

Customer Satisfaction as a Mediation in Creating Customer Loyalty on Banking Industry in Indonesia

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Key words: Service quality, Customer Relationship Marketing (CRM), customer satisfaction, customer loyalty, banking industry

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Abstract: The purpose of this research is to examine customer satisfaction models in mediating customer loyalty. The population of this study is customers of governmental bank such as Bank Mandiri, Bank Negara Indonesia. The data analysis technique used is Structural Equation Modeling (SEM). The results show that customer satisfaction mediates service quality on customer loyalty. These results indicate that the quality of services provided by the banking industry makes customers feel satisfied, so, it results in customer's decision to remain loyal to a certain bank and customer satisfaction mediates the influence of customer relationship marketing on customer loyalty. These results indicate that customer relationship marketing built by the banking industry makes customers feel satisfied, so that, it makes them decide to be a loyal customer of a certain bank.

INTRODUCTION

It is always interesting to investigate the level of competition among banking industries one of which is the competition trend occurring on banking industry in Indonesia. The Financial Services Authority (FSA) stated that in January, 2017, it was revealed that the number of banks in Indonesia has reached up to 116 banks in total. Indonesia is also one of the countries that implements dual banking systems, namely the occurrence of conventional banks and Islamic banks operating simultaneously. Consequently, the competition between banks to capture market share becomes is tight.

Current interbank competition is not only marked by the number of branch offices being opened but it can also be seen from the emergence of new products with all kinds of attributes owned by each bank such as providing high interest, credit guarantees, various prizes on line

facilities, phone banking, Automated Teller Machines (ATMs) and other facilities. For the banking industry, achieving customer loyalty is highly desirable because loyal customers will be more profitable than less loyal customers. This is in accordance to Pareto law 80/20 which states that 80% of the company's profit 20% of which is contributed by loyal customers^[1]. Forming loyal customers does not come by itself but there should be a harmonious relationship on what the customers expect and they realities they get.

Marketers realize that customer loyalty is a very important drive to create sales. The importance of maintaining customers is more due to the fact that obtaining or obtaining new customers requires more expensive costs than maintaining the existing ones. Therefore, understanding how or why a feeling of loyalty needs to be developed in the customer's mind is the current management issue. According to the customer, a

company that performs well is characterized by its customers who are willing to make the first purchase and then they wish to make the next purchase repeatedly^[1].

In order to keep customers loyal, the banking industry needs to pay attention to the quality of services provided. In general, service quality is a global attitude or assessment of the advantages of services, although, the real scope of this attitude is not uniformity of opinion. Service quality is often conceptualized as a comparison of expectation with perception of the true performance of services^[2]. Quality must start from the customer's needs and end in the customer's perception^[3-8] concluded that there is a significant influence between service quality and customer loyalty. Different results are shown by researches conducted by O'Loughlin and Coenders^[9] and Cristobal *et al.*^[10] stating service quality does not contribute to customer loyalty.

Customer loyalty has an important role in a company. According to Griffin^[11], high customer loyalty is in accordance to the usual buying behavior shown by loyal customers. To get loyal customers, the banking industry must apply the concept of Customer Relationship Marketing (CRM). CRM has developed into a new paradigm for marketing strategies. CRM is the introduction of each customer more closely by creating two-way communication. The communication needs to be managed in the form of mutually beneficial relationships between customers and companies. The relationship in question must be a partnership not just a relationship between the seller and the buyer, to achieve long-term goals for the purpose of generating sustainable profits from loyal customer groups.

According to Kotler and Armstrong, CRM in the concept of relational marketing is the whole process of building and maintaining profitable customer relationships by delivering superior customer value and satisfaction. This process relates to all aspects to reach, maintain and grow customers. A good CRM will create trust and customer satisfaction and soon will form loyal customer groups^[12]. Harun^[13] and Samuel^[14] concluded that CRM significantly influences customer loyalty. Different results are shown by Wang and Yang who concluded that there is no significant relationship between CRM and loyalty.

