

A Structural Analysis of Banking Customer Loyalty in Indonesia

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Abstract

The purpose of the present study was to analyze a model of the factors affecting customer loyalty including service quality, customer value, bank's reputation, and customer satisfaction, trust and commitment. Data were tested and analyzed using the structural equation modeling (SEM). Population was the customers of state banks in five cities in Indonesia, namely Jakarta, Bandung, Surabaya, Makassar and Pontianak. A total sample of 250 people was taken by the purposive sampling method. Results showed that service quality, customer value and bank's reputation had direct effects on customer satisfaction, trust and commitment and also customer loyalty. Improved service quality could not directly increase customer commitment to the bank. When the bank's service quality was difficult to measure, the bank's reputation represented an important factor in affecting perceived customer satisfaction.

Keywords: *Customer value, bank's reputation, customer satisfaction, trust and commitment*

1. Introduction

Banking is among the professional services [1]. Professional services are defined as services characterized by trust such that consumers are hard to evaluate it although they have bought and consumed the services [2]. Consumers who use professional services should fully lean and trust in service providers due to the professional nature of the services. Professional services lead customers to encounter more alternatives of varying products, prices and quality, so customers will always seek the value regarded as the highest out of several products [3].

The main purpose of a bank is to offer innovations in order for customers to return to access or consume since they feel their needs and desires are fulfilled. Banks desire their customers to be continually faithful or loyal to them. Loyalty shall not come by itself, but it must be pursued by banks through offering innovations in meeting the existing and potential customers' desires and needs. Previous studies offered a deeper understanding of loyalty. The two key aspects of loyalty are trust and commitment [4]. Commitment is instrumental to the success and stability of relationships and to building customer loyalty [5]. Trust and commitment are important to build consumer loyalty [6]. Commitment is the highest level in building loyalty in the future [7].

It is universally acknowledged that service quality and customer satisfaction are positively correlated [8]. Superior service requires each employee to have such skills as being presentable, being friendly, showing morale, having an attitude of continual serving, being quiet in working, being humble, mastering the work, understanding customer gestures and being capable of handling customer complaints in a professional manner. Customer satisfaction and loyalty greatly benefit banks [9]. Service quality affects customer loyalty either directly or indirectly through customer satisfaction [10]. Good quality services shall have an effect on shaping positive consumer behaviors, such as repurchase, reduced sensitivity to price and increased value of services in customers' eyes [11]. Trust and commitment are those

components that gives birth to relationship marketing. Customer behaviors that lead to loyalty emerge out of the two components [12]. Trust is among the dimensions of relationship marketing that will increase sales effectiveness of the sales force [13]. There are relationships among the causal variables of service quality, relationship marketing and loyalty [14].

Customer value is intended to provide customers with both economic benefits and service benefits. The benefits the customers receive will determine the success of a business. When customers perceive their transactions as not in accordance with their expectations, they will be disappointed and do not repeat their transactions, leading to losses to the bank. Customer value has both direct and indirect effects on customer loyalty, mediated by customer satisfaction [10].

Bank's reputation shows the extent to which a bank is trusted by its customers [15]. Reputation plays an important role in establishing bank-customer partnership [16]. Reputation serves as the basis for assessing whether or not a bank is eligible to be a cooperation partner [17]. Reputation has positive effect on satisfaction; the better a bank's reputation the higher the customers' perceived satisfaction [18]. Reputation is positively related to customer satisfaction and loyalty [19]. It has a positive effect on trust, which in turn will lead to a long-term bank-customer relationship (loyalty) [20]. Reputation is positively related to trust. Bank's reputation is also closely related to a bank's commitment to its customers that leads to customer loyalty [21].

The present study measured the effects of the factors affect customer loyalty in the banking industry in Indonesia. Previous studies confirmed the notion that service quality, customer value and bank's reputation have direct effects on customer satisfaction, trust and commitment as well as determining customer loyalty.

