



## Research on Impacts of Customer's Satisfaction, Trust, Switching Barriers, and Corporate Image towards Customer's Loyalty (Case Study: Telkom Flexi)

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### ABSTRACT

As business competition keeps increasing from time to time, it has directed many service providers to have their focus more on customer retention effort rather than acquiring the new ones. Preserving the existing customers only requires approximately one fifth of the marketing budget spent on finding new customers. Moreover, preserving the loyal customer has proven that it could raise the profitability of the company. This research will examine a model about the impact of customer satisfaction, trust, switching barriers, and corporate image toward customer loyalty. The analysis tools used for this research are Structural Equation Modelling (SEM). This research has collected primary data of questionnaires that were distributed to 266 respondents; those who subscribe Post-Paid Flexi, a CDMA base cellular phone service from PT TELKOM. This research was conducted in Bandung. The result of this research indicates that customers' satisfaction directly affects customers' loyalty through their trust and corporate image, while the switching barrier has no impact towards customer loyalty although the customer loyalty affects the switching barriers.

**Keywords:** customer satisfaction, trust, switching barrier, corporate image, customer's loyalty

### 1. INTRODUCTION

The competitive market has pushed every operator to perform their excellence in order to enable their company to survive. Besides expanding their market share, there are other ways for the companies to survive and to increase their profit by improving their customer's loyalty. This is in accordance with the research of Reichheld & Sasser (1990), stating that there is a positive correlation between customer loyalty and company's profitability. A certain company can gain profit from 25% - 28% by improving customers' loyalty up to 5%. In order to improve such loyalty, it is imperative to learn the factors which affect the customer loyalty and how such factors have the connections to each other, thus the improvement steps could be made.

Although the customer satisfaction has to be delivered for a business success, however the customer satisfaction alone is not sufficient enough to build customer loyalty. The research of Mittal (1998) and Bowen (2001) says that there are nonlinear and asymmetric connections between customer loyalty and customer satisfaction. Kotler (2000) on the other hand, says besides delivering high customer satisfaction, improving customer loyalty could also be made by delivering high switching barriers. This is also exposed on the research conducted by Ranaweera (2003) which got conclusion that customer loyalty is significantly influenced by customer satisfaction, switching barrier, and trust. The last research conducted by Aydin (2005) on customer loyalty at Turkish

Mobile Telecommunication, also concluded that there is correlation between perceived service quality, trust, perceived switching cost, corporate image, and customer loyalty.

The illustrations above have become compelling reasons to conduct a research on customer loyalty.

**Customer satisfaction.** In Zeitahml (2003), customer satisfaction is defined as a response toward the need of the respective customer as consideration towards products and services in the attempt of providing satisfying consumption level. Kotler (1995) defines customer satisfaction as the level of one's perception after comparing performance or results that he's got with his expectation and Fornell (1992) defines customer satisfaction as the whole post-purchase evaluation.

According to the research of Bowen (2001) there is a correlation between customer loyalty and customer satisfaction in hotel business, although the correlation is nonlinear and asymmetric. It is also the same with car repairmen and healthcare service.

Other research (Caruana, 2002) that was conducted at bank services indicate that customer satisfaction represents intermediary factors which connect the quality of service and service loyalty, it means that the service quality positively affect the loyalty of service through customer satisfaction. This is in accordance with the research of Beerli et al. (2004) also conducted in banking business, where customer satisfaction significantly affects customer loyalty.

Besides from the research of Ranaweera (2003) conducted at fixed line residential telephones in Britain, a conclusion was made that customer loyalty significantly was influenced by customer satisfaction, trust, and switching barriers. Aydin Et al (2005b) also mentioned that customer satisfaction was one factor which affects customer loyalty. Thus from the researches above, it can be concluded that customer satisfaction is a factor that very much influences customer loyalty.

**Trust.** Trust is a confidence from one party that his need will be fulfilled by the other party (Anderson, 1989). According to Ganesan (1994) and Kumar et.al (1995), trust can be categorized into two:

### 1. Trust in Partner's Honesty

The customers believe that the company will always be reliable, fulfilling what they have promised accurately. This kind of trust requires high integrity and reliability from the trading partner. Trust is the primary dimension to evaluate the relationship involved.

### 2. Trust in Partner Benevolence

This kind of trust will indicate how far the customers believe that the company will pay attention to customers' prosperity. What differs from trust in partner's honesty is that trust in partner benevolence prevails where there has no commitment from both parties yet. In other words, the company shows act or take an action in the future that brings benefit to the customers without previously promise anything. This kind of trust is very important in an interpersonal relationship.

