Customer Loyalty in State-Owned Retail Banking: Evidence from Lamongan, Indonesia

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ABSTRACT
This study investigates the determinants of customer loyalty in retail banking, focusing on National State Bank in Lamongan City, Indonesia. Employing a causal research design, data were collected from 156 customers via structured questionnaires and analyzed using Structural Equation Modeling (SEM) with AMOS 22.0. The findings reveal that service quality significantly enhances corporate image and perceived value, while perceived value and customer satisfaction directly foster customer loyalty. Contrary to expectations, service quality, corporate image, and trust exhibited no significant direct effects on loyalty, suggesting the mediating role of value and satisfaction. These insights contribute to the literature on relationship marketing and provide actionable strategies for banks aiming to strengthen customer retention.

Keywords: *e-Service Quality, Customer Satisfaction, Behavioural Intention, Online Food Delivery*

1. INTRODUCTION

In recent years, customer loyalty has emerged as a critical strategic priority for businesses operating in competitive service industries, including the banking sector. Scholars and practitioners alike have emphasized the importance of fostering long-term customer relationships, as loyal customers not only enhance profitability but also reduce the cost associated with acquiring new clients (Ofori et al., 2017; Omoregie et al., 2019).

As customer preferences and expectations continue to evolve, financial institutions are compelled to innovate and reconfigure their service offerings. The increasing demand for superior service quality has become a key driver of customer retention and loyalty. In this context, customer satisfaction acts as a crucial mediating factor that fosters durable, mutually beneficial relationships between banks and their clients (Kim et al., 2024; Shetty & Fitzsimmons, 2022; Yadav et al., 2023).

Service innovation in the banking industry is increasingly characterized by a network-centric approach, involving collaborative efforts between stakeholders, including customers, suppliers, and innovators. This paradigm shift emphasizes delivering meaningful customer experiences over mere enhancements in product features. In response to this dynamic landscape, banks are leveraging innovation to offer more personalized and responsive services tailored to customer needs (Bhat & Gupta, 2024; Sujud & Hashem, 2017).

Customer loyalty is particularly vital in the Indonesian banking industry, where state-owned banks play a pivotal role in national economic development. These institutions not only provide essential financial services but also contribute significantly to supporting micro, small, and medium-sized enterprises (MSMEs), infrastructure projects, and various government-led initiatives (Sitorus, 2024). The five leading state-owned banks in Indonesia—Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia, Bank Tabungan Negara, and Bank Syariah Indonesia—have consistently ranked among the top financial institutions in terms of assets and customer trust (Putri, 2024).

Given their central role in Indonesia's financial ecosystem, understanding the antecedents of customer loyalty in state-owned banks is both academically significant and practically relevant. This study aims to empirically investigate the factors that influence customer loyalty in state-owned retail banking, using the case of Lamongan City, East Java. By analyzing the relationships among service quality, corporate image, trust, perceived value, customer satisfaction, and loyalty, this research contributes to the literature on banking service management and offers strategic insights for practitioners seeking to optimize customer retention in a highly competitive environment.

2. RESEARCH METHOD

In this study, the type of research used is causal which is part of basic research (Firdaus et al., 2021). The purpose of this study is to examine the causal relationship between service quality, corporate image, and trust with customer satisfaction and customer loyalty of state-owned banks in Lamongan, Indonesia.

This study uses primary data obtained from the distribution of questionnaires to respondents using Google forms. The questionnaire in this study uses an interval scale, and alternative answers are arranged on a numerical scale. The statement is measured on a five-level scale. The measurement indicators in this study come from research of Omoregie et al. (2019).

The The target population in this study is customers of state-owned Banks in Lamongan, East Java with the following characteristics: 18 years old and above, have made transactions at least 3 times in the last 6 months, have been a customer of state-owned Banks for more than 1 year, have a minimum high school education/equivalent to be able to understand and answer the questions in the questionnaire objectively.

