The Impact of Customer Satisfaction on Word-of-Mouth: Conventional Banks of Malaysia Investigated

Article · January 2013

3 authors, including:

Muhammad Tahir Jan
International Islamic University Malaysia

Ali Shafiq
Taylor’s University

Some of the authors of this publication are also working on these related projects:

Islamic Advertising Development View project

Marketing of higher education View project

All content following this page was uploaded by Muhammad Tahir Jan on 23 July 2015.

The user has requested enhancement of the downloaded file.
The Impact of Customer Satisfaction on Word-of-Mouth: Conventional Banks of Malaysia Investigated

1 Dr. Muhammad Tahir Jan:
Assistant Professor,
Email: tahirjan@iium.edu.my

2 Dr. Kalthom Abdullah:
Associate Professor,
Email: kalthom@iium.edu.my

3 Ali Shafiq:
PhD Student.

Affiliation: Department of Business Administration, Kulliyyah (Faculty) of Economics and Management Sciences, International Islamic University Malaysia, P. O. Box 10, Jalan Gombak, 50728 Kuala Lumpur, Malaysia.

Abstract

Purpose – The main purpose of this paper is to test the impact of customer satisfaction on word-of-mouth in the banking industry of Malaysia.

Design/methodology/approach – A framework was developed based on the extensive review of literature, with two variables – customer satisfaction and word-of-mouth. The causal relationship envisaged was tested using Structural Equation Modelling. For this purpose a self-administered structured questionnaire was distributed among 500 customers registered with different banks operating in Malaysia. Out of the total 500 distributed questionnaires 407 were finally selected for data analyses. SPSS and AMOS software programmes were used to analyse data. Data analyses encompass descriptive analyses, reliability tests, exploratory factor analysis (EFA), confirmatory factor analysis (CFA), and full fledge structural modelling.

Findings – The results reveal that customer satisfaction has a significant positive impact on word-of-mouth. Data resulted in acceptably high reliability during the reliability tests. Exploratory factor analysis for customer satisfaction resulted in 3 dimensions which were further converged into 2 dimensions during confirmatory factor analysis. Measurement models resulted in good fit giving a green signal for testing causal relationship and full structural modelling. The results of full fledge structural model indicated good fit with the data. In this case, a normed chi-square ($\chi^2$/df) of 3.087, comparative fit index (CFI) of 0.954, and root mean square error of approximation (RMSEA) of 0.045 indicate the same.

Practical implications – A high positive significant impact (0.825) of customer satisfaction on word-of-mouth clearly indicates that it is imperative for banking sector to enhance customer satisfaction. This is due to the inevitable growth of information technology, instant popularity of websites such as Facebook, Twitter, YouTube, and Wikipedia which have given liberty to customers in spreading their positive or negative feedback quickly and conveniently. Policy makers of service industry in general and financial service industry in particular may benefit from the findings of this study.
Originality/value – Importance of word-of-mouth is not new to the organisations. This research is a unique attempt, using structural equation modelling (SEM), to investigate the impact of customer satisfaction on word-of-mouth in the banking industry of Malaysia.

Keywords: Customer satisfaction, Word-of-Mouth, conventional Banks, Malaysia.

1. INTRODUCTION

Strong competition in the service industry especially in the banking sector warrants the use of the most innovative and successful ways of promoting their services. According to [1] Word of Mouth (hereafter, WOM) is one of the most influential decision making factors in the service purchase decision that helps to accelerate the consumer adoption cycle, increase acceptance or rejection speed, and shows purchase intentions [2, 3]. It has been proven that WOM is an effective and powerful marketing medium for consumers from the initial stage of information generation, to the selection of services providers, and finally to the post-purchase stage [4]. Reference [5] further confirmed the importance of WOM in information search and decision-making stage. In fact, [6] stated that WOM is the only marketing tool seeping from one customer to another and is very low-cost. Since 90% of the advertising is viewed by consumers as non-credible while 90% of WOM as credible [7], this situation has enhanced the effectiveness of WOM. Reference [8] indicated that there is indeed a positive relationship between positive WOM and the rate of satisfaction in conventional banking industry.

Therefore, WOM is not only important to consumers, but also marketers in their way to give customer satisfaction. Hence, this study intends to focus on the impact of customer satisfaction on WOM among bank customers in Malaysia.

2. OBJECTIVES OF RESEARCH

The main objective of the research in hand is to empirically test the impact of customer satisfaction on WOM. For this purpose extensive review of literature was undertaken on the same. Further, this research also intends to test the proposed model in the banking sector, particularly conventional banks, of Malaysia.