Costabile (1998) in Djati and Ferrinadewi (2004) define trust as perception of reliability from customers' point of view, based on experience, or something that refers to the step of transaction or interaction which indicated by the accomplishment of product performance and satisfaction. Djati and Ferrinadewi (2004) state that trust is built from customer satisfaction and it can be the initial indication of customer loyalty. The research of Ranaweera (2003) that was conducted on fixed line residential telephones in Britain concludes that trust is one factor that affects customer loyalty.

Trust is believed has important role in affecting commitment (Morgan, 1994). In this context, trust maintains long term relationship with partners, avoiding merely short term relationship, and avoiding high risk actions such as abuse mistreatment or manipulation.

Hence, if customer satisfaction is a past function, therefore it can be concluded that customer satisfaction influences trust and it will then influence customer loyalty. It should also be noticed that trust will diminish uncertainty in an environment where customers sensibly notice. So, trust will raise the switching barrier for such customer to switch (Aydin, 2005a).

**Switching barrier.** The switching barriers are every factors that prevent the customer to switch to other service providers (Jones, 2000). In that empirical research, they analyze three factors of switching barrier that are: strong interpersonal relationship, high switching cost, and alternative attraction in

market. Switching cost itself is the perception of any cost, time, and effort spent that is related to switching service provider.

Fornell (1992) on the other hand, formally defines that concept, stating some factors which can become barriers that are search cost, transaction cost, learning cost, loyal customer discount, customer habit, emotional cost, cognitive effort, financial, social, and psychological risks.

According to the research of Lee et.al (2001) that was conducted on mobile phone services in France, the switch cost is an intermediary factor between customer satisfaction and customer loyalty. In most cases, the customers are not satisfied with the service provided, but because of the switch cost is perceivably quite costly if they switch to other operator, then they stay loyal with the operator. Likewise, the research conducted by Ranaweera (2003) on fixed line residential telephones in Britain has the conclusion that customer loyalty is significantly influenced by customer satisfaction, trust, and switching barriers. The same conclusion is also obtained from the research of Aydin (2005b), stating that switching cost is one factor that affects customer loyalty and at the same time has become moderator factor for customer satisfaction and trust. According to the illustration above, the conclusion is obtained, stating that switching barrier has become one factor that affects customer loyalty.

**Corporate image.** Barich and Kotler in Aydin (2005) describe that corporate image as the entire perception in our mind and public's mind about a certain company. While Nguyen (2001) admits that corporate image has relation to physical and behavioural attribute, related to the company such as brand name, architecture, products and services variants, and also quality those are communicated by each individual who interact with company's business partners.

Therefore, corporate image has become a result of evaluation process. Although a customer doesn't have adequate information about a certain company, but the information that is obtained from other resources such as advertisements, word of mouth communication will also affect the corporate image building process.

Nguyen (2001) in his research proved that corporate image positively influence customer loyalty at three sectors (telecommunication, retails, and education). Aydin (2005a) explains that corporate image comes from consumers' consumption experience, and customer satisfaction is a function of this consumption experience. Thus, customer satisfaction directly affects consumers' perception toward the company or corporate image.

**Customer loyalty.** Customer loyalty is a deep commitment of a consumer, in making repeat purchase to a certain product or service consistently in the future, refusing other influence, in such a way it is difficult to make him switch.

On the other hand, Zeithaml et.al (1996) summarize the measurements of loyalty and some previous research into a certain customer loyalty measurement upon service provider which has for dimensions that are word of mouth communication, purchase intention, price sensitivity, and complaining behavior. Moreover, a loyal customer is a

valuable asset for the company as loyal customer has characteristics (Griffin, 2003) that are purchasing products regularly, purchasing other than product/service line, refusing other products, demonstrating resistance against competitor's attraction (uneasily get influenced by similar products from competitors).

