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A Research Proposal: The Relationship between Customer Satisfaction and Consumer  
Loyalty

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### **Abstract**

The purpose of this research is to study the relationship between customer satisfaction and consumer loyalty and apply its relationship into all the market industries including products and services, particularly in financial institutions. Preliminary sample data (N=80) will be collected from faculties and students at Johnson and Wales University of all ethnicities, national and international students. The hypothesis of the study is developed as H1: There is a significant positive relationship between customer loyalty and customer satisfaction. A t-test for independent samples is used to address the hypothesis. The discussion of the study indicated that there is a significant positive relationship between customer loyalty and customer satisfaction, however, it is important to fully understand that the loyalty which is the main goal of each industry is very hard to achieve and is not very easy to be reached by industries due to the customer satisfaction which is very hard to reach by itself, and the service quality as well. There are many other variables that can affect the consumer loyalty such as the high level of competition among today's companies and the fast track of technological advancement. These reasons indicate that companies should work hard because loyalty is a fleeting issue, today's loyal customer would not be tomorrow's loyal customer.

*Keywords:* customer satisfaction, customer loyalty and service quality.

**Introduction**

Banks are competing intensely in a highly competitive environment to offer quality oriented services according to customers' expectations. Various important parts of banking sector like operations, service quality, employee satisfaction, customer satisfaction, financing products, efficiency, financial performance are being studied by many researchers to better understand and serve the community at large (Arokiasamy, 2013).

The high quality relationship with customers is the main influence of a successful service provider (Panda, 2003) "which determines customer satisfaction and loyalty" (Jones, 2002 as cited by Lympelopoulos et al., 2006). Organizational outcome such as performance superiority is primarily influenced by the service quality (Poretla & Thanassoulis, 2005), "increasing sales profit" (Levesque & Mc. Dougal, 1996; Kish, 2000; Duncan & Elliot, 2002) and "market share" (Fisher, 2001), progressing customer relations, improving corporate image and promote customer loyalty (Newman, 2001; Caruana, 2002;). "Furthermore, service quality and customer satisfaction were found to be related to customer loyalty through repurchase intentions" (Levesque & Mc. Dougall, 1996; Newman, 2001; Caruana, 2002). Banks must convey quality service to ensure success and survival in today's competitive banking. It is logical that a satisfied customer will become at the end... a repeat purchaser and a loyal buyer for many causes. This relationship between satisfaction and buyer loyalty should conclude in improved marketing performance for a variety of reasons.

Today, constant progress in service quality from the bank is a crucial need for their customers to stay loyal, due to the increasing awareness among bank customers' rights, their changing demands, and competition. This research intends to test whether the bank customers are satisfied with the services provided to them, which will eventually lead to loyalty.

### **Purpose of the study**

“Customers became a center for all banking activities due to increased competition for greater market share. Focusing on customer satisfaction has been the key to increasing service quality according to customers' expectations in the banking sector” (Zairi, 2000). Hanson (2000) suggested that the level of service quality is an indication of the organization's ability to meet customers' desires and demands. So organizations must better their services to meet the customers' needs and requirements. Managers depend on customers' anticipation of service quality for the competition in the market (Hoffman and Bateson, 2002).

The purpose of this study is to examine, in particular, the correlations between consumer satisfaction and consumer loyalty. A prior study ran in the sector of the financial services industry by Kuwaiti bank loan services. The bank loans are a unique service type to be studied, the reason that the loans themselves are normally quite durable. Other providers are excluded from the market once the bank is selected, until another loan is required, possibly some time later. Bank loans have been especially studied in Taiwan. By examining different institutions in other countries one should benefit in this study to better understand loyalty and satisfaction. This study will initially address the literature related to the primary constructs under study. The research will

include definitions, instrumentation, sampling, data collection, hypotheses, discussion of the data, conclusion as well as the references of the study.

### **Literature Review**

“Regarding the competitive environment, there is a need for banks to plan their strategies that will differentiate them from another. This can be achieved through the delivery of high service quality. The practice of excellent service quality has been proven that customer satisfaction will significantly lead to customer loyalty” (Caruana , 2000; Caruana, 2002).