3. LITERATURE REVIEW

Consumers can gather information about products or services through WOM. Besides, it also influences their expectations towards service or product delivered to them. In addition, it has been approved that WOM is an effective advertising medium and a convincing promotional strategy, besides being more proactive and controllable. Other than that, WOM has become a financial and marketing supporter to companies of varying sizes as it is used as a non-traditional method of promotion.

There are three types of WOM: product news, personal experience, and advance giving. Product news means that the customers share or comment about the new features, technology, products or services. Personal experience is that customers make favourable or unfavourable statements about their purchase and explain their experiences while using that products or services. Advance giving means that the customers suggest WOM to other customers. Hence, WOM is an accessible and an effective marketing tool with lower spending of advertising budget.

According to [9], “Customers who are acquired via word-of-mouth (WOM) are more likely to be loyal than customers via traditional marketing media”. Nowadays, word-of-mouth plays a significant role in
distributing information to others and consumers feel that it is a reliable source for them to make decisions. Reference [10] defines WOM as the “oral, person to person communication between a receiver and a communicator whom the receiver perceives as non-commercial, concerning a brand, a product or a service”. Besides, [11] stated that, the most influential sources are friends and acquaintances and these are the most effective forms of WOM. Thus, consumers’ decision-making processes are significantly influenced by WOM, especially during the product information search stage.

Reference [12] indicated that, “loyalty-brand credibility relationship is affected by satisfaction, and brand credibility influences satisfaction directly”. They also found that brand credibility impacts word-of-mouth through creating customer satisfaction. This shows that the impact of customer satisfaction can lead to WOM to others. Reference [13] added that when positive perceptions have been attained, this will lead to customer satisfaction and positive WOM. Further, [14] stated that, “WOM marketing is effective because the interactions between the sender and receiver have high shared frame of reference.” Therefore, it can be concluded that customer persuasion consists of two instruments namely quality guarantee and WOM recommendation.

Studies have also embarked on the functional linkage between customer satisfaction, WOM, service quality and new customer acquisition [15, 16, 17, 18, 19, and 20]. As a consequence, some conceptual model was invented, namely the satisfaction-profit chain, the return on quality model as well as the service-profit chain.

Many recent researches provide evidence of and support to the significant influence WOM has on customers’ purchasing behaviour. However, the firms’ marketing activities, customer satisfaction and WOM trio has not been thoroughly introduced. Research found out that WOM has deep impact on customers’ judgments and proved that customers view it as more reliable information provider when compared to other communication channels [21]. Reference [8] indicated that there is indeed a positive relationship between positive WOM and the rate of satisfaction in conventional banking industry. In other words, the more the positive WOM being spreads around, the higher is the rate of satisfaction of the customers. When the service which they get at the bank is satisfying, consumers will be happy and will tend to express their satisfaction from, preference for, and recommendation of their bank to others.

Reference [22] also found a direct relationship between the perceived quality of the service and the recommendation of the organization. This is consistent with the argument by [23] which stated that consumers’ favourable behavioural intentions will turn into consumer satisfaction and finally consumer retention and this will lead to positive consequences for the bank. Studies have been carried out to show a strong relationship between perception of quality of service, customer satisfaction and other variables in banks in Australia and Korea [24]. In addition, perceived quality and the level of satisfaction also show a positive relationship [25]. Reference [26] also found that service quality works as stimulus that may lead to customer satisfaction. This customer satisfaction in conventional banking will generate a lot of positive outcome for the particular organization, namely repeat purchase, loyalty, positive WOM as well as long term profitability [27].

Reference [28] analysed how direct marketing activities like mail can affect WOM. Later, [29] found that incentives provided to customers can be a good source of promoting positive WOM. According to conceptual model of [30], customer satisfaction is what lies between marketing efforts and WOM. From here, we can see how big is the impact of WOM towards the success or failure of any kind of business. In addition,
stated the three main theories about consumers which engage in WOM. The first one is that satisfied consumers involve in WOM because they want to help others, and draw attention to them. The second theory is dissatisfied consumers are involved in WOM because they want to warn others about the product so that others would not end up dissatisfied as they did. The last theory is that WOM from highly satisfied customers, and those who are not satisfied at all, both have large effects, because their words and opinion will be more extreme.

4. RESEARCH FRAMEWORK AND HYPOTHESIS

The research framework of this study is depicted in Figure 1. There are two main variables in aforementioned model, namely, customer satisfaction and WOM. Customer satisfaction is an independent variable of this study, whereas, WOM is the ultimate dependent variable. These variables are extracted from the review of extant literature, while their prior relationship has also been envisaged. Consequently, the following hypothesis was devised based on the previous research studies, see e.g., [29] and [32].

