The Impact of Word of Mouth and Service Quality toward Customer Loyalty: The Mediating Role of Customer Trust

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Abstract

Banking competition in Indonesia is increasing rapidly. Banks are required to create customer trust from establish communication and service excellent that will ultimately create loyalty customers as a key to the business success. Bank OCBC NISP as a commercial bank not also can escape from the threats of competitions. This research was conducted at the branch Gunung Sahari in Central Jakarta, samples taken as many as 210 customers with purposive sampling methods. Data collected by questionnaires by using a 5-point likert scale to measure 30 indicators. The analysis technique used is Structural Equation Modelling (SEM) with the AMOS 22.0 program to calculate the effect of each variable. Result revealed that word of mouth and service quality both have positive and significant effect toward customer loyalty, customer trust has positive and significant effect toward customer loyalty, word of mouth and service quality both have no direct effect toward customer loyalty, and customer trust serve as mediating variable between service quality and customer loyalty, but do not serve as mediating variable between word of mouth and customer loyalty.

Keywords: word of mouth, service quality, customer trust, customer loyalty.

Introduction

Bank competitiveness in Indonesia currently is peaking along with the more varied financial service product offers in the market. Accordingly, the level of competition occurs between various banks becomes significantly tight, and each bank is demanded to keep doing innovation and differentiation.

In winning the competition, each bank should establish customer loyalty so that the asset from the bank can sustainably develop (Mahardika et al., 2018). The realization of customer loyalty will impact positively and give more benefits to the bank since the loyal customers will keep on using the service from the bank continuously in the long term (Unidha, 2017). That the customer loyalty of a bank can grow is due to the feelings of trust and belief that the bank can fulfill their needs. This idea is in line with the statement from Rizan et al. (2014) who mentions that the
loyal customers will be highly likely to be obtained by the company which has successfully achieved the trust from the customers.

In relation with the trust in the banking industry, there is an interesting aspect from the society’s behavior recently on their trust of a bank that is the customers opt to choose the bank that they consider the best and trustworthy, one of them is based on the recommendation of the people they know. The results of Nielsen global survey on the trust on advertisement indicates that in South East Asia, 88% of the consumers place their highest trust on the recommendation of word of mouth (Nielsen, 2018).

Besides word of mouth, another factor can potentially establish customer trust, namely service quality. In infobanknews.com (2018) article, it states that in the night of Banking Service Excellent Award 2018 in Jakarta, Infobank Director of Research Bureau delivered that the service quality given is the form of appreciation on the company which has successfully obtained customer trust and loyalty on the qualifies service as critical contact point between the customer and the company. Based on that statement, it concludes that the service quality is the fundamental of the bank in obtaining the trust and loyalty from its customers (Infobank, 2018).

Based on the phenomenon above, it summaries that several factors may contribute to establish customer trust, among them are word of mouth and service quality. This is in line with the opinion by Semuel and Lianto (2014), that positive word of mouth can increase trust, because the customers who have received information will feel more convinced and trust on the product or service that will they use if they receive a review or other’s opinions who have used the product or service earlier.

Besides that, excellent service quality will give a positive impression and foster trust feeling to the service provider (Mahardika et al., 2018). Service quality can be realized through the customer’s needs and wish fulfillment as well as its accuracy to balance or even exceed their expectation so that it can grow customer trust to the bank.

Understanding the factors affecting customer loyalty and trust is essential. This is performed to know the customers’ perception of the information and service that they receive so that the bank can make improvement on word of mouth variable and service quality variable which was initially less satisfying for customers.

**Literature Review**

According to Lupiyoda (2006:238), word of mouth one of the promotions in the form of mouth to mouth about the goodness of a product. Meanwhile, according to Rahayu (2018), word of mouth is a recommendation / suggestion / feedback / information exchange about a product or service delivered by the consumer to other consumers informally. Akbari et al. (2016) add another definition of word of mouth which states that word of mouth is the sharing of information and communication between the customers with aims to receive a better service.

