The Impact of Customer Satisfaction on Customer Loyalty: Mediating Role of Customer Trust

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Abstract

This research project examines the relationship between customer satisfaction, customer trust and customer loyalty. We held the assumption that customer trust mediates the relationship between customer satisfaction and customer loyalty; we used a sample size of 131 customers of the telecom sector of Pakistan. Our research finding partially supported our hypothesis, we found that customer satisfaction positively related to customer trust and customer trust is positively related to customer loyalty, whereas customer trust did not mediate the relationship between customer satisfaction and customer loyalty.

Key Words: Customer Satisfaction, Customer Loyalty, Customer Trust, Marketing, Telecom Sector, Pakistan.
Introduction

In the 21st century, the competitions among the firms are very high. In these days when the economic recession is going on with the high competition, the customers' importance in context to firms is vital. Every firm wants to retain their existing customer because the new customer wants huge investment. Researchers proved that firm’s 80% revenue is generated by the 20% of its customers that are loyal to their brand (Cooprer, Kaplan 1991, Zeithaml, Valarie, Rust, Roland, Lemon and Katherine 2001). So, in this era the customers play the vital role for any firm. If firms are succeeded to make their customer retain than their strategy of doing well is due to customer satisfaction factor.

Researchers have carried out ample research on these three constructs of the consumer behavior, customer satisfaction and customer loyalty and customer trust (Anderson and Srinivasan, 2003). If your customer is satisfied with the product and services that you are providing, it creates trust in the mind of customer with your brand, and after this customer become loyal to your product and services (Anderson and Srinivasan, 2003).

After conducting the in-depth analysis, researchers, the marketers and consumer economists suggested that the central attention by both firms and consumers have to be given to the product and those factors which constituted and maintained the product goodness. It is assumed that the product quality and its service characteristics would access the consumers’ satisfaction and gaining more and more loyalty.

Furthermore, if firms work on those factors by which you can build more satisfaction and loyalty, then the best factor would be consumer-firm relationship in which we focus on how the relations switch and extend from product-consumer-firm to consumer-firm-product, where the end forms a circle in which the relationship of firms to consumers becomes a mediator which helps to focus on the consumer to the product, or turn him off and cause the rejection of the product.

Customer Satisfaction

Customer satisfaction is defined as “an overall evaluation based on the customer’s total purchase and consumption experience with the good or service over time” (Anderson, Fornell and Mazvancheryl, 2004). Spreng, MacKenzie and Olshavsky (1996) define that customer satisfaction is a basic concept of the marketing which satisfying the needs and desires of consumers. Furthermore, Customer satisfaction generally means the perception of a product in customer’s mind about your product (Oliver, 1997). Another research determined that customer satisfaction is the customers’ own perceptions about service quality (Zeithamal and Bitner 1996). There is general harmony between researchers that customer satisfaction should be conceptualized as a multi-dimensional theory (Yi, 1990). One of highly used dimension is satisfaction with the product itself which relates to the customer's evaluation of product performance based on such characteristics as durability, dollar value, technical style and ease of use (Barbera and
Mazursky, 1983; Marr and Crosby, 1992). If companies satisfied their customers, as a result, the companies can get many benefits from satisfied customer like loyalty, reduce customers’ sensitivity about pricing, lowers the cost of creating new customers, reduce the operational cost by increasing customers and build a positive company’s repute (Fornell, 1992).

There exist the two major determinants by which it can be judged that whether the customer is satisfied or not, first one is perceived value, that is that how much output the consumer gets from the use of the product, whether it matched his observation or not. The second determinant is the perceived quality which implies the product consists of the attributes which he wanted in the product (Fornell, 1996).

We gain customer satisfaction when customers verify the two determinants before purchase expectations for a purchased service or positively exceed their expectations about purchase services, after this some level of post purchased affect toward the experience (Cardozo, 1965). Finally, after-sale service is often used as a dimension of customer satisfaction. This dimension is mostly related to two primary properties (Ostrom and Iacobucci, 1995) as well as customer’s judgment about the quality of the service, and his assessment of the dealings experienced he or she has made with the service provider (Crosby, Evans and Cowles, 1990).