The initial data processing in this study was to test validity and reliability using the SPSS program. Furthermore, data processing is carried out with the AMOS program version 22.0 to carry out SEM data processing, namely testing structural and measuring models and hypothesis testing.

3. RESULTS AND DISCUSSION

3.1. Respondent Profile

The final dataset comprises 156 respondents. Of these, 57.7% were male and 42.3% female. The majority (80.1%) were between the ages of 18 and 35, with the remaining 19.9% aged above 35. In terms of occupation, 68.6% were either students or self-employed. This demographic distribution reflects a relatively young, active customer base familiar with digital banking services, which is consistent with the profile of modern retail bank customers in Indonesia

3.2. Validity and Reliability Analysis

Validity assesses the degree to which an instrument accurately measures the intended constructs, while reliability pertains to the consistency and stability of the measurement results over time (Karnia, 2024). All items were evaluated for validity using Pearson correlation, with significance levels set at ≤ 0.05. Each item yielded a correlation coefficient exceeding 0.50, indicating strong construct validity.

Reliability was assessed using Cronbach's alpha. All constructs demonstrated alpha values ≥ 0.6, confirming acceptable internal consistency. Thus, all measurement items are both valid and reliable, making them suitable for further structural analysis.

3.3. Measurement Model Evaluation

The measurement model was evaluated through Confirmatory Factor Analysis (CFA) using AMOS version 22.0. The goodness-of-fit indices are presented in Table 1.

Table 1. Measurement Model Fit Indices

Fit Index	Threshold	Result	Evaluation
CMIN/DF	≤ 2	1.963	Good Fit
RMSEA	≤ 0.08	.079	Good Fit
GFI	≥ 0.9	.797	Marginal Fit
CFI	≥ 0.9	.904	Good Fit
TLI	≥ 0.9	.887	Marginal Fit

While most indices indicate a good fit, GFI and TLI values fall slightly below the threshold, suggesting a marginal fit that remains acceptable within complex models (Table 2).

Further analysis of standardized factor loadings confirmed convergent validity. All items achieved loadings ≥ 0.50, with most exceeding 0.70, as recommended by Hair et al. (2010). Table 2 summarizes the factor loadings, Composite Reliability (CR), and Average Variance Extracted (AVE).

Although the AVE values for three constructs—Corporate Image, Trust, and Customer Loyalty—slightly fall below the 0.50 threshold, the standardized loadings remain above 0.50, suggesting sufficient convergent validity (Hair et al., 2010). All constructs exhibit acceptable CR values (>0.70), affirming construct reliability.

Table 2. Standardized Loading, CR, and AVE

Construct	CR	AVE	Evaluation
Service Quality	0.741	0.505	Valid and Reliable
Corporate Image	0.796	0.450	Marginal AVE
Trust	0.796	0.496	Marginal AVE
Value	0.830	0.552	Valid and Reliable
Customer Satisfaction	0.874	0.698	Valid and Reliable
Customer Loyalty	0.793	0.495	Marginal AVE

3.4. Structural Model Evaluatin

After the validity and reliability test was carried out, the next stage was to conduct a measurement model using the confirmatory factor analysis (CFA) method which was carried out using AMOS software version 24. Analysis using the CFA measurement model was applied to all research variables and indicators. This measurement model has a goodness of fit (GOF) index value consisting of 5 indices, namely CMIN/DF, RMSEA, GFI, TLI, and CFI (Hair, et al., 2013). Table 3 shows the results of the Goodness of Fit test of the structural model. The values of all indices are suitable because they meet the criteria, except GFI (marginal fit). Based on the test results, it was concluded that the structural model test met the criteria of suitability.

Table 3. Structural Model Fit Indices

Fit Index	Threshold	Result	Evaluation
CMIN/DF	≤ 2.00	1.908	Good Fit
RMSEA	≤ 0.08	0.077	Good Fit
GFI	≥ 0.90	0.808	Marginal Fit
CFI	≥ 0.90	0.909	Good Fit
TLI	≥ 0.90	0.894	Marginal Fit

Despite marginal values for GFI and TLI, the overall model fit is within acceptable limits, validating the structural path analysis.