Service quality according to Lovelock and Wirtz (2011:384) is the results of an evaluation process where the customers compare their perception on the service delivery, and the results are for what they have expected. Besides that, service quality also perceived as a series of human conditions, characters, attributes, characteristics and assessment of a service which is viewed differently from other evaluations (Moraga, 2013).

Trust is a belief of one party about another party’s intention. Customer trust means the customer’s expectation that the service provider can be trusted or reliable in fulfilling their promises (Siagian and Cahyono, 2014). Besides that, trust can also mean a part of customer’s psychology. Accordingly, for the
business people, customer trust becomes significantly crucial in running their business. Kotler and Keller (2016:225) mention that trust is the willingness of the company to depend on the business partner. Trust depends on several factors of interpersonal and inter-organizations, such as competency, integrity, honesty, and kindness.

Customer Loyalty is a strong commitment from the customer to return to subscribe or repurchase the product/service they fond of consistently in the future, although the situation and marketing efforts have a potential effect of stimulating the change of behaviors (Hurriyati, 2014:432). Meanwhile, according to Lovelock and Wirtz (2011:316), loyalty is a behavior showing the willingness in repurchasing in the long term and recommend the company’s products to their friends or partners.

**Word of Mouth and Customer Trust**

The research conducted by Sitorus and Hartono (2015) on the demand of personal computer in the Jakarta area stated that word of mouth positively and significantly affects customer trust.

H1: There is an effect between word of mouth variable on customer trust variable.

**Service Quality and Customer Trust**

Unidha (2017) conducted a study which results that Service Quality directly and significantly affects customer trust. Hence, the more satisfying the service is, the more it is expected to affect customer trust positively.

H2: There is an effect between service quality variable on customer trust variable.

**Customer Trust and Customer Loyalty**

Iqbal and Shah (2016) in their research found that customer trust positively affects customer loyalty in the telecommunication sector in Pakistan.

H3: There is an effect between customer trust variable on customer loyalty variable.

**Word of Mouth and Customer Loyalty**

A study on the effect of word of mouth on customer loyalty in BPD Bali bank conducted by Saputra et al. (2015) shows that word of mouth can increase customer loyalty. Therefore, the communication that has been well established so far needs to be maintained so that the customer loyalty to the bank can also be preserved.

H4: There is a direct effect between word of mouth variable on customer loyalty variable.

**Service Quality and Customer Loyalty**

Pramana and Rastini (2016) state that the better the service quality of a bank, then the better the customer trust will be and the more the loyalty will grow. This is stated based on the research results that they conducted and resulted that the service quality affects positively and significantly on customer loyalty.

H5: There is a direct effect between service quality variable on customer loyalty variable.
**Word of Mouth, Customer Trust, and Customer Loyalty**

The research conducted by Semuel and Lianto (2014) on smartphone product in Surabaya shows that word of mouth can increase trust. Besides that, a study conducted by Akbari et al. (2016) results in the trust variable affects customer loyalty.

H6: There is an effect between word of mouth variable on customer loyalty intervened by customer trust variable.

**Service Quality, Customer Trust, and Customer Loyalty**

The research conducted by Mahardika et al. (2018) stated that service quality positively and significantly affects customer trust variable, as well as customer trust variable positively and significantly, affects customer loyalty.

H7: There is an effect between service quality variable on customer loyalty variable intervened by customer trust variable.

The hypotheses which have been formulated above are illustrated in Figure 1, by displaying the research variables which are the latent variables. The indicators used to measure these variables are not presented in the figure. Word of mouth is measured by five indicators, and service quality is measured by five indicators, customer trust is measured by six indicators, while customer loyalty is measured by four indicators.

![Figure 1: Research Hypothesis Model](image)

**Research Method**

The population used in this research was the customers from OCBC NISP bank in the branch of Gunung Sahari, Central Jakarta. The samples taken were 210 customers with purposive sampling method. The data collection is conducted by the distribution of the questionnaire using a 1-5 Likert scale to measure 30 indicators. The analysis technique used was Structural Equation Modelling (SEM) with AMOS 22.0.
program to calculate the effect from each variable. The research instrument testing was conducted by validity and reliability testing, while the SEM assumption testing was performed using the normality and outlier testing. This research employed the CFA analysis technique (Confirmatory Factor Analysis) on SEM which was used to confirm the most dominant factors in one variable group.