2. Literature Review and Hypothesis Development

Service quality is a concept accurately representing the core of the performance of a service, which is customers' assessment of service reliability. Service quality is customers' overall impression of inferiority/superiority of services offered [22]. Parasuraman *et. al.* [23] argued that service quality is the level of expected superiority. Fulfillment of customer expectations is controlled by the superiority of services. When the services received or perceived meet the expectations, the quality of services is perceived good and satisfactory [24]. Service quality consists of five dimensions: tangible, reliability, responsiveness, assurance and empathy. Services are inferior when any of those dimensions is lacking [25].

Customer value is the difference between what a customer gets from a product, and what he or she has to give in order to get it [3]. The customer value indicators developed in the present study were functional value, economic value, emotional value, sacrifice value and comparative value [26]. Company's reputation is among the most important factors of its characteristics (in addition to its integration) to establish customer trust in the brand [20]. The indicators of bank's reputation developed in the present study were (1) the bank's advantage over other banks, (2) fast and good performance and (3) a reliable reputation [15].

Customer satisfaction is the level of a customer's feeling after comparing what he or she received and what he or she expects [22]. Customer satisfaction is one's feeling of delight or disappointment emerging after comparing the perceived to the expected performance of a product. The indicators of customer satisfaction developed in the present study were overall satisfaction, confirmation of expectation and comparison of ideal [3]. Trust is the willingness to rely on a trusted partner or person or particular party. The indicators developed were (1) the customer's expected performance, (2) trust in having worked in accordance with the standards, (3) trust in being able to provide the right job, (4) trust in consistent services, and (5) trust in the sustainability

of the company [27]. Customer commitment is a desire to maintain a long-term relationship. The indicators developed were (1) the sense of pride as a customer, (2) the sense of belonging, (3) concern with long-term success and (4) being a loyal supporter [4].

Loyalty is trust, a willingness to act immediately without calculating the costs and benefits [28]. Loyalty greatly benefits the bank since it affects customers' purchasing patterns and leads loyal customers to provide others with recommendations [29]. Emotional experience and satisfaction underlie an adequately strong attitude toward one's offerings. Good emotional experience shapes customer perception. Good perception can increase loyalty as indicated by repeat purchases [7]. Maintaining customer loyalty requires not only satisfaction, but also customers' trust and commitment which are the key components of relationship marketing [5]. Customer loyalty is the amount of consumption and the frequency of purchases made by a customer to a bank [14]. The concept of loyalty refers to the four indicators: (1) informing positive things to others, (2) recommending someone who needs information, (3) encouraging friends and relatives to enjoy the services, (4) considering the service as a first option to buy [28].

2.1. The Relationship of Service Quality with Customer Satisfaction

It is universally acknowledged that service quality and customer satisfaction are positively correlated [8,10]. There is a strong positive correlation between the constructs of satisfaction and service quality [24]. Satisfaction greatly benefits banks [9]. Customer satisfaction is highly dependent on the level of service quality delivered [22]. This leads to the following hypothesis:

H₁ : Service quality has a positive and significant effect on customer satisfaction.

2.2. The Relationship of Service Quality with Customer Trust

Perceived high service quality will lead to higher trust. In this regard, high quality refers to being relevant, timely and reliable [6]. Competition in service quality has an effect on customer trust. A bank's ability to provide good service will have an effect of strengthening the bank's best position in the hearts of its customers [5]. An ability to provide positive services has an effect on customer trust in the agent [27]. This leads to the following hypothesis:

H₂ : Service quality has a positive and significant effect on customer trust.

2.3. The Relationship of Service Quality with Customer Commitment

High satisfaction or delight is likely to lead to customer positive behaviors, emotional attachment to the brand and rational preference, resulting in customer commitment [6]. Customers' assessment of high (superior) service quality will lead to customers' favorable (positive) behavioral intentions, serving to strengthen customer commitment [5]. The link between service quality and commitment is expressed by Eastlick *et al.* [21] who argues that relationship marketing would be of importance when it is supported by good quality services. This leads to the following hypothesis:

H₃ : Service quality has a positive and significant effect on customer commitment.