H1: Customer Satisfaction has a direct positive effect on WOM

5. RESEARCH METHODOLOGY

The target population of this study was the customers with at least one account in any commercial bank operating in Malaysia. Data were collected through convenience sampling from Klang valley, as it is considered as the hub of all banking activities. For this purpose a self-administered questionnaire was distributed among 500 customers of different banks. From a total of 500 distributed questionnaires 430 were returned, out of which only 407 were considered for data analysis. It is also of import to note that questions of the self-administered questionnaire were adapted from previous studies. For example, items measuring customer satisfaction were adapted from [33] and for measuring WOM items were adapted from [34]. In the first two sections respondents were directed to tick on the relevant box in front of each question on a 6-point rating scale, from strongly disagree (= 1) to strongly agree (= 6). These sections (A & B) were designed to acquire responses on customer satisfaction and WOM, respectively. The last section of the questionnaire was about respondents’ demographics.

After entering data in SPSS (Statistical Package for Social Sciences), detailed descriptive analyses were conducted followed by reliability tests. Factor analysis (EFA & CFA) was undertaken followed by full fledge structural modelling in order to test hypothesis.

6. DATA ANALYSIS AND RESULTS

Respondents’ Profile and Reliability

Descriptive analyses revealed that majority of the respondents were males with 69.3% contribution in the survey. The remaining 30.7% respondents were females. Most of the respondents were below the age of 24, they comprised a total of 47.7%, indicating a major influence of this age group on the current study. This age group is followed by 24 to 34, acquiring 127 questionnaires from them. It is also important to note that a greater
number of responses (60.9%) were obtained from those who are unmarried. Pertaining to their education level, 51.6% respondents had at least bachelor’s degree. Findings also indicated that Malays represent a greater share in the total usable response rate with 72% contribution in the overall survey. Another important finding was the response rate per bank operating in Klang valley. Maybank Malaysia Berhad was identified as a major contributor in the present study with 26% of the response rate in total. It is followed by CIMB with the total acquired responses of 77 (or 18.9%). Finally, it has also been reflected in the analysis that 62.9% of the respondents have an active account with any of the banks for at least one year.

Following descriptive analysis, reliability tests were conducted in order to check the consistency of the adapted questionnaire. For this purpose Cronbach’s alpha reliability coefficient and the item-to-total correlation were calculated. It is suggested by [35] that the value of Cronbach’s alpha should be 0.60 or above, as it indicates greater stability and consistency. The present research instrument resulted in an alpha value of 0.946, confirming the consistency and stability of the instrument used (see Table 1).

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>Cronbach's Alpha Based on Standardized Items</th>
<th>No. of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.945</td>
<td>0.946</td>
<td>33</td>
</tr>
</tbody>
</table>

**Exploratory Factor Analysis**

Next, exploratory factor analysis (hereafter, EFA) with Varimax rotation was performed to extract the number of factors underlying the data. Based on the suggestion of [36] loading of 0.5 and above was considered. Cross-loading below 0.35 was also kept in mind.

The result of EFA indicated that customer satisfaction has three dimensions and explain total variance of 70.841%. Further, all the extracted items emerged with the loading above 0.50. Table 2 explains the results of EFA in detail.

<table>
<thead>
<tr>
<th>Items (Variables)</th>
<th>Factor 1</th>
<th>Factor 2</th>
<th>Factor 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>SA13</td>
<td>.839</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SA15</td>
<td>.821</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SA14</td>
<td>.750</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SA12</td>
<td>.704</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SA11</td>
<td>.698</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SA10</td>
<td>.648</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SA3</td>
<td></td>
<td>.865</td>
<td></td>
</tr>
<tr>
<td>SA1</td>
<td></td>
<td>.849</td>
<td></td>
</tr>
<tr>
<td>SA2</td>
<td></td>
<td>.802</td>
<td></td>
</tr>
<tr>
<td>SA4</td>
<td></td>
<td>.715</td>
<td></td>
</tr>
<tr>
<td>SA7</td>
<td></td>
<td></td>
<td>.911</td>
</tr>
<tr>
<td>SA8</td>
<td></td>
<td></td>
<td>.764</td>
</tr>
<tr>
<td>SA6</td>
<td></td>
<td></td>
<td>.706</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Initial Eigenvalues</th>
<th>6.094</th>
<th>1.647</th>
<th>1.468</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Variance</td>
<td>46.876</td>
<td>12.673</td>
<td>11.292</td>
</tr>
<tr>
<td>Cumulative %</td>
<td>28.635</td>
<td>52.418</td>
<td>70.841</td>
</tr>
</tbody>
</table>

