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## Assessing the Effect of Customer Satisfaction and Trust on Customer Loyalty: The Preceding Role of Service Quality in Rural Banking in Ghana

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### **Abstract:**

*The competitive nature of the financial sector makes it imperative for firms to place emphasis on how to satisfy their numerous customers and possibly attract new ones. The overall objective of the study was to assess the effect of customer satisfaction and trust on customer loyalty. Out of the 280 self-administered questionnaires, 215 were retrieved for the final analysis. Convenient sample technique was employed to select the respondents. Pearson correlation and multiple regression were used to do the analysis. The overall assessment was that, there exist a positive relation correlation. Between customer satisfaction, trust and customer loyalty. Management should as a matter of priority, seek to make customer customers feel comfortable to keep transacting business them.*

**Keywords:** Customer satisfaction, trust, customer loyalty, rural banking

### **1. Introduction**

Prior to the establishment of RCBs, the main source of credit to rural dwellers had been through money lenders which was not so easy to access. Even though, RCBs were set up to cater for rural folks, these banks have established branches in the form of agencies in bigger towns to service their customers who might have relocated to such environments. Services like money transfer via ARP Apex Bank, international transfers like Western Union, MoneyGram had attracted other people to do business with it. RCBs offer soft loans to traders and Small and Medium Enterprises (SMEs). The sterling performance of some RCBs had attracted more customers. Some government workers also draw their salaries through the RCBs. This has placed rural banks as key players in the provision of financial services. Rural banks should make it a matter of priority to provide unique services that will delight its' customers.

Operating alongside traditional financial institutions in a competitive environment should make rural banks take steps that will lead to retaining their customers to avoid the huge cost in seeking to replace a lost customer (Ehigie, 2006). There is, therefore, the need for rural banks to build and maintain a strong customer satisfaction and trust for customers to remain loyal for growth and profitability. This notwithstanding, some financial institutions in Ghana have not reposed the trust expected to the effect that, about 23 saving and loans institutions have been closed down in Ghana. The loss of trust in doing business with financial institutions has waned. The situation is worsened where majority of patrons of these banks are illiterates and only rely on the goodwill of the banks, they transact business with. Bawku Rural Bank which is the case for this study can only survive in the competitive market if it considers the issue of delighting its' customers and building trust in them.

### **2. Literature Review and Hypothesis**

#### *2.1. Customer Satisfaction and Service Quality*

Customer satisfaction can be assessed from the quality of service consumed (Jamal and Naser, 2002). Despite the volume of writings on customer satisfaction and service quality, the nexus between the concepts is yet to be established. The SERVQUAL construct has been a tool widely used to evaluate the extent of satisfaction customers derive from the service provision (Soutar, 2001). Service quality normally, is viewed from the perspective of the customers' expectation and the actual service experienced. According to Ziethaml et al., (1985) a gap is created when customers' expectation falls short of performance. The Gap Model sought to ascertain how customers' expectation differ from the actual experience derived from the service provided (Parasuraman et al., 1985). Customers' get delighted any time they received services that go beyond their expectation. Organisations' performance has therefore, become a "yardstick" for measuring their success (Gerson, 1993) and their continuing stay in business (Guo, Xiao and Tang, 2009). The Gap model is still relevant in

developing economies, especially, the West African sub-region. Awan et al., (2011) found in their study on the quality of service provided and satisfaction derived by customers from banks in Pakistan that, quality indicators are very vital in determining the extent of satisfaction customers derive from mainstream banks and Islamic banks in Pakistan and also, have positive effect on customers of Indian banks. It is imperative therefore, for service organisations to meet customers' expectation so as to retain them for survival and growth and maintaining a competitive advantage (Ziethaml et al., 2006). Satisfied customers through word-of-mouth have the potential of increasing an organisation's customer base and also, build a strong image (Alabar, 2012). Service providers however, should not rely very much on "higher satisfaction score" as that may not necessarily make customers continue to do business with the organisation (Seiders, Vos, Grewal & Godfrey 2005: 39; cited in Vuuren et al., 2012). Dissatisfied customers on the other hand have the tendency to switch from a brand that does not meet customers' expectation and may send negative signals to other people. (Morgan, 2009).