**Results and Discussion**

**Validity Testing Results**

The research instrument is stated as valid if it fulfills the criteria of Instrument Critical Ratio (CR) value > 1.96 with the Probability (P) < 0.05. The results of data processing showed that all indicators have CR value > 1.96 and P < 0.05 with the highest CR value of 15.363 on the CL 3 indicator and the lowest CR value of 8.215 in the WOM 2 indicator along with the significance of < 0.001. Then all indicators in this research were stated as valid.

**Reliability Testing Results**

The research instruments were stated as reliable if there was a reliability coefficient or Cronbach’s alpha as much as 0.6 or more. The results of instrument’s reliability testing on each variable in this research showed that the value of Cronbach’s alpha for all variable in above the value of 0.60 that is word of mouth has the Cronbach’s alpha value of 0.806. Service quality has the Cronbach’s alpha value of 0.937, customer trust has the Cronbach’s alpha value of 0.897 and customer loyalty has the value of Cronbach’s alpha of 0.878. From the results, it shows that all the elements used in this research were reliable.

**Normality Testing Results**

To conduct normality testing on AMOS, it can be performed by comparing the CR (critical ratio) value on assessment of normality with the expected value around ± 2.58 both in univariate and multivariate. If the CR value is beyond the numbers, the data distribution is irregular. The results of normality testing showed that in univariate and multivariate, the data yielded from the critical ratio (CR) value were still around ± 2.58, which was the smallest CR value in the univariate was -3.401. Meanwhile, the CR value in the multivariate was -3.973. Therefore, the statement item on SEM model has been normally distributed.

**Outlier Testing Results**

Outlier testing was performed by detecting the extreme data by looking at the value of Mahalanobis count < Chi-Square Distribution Table. Outlier testing in this research showed that the result from minimum Mahalanobis distance was 29.820 and maximum was 50.557. The chi-square value obtained from the Chi-Square Distribution Table, with the degree of freedom of 30 (total indicators of all variables) on the significance level of 0.01 showing the value of 50.892. Since the value of Mahalanobis < Chi-Square, then there was no outlier data.

**SEM Model Accuracy Testing**

In the Confirmatory Factor Analysis, SEM model accuracy testing was conducted. The model improvement was undertaken by removing the most occurred error term in the highest M.I. Covariance value on AMOS (Modification Indices) output to decrease the chi-square value. The analysis results of model accuracy conducted can be seen in the following figure.
Furthermore, the results of the measurement of the Goodness of fit final model criteria are as presented in the following Table 1:

Figure 2: Research Structure of SEM after Modification
Table 1: SEM Research Model Accuracy Size

<table>
<thead>
<tr>
<th>Goodness of fit-index</th>
<th>Cut-off Value</th>
<th>Results</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>≤ 446,574</td>
<td>175,242</td>
<td>Fit</td>
</tr>
<tr>
<td></td>
<td>(appropriate with df)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Probability</td>
<td>≥ 0,05</td>
<td>0,056</td>
<td>Fit</td>
</tr>
<tr>
<td>RMSEA</td>
<td>≤ 0,08</td>
<td>0,030</td>
<td>Fit</td>
</tr>
<tr>
<td>GFI</td>
<td>≥ 0,90</td>
<td>0,920</td>
<td>Fit</td>
</tr>
<tr>
<td>AGFI</td>
<td>≥ 0,90</td>
<td>0,896</td>
<td>Marginal</td>
</tr>
<tr>
<td>CMIN/DF</td>
<td>≤ 2,00</td>
<td>1,192</td>
<td>Fit</td>
</tr>
<tr>
<td>TLI</td>
<td>≥ 0,95</td>
<td>0,985</td>
<td>Fit</td>
</tr>
<tr>
<td>CFI</td>
<td>≥ 0,95</td>
<td>0,987</td>
<td>Fit</td>
</tr>
</tbody>
</table>

Source: AMOS data processing (2019)

Based on the table above, it is clearly seen that seven (7) indicators of model suitability have shown good values. The most important aspect in assessing the Goodness of Fit Index from the overall model test results is the good value of chi-square. If the other indexes were fulfilled, then it indicates that the data fit better and the model can be accepted.

