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Chapter 9

The Moderating Effect of Customers' Trust on the Effect of Customer Satisfaction on Customer Retention and Word of Mouth Referral

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9.1 Introduction

The present chapter deals with the sixth objective of the study that to extract the moderating effects of customers' trust on the effect of customer satisfaction on customer retention and word of mouth referral. For testing the moderation effects, IBM SPSS AMOS 21 software package employed.

9.2 Objective of the chapter

Objective VI: To extract the moderating effect of customers' trust on the effect of customer satisfaction on customer retention and word of mouth referrals

9.3 Moderation analysis: An overview

Moderating variable is the variable that “moderates the effects” of an independent variable on its dependent variable. The social science

researchers, in particular, define the moderator as the variable that “interfere” in the relationship between an independent variable and its corresponding dependent variable. For illustration, let M be the moderator variable in the X-Y relationship. Then the moderation role of M is “to alter” the effects of X on Y. (Zainudin, 2012)

Before introducing a moderator into the model, the effect of independent variable X on its dependent variable Y must exist and significant. Thus, when a moderator M enters the model, the causal effects would change due to some “interaction effect” between independent variable X and moderator variable M just entered. As a result, the “effects” of X on Y could either increase or decrease. In other words, the effect of the independent variable on its dependent variable would depend on the level of the moderator variable. (Zainudin, 2012)

9.4 The effects of customer satisfaction (independent variable X) on customer retention and word of mouth referrals (dependent variable Y)

Before introducing a moderator into the model, the effects of independent variable X on its dependent variable Y must exist and significant (Zainudin, 2012)

In the present study the customer satisfaction is the independent variable and the customer retention and word of mouth referrals are the independent variables. Customer trust is the moderator variable. The moderating effect of customer trust among the relationship between customer satisfaction and customer retention and word of mouth referrals established in the present chapter

Figure: 9.1: The effect of customer satisfaction (independent variable X) on customer retention and word of mouth referrals (dependent variables Y)

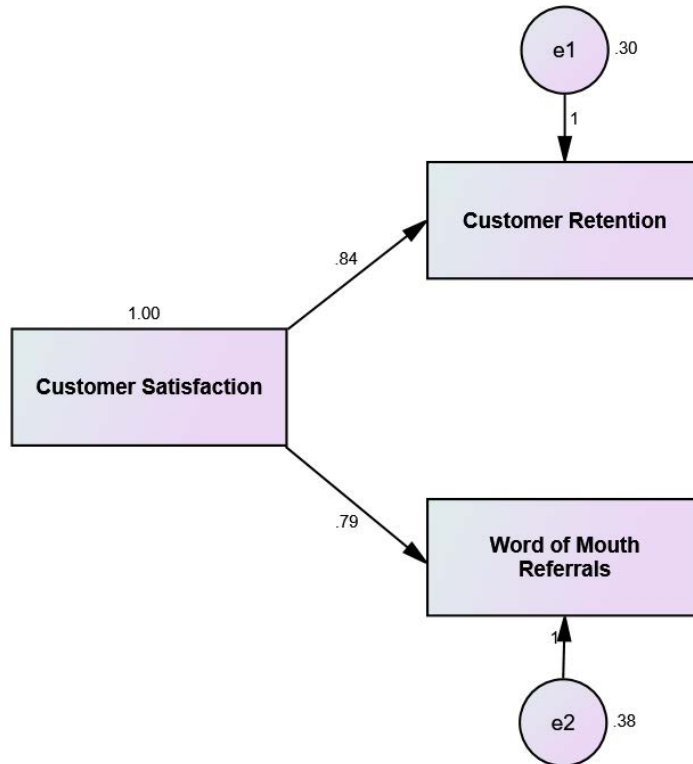


Table 9.1: Model fit indices for testing the effect of independent variable X on its dependent variable Y