**Confirmatory Factor Analysis**

In this research two-step modelling approach was adopted, i.e., the measurement model(s) were fitted before fitting the full fledged structural model. AMOS software was used to perform confirmatory factor analysis.
(hereafter, CFA) for each variable with Maximum Likelihood Estimation (MLE). These measurement models were assessed based on the fit measure recommended by [36, 37, and 38]. For example, chi-square ($\chi^2$), Normed chi-square ($\chi^2$/df), the comparative fit index (CFI), and the root mean square error of approximation (RMSEA). It is important to note that during performing CFA of the independent variable (customer satisfaction) with all three extracted dimensions, it was revealed that D2 (dimension 2) of customer satisfaction had a high correlation with D3 (dimension 3) of customer satisfaction. This resulted in merging these two dimensions. CFA was run again on the two dimensions, i.e., D1 and D2 (items of the previous D2 and D3 were merged). Table 3 summarises the result of all the CFA models.

**Table 3 : Result of Confirmatory Factor Analysis**

<table>
<thead>
<tr>
<th>Construct</th>
<th>Model</th>
<th>$\chi^2$</th>
<th>df</th>
<th>$\chi^2$/df</th>
<th>GFI</th>
<th>CFI</th>
<th>NFI</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revised</td>
<td>28.603</td>
<td>8</td>
<td>3.575</td>
<td>.977</td>
<td>.980</td>
<td>.973</td>
<td>.080</td>
</tr>
<tr>
<td>Word-of-Mouth</td>
<td>Default</td>
<td>2296.887</td>
<td>104</td>
<td>22.085</td>
<td>.515</td>
<td>.541</td>
<td>.531</td>
<td>.228</td>
</tr>
<tr>
<td></td>
<td>Revised</td>
<td>3.725</td>
<td>2</td>
<td>1.863</td>
<td>.996</td>
<td>.997</td>
<td>.994</td>
<td>.046</td>
</tr>
</tbody>
</table>

Source: Author’s computation (2013)

The observation of results highlighted in Table 3 clearly indicates that the default measurement models did not emerge with good fit. Therefore, modification indices were examined and the models were revised. After revising the models, a good fit was obtained (see Table 3). Consequently all the fit indices used were above the recommended threshold. For example, the normed chi-square ($\chi^2$/df) value for all the models is below 5.0. Similarly, the values of GFI, CFI, and NFI are also well above the threshold value of 0.90, indicating a good fit of the measurement models. The revised measurement models for customer satisfaction and WOM are depicted in figure 2 & figure 3, respectively.

**Figure 2 : Measurement Model of Customer Satisfaction**

**Figure 3 : Measurement Model of Word-of-mouth**
Structural Equation Modelling

After achieving good fit of the measurement models the next step was to test the hypothesised causal relationships among the constructs of the model. This was done through structural equation modelling using AMOS software.

The results revealed that the hypothesised model fits the observed data well (see Figure 4). The goodness-of-fit indices of the present model were: $\chi^2/df = 3.087$, $CFI = 0.954$ and $RMSEA = 0.045$. Further, the hypothesis was also both statistically significant ($p < 0.05$) and practically significant ($\beta > 0.20$). In this case, $p$-value was significant at 0.001 with the critical ratio of 8.354 and standardized regression weight of 0.825, hence supporting the hypothesis (H1).

7. CONCLUSION AND IMPLICATION

The main objective of this research was to investigate the impact of customer satisfaction on WOM in the banking industry. For this purpose data were collected from registered customers of various banks. The collected data were analysed both descriptively and inferentially. The results revealed that customer satisfaction has a strong positive impact on WOM. Results of this study are in accordance with previous research studies [39, 40, and 41]. Interestingly, an independent variable of this study, namely, customer satisfaction emerged with two significant dimensions.
The present research suggests that banks should focus more on satisfying their customers, as it influences the use of WOM. Especially, in today’s fast growing technological era messages can be communicated around the world in no time. It has also been proven numerous times that WOM is a strong communication tool although with little or no control of the organisation over its content. Further, the dynamic virtual environment has given much power to customer in spreading their words, consequently, alerting the companies to focus more on taking care of the customers (customer satisfaction). Adding to it, the sudden popularity of social media websites, like, Facebook and Twitter, and the increasing number of subscribers to these sites are irrefutable evidences of more severe impact of WOM. The positive or negative WOM can be spread in the split of seconds on these websites by satisfied or dissatisfied customers. It is, therefore, suggested that information sensitive organisations, banks for instance, should focus more on enhancing customer satisfaction which eventually will result in spreading positive WOM by the customers.

Lastly, relationships investigated in the present research deserve further research, especially by adding some other antecedents like customer retention and customer loyalty. As this research is conducted in one country and particularly in the banking sector, perhaps other sectors should also be considered to make it more promising and generalizable. Finally, a promising research would be to include technology as a mediating variable in the present model.

8. REFERENCES