Customer Loyalty

The research on Loyalty started in 1920s when (Copeland, 1923) described Brand Loyalty under the marketing rule. In the beginning, the research of loyalty majority based on the behavioral concept that is totally based on repeat purchasing of any product and services. Behavioral concept measuring is based on quantity of purchasing, purchase series and chance of purchases. In these measurements, re-purchasing is highly criticized measures. While some researcher’s theory based on series of brands purchasing (Brown, 1952 and Churchill, 1942). Some other researchers calculated loyalty as the amount of purchases dedicated to a specific brand (Brody and Cunningham, 1968; Cunningham, 1956).

Customer loyalty is divided into two categories in literature, which are: process and psychological (Oliver, 1999). Process can also be referred to be operational (Dick and Basu, 1994), process/operational definitions explain those actions performed by the customer which make him loyal (Oliver, 1999), and these definitions measure the loyalty by measuring the repeat purchases or purchasing of the same brand in relative quantity (Jacoby and Chestnut, 1978; Tellis, 1988). Nonetheless, Psychological/Theoretical (Dick and Basu, 1994) definitions define the customer’s strong relation and his temperament to make a repeat purchase of a same brand (Day, 1969). Customer loyalty can also be built by providing quality products and excellent services and superior values (Grewal and Chang, 2000).

Some other thought of researchers focusing on loyalty as chance of purchasing the specific product and service (Farley, 1964; Frank, 1962 and Lipstein, 1959). Some
Authors adopt different kinds of behavioral criteria in their experimental research (Frank, Massy, and Lodahl, 1969; Tucker, 1964). Day (1969) criticizes the measuring loyalty based on behavior in his series of article because these do not show clearly the difference between true loyalty and fake loyalty. The important point in these articles is that fake loyal buyers not attached with quality or characteristic of your product and service, and they quickly change their choice if someone offers better. He gives the two-dimensional concept of measuring the loyalty that is based on attitudinal and behavioral component. Depending on this concept (Jacoby, 1971) provides an explanation of brand loyalty that is focused on the intentional assessment process that leads to behavioral loyalty, but they did not include the repeat purchasing concept (Jacoby, 1978, 1973, 1970).

Dick and Basu (1994) give detailed a concept of loyalty based on potential alternatives and repeat patronage of purchases and investment. Therefore, the most important action is to consider loyalty as the relationship between relative attitude of customer and investment behavior to a specific product and service. Further, both consist of two levels that are High and Low and divide into four separate parts that are:

**No Loyalty:** In this type, the customer has low relative attitude and low repeat patronage so in the end, there is no any loyalty to your product and service.

**Fake/Spurious loyalty:** In this part, the customer has high level of repeat patronage due to familiarity, social influence and situational influence and the low relative attitude so that’s why it is called fake loyalty (spurious loyalty). The firm should focus on this type because they give high business profit to the firm.

**Covert/Latent loyalty:** In this part, customer is highly relative attitude but due to social, situational and norm they have low repeat patronage. Organization should focus on this type of customer because they want to do business in the future.

**Loyalty:** This is a preferable condition because in this situation, the customer is very high relative attitude and has very high repeat patronage. This type of customer is very focusable for any firm because it gives long-term benefits for a firm. Firms also should focus on this type of customer for long-term business.

Modern researchers also based on the two-dimensional concept of loyalty (Dick and Basu, 1994; Oliver, 1997; Pritchard, Howard, and Havitz, 1992). To increase loyalty, the company should be focusing on to give the different type of incentives to increase customers value (Blomqvist et al., 2000). This type of customer always gives long-term business the firm so firm should be satisfying his/her or her need. According to Gustavfsson et al., (2005), the complexity of customer loyalty can be explained through focusing on three prominent drivers of retention: overall customer satisfaction, affective commitment, and calculative commitment.
Customer Satisfaction and Customer Loyalty

The literature consists of the relationship between customer satisfaction and loyalty. It can be positive relationship between customer satisfaction and loyalty or negative as well. A regard to the relationship between customer satisfaction and loyalty, satisfaction can be gained with a single transaction and dissatisfaction with the single transaction is caused the customer to switch too (Fornell, Johnson, Anderson, Cha and Bryant, 1996).