2.4. The Relationship of Customer Value with Customer Satisfaction

Customer value, as perceived by the customer, consists of a variety of attributes. If those attributes fall short of customer expectations, the customer would not be

satisfied [26]. Differences in perceived customer value will lead customers to be unsatisfied [10]. As-expected experience leads to customer satisfaction [4]. In order to achieve customer satisfaction banks need to provide superior customer value relative to their competitors. This leads to the following hypothesis:

H₄ : The quality of customer value has a positive and significant effect on customer satisfaction.

2.5. The Relationship of Customer Value with Trust

Customer value can be enhanced through employee empowerment, while employee empowerment is carried out through building trust. Thus, customer value has a significant effect on consumer trust [10]. Customer value is an emotional tie between customers and providers after the customers have used services provided by the providers and found that the services in question provided added value. This tie occurs due to customers' trust in suppliers, as reflected in customer value [26]. This leads to the following hypothesis:

H₅ : Customer value has a positive and significant effect on customer trust.

2.6. The Relationship of Customer Value with Commitment

The values of justice have a vital effect, especially for the human-based service industry, on improving customer commitment to establishing long-term relationships with service providers after a service failure [26]. Improved customer value raises customer commitment to service providers [13]. This leads to the following hypothesis:

H₆ : Customer value has a positive and significant effect on customer commitment.

2.7. The Relationship of Reputation with Satisfaction

Reputation has a positive effect on satisfaction [18]. Reputation has a positive relationship with customer satisfaction [19]. This leads to the following hypothesis:

H₇ : Banks' reputation has a positive and significant effect on customer satisfaction.

2.8. The Relationship of Reputation with Trust

Reputation and trust will eventually lead to long-term relationships of banks with customers [20]. Reputation is positively related to trust [21]. This leads to the following hypothesis:

H₈ : Banks' reputation has a positive and significant effect on customer trust.

2.9. The Relationship of Reputation with Commitment

Banks' reputation is closely related to customer commitment [19]. Companies with good reputation are committed to creating superior value and appeal more than their counterparts with poor reputation in the eyes of customers [17]. This leads to the following hypothesis:

H₉ : Banks' reputation has a positive and significant effect on customer commitment.

2.10. The Relationship of Satisfaction with Loyalty

Customer loyalty is influenced by customers' beliefs, emotions and feelings of satisfaction and expectations [10]. Customer satisfaction has a positive and significant effect on customer loyalty [14]. This leads to the following hypothesis:

H₁₀ : Customer satisfaction has a positive and significant effect on customer loyalty.

2.11. The Relationship of Trust with Loyalty

Customer trust will lead to customer loyalty. Trust will have a positive relationship with the intentions and loyalty [6]. Trust has an effect on customer loyalty [13]. This leads to the following hypothesis:

H₁₁ : Customer trust has a positive and significant effect on customer loyalty.

2.12. The Relationship of Commitment with Loyalty

Customer loyalty will be achieved through customer commitment [8]. Customer commitments can build long-term company–customer relationships [21]. This leads to the following hypothesis:

H₁₂ : Customer commitment has a positive and significant effect on customer loyalty.

The research model is shown in Figure 1.