ATTRIBUTES	CMIN/DF	P-VALUE	GFI	AGFI	CFI	RMSEA
Study model	2.987	0.287	0.993	0.963	0.997	0.047
Recommended value	Acceptable fit [1-5]	Greater than 0.05	Greater than 0.9	Greater than 0.9	Greater than 0.9	Less than 0.08
Literature support	Hair et al., (1998)	Barrett (2007)	Hair et al. (2006)	Hair et al. (2006)	Hu and Bentler (1999)	Hair et al. (2006)

Table 9.1 represents the CFA model fit indices to assess the overall model fit. The value of Chi-Square to the degrees of freedom ratio for an acceptable model should be less than 5. In this case, the value is 2.987 which are very well within the suggested maximum value. The RMSEA score is 0.008, well below the accepted threshold score of 0.047. Moreover, the GFI and AGFI values are above 0.9 and CFI is above 0.9 for which 1.0 indicates exact fit. Thus, the model is a good fit and can be considered for further analysis.

In the present study customer satisfaction is the independent variable and customer retention and word of mouth referrals are the dependent variables.

Table No. 9.2 Summary of estimates for testing the effects of customer satisfaction (independent variable X) on customer retention and word of mouth referrals (dependent variable Y)

Construct	Path	Construct	Estimate	S.E	C. R	P-value
Customer Retention	←	Customer Satisfaction	0.84	0.021	39.04	<0.001**
Word of mouth referrals	←	Customer Satisfaction	0.79	0.024	32.24	<0.001**

Source: Extracted from the model

*** denotes significant at 1 % level of significance*

The above table and SEM diagram visibly shown that customer Satisfaction has a positive and significant effect on customer retention and Word of mouth referrals. Thus the first condition of the moderation testing that ‘Before introducing a moderator into the model, the effects of independent variable X on its dependent variable Y must exist and significant’ is satisfied. (Zainudin, 2012)

9.5 Effect of customer satisfaction on customer retention and word of mouth referrals moderated by customers' trust

9.5.1 Hypotheses formulation

MOH.9.1: A higher level of customer satisfaction in the KGB services will result in higher customer retention.

MOH.9.2: A higher level of customer satisfaction in the KGB services will result in higher word of mouth referrals.

MOH.9.3: A higher level of customers' trust in the bank will result in higher customer retention.

MOH.9.4: A higher level of customers' trust in the bank will result in higher word of mouth referrals

MOH.9.5: The strength of the relationship between customer satisfaction and customer retention is moderated by customers' trust.

MOH.9.6: The strength of the relationship between customer satisfaction and word of mouth referrals is moderated by customers' trust.

Figure 9.2 Interaction moderation model based on Unstandardized Regression Coefficients