Bitner (1990) explained that satisfaction has not directly the effect on loyalty there is perceived quality as the mediator. Additionally, outcomes make known that loyalty is also directly influenced by satisfaction. In the same way, Rust and Zahorik (1993); Rust, Zahorik, and Keiningham (1995) discover a link between customer satisfaction and loyalty using data from the retail bank market and from a national hotel chain. Experimental proof for a positive relationship between the two concept is provided by Anderson et al. (1994), Biong (1993), Hallowell(1996), Halstead Page(1992), Taylor and Baker(1994) and Woodside, Frey, and Daly(1989). Literature gave strong support of positive relationship between these two construct (Anderson et al., 1994; Biong, 1993; Hallowell, 1996; Halstead, 1992; Taylor and Baker, 1994; Woodside, Frey and Daly, 1989) In the light of marketing channel's circumstance, Gassenheimer, Sterling, and Robicheaux (1989) and Ping (1993) supports the positive relationship of satisfaction and loyalty.

Finkel, Cetlin, and Wenner (1992) describe that sometime there is very little bit change in the relationship if the customer is satisfied. Matzler, Johann Füller, Rita Faullant, Kepler and Altenbergerstr (2007) also define the positive relationship between customer satisfaction and loyalty. Clark (2007) also explains that satisfaction is the key factor that positively influences the customer loyalty. This research hypnotized that:

**Hypothesis 1:** Customer Satisfaction will be positively related to Customer Loyalty.
Customer Satisfaction and Customer Trust

Trust and satisfaction are closely related but conceptually different. Both have different antecedents (Geyskens et al., 1998; Szymanski and Henard, 2001).

Trust has greater emotional value as compared to satisfaction as it can better forecast retention (Hart and Johnson, 1999). Hart and Johnson (1999) have stated that the circumstance beyond satisfaction that ensures true customer loyalty is total trust. They argue that the existence of trust reflects a stronger relationship commitment than satisfaction. The above literature suggests that satisfied customer must be the loyal customer but sometimes this trend of satisfaction and loyalty might not be as stated above because of the absence of trust (Heskett 1994; Schneider and Bowen 1999; Hart and Johnson 1999).

It is suggested that usage or satisfaction with the brand has great influence on trust (Krishnan, 1996). Attendees construct up the trust that a conference will be highly reliable when they are satisfied with the conference. However; the strong outcome of brand satisfaction on brand trust requires positive consumption experiences cumulatively in that a trusted relationship becomes stronger over the time period as a buyer and seller gain knowledge about each other (Dwyer, Schurr and Oh, 1987). In other words, the overall satisfaction has a major impact on trust (Selnes, 1998) by enhancing brand confidence in delivering what is promised. Therefore, this study suggested that brand satisfaction is positively associated with brand trust. Based on above-mentioned literature, this study hypothesized that:

Hypothesis 2: Customer Satisfaction will be positively related to Customer Trust.

Customer Trust and Customer Loyalty

Singh and Sabol (2002) consider that “value” is the best construct which best mediates the relationship of trust and loyalty. They used zeithaml’s definition for the supporting explanation of their concept, Zeithaml et al., (1988) definition of value, which considers the consumer’s net benefit, derived out of his consumer firm relationship. This definition states that value refers to the consumer’s perception of the benefits minus the costs of maintaining an ongoing relationship with a service provider. As far as the definition is concerned, where the concept of value is referred to the consumer perception of the benefits minus the cost of maintaining ongoing relationship with a service provider value becomes a central objective for both consumers and firms. The natural objective of consumers is to gain maximum utility. The firms’ objective is to contribute as much as possible to create a positive value to the customer it would establish consumer trust, which leads consumer loyalty.