Conducting a research on customer loyalty is an interesting thing as loyal customers will be influenced by several variables such as service quality and customer relationship marketing. However, there is a gap concerning this issue, so that, more variables are needed to mediate customer satisfaction. Bloemer *et al.*^[15] explained that satisfaction is often seen as the basis for the emergence of loyalty. Satisfaction is the result of customer evaluation of a product by comparing whether the product received is in line with expectations. Satisfaction can also be interpreted as a belief that arises after comparing reality

with its expectations. Abdullah and Rozario^[16] showed that there is an influence of service quality on customer satisfaction. Sutanto and Japariato, also showed that relationship marketing has a positive and significant influence in providing customer satisfaction. Apriliani *et al.* concluded that relationship marketing has a significant influence on customer satisfaction.

Satisfaction gained by customers is able to influence customer loyalty. Customer satisfaction contributes to a number of crucial aspects one of which is creating customer loyalty. The importance of customer satisfaction for marketing can also be triggered caused by the reason that customer satisfaction will encourage repurchase and provide benefits in the form of word of mouth publicity. Akbar *et al.*^[5] showed that customer satisfaction influences customer loyalty.

Based on the aforementioned research background, this research aims at conducting a comprehensive study on the role of customer satisfaction in mediating the influence of service quality and customer relationship marketing on customer loyalty on banking industry in Indonesia.

Conceptual background and hypothesis development

Service quality and customer loyalty: The old paradigm of the main objective of marketers is to meet and satisfy the needs and desires of target consumers better than competitors^[3] but such goals have shifted because the more important is customer loyalty. Having a loyal customer is a challenge in gaining certainty of income in the future. In order to retain customers to remain loyal to service products, the main thing to note is the service quality provided. In general, the service quality is a global attitude or assessment of the advantages of services, although, the real scope of this attitude is not uniformity of opinion. The results of research by Al-Rousan *et al.*^[4], Akbar *et al.*^[5], Malik *et al.*^[6], Bostanji^[7] and Poku *et al.*^[8] concluded that there was a significant influence between service quality and customer loyalty. Based on the results of an empirical study, the research hypothesis is formulated as follows:

- H₁: service quality contributes significantly to customer loyalty services quality alone is not enough to foster and maintain customers

Customer relationship marketing and customer loyalty:

Customer Relationship Marketing (CMR) is the foundation for building long-term relationships with customers. A good CRM is created from trust commitment. With commitment and trust will satisfy the customer and so on will form loyal customer groups. Jesri, *et al.*, concluded that CRM significantly affects the loyalty of Mehr Bank customers, Iran. In addition, Harun^[13] concluded that Customer relationship marketing gives high contribution to the formation of customer

loyalty of Bank Muamalat Jambi branch. In line with the previous finding, Samuel^[14] also stated that the dimensions of customer relationship marketing have a significant influence on customer loyalty of national banks. Based on the results of an empirical study, the research hypothesis is formulated as follows:

- H₂: customer relationship marketing contributes significantly to customer loyalty

Customer satisfaction, service quality, customer relationship marketing and customer loyalty:

Conducting a study of customer loyalty is an interesting thing as loyal customers will be influenced by several variables such as service quality and customer relationship marketing. However, the results of empirical studies on the influence of service quality and customer relationship marketing on customer loyalty still cause a gap to be reexamined. To cover the gap there needed a variable that is able to mediate namely customer satisfaction.

Bloemer^[15] explained that satisfaction is often seen as the basis for the emergence of loyalty. Abdullah and Rozario^[16] showed that there is an influence of service quality on customer satisfaction. Sutanto and Japariato showed that relationship marketing has a positive and significant influence in providing customer satisfaction. Furthermore, Apriliani, etc., concluded that relationship marketing has a significant influence on customer satisfaction. Akbar *et al.*^[5] showed that customer satisfaction influences customer loyalty. Based on the results of an empirical study, the research hypothesis is formulated as follows:

- H₃: customer satisfaction mediates a significant contribution to service quality towards customer loyalty

- H₄: customer satisfaction mediates a significant contribution to customer relationship marketing towards customer loyalty

MATERIALS AND METHODS

Population and sample: The population of this research is governmental bank customers such as Bank Mandiri, Bank Negara Indonesia, Bank Rakyat Indonesia and Bank Tabungan Negara. The population in this research is an infinite population which is a very large population size, so that, the population cannot be known for sure. In this condition, the sample size can be determined based on the analytical techniques that will be used in this research. According to Ferdinand the size of the sample is determined by multiplying the number of indicators by 10, so, the size of the sample used is 140 respondents. Sampling technique used is purposive sampling technique which is a sample determination technique by selecting a sample among the population according to the criteria desired by the researcher. The criteria of the research sample are as follows: the respondents’s age is at least 18 years old assuming that in this period of age respondents are independent in nature in giving answers because they are considered to be adults and mature. Meanwhile, the second criteria is respondent has become customer for at least 3 years.