3.5. Hypothesis Testing

Hypothesis testing was conducted using AMOS 22.0. A critical ratio (C.R.) ≥ 1.96 and a p-value ≤ 0.05 were used as thresholds for significance. Table 4 summarizes the results.

Table 4. Hypothesis Testing Results

Hypothesis	Path	Std. Estimate	C.R.	P-value	Outcome
H1 (+)	SQL → CI	1.163	5.747	***	Supported
H2 (+)	SQL → VL	1.429	6.195	***	Supported
H3 (+)	SQL → TR	1.440	.438	.661	Not Supported
H4 (+)	SQL → CL	.060	.026	.979	Not Supported
H5 (+)	CI → TR	-.167	-.060	.952	Not Supported
H6 (+)	CI → CS	.632	1.684	.092	Not Supported
H7 (+)	CI → CL	.222	.129	.898	Not Supported
H8 (+)	TR → CS	.327	1.022	.307	Not Supported

Hypothesis	Path	Std. Estimate	C.R.	P-value	Outcome
H9 (+)	TR → CL	.177	.514	.607	Not Supported
H10 (+)	VL → CS	.271	3.323	***	Supported
H11 (+)	CS → CL	.313	2.229	.026	Supported

Note: *** indicates $p < 0.001$

3.6. Final Research Model

The results of the first and second hypothesis tests are supported. The first hypothesis indicates that service quality has a positive and significant effect on corporate image. This result is consistent with the findings of Omoregie et al., (2019), which stated that there is a significant positive influence of service quality on corporate image. It is also in line with the research by Özkan et al., (2020), which found that service quality has a direct impact on corporate image. The second hypothesis is also supported, meaning that the service quality variable has a positive and significant effect on value. This finding is consistent with the studies of Omoregie et al., (2019) and Özkan et al., (2020), which showed that the quality of service perceived by bank customers has a strong influence on the value derived from the services provided.

The results of the third to ninth hypothesis tests are not supported. The third hypothesis test shows that the service quality variable does not affect trust. This result contradicts the findings of Omoregie et al., (2019), who found a significant positive influence of service quality on trust. The fourth hypothesis is also not supported, indicating that service quality does not affect customer loyalty. This finding is inconsistent with Omoregie et al., (2019), who reported a significant positive relationship between service quality and customer loyalty. Service quality is generally considered an important supporting factor that influences customer loyalty.