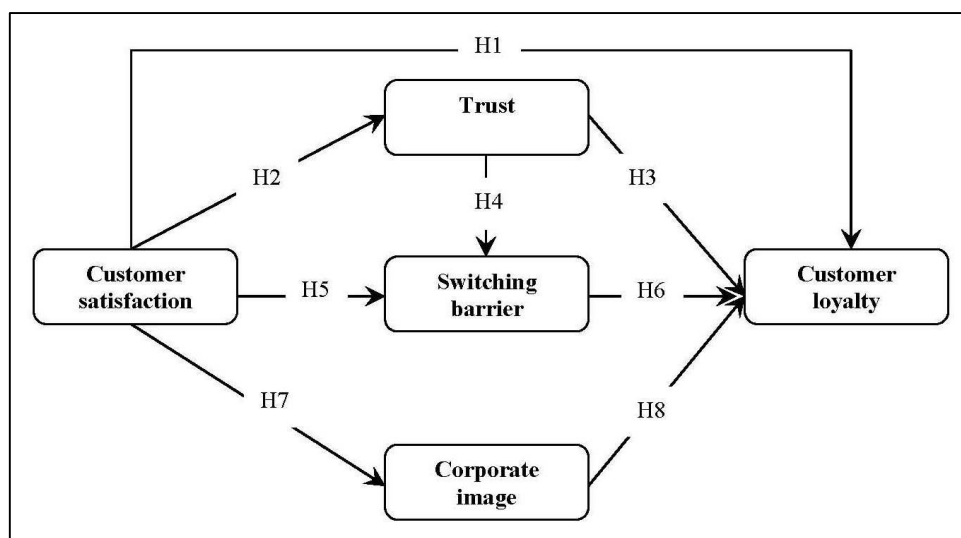
According to the survey result about Indonesian Customer Loyalty Index, conducted by market research magazine MARS and business magazine SWA there are five factors that construct customer loyalty. Those factors are as follow: customer value, switching barrier, customer characteristic, customer satisfaction, competitive environment.

The research of Ranaweera (2003) that was conducted on fixed line residential telephones in Britain has the conclusion that

customer loyalty is significantly influenced by customer satisfaction, trust, and switching barrier.

Other research that was conducted by Aydin (2005a) about customer trust at Turkish Mobile Telecommunication, which analyzed the correlation between perceived service quality, trust, perceived switching cost, corporate image and customer loyalty, indicates that one result of those research above by using Structural Equation Modelling (SEM) has the conclusion that all factors have positive and significant influence except the corporate image. Although in this context, the corporate image has positive influence upon customer loyalty, however statistically, its influence is not significant. Thus in the following research on the same objects, Aydin et.al (2005b) did not include corporate image and only considered customer satisfaction, trust, and switching cost as factors that influence customer loyalty.

**Conceptual model.** The conceptual model that is used in this research is described in figure 1:



**Figure 1: Research Model**

Based on the model above, the hypotheses have been made as follow:

H1: Customer satisfaction influences customer loyalty.

H2: Customer satisfaction influences trust

H3: Trust influences customer loyalty

H4: Trust influences switching barrier

H5: Customer satisfaction influences switching barrier

H6: Switching barrier influences customer loyalty

H7: Customer satisfaction influences corporate image

H8: Corporate Image influences customer loyalty.

## 2. METHODS

The data is collected by conducting survey, using convenience sampling technique. The data processing method in this research is developed by LISREL software version b.3. According to Joreskog and Sorbon in Bachrudin (2003), the number of sample required in a research which involves 5 latent variables are 200 samples at the minimum. On the other hand, Hair (1998) states that the minimum number of sample required for SEM (Structure Equation Modelling) are 100 samples. According to Solimun (2002) and Ferdinand (2005), the minimum requirement for Multivariate Analysis is ten

times the number of manifest variable (estimated parameter). Considering the item of queries in this research and all latent variables are 51 items, therefore the minimum sample required are 255 samples. In this research, 300 questionnaires are distributed to anticipate should there be any invalid data or unreturned questionnaire.

The research object is PT Telkom with its product Flexi Classy (Post-Paid Plan). In this research, the respondents are limited to all Flexi-Classy subscribers who live in Bandung and have used their Flexi minimum for 1 month. As they have used their Flexi Classy card for 1 month, it is considerably believed that they have already had adequate experience in having interaction with Flexi product.

For the purpose of collecting initial data, some questionnaires have been distributed to examine the validity of the questionnaire. The validity and reliability examination of the initial questionnaire finally gives 51 final queries which will be used for the following data collection activity.

The collected data and questionnaires will then be processed through LISREL software. The steps of data processing are as follows:

1. Data Preparation, ordinal data tabulation process.
2. Data transformation, using Successive Internal Method.
3. Statistical analysis, comprising construct validity analysis and reliability of variables construct, using LISREL software.
4. Structural analysis model that is the whole analysis model by using: LISREL software.