Research Hypothesis Testing

In performing the test of significance, the significance level of ($\alpha$) < 5% was used, to find out the significance from the direct effect between variables the Regression Weights data in AMOS output were utilized. Meanwhile, to know the significance from indirect effect between variables Sobel test was used because the AMOS program did not produce the indirect role significance output. The following is the Table of Regression Weights from the calculation results of AMOS 22.00:

Table 2: Regression Weights Structural Equation Modeling

<table>
<thead>
<tr>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
<th>Label</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.393</td>
<td>.193</td>
<td>2.032</td>
<td>.042</td>
<td>par_18</td>
</tr>
<tr>
<td>0.792</td>
<td>.168</td>
<td>4.721</td>
<td>***</td>
<td>par_19</td>
</tr>
<tr>
<td>-0.465</td>
<td>.301</td>
<td>-1.543</td>
<td>.123</td>
<td>par_16</td>
</tr>
<tr>
<td>0.407</td>
<td>.306</td>
<td>1.328</td>
<td>.184</td>
<td>par_17</td>
</tr>
<tr>
<td>1.056</td>
<td>.315</td>
<td>3.348</td>
<td>***</td>
<td>par_20</td>
</tr>
</tbody>
</table>

Source: AMOS data processing (2019)
The following is the results of the Sobel test as the fundamental in this hypothesis analysis of this research.

**Table 3: Sobel Test Results on the Effect of Inter-Variable Mediation**

**Word of Mouth → Customer Trust → Customer Loyalty**

<table>
<thead>
<tr>
<th>Input:</th>
<th>Test statistic:</th>
<th>p-value:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sobel test:</td>
<td></td>
</tr>
<tr>
<td>( t_a )</td>
<td>2.032</td>
<td>1.73709262</td>
</tr>
<tr>
<td>( t_b )</td>
<td>3.348</td>
<td></td>
</tr>
</tbody>
</table>

**Table 4: Sobel Test Results on the Effect of Inter-Variable Mediation**

**Service Quality → Customer Trust → Customer Loyalty**

<table>
<thead>
<tr>
<th>Input:</th>
<th>Test statistic:</th>
<th>p-value:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sobel test:</td>
<td></td>
</tr>
<tr>
<td>( t_a )</td>
<td>4.721</td>
<td>2.7309695</td>
</tr>
<tr>
<td>( t_b )</td>
<td>3.348</td>
<td></td>
</tr>
</tbody>
</table>

Based on the results of data analysis, then it can be concluded that there was only intervening effect in one of the paths. The following is the results of the research hypothesis testing summary as presented in Table 5 below.

**Table 5: The Conclusion of Research Hypothesis Testing Results**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1  There is an effect between word of mouth variable on customer trust variable.</td>
<td>Accepted</td>
</tr>
<tr>
<td>H2  There is an effect between service quality variable on customer trust variable.</td>
<td>Accepted</td>
</tr>
<tr>
<td>H3  There is an effect between customer trust variable on customer loyalty variable.</td>
<td>Accepted</td>
</tr>
<tr>
<td>H4  There is a direct effect between word of mouth variable on customer loyalty variable.</td>
<td>Rejected</td>
</tr>
<tr>
<td>H5  There is a direct effect between service quality variable on customer loyalty variable.</td>
<td>Rejected</td>
</tr>
<tr>
<td>H6  There is an effect between word of mouth variable on customer loyalty intervened by customer trust variable.</td>
<td>Rejected</td>
</tr>
<tr>
<td>H7  There is an effect between service quality variable on customer loyalty intervened by customer trust variable.</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Source: Results of processed data (2019)
Word of Mouth has a positive and significant effect on Customer Trust. This is found based on the CR value = 2.032 > 1.96 and the significance level of 0.042 which was under 5% alpha. Therefore, the analysis results showed that Word of Mouth was able to affect Customer Trust.