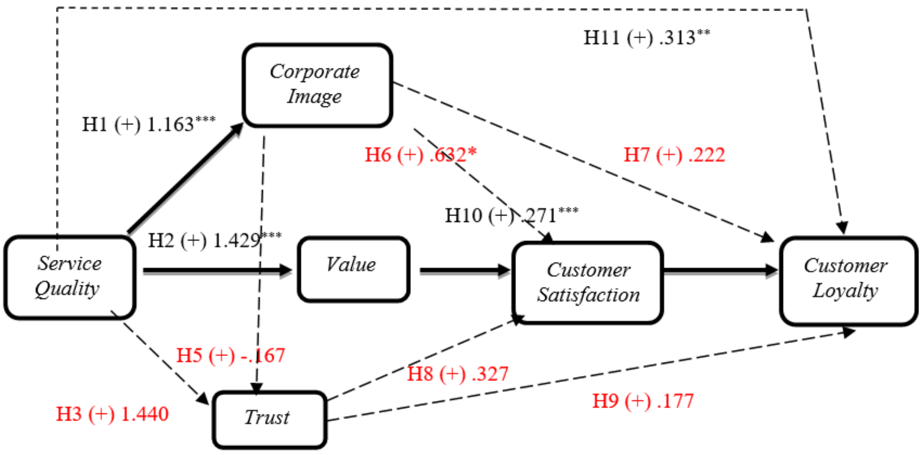

Figure 1 Hypothesis Test Model

Information: The numbers listed are standardized estimate values; Dotted lines indicate unsupported; * significant coefficients with p-Value < 0.1; ** significant coefficient with p-Value < 0.05. The fifth hypothesis is not supported, meaning that corporate image does not influence trust. This result contradicts Omoregie et al., (2019), who found a significant positive effect of corporate image on trust. The sixth hypothesis is also not supported, implying that corporate image does not affect customer satisfaction. This contradicts Omoregie et al., (2019), who showed that corporate image has a significant positive effect on customer satisfaction.

The seventh hypothesis is not supported, indicating that corporate image does not influence customer loyalty. This result is consistent with Omoregie et al., (2019), who found that corporate image does not significantly impact customer loyalty. Some studies suggest that in certain cases, corporate image only has a marginal effect on customer loyalty. The eighth hypothesis is not supported, showing that trust does not influence customer satisfaction. This finding is inconsistent with Omoregie et al., (2019), who reported no significant effect of corporate image on customer loyalty. Studies indicate that in some instances, corporate image only exerts a marginal influence on customer loyalty. The ninth hypothesis is also not supported, indicating that trust does not influence customer satisfaction. This result again contradicts Omoregie et al., (2019), who found no significant impact of corporate image on customer loyalty, and similar findings point to the marginal role of corporate image in affecting customer loyalty.

The results of the tenth and eleventh hypothesis tests are supported. The tenth hypothesis is supported, indicating that value has a positive effect on customer satisfaction. This finding aligns with Omoregie et al., (2019), who demonstrated a significant positive relationship between value and customer satisfaction. The eleventh hypothesis (CS → CL) is also supported, suggesting that customer satisfaction has a positive and significant impact on customer loyalty. This result is consistent with Omoregie et al., (2019), who found a significant positive influence of customer satisfaction on customer loyalty. When customer needs are fulfilled, loyalty tends to follow naturally.

4. CONCLUSION AND IMPLICATIONS

This study examined the antecedents of customer loyalty within state-owned retail banking institutions in Lamongan, Indonesia. The empirical findings underscore the critical role of service quality in shaping both corporate image and perceived value, aligning with earlier research by Omoregie et al., (2019),and Özkan et al., (2020). However, contrary to conventional assumptions, the results reveal that service quality, corporate image, and trust do not exert a direct influence on customer satisfaction or loyalty within the examined context.

Instead, perceived value emerges as a pivotal factor driving customer satisfaction, which in turn significantly enhances customer loyalty. These findings suggest that loyalty in state-owned banking is not necessarily driven by direct perceptions of service attributes alone, but rather by how those attributes translate into tangible value and positive emotional experiences.

4.1. Theoretical Contributions

The study contributes to the literature by offering a more nuanced understanding of loyalty formation in emerging-market financial institutions, particularly state-owned banks. It challenges the assumption of linear causality between service quality and loyalty, instead proposing a value-satisfaction-loyalty chain as the dominant pathway in this context. Furthermore, the insignificant role of trust and corporate image in directly fostering loyalty invites further investigation into mediating or moderating variables in similar institutional settings.

4.2. Practical Implications

For practitioners in the banking sector, particularly within state-owned institutions, the findings offer actionable insights:

- Enhancing Perceived Value: Banks must design services that go beyond functional quality and offer experiential and emotional value to customers.
- Focusing on Satisfaction Drivers: Investments in service delivery should prioritize elements that directly enhance satisfaction—such as personalized service, responsiveness, and transparency.
- Reevaluating Branding Strategies: Given that corporate image alone does not guarantee loyalty, brand-building efforts should be integrated with satisfaction-generating initiatives.
- Redefining Customer Retention Programs: Customer loyalty programs should be rooted in perceived value and satisfaction, rather than solely in service performance metrics or image management.

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