### 3. RESULTS

**Respondent Profiles.** The data is gathered by distributing questionnaire that have been improved, conducted in April and May 2005 at some telephone payment centres. From 266 respondents, detail profiles have been collected as follow:

1. Sex (male 53.38%, female 46.62%)
2. Age (< 25 yr = 22.93%, 25 - 35yr = 43.61%, >35 - 45yr = 20.30%, >45 - 55 yr = 9.4%, > 55yr = 3.76%)
3. Educational Background (Secondary School 13.53%, High School 40.60%, Three Years Non Degree Program 21.80%, University Bachelor Degree 20.68%, University Master Degree 3.38%)
4. Occupation (Student 10.53%, Civil Servant/Army 5.64%, State Own Enterprise 13.53%, Private Sectors 49.62%, Retirements 4.14%, Others 16.54%)
5. Average spending (<USD100 = 52.26%, USD100 - USD200 = 25.19%, >USD200 - USD400 = 13.53%, >USD400 = 9.02%)
6. Average Flexi Bills (<USD25 = 75.56 %, USD25 - USD50 = 10.90%, >USD50 - USD100 = 8.65%, >USD100 = 4.89%)
7. Duration of experience in using Flexi (< 6 months = 19%, < 1 year = 35%, 1 - 2 years = 37%, >2 years= 10%)

In the meantime, the main reasons why the respondents become the subscribers of Flexi post-paid plan are as follow:

1. To smoothen office businesses 30.11 %

2. Cheap 29.37%
3. Keep updated with latest important information 19.33 %
4. To facilitate study 10.78 %
5. Others 10.41 %
6. Enhancing prestige/esteem 0 %

At the third part of the questionnaire the respondent is required to give honest answers and suggestions for PT Telkom in order to make the customer to stay loyal in using Flexi. The answers collected were put into groups based and similar answers with the results as follow:

1. Price  
Maintain the price if possible make it lower 24%
2. Coverage Area  
Signal quality to be improved 21.71%  
Broaden coverage area 17.14%  
Enable to be carried out of town 5.14%
3. Service  
Improve the service and be more professional 23.43%  
Immediate follow up for any complaint 4.57%
4. Others 4%

**Construct reliability and validity.** The validity of the existing model based on the theoretical framework was examined by using factor confirmatory analysis software. The queries which are insignificant, constructing latent variable of customer satisfaction were obtained from the whole satisfaction manifest variables.

The manifest variable which don't build latent variable of customer loyalty could be considered as the resistance to switch to competitor product and price sensitivity. For the item of latent variable of trust, queries that are not significant.

From the validity process of switching barrier as latent variable construct, it shows the significant manifest variable which construct latent variable are:

- Strong interpersonal relationship
- Switching Cost
- The absence of desire toward other alternatives

From the insignificant queries above, it could be explained that although flexi subscriber has strong relationship with the company, however they have no fanaticism of having to use flexi as communication tool, other product and service provider are still open for them. For this last manifest variable, the insignificant queries is caused by the fact that flexi, one of CDMA base product is considered new, thus from product life cycle point of view, this product is still at growing stage where at this stage, normally the company is still intensively promoting their product and the similar companies are also competing to grasp the market share as big as possible. In this case, there are so many similar products and alternatives found. The other fact is that customers or subscribers normally have more than one mobile phone numbers from different service providers, depending on the purpose that they have.

For construct validity of corporate image as latent variable, queries that is not significant in constructing corporate image latent variable.

For reliability construct examination, all variables could be considered reliable (Customer satisfaction 0.81, customer

loyalty 0.86, trust 0.89, switching barrier 0.95 and corporate image 0.80)

**Research structural model.** The result of this research and all interpretation of every latent variable influence is

presented in Figure 2. The result of the structural equation: Customer Loyalty = 0.24 trust + 0.29 company image + 0.36 customer satisfaction.