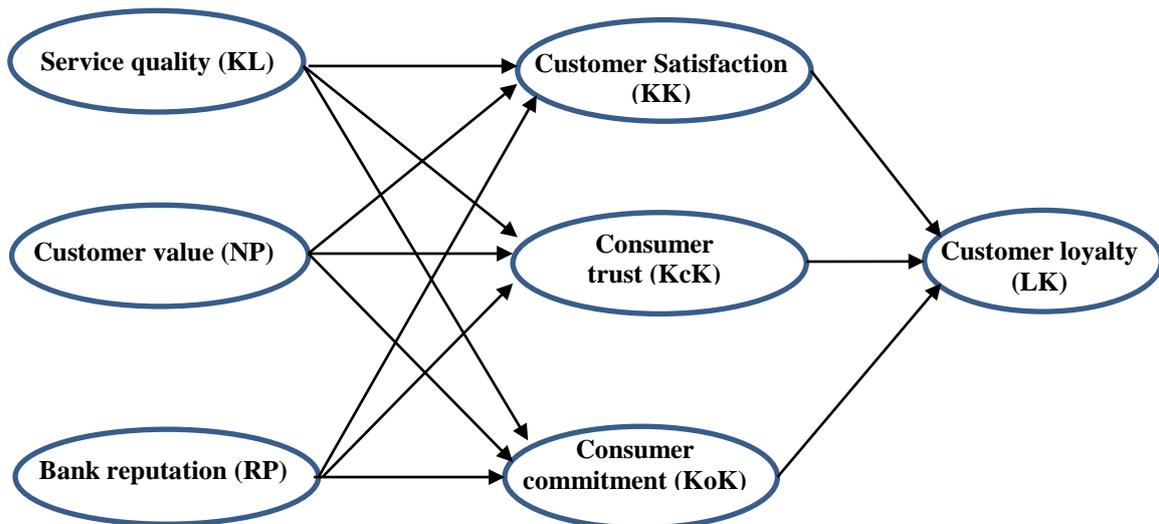


Figure 1. The Research Model

3. Research Methodology

Population was the customers of state banks in five cities in Indonesia, namely Jakarta, Bandung, Surabaya, Makassar and Pontianak. A total sample of 250 people was taken by the purposive sampling method. Samples were those respondents who were using the services of state banks. Data were tested and analyzed by the use of structural equation modeling (SEM) with AMOS program. SEM can estimate the path value of each of the research hypothesis. The testing of hypotheses of the study was carried out by partially testing each path of direct effect of the results of the structural equation modeling (SEM) analysis, in which indirect effects are byproducts of direct

effects. In hypothesis testing a CR of > 1.96 and a P of < 0.05 was significant. The conceptual framework of SEM is depicted in Figure 2.