Hypothesis

- *H1: Service quality does not always lead to customer satisfaction*

### 2.1.1. Customer Satisfaction and Trust

A strong relationship between customers and the business cannot be without trust. Thus, Trust gives credence to undertakings by individuals and corporate bodies in financial transactions. It has been empirically proved that high level of trust is preceded by the activities of the financial market in terms of the handling of deposits and credits, rate of interest and overhead costs (Calderon et al., 2002). Understanding "the difference between customers' attitudes and behaviours" is very vital. Thus, whereas attitude determines customers' satisfaction, behaviour determines customers' loyalty (Roch and Allen, 2007). Gaining customers' trust lies on the consistency of the service delivery and delivering to expectation. According to Zand (1972), trust is based on three key factors; "integrity, benevolence, and credibility". Research by Jasien and Staroselskaja (2010) in Lithuanian banks has shown the following to constitute trust: the banks property, the banks income, and the quality and reliability of information. Banks should ensure that both economic and psychological issues concerning customers are adequately addressed to build that needed confidence and trust. Trust is born out of the fact that, both parties feel secured (Simpson, 2007). In this context, therefore, banks should give customers the assurance that they are secured doing business with them.

- *H2: Customer satisfaction and customer trust are positively related*

### 2.1.2. Trust and Loyalty

The competitive nature in the business environment especially in the service sector, has made organisations place emphasis on customer loyalty as it has turned out to be a competitive advantage (Bodet, 2008; Ling and Wang). Loyalty is not built up at a spot, it is the consistent experience that make a customer decides whether to remain with a service provider or not. Vuuren et al., (2012), asserts that service providers should build a strong relationship with customers to foster loyalty. Building a lasting relationship with customers therefore, will ensure to the financial well-being of the business. Customers usually do business with service providers when there is trust which eventually, leads to loyalty (Vuuren et al., 2012). Thus, the degree of satisfaction derived from the service will determine the extent of the customer's loyalty (Gorondutse, Hillman and Nasidi, 2014). Lee et al., 2001 and Verhoef, (2003) posits that developing trust in customers does not only retain them, but serve as barrier to switch to competitor's offering.

According to Deng et al., (2010), service providers can develop customer loyalty when they are able to build trust and customer satisfaction. They argue further that service providers can attract customers if they make the issue of trust a priority. Thus, customers' continuance to transact business with a firm shows their loyalty towards the product or service. In the case of banks (rural banks), keeping faith with the rural folks they serve, is key to retaining them. Gorondutse et al., (2014), consider loyalty as a form of "behavior and attitude." Kotler and Keller (2006), maintain that, generating higher customer loyalty is to deliver high customer loyalty. It is obvious therefore, that, customers will not only exhibit positive post purchase intentions but carry the business out through word-of-mouth. Vuuren et al., (2012) found in their study on optometry practice environment that satisfaction had high influence on loyalty than trust

*H3: Trust leads to customer loyalty.*

## **3. Methodology**

Considering the scattered nature of housing within the catchment area researchers had to take steps to identify individuals that would help in giving appropriate responses to the questionnaire. The sample size used for the study was 280. Respondents were conveniently targeted as they went to transact business with the bank. This was found very vital due to the fact that; it allows for different categories of customers to be reached and avoid the tendency of drawing respondents from a particular group of customers. Out of the 280 questionnaires that were administered, 215 were retrieved and used for the analysis.

## **4. Results and Discussion**

Collinearity was carried out to check the assumption of multicollinearity as shown in table 1. This was to precede the running of multiple regression.

Collinearity Statistics	
Tolerance	VIF
1.000	1.000
.965	1.036
.965	1.036
.867	1.154
.965	1.036
.893	1.120
.864	1.158
.956	1.046
.838	1.193
.917	1.091
.510	1.959
.947	1.056
.711	1.406
.835	1.198
.454	2.202
.508	1.968
.797	1.255
.711	1.406
.827	1.209
.450	2.220
.779	1.284

Table 1: Collinearity Test

It is evident from table 1 that there exists no multicollinearity among the independent variables since the VIF are not up to 5. This allow the researchers to perform multiple regression on the independent variables.

Model Summary <sup>g</sup>										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.328 <sup>a</sup>	.107	.106	1.10456	.107	119.970	1	998	.000	
2	.406 <sup>b</sup>	.164	.163	1.06917	.057	68.165	1	997	.000	
3	.464 <sup>c</sup>	.215	.213	1.03685	.051	64.122	1	996	.000	
4	.472 <sup>d</sup>	.222	.219	1.03248	.007	9.449	1	995	.002	
5	.478 <sup>e</sup>	.228	.225	1.02897	.006	7.799	1	994	.005	
6	.483 <sup>f</sup>	.233	.228	1.02638	.005	6.022	1	993	.014	1.850

Table 2: Contribution of Each Independence Variable to Customer Satisfaction

- a. Predictors: (Constant), Rating Service Quality  
b. Predictors: (Constant), Rating Service Quality, Non-Tangibles Non-  
c. Predictors: (Constant), Rating Service Quality, Non-Tangibles, Recommendation  
d. Predictors: (Constant), Rating Service Quality, Non-Tangibles, Recommending Bank to Other People, Intention to Leave the Bank  
e. Predictors: (Constant), Rating Service Quality, Non-Tangibles, Recommendation, Intention to Leave the Bank, Customer Loyalty  
f. Predictors: (Constant), Rating Service Quality, Non-Tangibles, Recommendation, Intention to Leave the Bank, Customer Loyalty, Tangibles  
g. Dependent Variable: Customer Satisfaction