Literature suggests that brand loyalty based upon of two approaches: behavioral and attitudinal loyalty. Behavioral brand loyalty is reflected in the section of the same brand selection (Carpenter and Lehmann, 1985), whereas attitudinal brand loyalty includes an extent of dispositional commitment in terms of some exceptional value related to the
brand (Chaudhuri and Holbrook, 2001). Trust contains commitment (Morgan and Hunt, 1994). Consumers are likely to be dedicated to a specific relationship when the relationship builds on trust (Hrebiniak, 1974). Chaudhuri and Holbrook (2001) found that a trusted brand stimulates a high level of brand commitment that in turn affects attitudinal brand loyalty. Based on above-mentioned literature this research hypothesized that:

**Hypothesis 3:** Customer Trust will be positively related to Customer Loyalty.

**Customer Trust as Mediator**

In 1994, Morgan and Hunt defined the term “trust.” They define that it is self-confidence between buyers and sellers on behalf of their dependability and honesty. Following this concept (Vein, Doney and Cannon, 1997) defined trust as the apparent reliability and goodwill of a target. According to (Medintz, 1998), the customer is more concerned about their privacy, security and protection in online business. Singh and Sirdeshmukh (2000) state that trust is very critical variable between the satisfaction and loyalty relationship. They articulate that trust is like glue, which creates the relationship between satisfaction and loyalty. Anderson and Srinivasan (2003) state that there is a huge risk in online purchasing business that is why trust play the very important role in online business, they also describe that if the customers have no trust on business, they will not satisfy and after this, the customers will be not loyal to any business. So, trust is a crucial mediator between satisfaction and loyalty for without trust, there will be no relationship between customer satisfaction and customer loyalty.

**Hypothesis 4:** Customer trust mediates the relationship between customer satisfaction and customer loyalty.

**Theoretical Model**

The theoretical model of the study is as follows:

![Diagram: Customer Satisfaction → Customer Trust → Customer Loyalty]

**Methodology**

**Sample and Procedure**

This study used survey questionnaire for the collection of data. Our sample consists of people using cellular connections of top telecommunication companies. We used convenient sampling technique the basic information because the sample mainly consists of cellular companies of Pakistan. Most of the responses were taken from
students because they are perceived to be enthusiastic, educated, and they are the regular users of the mobile connections. The responses of employees from different cellular companies were also collected and analyzed. As per requirement, questionnaire was floated as an observation tool.

The total numbers of the questionnaire we have circulated to the above-mentioned individuals are 200. Out of these 143, questionnaires were returned with the response. After discarding the incomplete and unusable responses we were left with the 131 questionnaires which are used for further analysis, and the usable response rate was approximately 70%.

Frequency table shows the variation in responses by both genders. Cumulative percentage of responses by different genders which shows that the males are 80.2% and female are 19.8% respondents who indicated that the female in the Pakistani culture hesitated to give the response. In the qualification sector Bachelors’ are 28.2% Masters are 67.9% and Ph.ds are 3.8 %. The percentage of respondents using different network connections is as Mobilink have 22.1% connections, Warid 27.5%, Ufone 24.4%, Telenor 19.8% and Zong have 6.1%.

We used English language as the medium of communication in our questionnaire because our sample included students of bachelor, and masters level to easily understand the language. We used no backward translation because the previous researchers also used English as a medium of instruction (Butt, Choi and Jaeger, 2005; Raja et al., 2004).

**Measures**

All measures were collected through self-reported instrument in which participants responded on 5-point Likert scales ranging from 1 = “Strongly Disagree” to 5 = “Somewhat Agree” and 7-point Likert scales ranging from 1 = “Strongly Disagree” to 7 = “Strongly Agree.” Reported values above the mean considered as higher level of constructs in the questionnaire. The item number two; four and six of customer satisfaction are reverse coded.

**Customer Satisfaction:** Six items were used to measure customer satisfaction by Oliver, 1980. Responses were given on a seven-point Likert scale in which “1 = Strongly Disagree” to “7 = Strongly Agree.” The sample items are: “I think I did the right thing by buying from this company” and “My choice to purchase from this company was a wise one.” Cronbach’s alpha of this scale is (0.678).