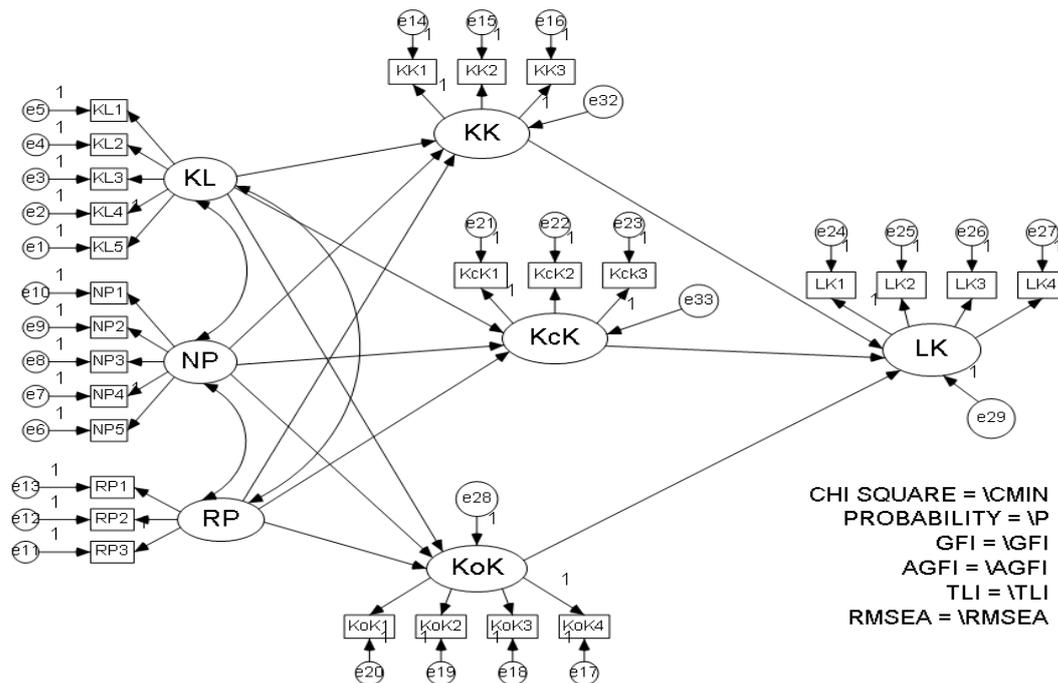


Figure 2. The Conceptual Framework of SEM

- | | |
|------------------------------------------------------------------|-----------------------------------|
| KL = Service quality | NP = Customer value |
| KL1 = Tangible | NP1 = Functional value |
| KL2 = Reliability | NP2 = Economic value |
| KL3 = Responsiveness | NP3 = Emotional value |
| KL4 = Assurance | NP4 = Sacrifice value |
| KL5 = Empathy | NP5 = Comparative value |
| RP = Bank reputation | KK = Customer satisfaction |
| RP1 = The bank's advantage over other banks | KK1 = Overall satisfaction |
| RP2 = Fast and good performance | KK2 = Confirmation of expectation |
| RP3 = Reliable reputation | KK3 = Comparison of ideal. |
| KcK = Customer trust | |
| KcK 1 = The customer's expected performance, | |
| KcK 2 = Trust in having worked in accordance with the standards, | |
| KcK 3 = Trust in being able to provide the right job, | |
| KcK 4 = Trust in consistent services, | |
| KcK 5 = Trust in the sustainability of the company | |
| KoK = Consumer commitment | |
| KoK1 = The sense of pride as a customer | |
| KoK2 = The sense of belonging | |
| KoK3 = Concern with long-term success | |
| KoK4 = Being a loyal supporter | |
| LK = Loyalty | |
| LK1 = Informing positive things to others | |
| LK2 = Recommending someone who needs information | |
| LK3 = Encouraging friends and relatives to enjoy the services | |
| LK4 = Considering the service as a first option to buy | |

4. Results

Upon testing and analysis of customer loyalty in the banking industry in Indonesia on the basis of the theoretical concepts and empirical supports regarding the causal relationships among the variables affecting loyalty of the customers of state banks in Indonesia, here are the results of hypothesis testing.