Table 2 clearly indicates that rating of service quality, non-tangibles, recommending bank to other people, intention to leave the bank, customer loyalty and tangibles are significant contributors to customer satisfaction since all the p-values are less than 0.05. This implies that customer's desires are met and therefore, are likely to recommend the bank to friends and relatives and also, remain loyal to the bank. Furthermore, since customers have positive perception on the rating of service quality, non-tangibles, customer loyalty, and recommending bank to others, implies that the variables influences customer satisfaction.

	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.387	.107		12.932	.000
	Rating service equality	.404	.037	.328	10.953	.000
2	(Constant)	.405	.158		2.569	.010
	Rating service quality	.348	.036	.282	9.582	.000
	Non-tangibles	.050	.006	.243	8.256	.000
3	(Constant)	-.104	.166		-.628	.530
	Rating service quality	.253	.037	.205	6.802	.000
	Non-tangibles	.049	.006	.240	8.392	.000
	Recommending bank to other people	.579	.072	.238	8.008	.000
4	(Constant)	.314	.214		1.467	.143
	Rating service quality	.246	.037	.200	6.642	.000
	Non-tangibles	.051	.006	.248	8.689	.000
	Recommending bank to other people	.523	.074	.215	7.035	.000
	Intention to leave the bank	-.220	.072	-.090	-3.074	.002
5	(Constant)	.104	.226		.459	.647
	Rating service quality	.161	.048	.130	3.337	.001
	Non-tangibles	.053	.006	.256	8.951	.000
	Recommending bank to other people	.435	.080	.179	5.414	.000
	Intention to leave the bank	-.282	.075	-.115	-3.778	.000
	Customer Loyalty	.058	.021	.115	2.793	.005
6	(Constant)	.108	.225		.478	.633
	Rating service quality	.169	.048	.137	3.505	.000
	Non-tangibles	.059	.006	.287	9.210	.000
	Recommending bank to other people	.435	.080	.179	5.431	.000
	Intention to leave the bank	-.265	.075	-.108	-3.539	.000
	Customer Loyalty	.063	.021	.125	3.008	.003
	Tangibles	-.027	.011	-.077	-2.454	.014

Table 3: Estimation of the Regression Model  
a. Dependent Variable: Customer Satisfaction

The regressions analysis indicates that there is a firm and important dependability among the variables used to represent the constructs dimensions which include rating of service quality, non-tangibles, recommending bank to other people, intention to leave the bank, customer loyalty and tangibles for the first regression model. This is depicted in the significance of the F-Statistics in each model. A model reaches its statistical significance when the significance level (sig<.05) is less than 0.05 and therefore fit for the data (Field, 2005; Hair et al., 2006)

From the above, all six models have significance value less than 0.05 (Sig<.05) and therefore, means that the regression model predicts the outcome i.e. customer satisfaction and loyalty.

Figures from the models depict that rating service quality ( $\beta=.404$ ,  $t=10.953$ ,  $P=0.000<0.05$ ), nontangible ( $\beta=.050$ ,  $t=9.210$ ,  $P=0.000<0.05$ ), recommendation bank to other people ( $\beta=.435$ ,  $t=5.431$ ,  $P=0.000<0.05$ ), intention to leave the bank ( $\beta=-.265$ ,  $t=-3.539$ ,  $P=0.000<0.05$ ), Customer Loyalty ( $\beta=.063$ ,  $t=3.008$ ,  $P=0.000<0.003$ ) and tangibles ( $\beta=-.027$ ,  $t=-2.454$ ,  $P=0.000<0.014$ ) almost all the independence variables are positive and influences customers' satisfaction. This means that customer satisfaction will increase by 40.4% with a 1 percentage change in the rating of service quality, whereas one percent change in recommendation of their bank services would also lead to 43.5% increase in customer satisfaction. In the same vein, a percentage change in non-tangibles of the banking services would lead to a 5% increase in customer satisfaction. A percentage change in the intention to leave the bank would lead to 26.5% decrease in customer satisfaction whereas a percentage change in customers' loyalty would lead to increase in the customers' satisfaction and a percentage change in tangibles would lead to 2.7% decrease in customer satisfaction. This implies the more rating of service quality and responsive the services from the bank are, the more likely it would influence customer satisfaction positively. In addition, the more empathetic their services are, the more likely customer satisfaction would increase and its attendant benefits for instance repeat purchase and customer loyalty. However, intention to leave the bank ( $\beta=-.265$ ,  $t=-3.539$ ,  $P=0.000<0.05$ ), and tangibles ( $\beta=-.027$ ,  $t=-2.454$ ,  $P=0.000<0.014$ ) have negative significant effect on customer satisfaction. This implies, they have negative statistical significance in predicting customer satisfaction. Thus, the intention of customers to leave the bank increases when customer satisfaction decreases.