**Customer Loyalty:** Customer loyalty was measured using seven item’s scale by (Gremler, 1995; Zeithaml, Berry, and Parasuraman, 1996). Responses were given on a seven-point Likert scale in which “1 = Strongly Disagree” to “7 = Strongly Agree.” The sample items are “I rarely (some time) consider switching to another company” and “When I need to make a purchase, this company is my first choice.” Cronbach’s alpha of this scale is (0.622).
**Customer Trust:** Customer Trust was measured using four item's scale by (Moorman, 1998). Responses were given on a five-point scale in which “1 = Strongly Disagree” to “5 = Somewhat Agree.” The sample items are: “This Company is honest and truthful” and “Do you have confidence in this company.” Cronbach’s alpha of this scale is (0.707).

**Control Variables**

The results of One-way ANOVA showed significant differences in dependent and mediator variables with three demographic factors; age, gender and qualification. All other demographic factors like highly insignificant impact on mediator and job outcomes. Therefore, only three variables; age, gender and qualification were entered into the equation as the control variable, when we performed regression in this study.

**Results**

**Descriptive Statistics and Correlations**

The descriptive analysis results revealed that the mean age of our sample is 22 (S.D = 0.71), which shows that our respondents are of between 20 to 22 years. The mean qualification of our sample is 2.76 (S.D = 0.51), which shows that our respondents are mostly belonged to master level. Alpha reliabilities are reported in the bold parentheses in front of each variable.

The descriptive analysis shows that the mean and standard deviation for all the variables are shown as follow. The Mean value for Customer satisfaction is 5.03 (S.D = 0.95), the mean value for the customer trust is 0.54 (S.D = 0.054), and the mean value for the customer loyalty is 4.95 (S.D = 0.83).

The descriptive analysis results revealed that the correlation between customer satisfaction and customer loyalty is significant at 2 tail that is (r = 0.34, P<.05) and the alpha reliability is 0.62, which showed the customer loyalty is positively related to customer satisfaction.

The descriptive analysis results revealed that the correlation between customer satisfaction and customer trust is not significant at 2 tail because (r = 0.005, ns) because the significance level is greater than the .05 and the alpha reliability is 0.71, which showed the customer trust is not positively related to customer satisfaction.

The descriptive analysis results showed that relationship between customer trust and customer loyalty is partially significant at 2 tail that is (r = 0.22, P<.05) and the alpha reliability is 0.71, which shows the customer trust is positively related to customer loyalty.
### Table 1. Mean, Standard Deviation, Correlation and Reliabilities

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>S.D</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>1.20</td>
<td>0.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Age</td>
<td>2.24</td>
<td>0.71</td>
<td>-0.22*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Qualification</td>
<td>2.76</td>
<td>0.51</td>
<td>-0.09</td>
<td>0.32**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company</td>
<td>2.64</td>
<td>1.24</td>
<td>0.02</td>
<td>-0.14</td>
<td>-0.03</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>5.03</td>
<td>0.95</td>
<td>0.07</td>
<td>0.06</td>
<td>0.24**</td>
<td>-0.04</td>
<td>(0.68)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>4.95</td>
<td>0.83</td>
<td>0.05</td>
<td>-0.05</td>
<td>0.17*</td>
<td>-0.02</td>
<td>0.34**</td>
<td>(0.62)</td>
<td></td>
</tr>
<tr>
<td>Customer Trust</td>
<td>0.54</td>
<td>0.054</td>
<td>-0.19*</td>
<td>0.34**</td>
<td>0.20*</td>
<td>-0.07</td>
<td>0.005</td>
<td>0.22*</td>
<td>(0.71)</td>
</tr>
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</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed)

### Regression Analysis

In the First Hypothesis in which customer satisfaction is independent and customer loyalty is dependent. After the regression analysis, the observed output shows that \( P = 0.000, R^2 = 0.112 \) and \( B = 0.335 \), these values give the true picture that the relationship between these two variables is valid and in bringing positive change so, the relationship is strongly significant and with respect to it, we will accept Hypothesis1.