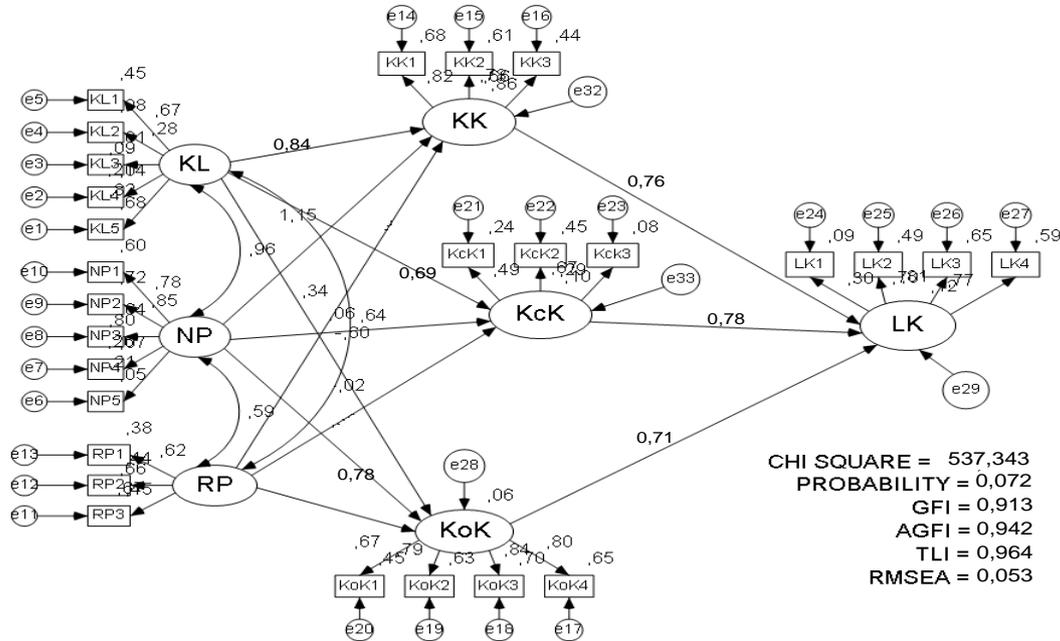


Figure 1. The Result of Structural Model

Table 1. The Result of Hypothesis Testing

Influence between variables		C.R	P	Note
Service quality	Customer satisfaction	3,524	0,001	Significant
Service quality	Customer trust	2,103	0,001	Significant
Service quality	Consumer commitment	1,982	0,126	Non Significant
Customer value	Customer satisfaction	3,201	0,001	Significant
Customer value	Customer trust	1,984	0,001	Significant
Customer value	Consumer commitment	2,460	0,001	Significant
Bank reputation	Customer satisfaction	2,643	0,078	Non Significant
Bank reputation	Customer trust	4,012	0,001	Significant
Bank reputation	Consumer commitment	2,246	0,001	Significant
Customer satisfaction	Customer loyalty	2,768	0,001	Significant
Customer trust	Customer loyalty	3,123	0,003	Significant
Consumer commitment	Customer loyalty	3,632	0,001	Significant

4.1. Effects of Service Quality on Customer Satisfaction, Trust, Commitment and Loyalty

The concept of quality service has become a very important factor in the marketing of banks, especially state banks in Indonesia. Customers who find the service quality of a bank is in accordance with their expectations will be satisfied and trust in the bank, leading to be loyal customers. Ultimately, this established long-term relationships between customers and banks. Satisfaction is directly related to customer loyalty. Satisfaction is positively associated with loyalty but does not produce the same degree of loyalty. Long-term relationships will increase the level of

customer trust in the expectations that will be received from the bank, thus reducing customers' concern should the services received are not as expected [21].

The importance of customer loyalty in the banking business is unquestionable. Banks expect to retain their customers in the long term, even forever [8]. Loyal customers tend to tell and recommend others and be the first choice to carry out banking transactions [28]. The key to competitive advantage is banks' ability to increase customer satisfaction and customer trust. Customer trust and commitment are keys to both short-term and long-term successes. The success of a bank cannot be separated from the strong ties of its customers' satisfaction, trust and commitment [13].

The present study showed that service quality was directly and significantly related to customer satisfaction and customer trust but not significantly related to the customer commitment. Emotional experience with service quality and customer satisfaction underlie customers' attitude to recommend state banks to others. Customer perception refers to good customer experience. Good perception can increase loyalty as indicated by recommending other customers about the quality of the services he or she received from the bank [5]. Maintaining customer loyalty requires not only satisfaction, but also customers' trust and commitment which are the keys to relationship marketing. Results of this study were supported by those of Hidayat *et. al.* [6], Johnson and Grayson [13], Wong and Sohal [14], and Eastlick *et. al.* [21].

One implication of the present study is that customer loyalty can be increased directly by improving customer satisfaction, trust and commitment. Banks' improved service quality leads to greater customer satisfaction and trust, which ends with customer loyalty. To create customer loyalty through customer satisfaction and customer confidence, banks can do so by providing excellent services. The level of banks' service quality has an effect on customer satisfaction and trust that will ultimately affect customer loyalty.

Additionally, the present study showed improved service quality does not necessarily lead to customers' high commitment to banks. Customer commitment is preceded by the experience with consuming the services provided by banks. Customers of banks in Indonesia are real customers. It is not easy to convince customers to maintain long-term relationships. Commitment tends to resist changes in preferences, which are the key antecedent of loyalty, which is largely explained by the desire of customers to identify a brand.

4.2. Effects of Customer Value on Customer Satisfaction, Trust, Commitment and Loyalty

Another factor affecting customer loyalty is customer value. Customer value is associated with experience, consumption and use of a service. Delivery of superior customer value constitutes a precondition of customer satisfaction and loyalty. Customer value is two-way communication between customers and banks in which a relationship is established after customers know and provide a positive judgment of the products or services offered. Such a condition will create an emotional relationship or tie between customers and banks. This emotional relationship is called customer loyalty to a bank. The better the customer value of a bank, the higher the customer satisfaction, trust and commitment will be. Customer value has both a direct and indirect effect on customer loyalty, mediated by customer satisfaction [10]. These findings are consistent with those of Gil *et. al.* [8], Hidayat [10], Johnson [13] and Lam *et. al.* [26].