The definition of operational variable: Systematic operational variables will appear on Table 1. To measure the variables to be examined obtained from responses of respondents, the researcher used a Likert scale. In this research, each answer to the questions in the questionnaire is weighted as follows: 1 for strongly disagree; 2 for disagree; 3 for neutral; 4 for agree and 5 for strongly agree.

Table 1: Variables indicators and statement items

Variable/indicator	Statement items
Service quality	
Tangibles	Having comfortable service Having neat employee
Reliability	Providing services as promised Having reliable ability in solving problems faced by customers
Responsiveness	Providing service swiftly Having good knowledge to answer customer questions and problems
Assurance	Providing security guarantees to the deposited funds Making free from errors transactions
Emphaty	Creating a family relationship Giving attention and patient in serving transactions
Customer relationship marketing	
Trust	Providing many conveniences in service Showing good and sincere morals in helping customers
Commitment	Offering services to meet customer needs Having emotional closeness with the bank
Communication	Providing accurate information Providing convenience for customers to interact

Table 1: Variables indicators and statement items

Variable/indicator	Statement items
Customer satisfaction	
Service beyond expectation	Meeting what is expected compared to other banks Meeting the customers expectation regarding Bank products/services
Spreading positive word of mouth	Saying positive things to you Saying positive things to others
The desire to continuously save	Having a desire to continue saving Having a more positive attitude towards the bank
Loyalitas Nasabah	
Making the bank as the first and the main place to save	Making the bank as the first choice for saving Making the bank as the main choice for saving
The desire to always save	Having a desire to always save Having an intention to continue to make transactions on an ongoing basis
Recommend the bank to families and others	Recommending you to save Recommending others to save

Analysis and results

Data analysis method: The analysis technique used in this research is Structural Equation Modeling (SEM) which is a statistical technique that tests a series of relatively complex relationships simultaneously. SEM is used to test the research hypothesis. The pattern of relationships between variables to be examined is a causal relationship of one or several independent variables on one or more dependent variables.

RESULTS AND DISCUSSION

The results of SEM analysis of goodness of fit: Theoretical model in the conceptual framework of research is said to be fit if it is supported by empirical data. The results of testing the goodness of fit overall model should be in accordance to the results of SEM analysis to determine whether the hypothetical model is supported by empirical data. The explanation regarding this can be seen on Fig. 1 and Table 2.

The results of the analysis related to the model feasibility index are set out in Table 2. The test results of goodness of fit overall based on Fig. 1 and Table 2 show that not all criteria show a good model. Although, the value of GFI and AGFI is still below the cut-off value, the value is not so far from the cut-off value. Arbuckle and Wothke revealed that the best criteria used as an indication of the goodness of the model are CMIN/DF values that are <2 and RMSEA below 0.08. In this research, CMIN/DF and RMSEA values have met the cut-off value. Therefore, the model can be categorized as suitable and suitable for use, so that, interpretation can be carried out for further discussion.

Hypothesis testing results: Structural Equation Model (SEM) analysis using AMOS 6.0 is used to test hypothesis proposed by the researcher. As a basis for testing hypothesis, Critical ratio (Cr) is used from the results of output regression weight. The research hypothesis will be accepted if p-value <from the

Table 2: Results of testing the goodness of fit overall on final model

Criteria	Cut-off values	Model result	Note
Chi-squared	Small	206.153	Model is not good
p-value	≥0.05	0.000	
CMIN/DF	≤2.00	1.649	Model is good
GFI	≥0.90	0.891	Moderate
AGFI	≥0.90	0.851	Moderate
TLI	≥0.95	0.927	Moderate
CFI	≥0.95	0.941	Moderate
RMSEA	≤0.08	0.060	Model is good

significance of 5%, then the null hypothesis is rejected. Hypothesis testing results are presented on Table 3. The effect of service quality on customer loyalty results in a Cr value of 2.161 with a p-value of 0.031. Because p-value is smaller than its statistical significance at $\alpha = 5\%$, so, the hypothesis which states that service quality has a direct and significant effect on customer loyalty can be accepted. This result indicates that the better the quality of services provided, the higher the customer loyalty.