Correlations				
		Customer Loyalty	Customer Trust	Customer Satisfaction
Customer Loyalty	Pearson Correlation	1	.415**	.296**
	Sig. (2-tailed)		.000	.000
	N	1000	1000	1000
Customer Trust	Pearson Correlation	.415**	1	.139**
	Sig. (2-tailed)	.000		.000
	N	1000	1000	1000
customer satisfaction	Pearson Correlation	.296**	.139**	1
	Sig. (2-tailed)	.000	.000	
	N	1000	1000	1000

Table 4: Customer Satisfaction Has a Positive Relationship with Customer Trust and Customer Loyalty  
 \*\*. Correlation Is Significant at the 0.01 Level (2 Tailed)

The correlation results have shown that there is a statistically, there is a significant link between customer satisfaction, customer loyalty and customer trust ( $p\text{-value}=0.000<0.05$ ). This implies that as customer satisfaction increases, customers turn to be more loyal as well as have strong trust in the bank.

Model Summary <sup>c</sup>										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.415 <sup>a</sup>	.172	.171	2.10424	.172	207.759	1	998	.000	
2	.480 <sup>b</sup>	.230	.229	2.03047	.058	74.828	1	997	.000	1.559

Table 5: Contribution of Customer Satisfaction and Trust on Customer Loyalty

a. Predictors: (Constant), Customer Trust

b. Predictors: (Constant), Customer Trust, Customer Satisfaction

c. Dependent Variable: Customer Loyalty

Table 5 depicts clearly that customer trust contributes about 17.1% in explaining customer loyalty while customers' satisfaction contributed about 22.9% in explaining customer loyalty. This implies that if the bank to wants to increase customer loyalty they should introduce services that increases customer satisfaction and trust

Coefficients <sup>a</sup>											
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	5.818	.353		16.473	.000					
	Customer Trust	1.660	.115	.415	14.414	.000	.415	.415	.415	1.000	1.000
2	(Constant)	5.026	.353		14.244	.000					
	Customer Trust	1.525	.112	.381	13.586	.000	.415	.395	.378	.981	1.020
	Customer satisfaction	.480	.056	.243	8.650	.000	.296	.264	.240	.981	1.020

Table 6: Model Estimation

a. Dependent Variable: Customer Loyalty

Outcome from the regressions analysis indicates that there is a firm dependability among the variables used to represent the constructs dimensions; customers' satisfaction, trust and loyalty in the regression model. This is depicted in the significance of the F-Statistics in each model. The figures from the first model shows that customer trust ( $\beta=1.660$ ,  $t=14.414$ ,  $P=0.000<0.05$ ) and customer satisfaction ( $\beta=.480$ ,  $t=8.650$ ,  $P=0.000<0.05$ ), have positive and significant relationship on customer loyalty. Accordingly, a one percentage change in customer trust for the bank would lead to a 166.0% increase in customer loyalty while one percent change in customer satisfaction of the bank services would lead to 48.0% increase in loyalty. This means that the more trust and satisfaction from the bank services are, the more likely it would influence customer loyalty positively. Loyalty is not built up at a spot. It is a consistent experience that make a customer decides to remain with a service provider. Customers' level of satisfaction with a product or service prescribe their extent of loyalty (Gorondutse, Hillman and Nasidi, 2014). Customers' continuance to transact business with a firm shows their faithfulness and attitude towards the product or service. In the case of banks (Bawku Rural Bank), keeping faith with the rural folks they serve is key to retaining them.

## 5. Conclusion and Managerial Implication

The study has established that, overall, the variables which were used for the analysis contributed to the expected outcome. The regression analysis proved the all the variables predicted the outcome. Thus, customer satisfaction and trust are key factors in determining loyalty. Management of the banks and other service providers in the financial sector should appreciate the fact that, apart from the core service they render, customers are have keen interest in both the tangibles and non-tangibles aspect of the service, as these go influences their overall satisfaction.

The correlation analysis performed shows existence a direct relationship between customer satisfaction, trust, and loyalty. The three dimensions have p-values less than 0.05 (p-value,  $0.00 < 0.05$ ). This is an indication that whenever customers are satisfied, they develop trust and eventually remain loyal to the bank.

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