#### *Customer Satisfaction*

“Customer satisfaction is one of the most important issue concerning business organization of all types, which is justified by the customer oriented philosophy and the principles of continues improvement in modern enterprise” (Arokiasamy, 2013).

The marketing concept suggests that a satisfied buyer will be more likely to repurchase again, or at least has the intention of repurchasing again, than those who are dissatisfied. They consider that customer satisfaction and retention the most important long-term objectives of firms. Reichheld and Sasser (1990) suggested that new buyers cost more to serve than repeat customer, which means that repeat customers are benefiting a firm’s cost structure.

A firm’s primary strategic objectives are to minimize customer regress and to maximize customer intention rates to buy, as evidenced by the recent emphasis on customer relationship management. Thus, previously satisfied buyers may help firms both reduce marketing costs, and develop more stable levels of sales when a large number of satisfied buyers are retained to purchase again in the future. There are several

definitions of customer satisfaction in the marketing literature. It is generally accepted that satisfaction is a psychological state that results from consumer experiences after consumption (Pleshko, & Heiens, 1996).

According to a widely accepted conceptualization, customer satisfaction is “a customer’s post-consumption evaluation of a product or service” (Mittal & Frennea (2010, p. 3). This only “occurs if the perceived performance of a product or service meets or exceeds customers’ prior expectations” ( Bearden & Teel, 1983; Oliver 1980, 2010). Thus, overall customer satisfaction with a company’s offerings is determined by comparisons between customers’ expectations of the company’s products or services and their perceptions of the products’ or services’ performance ( Fornell et al., 1996; Oliver 1980, 2010).

#### *Customer Loyalty*

Customer loyalty broadly refers to customer behaviors that indicate a desire to better an ongoing relationship with a company (Palmatier et al., 2006). The customer’s willingness to purchase again from the company, having a preference for the company, or recommending the company to others could be indications to customers’ desire to remain in a relationship with a company that demonstrate how much a customer is related to a company. Loyal customers are often worth the marketing effort, owing to their willingness to buy additional products and spread positive word of mouth as well as their reliability as a source of continuous revenues (Zeithaml, Berry, & Parasuraman 1996).

The programs of customer retention could lead to a higher rate in buyer loyalty. Although that marketing manager’s primary concern is maintaining and increasing brand

loyalty, there is no guarantee for loyal buyers, because today's buyer might not be so in the future since loyalty is considered so transient.

“Loyalty is developed over a period of time from a consistent record of meeting, and sometimes even exceeding customer expectations “(Teich, 1997). Kotler et al. (1999) claims that the cost of attracting a new customer may be five times the cost of keeping a current customer happy.

Customer loyalty is very difficult to be achieved. More and more unique ways are adopted to meet the ever changing nature of the service industry. Additionally, time constraints are most often a barrier to customer satisfaction. Every organization in the market competes to develop advanced methods to keep on track. Technology, for example affects the service industry, since constantly meeting customer satisfaction over a period of time is the only way to achieve customer loyalty (Teich, 1997).

### *Service Quality*

All the “definitions of service quality hold that this is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed” (Lehtinen & Lehtinen, 1982; Lewis & Booms, 1983; Parasuraman et al., 1985; 1988; Caruana, 2002). Service quality is defined as the degree of contradiction between customers' perceptions of service performance and their normative expectation for service. (Parasuraman et al., 1985).

### *Interrelationship between Customer Satisfaction and Customer Loyalty*

It is logic that satisfied buyers will probably return for future purchases and eventually become loyal. This is the formal concept and the basis for thought in marketing. “In fact, this relationship between satisfaction and loyalty has been shown to



be the case throughout much of the literature. Recent studies support this strong correlation between satisfaction and loyalty. Additionally, in the financial services industry, it is shown that satisfaction should be treated as one of the main predictors of loyalty “(Al-Wugayan,, Pleshko, & Baqer, 2008).