The influence of CRM on customer loyalty produces a Cr value of 3.248 with a $p = 0.001$. Because the p-value is smaller than the its statistical significance at $\alpha = 5\%$, so, the hypothesis which states that CRM has a significant direct effect on customer loyalty can be accepted. This result indicates that the better the CRM provided, the higher the customer loyalty.

The results of customer satisfaction analysis mediate the effect of service quality on customer loyalty in detail can be seen on Table 4. The results of the influence of service quality on customer loyalty without being mediated by customer satisfaction can be seen on Table 5. Based on the results of the mediation test, it shows that the value of the path coefficient of service quality on customer loyalty which is controlled by customer satisfaction has a coefficient of 0.217 which is smaller than the influence of service quality on customer loyalty without the mediating variable of customer satisfaction with a coefficient of 0.870. Thus, the hypothesis that states customer satisfaction acts as partial mediation from

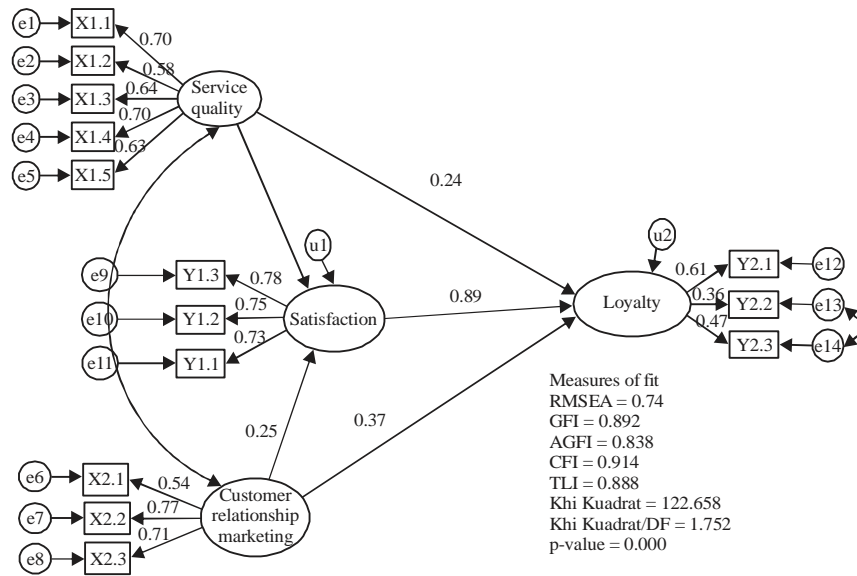


Fig. 1: Path diagram results of SEM analysis

Table 3: The analysis results of regression weight

Relationship	Path coefficient	Cr	p-values	Note
Loyalty←Service quality	0.242	2.161	0.031	Significant
Loyalty←CRM	0.366	3.248	0.001	Significant

Table 4: The results of customer satisfaction mediate the quality of service quality to customer loyalty

Effect among variables	Path coefficient	Cr	p-values	Note
Service quality→customer satisfaction	0.434	3.698	0.000	Sig.
Customer satisfaction→customer loyalty	0.983	7.347	0.000	Sig.
Service→customer loyalty	0.217	2.035	0.042	Sig.

Table 5: The results of service quality influence on customer loyalty without being mediated by customer satisfaction

Effect among variables	Path coefficient	Cr	p-values	Note
Service quality→customer loyalty	0.870	4.107	0.000	Sig.

Table 6: Results of customer satisfaction in mediating CRM's influence on customer loyalty

Effects among variables	Path coefficient	Cr	p-values	Note
CRM→customer satisfaction	0.358	3.102	0.002	Sig.
Customer satisfaction→customer loyalty	0.990	7.081	0.000	Sig.
CRM→customer loyalty	0.355	3.154	0.002	Sig.