In the second Hypothesis, H2 in which customer satisfaction is independent and trust is dependent. The observed output shows that \( P = 0.959, R^2 = 0.00 \) and \( B = 0.005 \), these values gave the true picture that the relationship between these two variables are not bringing any change so the relationship is insignificant and with respect to it; we will reject Hypothesis 2.

In the Third Hypothesis customer trust which is an independent and customer loyalty which is dependent variable. The observed output as \( P = 0.049, R^2 = 0.11 \)and \( B = 0.220 \), these values showed the existence of relationship between the variables. It is slightly less but brings the change in R-square. This shows the relationship is significant, and we should accept Hypothesis3.

We predicted that customer trust mediates the relationship between customer satisfaction and customer loyalty. According to Baron and Kenny (1986), mediation can be established with three regression tests. First, customer satisfaction (independent variable) should be related to customer trust (mediator). Second, customer satisfaction should be significantly related to customer loyalty (dependent variable), and mediator (customer trust) should be related to customer loyalty (dependent variable). Third, when customer satisfaction (independent variable) and customer trust (mediator) are concurrently incorporated into regression equation, then the relationship between customer satisfaction (independent variable), and the customer loyalty (dependent variable) should be considerably weaker than the main effects of predictor and criterion variables.
Finally, we have observed that relationship between Customer satisfaction and customer trust is not significant, therefore, reject our hypothesis 2. So it did not fulfill the second condition prescribed to be Baron and Kenny (1996).

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Customer Trust</th>
<th>Customer Loyalty</th>
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<tbody>
<tr>
<td></td>
<td>B</td>
<td>R²</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>0.005</td>
<td>0.000</td>
</tr>
<tr>
<td>Customer Trust</td>
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</table>

P< 0.001***, P< 0.01**, P< 0.05*

### Discussion

The purpose of this study was to investigate the antecedents of Customer satisfaction, customer trust and customer loyalty. Overall, our finding/results give partially strong support for all hypotheses. We found that the Customer satisfaction and customer loyalty is significant and reliable for the companies (Hypothesis 1). Customer satisfaction and customer trust is insignificant so that they are not reliable for the research purpose (Hypotheses 2). Customer trust and customer loyalty is significant and is reliable (Hypothesis 3). And the fourth hypothesis which is customer trust mediates the relationship between the customer satisfaction and customer loyalty. This is insignificant and thus, be rejected. (Hypothesis 4)

Customer satisfaction and Loyalty did have a strong impact, and trust does not play the strong role to influence the customers to be loyal. Nonetheless, still for the future researchers, there is a lot more to be done to find the significant relationship between variables if they analyze in-depth study of control variables and factors.

### Limitations of Study

There were few limitations of this research. First of all, this research is cross sectional in nature; we believe that longitudinal study would better explain these relationships because the satisfaction level would be different at some other point in time. Our sample size is very small in the number, and we collected the data from Lahore city only; it would be gathered from other cities. Second, satisfaction level of people in different areas would differ. Thirdly, all findings were based on self-reported findings, while previous researchers also used self-reported measure, so there is a possibility of common method error. Forth is that we collected data only from telecommunication sector of Pakistan; so the results might not hold true for other sectors.
Practical Implementation & Future Research

The results of our study have practical implication for managers and employees, our finding suggested that managers should focus on customer satisfaction and customer trust. It would be possible that customers feel emotional attachment to the organization and build loyalty.

This model should be tested with other outcomes such as word of mouth, corporate social responsibility and repurchase intentions. Furthermore, possible moderating variable such as word of mouth should be studied in future research.

Most of the companies do not focus on the customer loyalty. If they focus on customer loyalty, they can retain a lot of profit. If they want other customers, it requires a lot of investments. It was the main purpose of our study.

Companies should care about their customers and assist them in any kind of difficulty and guidance irrespective of the short-term and long-term profit motives, so the trusting relationship and loyalty be strengthened.

References