Service Quality has a positive and significant effect on Customer Trust. This is known based on the CR value = 4.721 > 1.96 and the significance level of 0.001 (**) which was under 5% alpha. Therefore, the analysis results showed that Service Quality was able to affect Customer Trust.

Customer Trust positively and significantly affected Customer Loyalty. This is known based on the CR value = 3.348 > 1.96 and the significance level of 0.001 (**) which was under 5% alpha. Therefore, the analysis results showed that Customer Trust was able to affect Customer Loyalty.

Word of Mouth did not positively and significantly affect Customer Loyalty. This is known based on the CR value = -1.543 < 1.96 and the significance level of 0.123 which was above 5% alpha. Therefore, the analysis results showed that Word of Mouth did not affect Customer Loyalty.

Service Quality did not significantly affect Customer Loyalty. This is known based on the CR value = 1.328 < 1.96 and the significance level of 0.184 which was above 5% alpha. Therefore, the analysis results showed that Service Quality affects Customer Loyalty however the effect was not significant.

In the interference of Customer Trust variable between Word of Mouth and Customer Loyalty, there was not any significant effect. This is known based on the significance level of 0.082 which was above 5% alpha. Therefore, the analysis results showed that Customer Trust was not capable of intervening the correlation between Word of Mouth and Customer Loyalty.

In the interference of Customer Trust variable between Service Quality and Customer Loyalty, there was a significant effect. This is known based on the significance level of 0.006 which was above 5% alpha. Therefore, the analysis results show that Customer Trust was capable of intervening the correlation between Service Quality and Customer Loyalty.

**Conclusion**

This research generated a conclusion that Word of Mouth is proven to positively and significantly affect Customer Trust. This is in line with the studies by Sitorus and Hartono (2015) as well as Semuel and Lianto (2014) which also show that word of mouth can positively and significantly affect customer trust. Therefore, it can be explained that a positive word of mouth will encourage the feeling of trust by the customer to the bank. Accordingly, the bank needs to maintain the communication established by the existence of positive word of mouth so that it can run consistently.

Service Quality is proven to positively and significantly affect Customer Trust. This is in line with the studies by Rahayu (2018) and Unidha (2017) which also show that service quality positively and significantly affects customer trust. Therefore, it can be explained that service quality that is appropriate with the customer holds a vital role in encouraging the realization of trust from the customers. Thus, the bank should conduct regular evaluation of the given service and improve the existing service quality.

Customer Trust is proven to positively and significantly affect Customer Loyalty. This is in harmony with the works by Mahardika et al. (2018) which also show that customer trust positively and significantly affect customer loyalty. Accordingly, it can be explained that customer loyalty will be established if the customers have the trust feeling to the bank. It is suggested the bank maintain the existing customer trust and keep on giving attention as well as fulfill the transaction needs from the customers.
Word of Mouth is proven not to positively and significantly affect Customer Loyalty. This indicates that word of mouth is not strong enough to affect customer loyalty. This research result is different from the research results generated by Saputra et al. (2015) that word of mouth positively and significantly affects customer loyalty. Therefore, the bank should find ways on how the communication established by the existence of positive word of mouth can run better so that it can build loyalty from the customers.

Service Quality is proven not to affect Customer Loyalty significantly. This shows that service quality is not sufficiently strong to affect customer loyalty. This research has different results from the studies conducted by Budiarta and Fachira (2017) as well as Pramana and Rastini (2016) that is service quality positively and significantly affects customer loyalty. Therefore, it is recommended that the bank find ways on how the current service can be improved regarding its quality so that in the future, the loyalty from the customers can be established.

In the interference of Customer Trust variable between Word of Mouth and Customer Loyalty, it is proven not to affect (no interference between variables) significantly. Then, the customers who already have well-established communication about the bank even though supported by customer trust on the bank, it is not considerably strong to improve the loyalty from the customers.

In the interference from Customer Trust variable between Service Quality and Customer Loyalty, it is proven that there is a significant effect (there is an interference between variables). Accordingly, if the customers receive the service quality according to their expectation as well as supported by customer trust on the bank, then it will improve the loyalty of the customers.

References