Table 7: Results of CRM influence on customer loyalty without being mediated by customer satisfaction

Effects among variables	Path coefficient	Cr	p-value	Note
CRM→customer loyalty	0.768	2.798	0.005	Sig.

the indirect effect of service quality on customer loyalty can be accepted. The results of the customer satisfaction analysis mediate the influence of CRM on customer loyalty in detail can be seen on Table 6. The results of CRM influence on customer loyalty without being mediated by customer satisfaction can be seen on Table 7.

Based on the results of the mediation test, shows that the value of the path coefficient influence CRM on customer loyalty that is controlled by customer satisfaction has a coefficient of 0.355 smaller than the

influence of CRM on customer loyalty without the mediation variable of customer satisfaction with a coefficient of 0.768. Thus, the hypothesis that states customer satisfaction acts as partial mediation from the indirect effect of CRM's influence on customer loyalty can be accepted.

Service quality affects customer loyalty: Customer loyalty is directly affected by the quality of service. This means that customers will recommend to others if quality

services are received such as service rooms provide a sense of comfort, employees have a reliable ability to solve problems faced by customers, employees provide services quickly and accurately, there is security guarantees on funds saved and employees can create a family relationship. The results of this study are in line with research conducted by Al-Rousan *et al.*^[4], Akbar *et al.*^[5], Malik *et al.*^[6], Al-Bostanji^[7] and Poku *et al.*^[8] who concluded that there is a significant influence between service quality and customer loyalty.

Customer relationship marketing affects customer loyalty: Customer loyalty is directly influenced by customer relationship marketing. This means that customers will recommend to others if the bank is able to provide a lot of convenience in service, offer services to meet customer needs and provide convenience for customers to interact.

Regarding customer Relationship Marketing influences customer loyalty, the results are in line with research conducted by Jesri, etc., concluding that CRM significantly influences the loyalty of Mehr Bank customers, Iran. Harun^[13] concluded that Customer relationship marketing gives high contribution to the formation of customer loyalty Bank Muamalat Jambi branch. Semuel^[14] also stated that dimensions of customer relationship marketing have a significant influence on customer loyalty of national banks. Different results are shown by Wang and Yang who concluded that there was no significant relationship between CRM and loyalty.

Customer satisfaction mediates the influence of service quality on customer loyalty: Based on the results of inferential statistical analysis, there is evidence that customer satisfaction mediates the effect of service quality on customer loyalty. This result means that the quality of services provided by the banking industry such as service space provides a sense of comfort, employees have reliable capabilities in solving problems faced by customers, employees provide services quickly and accurately, security guarantees on funds saved and employees create harmonious relationship. All of these can be indicated by the fulfillment of customer expectations, saying positive things to others and having a more positive attitude. When satisfaction is created, customer loyalty can be achieved shown by customer's decision in making the bank as the the first choice to save, the intention to continue transactions continuously and recommend to others to save.

Customer satisfaction mediates the influence of customer relationship marketing on customer loyalty: Based on the results of inferential statistical analysis, there found an evidence that customer satisfaction is able to mediate the influence of customer relationship

marketing on customer loyalty. This result means that employees who have good customer relationship marketing are shown to be able to provide a lot of convenience in service, offer services to meet customer needs and provide convenience for customers to interact to make satisfied customers indicated by meeting customer expectations will say positive things to others and have a more positive attitude. When satisfaction is created, customer loyalty can be achieved which is shown by making the bank as the the first choice to save, the intention to continue transactions continuously and recommend to others to save.

CONCLUSION

Customer satisfaction mediates the quality of service to customer loyalty. This results indicate that the quality of services provided by the banking industry makes customers satisfied, so that, it impacts on customer's desire to remain customers and customer satisfaction mediates the influence of customer relationship marketing on customer loyalty. This results indicate that customer relationship marketing built by the banking industry makes customers satisfied so that it affects the customer's desire to remain a loyal customer.

In order to increase customer satisfaction which ultimately provides loyalty, the banking industry must meet customer expectations by developing a core banking system application system facility which is an online real time application that connects the head office with units spread throughout Indonesia. For policy makers, the results of this research can be used as additional information and considerations in carrying out policies such as conducting excellent service training for employees. In addition, the research results can provide insight to all employees about the need to prioritize a sense of care in the service process.

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