When customers perceive a bank as capable of providing its customers with value-added services, they will be satisfied with the services or products offered. To achieve customer satisfaction, the bank needs to provide their customers with better value than

that of the competition. Customer value consists of various attributes. When those attribute fall short of customer expectations, customers will be unsatisfied [26]. Likewise, differences in customer perceived value will lead customers to be unsatisfied [10]. As-expected experience provides customers with satisfaction [13].

Customer perceived value represents the difference between the benefits gained by the customer and the sacrifices incurred. In other words, customer trust will increase when customer perceived value based on what they have received and experienced is high [8]. Customer value has a significant effect on consumer trust [10]. Customers value is an emotional tie between the customer and the bank after the customer has used the services delivered by the bank and found that the services provided added value. This tie is created due to customer trust in the provider, as reflected in customer value [26].

Increased customer value leads to customer commitment to service providers. Relatively higher customer perceived value of a bank service quality than that of competitors will affect the level of customer commitment, which leads to customer loyalty. The higher the customer perceived value, the more likely the long-term relationships (transactions) are desirable. Efforts and expenses incurred by a bank are believed to be much larger when it has to attract new customers or customers who have already left the company [29]. For customers, perceived product performance which is equal to or greater than expected is considered valuable and can lead to satisfaction and commitment to carry out transactions [3].

4.3. Effects of Banks' Reputation on Customer Satisfaction, Trust, Commitment and Loyalty

In the present study, customer loyalty was measured from the repurchase rate and the willingness to provide others with references. When banks' service quality is difficult to measure, banks' reputation constitutes an important factor affecting customer perceived satisfaction and loyalty. Banks' reputation is very important to customers if bank's service quality is able to provide customers with satisfaction. In this study, banks' service quality was able to provide customers with satisfaction as stated in hypothesis 1. Thus, banks' reputation had no significant effect on service quality. This finding is contrary to that of Selnes [18] and Helm [19] that showed that banks reputation had effect on customer satisfaction.

However, banks' reputation had significant effect on customer trust and commitment, leading to customer loyalty. Bank managers need to build bank reputation capable of ensuring customer loyalty. To sell a favorable goodwill, image and idea of a bank is to promote an image that can be used as a means to (1) instill an element of trust in the bank into the existing and prospective customers, (2) make the bank known by many customers, (3) demonstrate the bank's integrity and bona fides, (4) build customer commitment to the bank, (5) create an understanding of the bank's vision and mission [20]. Additionally, banks' reputation can be established through (1) an advantage over other banks, (2) fast and good performance and (3) reliability [15].

Reputation for banks who market banking services constitutes an important factor in improving customer trust. Banks' reputation is associated with trust in bank-customer partnership. Reputation is positively associated with customer trust and commitment that lead to customer loyalty. The level of customer loyalty tends to be higher when banks' reputation is perceived as excellent [16]. It is characterized by customer trust in and commitment to banks. When a bank has a good reputation, customers will show a favorable attitude to the bank. Customers will trust in and show high commitment to the bank. It is this attitude that underlies customer loyalty [6]. This finding is consistent with that of Casalo *et. al.* [15], Saporito *et. al.* [16], Timothy and Holladay [17], Hong and Yang [20].

5. Conclusion

Service quality, customer value and bank's reputation have a direct effect on customer satisfaction, trust and commitment as well as customer loyalty. In addition, the present study showed that commitment tends to resist changes in preferences, which are the key antecedent of loyalty. This fact is explained by customers' desire to identify banks' service quality. Improved service quality does not necessarily increase customer commitment to banks. Commitment is established through the consumption experience with services provided by banks. Bank's reputation plays a major role in influencing customer satisfaction when banks are incapable of providing service quality as desired by customers. When banks' service quality is difficult to measure, bank's reputation constitutes an important factor in influencing perceived customer satisfaction.

One managerial implication of the present study is that customer loyalty cannot be increased directly through service quality. Thus, managers should improve service quality to increase trust and commitment. Increased customer commitment and trust will ultimately increase customer loyalty. To create customer loyalty through customer satisfaction and customer confidence, banks can do so by providing excellent services. The level of banks' service quality has an effect on customer satisfaction and trust that will ultimately affect customer loyalty.

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