## **Methodology**

### **Instrumentation**

In order to make sure most of the respondents can read and understand the questionnaire, it will be designed in an English version. The content of the questionnaire will be divided into four different parts. The first part will solicit relevant personal information, such as participants’ age, gender, educational level, job, income and nationality. The second part will measure participants’ perceptions and expectations of the services quality. It contains ten attributes which reflect the dimensions of institution services. Furthermore, these attributes will be described by the statements that reflect respondents’ perceptions of the services. This will be according to Likert scale a five-point scale range from 1 (strongly disagree) to 5 (strongly agree) to be selected as their responses. The third part will be four questions that measure customers’ satisfaction level. The sample questions would be:

- 1- How satisfied are you with the service provided by your debit, checking/ saving account?
- 2- How satisfied are you with the loan service provided by your financial institution?
- 3-How satisfied are you with the customer service of your financial institution?
- 4-In general, how satisfied are you with your financial institution?

Then, there will also be a five-point Likert scale range from 1 (very dissatisfied) to 5 (very satisfied) to be selected as their responses to each question.

As for the last part, will be three questions which measure participants' behavioral intentions that express their loyalty. The sample problems would be: How likely are you willing to invest more in your financial institution? How likely do you think of switching to another financial institution? How likely will you recommend your financial institution to other people? Each behavioral intention will be measured by one item, from 1 = "very unlikely" to 5 = "very likely".

### **Sampling and Data collection**

A survey will be conducted to test the hypotheses generated for this research. The population frame is customers of various local banks in Rohde Island who have at least one account and they will be asked about their attitudes, behaviors, expectations, perceptions, reliability and responsiveness. The quantitative research methodology approach will be used in this research which conducted by survey. The survey will consider the age, income, employment status and education level, regarding that every element has different standard on the customer to be satisfied. Target stratified random sample size will be  $N = 400$  and with this sample size the sample error estimate is approximately  $\pm 5\%$ .

### **Research Framework and Hypothesis**

A number of studies had identified the links between loyalty customer service, satisfaction and trust. Beerli et al., (2004) as cited in (Arokiasamy, 2013) states "that in retail banking sector impact of satisfaction on loyalty is considerably stronger than the

cost of switching, and satisfaction is an antecedent of perceived quality". In order to verify the relationship between the independent and dependent variables, a hypothesis were developed. The conceptual framework for the study is adopted and modified from the empirical study by (Beerli et al. ,2004 by Arokiasamy, 2013) depicted below. The figure illustrates the relationship between customer satisfaction, customer loyalty and intentions to switch.

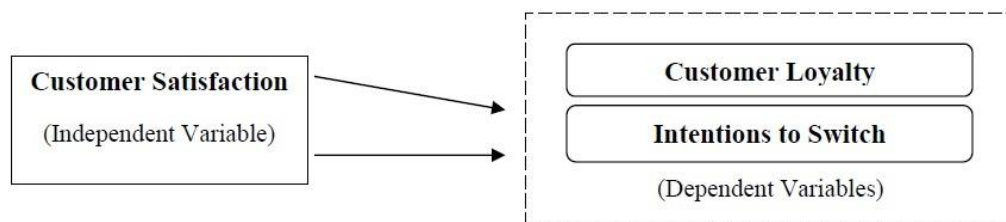


Figure 1. - (Beerli et al. ,2004 by Arokiasamy, 2013)

### Hypotheses of the Study

The hypotheses of the study are developed as below:

**H1:** There is a significant positive relationship between customer loyalty and customer satisfaction.

### Discussion

It is clear that customer satisfaction in today's dynamic corporate environment is very essential. On the other hand dissatisfaction has been seen as a primary reason for customers' intentions to switch. Dissatisfied customers are more likely to tell almost ten people their unfortunate experiences with a particular organization. Customer satisfaction highly influences customers' repurchase intentions. Satisfied customers are most likely to

share their experiences with other four or six people around them. Organizations must be able to build and maintain long lasting relationships with customers through satisfying various customer needs and demands which eventually motivates them to continue to do business with the organization on on-going basis.

### **Conclusion**

Although many researches have been conducted in the customer service field, still more studies banks must continue to conduct in order to meet the changes in the banking industry. New technologies must be incorporated as a factor to measure service quality in future researches. Researches and related questionnaires must also be accommodated with the new banking requirements of the customer.” A clearer understanding as to the sequence of relationship between service quality, customer satisfaction and customer loyalty can help to ensure better targeting of customer using limited marketing resources.” ( Gremler, & Brown,1996).

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