sub>A</sub>:</b> Customer satisfaction → Customer trust	0.609	0.000	Supported

(Source: Survey data)

#### ***H1<sub>A</sub>: There is a significant positive relationship between customer trust and customer loyalty***

As shown in Table 7, customer trust affected the customer loyalty ( $p = 0.000$ ) with an effect size of  $\beta = 0.222$ . Since customer trust was positively and significantly related customer loyalty ( $\beta = 0.222$ ,  $p < 0.05$ ), supporting H1<sub>A</sub>. This indicates that the more customer trust, the more loyal they are with their bank. The current finding was coincided with the findings of the scholars (Gul, 2014; Chinomona, 2013; Yap, Ramayah and Shahidan, 2012; Rasheed and Abadi, 2014; Vuuren, Lombard and Tonder, 2012; Mosavi and Ghaedi, 2012).

Hence it was concluded that there is a (positive) relationship between customer trust and customer loyalty in Commercial Banks of Northern Province of Sri Lanka.

#### ***H2<sub>A</sub>: There is a significant positive relationship between customer satisfaction and customer loyalty***

According to the results in Table 7, customer satisfaction affected the customer loyalty ( $p = 0.00$ ) with a larger effect size ( $\beta = 0.601$ ). Since satisfaction of the customers was positively and significantly related to customer loyalty ( $\beta = 0.601$ ,  $p < 0.05$ ), supporting H2<sub>A</sub>. This indicates that high customer satisfaction of the bank is likely to increase customer loyalty. The current study finding is supported by a few previous studied on testing these two constructs (Annamalah *et al.*, 2011; Hassan *et al.*, 2013; Tam, 2012; Mokhtar *et al.*, 2011; Keisidou *et al.*, 2013; Ganguli and Roy, 2011; Vuuren *et al.*, 2012).

Therefore, it was concluded that there is a (positive) relationship between customer satisfaction and customer loyalty in Commercial Banks of Northern Province of Sri Lanka.

#### ***H3<sub>A</sub>: There is a significant positive relationship between customer satisfaction and customer trust***

As shown in Table 7, customer satisfaction affected the customer trust ( $p = 0.000$ ) with a larger effect size ( $\beta = 0.609$ ) since customer satisfaction was positively and significantly related to

customer trust ( $\beta = 0.609, p < 0.05$ ), supporting H3A. This indicates that customer satisfaction is likely to display higher customer loyalty towards the bank. Past literatures have enough support to the current findings (Trif, 2013; Chinomona, 2013; Yap et al., 2012; Mosavi and Ghaedi, 2012; Madjid, 2013).

Thus, it was concluded that there is a (positive) relationship between customer satisfaction and customer trust in Commercial Banks of Northern Province of Sri Lanka.

More interestingly the findings revealed that, customer satisfaction and customer loyalty was mediated by customer trust ( $\beta = 0.142, p = 0.001$ ). Since an indirect relationship between customer satisfaction and customer loyalty through customer trust ( $\beta = 0.142, p < 0.05$ ) was found (see table 8). This relationship also supported by Madjid (2013). Therefore the evidence showed customer loyalty can be achieved through improving customer trust where customer trust is determined by the satisfaction of the customers.

**Table 8: Direct, indirect and total effect between constructs**

Constructs	Customer Loyalty/ p-value	Customer Satisfaction/ p-value	Customer Trust/ p-value
<i>Direct effect</i>			
Customer Loyalty	1		
Customer Satisfaction	0.601 (0.000)	1	
Customer Trust	0.222 (0.000)	0.609 (0.000)	1
<i>Indirect effect</i>			
Customer Loyalty	1		
Customer Satisfaction	0.135 (0.001)	1	
Customer Trust			1
<i>Total effect</i>			
Customer Loyalty	1		
Customer Satisfaction	0.736 (0.000)	1	
Customer Trust	0.222 (0.001)	0.609 (0.000)	1

(Source: Survey data)

### 5. Conclusion

Customer loyalty has identified as an imperative construct which is widely studied by the researchers across the globe. The current study focused on the effect of customer satisfaction and customer trust on customer loyalty. The findings revealed that there is a significant positive relationship between customer trust and customer loyalty. Those who are not willing to trust the bank in a competitive marketplace are unlikely to be loyal. Similarly, if the customer customers are satisfied with the services of the bank, they tend to be loyal to the bank. Further, a positive significant relationship between customer satisfaction and customer trust which proved that customer satisfaction is the antecedent of trust. In other words, the more the customers are satisfied with the banking service the more they will trust the bank. In addition, a

significant indirect relationship between customer satisfaction and customer loyalty through customer trust was revealed. Moreover, the study found customer satisfaction as a major driver of customer loyalty and an important predecessor of customer trust in the Sri Lankan commercial banking context.

### **6. Implications of the study**

Literature showed that there were few studies on this topic across the globe. In the Sri Lankan context, limited studies were found in testing this relationship (Karunanithy and Rasanayagam, 2013; Fernando and Patabendige, 2014) but those were not from the banking scenario. The current study focuses on the Northern Province of Sri Lanka which was affected by the war over thirty years where the lifestyle of people is different from other provinces. As the relationship marketing has become a prominent topic in marketing, investigation on customer loyalty is also very much important to Sri Lankan marketers and researchers. This research finding will give knowledge to the academicians about the link between customer satisfaction, trust and customer loyalty in the banking industry which bridge the existing empirical gap. It also helps them to have an understanding regarding the theory and practical matters. Further, this research will be an initial outline to the researchers for further studies in this study area in Sri Lanka.

The findings of this study will have many important implications for the industry. It will help the banks, particularly in the Northern Province of Sri Lanka to find out the relationship between the constructs. It has revealed that customer loyalty is highly impacted by customer satisfaction and the customer satisfaction identified as an important predictor of customer trust. As the loyal customers are the profitable customers, banks are searching ways to make the customers loyal to them. Hence, practically customer loyalty towards the banks could be achieved by enhancing the satisfaction and trust of the customers of the banks. It also covered both public and private banks, which will help the banks to develop strategies to delight the customers through which build the trust of the customers and make them loyal to the bank.

### **7. Future research direction**

The scope of generalizing the results to other contexts and to whole Sri Lanka may be limited. As the current study on focused on commercial banks, covering the whole banking industry in entire Sri Lanka may provide new findings. Further, replications in other service contexts are highly desirable. Comparison of models of government and private banks will give more understanding on the difference between them. Further, developing a richer model that incorporates other constructs also give more insights.

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