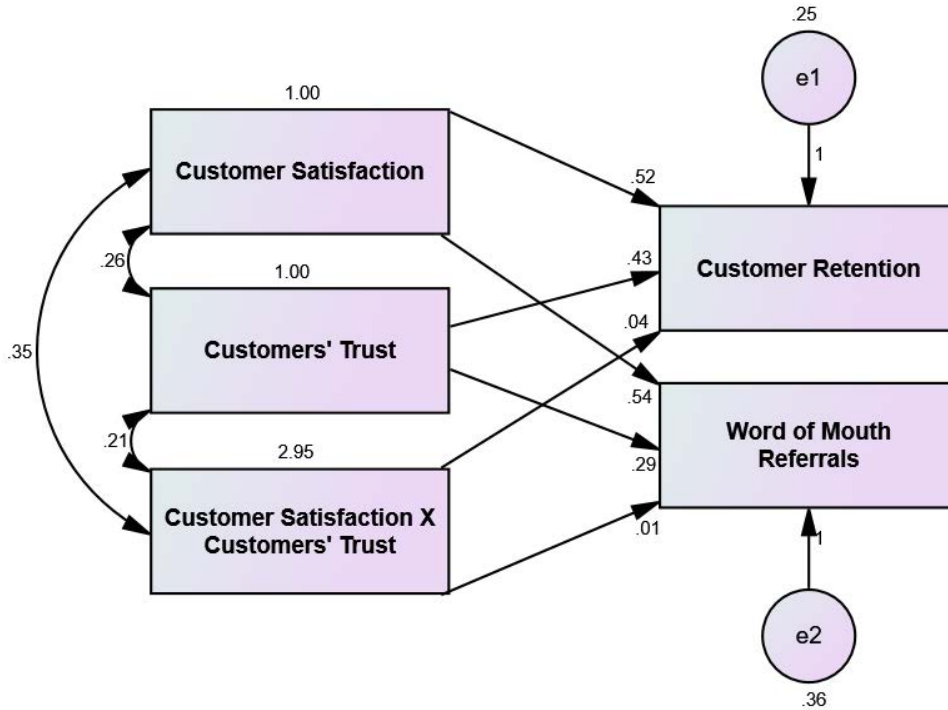


Table 9.3: Model fit indices for testing the effects of independent variable X on its dependent variable Y via moderation variable W

ATTRIBUTES	CMIN/DF	P-VALUE	GFI	AGFI	CFI	RMSEA
Study model	2.314	0.000	0.979	0.926	0.988	0.068
Recommended value	Acceptable fit [1-5]	Greater than 0.05	Greater than 0.9	Greater than 0.9	Greater than 0.9	Less than 0.08
Literature support	Hair et al., (1998)	Barrett (2007)	Hair et al. (2006)	Hair et al. (2006)	Hu and Bentler (1999)	Hair et al. (2006)

Table 9.3 represents the CFA model fit indices to assess the overall model fit. The value of Chi-Square to the degrees of freedom ratio for an acceptable model should be less than 5. In this case, the value is 2.314 which are very well within the suggested maximum value. The RMSEA score is 0.068, well below the accepted threshold score of 0.08. Moreover, the GFI and AGFI values are above 0.9 and CFI is above 0.9 for which 1.0 indicates exact fit. Thus, the model is a good fit and can be considered for further analysis.

Table No. 9.4 Summary of estimates of the moderation model

Construct	Path	Construct	Estimate	S.E	C. R	P-value
Customer retention	←	Customer Satisfaction	0.52	0.040	13.10	<0.001**
Word of Mouth Referrals	←	Customer Satisfaction	0.54	0.047	11.47	<0.001**
Customer retention	←	Customers' Trust	0.43	0.041	10.47	<0.001**
Word of Mouth Referrals	←	Customers' Trust	0.29	0.049	6.04	<0.001**
Customer retention	←	Customer Satisfaction x Customers' Trust	0.04	0.016	2.51	0.012*
Word of Mouth Referrals	←	Customer Satisfaction x Customers' Trust	0.01	0.019	0.394	0.694 ^{NS}

Source: Extracted from the model

** denotes 1% significance level; * denotes 5% significance level; NS denotes Non-significant

The interaction moderation model shows that customer satisfaction has a positive and significant effect on customer retention and word of mouth referrals. Customers' trust has a positive and significant effect on customer retention and word of mouth referrals. Interaction of customer satisfaction and customers' trust has a positive and significant effect on customer retention. Interaction of customer satisfaction and customers' trust does not have a significant effect on word of mouth referrals. The details of the moderation effect from the model are depicted below

Table No. 9.5: Summary of moderation effect - I

Construct names			Unstandardized Regression Coefficients		
Independent construct	Moderator	Dependent construct	Independent construct	Moderator	Interaction
Customer Satisfaction	Customers' Trust	Customer Retention	0.52**	0.43**	0.04*