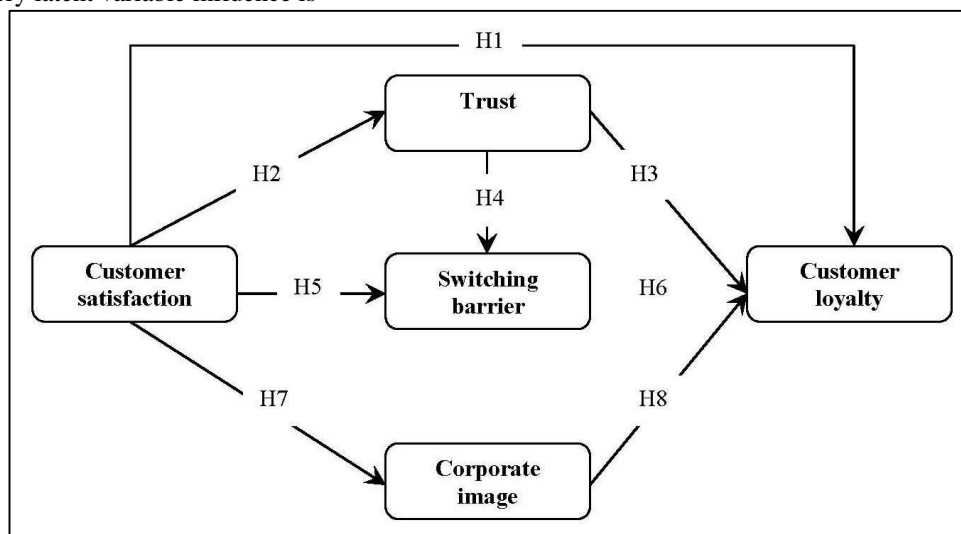


Figure 2: The Research Result Model

From all structural models, they give coefficient correlation between variables within (factor value). The coefficient or value consists of coefficient correlation between latent variables and contribution values of manifest variables which construct those latent variables.

The correlations in this structural model have become the foundation for the evaluation of research hypothesis. For the significance of every relationship between latent variables could be observed from the *t-value* that must be higher than 1.96 (confidence level  $\alpha = 0.05$ ) for positive correlation and less than -1.96 for negative correlation. From this research, it can be concluded that from 8 hypotheses, there are 7 hypotheses accepted and 1 rejected.

#### 4. DISCUSSION

Referring to the conceptual theory, in the case of Telkom Flexi, this research demonstrates that customer satisfaction has significant influence either directly or indirectly through trust and corporate image towards customer loyalty. It can be comprehend, if the company wants to improve customer loyalty, it could be done by improving customer satisfaction, trust, and corporate image, especially by maintaining and enhancing construct variables and make the non construct ones to be significantly influencing toward latent variables.

Apart from that, in the case of Telkom Flexi, it is found that the switching barrier is not significant in influencing customer loyalty. This result is not the same with the research of Lee et.al (2001), Ranaweera (2003), and Aydin (2005b) where they state that switching barrier is one factor that affects customer loyalty.

As it has been illustrated previously, it can happen because the switching barrier factor at Flexi is relatively small or even

doesn't exist, thus the influence is very small for customer loyalty or it is insignificant. If the company wants to improve customer loyalty besides improving customer satisfaction, trust, and corporate image, then this effort of improving customer loyalty could also be done by creating switching barriers.

Create switching barrier could be done by strengthen the relationship with customer (for instance by sending compliments to the customers as they have subscribed, apologizing when any inconvenience occurs, sending kind reminder to customers/subscribers if the bill has been past due, thanking them when payment is made, birthday greetings, new year greetings, and eid greetings), creating switching cost (for instance by facilitating customers or companies that are going to subscribe in terms of cost or administration, creating easy to learn and use product, creating switching barrier by conducting certain administration process before they stop their subscription), and creating uniqueness and distinguished advantage which other competitors don't have, in such away the customers don't get attracted and uneasily switch to other product, including improving the quality and product services (for instance by reducing disturbance, giving fast information service and 24 hours call centre, immediate problem handling, making method of payment easier, etc):

1. According to the reason why they use Flexi, then Telkom Flexi has to maintain the telephone rate that is currently prevailed as it has become the advantage in attracting new customer/subscriber.
2. Improving signal quality and broadening coverage area along with improving services have become subsequent suggestion. In the line with the previous research, besides creating switching barrier, PT Telkom must improve its product quality and services.

Based on the data processing and analysis made, a conclusion can be drawn that besides switching barrier as latent variable that insignificantly influences customer loyalty, other latent variables such as customer satisfaction, trust, and corporate image at the opposite significantly influence customer loyalty.

Based on this research, some recommendations are made as follow:

1. Further research in the case of Telkom Flexi can be conducted to learn customer loyalty level which can be followed by creating strategies to improve customer loyalty.
2. To examine the validity of the research, when it is possible, involve more respondents from various company from other locations, especially for companies that have implemented switching barriers.
3. Further research can also be done for pre-paid plan of Telkom Flexi as this kind of product has different customer behavior characteristics.

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