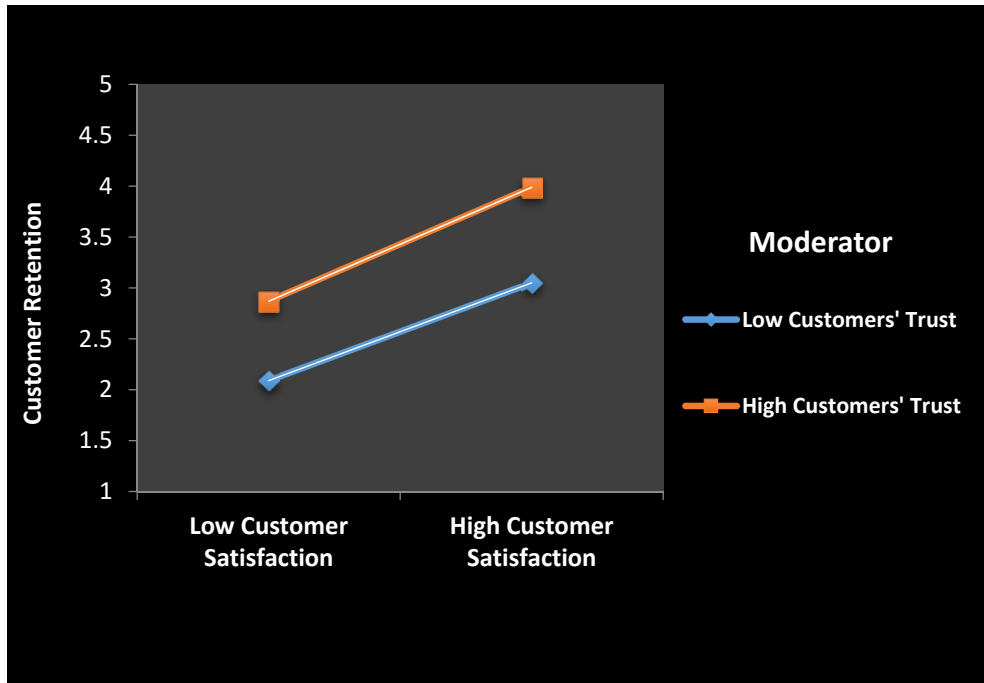
Source: Extracted from the model

** denotes 1% significance level; * denotes 5% significance level

The above table shows that the strength of the relationship between customer satisfaction and customer retention is positively and significantly moderated by customers' trust. As a moderator, customers' trust strengthens the positive relationship between customer satisfaction and customer retention. The following table depicts the simple slop test, which confirms the moderation effect.

Graph 9.1: Simple slop test plots of two-way interaction effect for unstandardized variables for moderation effect– I

Figure 9.3: Interaction of customer satisfaction and customers trust to predict customer retention



Result of Two-way interaction: customers' trust strengthens the positive relationship between customer satisfaction and customer retention. It means customer satisfaction has a stronger effect on the retention of KGB customers when customers feel trust in Kerala Gramin Bank.

Table No. 9.6: Summary of moderation effect - II

Variable names			Unstandardized Regression Coefficients		
Independent variable	Moderator	Dependent variable	Independent variable	Moderator	Interaction
Customer Satisfaction	Customers' Trust	Word of Mouth Referrals	0.54**	0.29**	0.01 ^{NS}

Source: Extracted from the model

** denotes 1% significance level; NS denotes Non-significant

This table shows that the strength of the relationship between customer satisfaction and word of mouth referrals is not significantly moderated by customers' trust. As a moderator, customers' trust does not have any moderating effect in the relationship between customer satisfaction and word of mouth referrals. Therefore, it can be concluded that customer satisfaction does not have stronger effect on word of mouth referrals of customers when customers feel trust in Kerala Gramin Bank.

9.6 Conclusion

The present chapter examined the moderating effect of customers' trust on the effect of customer satisfaction on customer retention and word of mouth referrals of the KGB customers. The results show that customer satisfaction has a direct effect on customer retention and word of mouth referrals. As a moderator, customers' trust strengthens the positive relationship between customer satisfaction and customer retention whereas, customers' trust either strengthens or weakens the relationship between customer satisfaction and word of mouth referrals. Therefore, the moderator variable, customers' trust has a significant and positive effect on the relationship between customer satisfaction and customer retention.