

## The Effectiveness of Relational Bonds on Customer Loyalty Mediated with Customer Satisfaction: Telecommunication Industry, Batticaloa

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### *Authors' contributions*

*This work was carried out in collaboration between two authors. Author SN designed the study, performed the statistical analysis and wrote the first draft of the manuscript. Author VRR guided and supervised the whole study. Both authors read and approved the final manuscript.*

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### ABSTRACT

**Aims:** Customer loyalty is considered to be a key component in enhancing the survival of businesses, especially in the situations faced by highly competitive industries. Therefore, Tele communication service providers should be conscious of the factors affecting customer loyalty in building strong relationships. This study aimed to investigate the effectiveness of relational bonds on customer loyalty with regard to customer satisfaction in mobile telecommunication service providers.

**Study Design:** The descriptive survey design and Cross sectional analysis were used to analyse the data.

**Place and Duration of Study:** This study was based on the customer's perspectives and their experiences with mobile telecommunications service in Batticaloa. Research was conducted from January 2016 to November 2016.

**Methodology:** Stratified random sampling was used. The study divided the whole population (25,482) in Manmunai North divisional secretariat area – Batticaloa according to the villages in that DS division, and the sample of 200 families selected from all villages according to its contribution for total population and unit of analysis is family units. The descriptive statistics, correlation and

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regression analysis were used to analyze the data.

**Results:** The results revealed that strong positive relationship exist between the relational bond and (0.887) loyalty, same as satisfaction (0.892). Further, relational bonds were significantly impacted on (0.786) loyalty and (.795) satisfaction and also relational bond impact on customer loyalty significantly through customer satisfaction (.804). Therefore, it is reasonable to conclude that customer loyalty can be created, reinforced and retained by developing strong relational bonds between customers and service providers.

**Conclusion:** The study contributes to existing theoretical and practical knowledge by providing evidence about the relationships between relational bonds on customer loyalty, and between customer satisfaction. It is potential to maintain long-term relationships between the service providers and their customers

*Keywords: Relational bonds; satisfaction; loyalty; telecommunication.*

## 1. INTRODUCTION

### 1.1 Background

Retaining a customer over a period of time can be seen as serious issue to the firms to its sustainability as the firm lose its loyal customers and facing difficulties to acquire new customers. As a result, marketers highly concentrate on several strategies that are creating customer loyalty. At the same time, the role of customer loyalty gains more prominence when applied in the context of services due to the higher human involvement in comparison to goods [1].

The Telecommunication industry is one of the fastest growing service industry in Sri Lanka. Further, Serkan Aydin and Gokhan Ozer [2] suggested in their study that, *companies in telecommunications are losing 2-4 percent of their customers monthly; disloyal customers can amount to millions of lost revenue and profit.* Thus, it is fundamental to telecommunication industry to consider the concept and strategies that create customer loyalty. The telecommunication industry in Batticaloa has been liberalized, with five service providers including Dialog, Airtel, Mobitel, Hutch and Etisalat. The existing service providers are trying to capture the other competitors' customers. In order to retain customers and turn them as loyal customers, service providers need to find-out the relational bonds to restrict the customers switch from one services provider to another. The same situation was experienced in Batticaloa due to increase in the number of alternatives service providers. It means, new service providers expand their market into Batticaloa district by seeking and attracting other operators' customers. For instance, Hutch has aim of being a nationwide operator in Sri Lanka, with that intention they expand their market into Batticaloa

district in 2012 with bundle of offers, in the mean time Dialog exist as largest in terms of subscribers and coverage in Batticaloa. At this stage companies realize the importance of keeping loyal customers by creating satisfied customer base.

Whereas, it clearly stating that, new entrance will definitely attract other service providers' customers. Its mean, there is threaten to service providers that existing customers may switched from one service providers to another. So, there is essential need to service providers to draw and implement effective strategies and tactics with the intention to creating loyal customers. These roles to be played by implement relational bonds.

Further, there has been a growing recognition, that the impact of customer satisfaction on customer loyalty is complex and might vary under different conditions. Hence this study propose to find out the impacts of relational bond on customer loyalty with respect to customer satisfaction in order to retain customer for longer possible period of time.

### 1.2 Problem Statement

Customer loyalty is an extremely important factor to Telecommunication industry at present, as high competition exists. Service providers are competing themselves for each single percentage of market share. Therefore, service providers implement many strategies to create loyal customers in the competitive marketing environment. However, in mobile Telecommunication industry, consumer behaviour research not excessive attention has been paid to initial adoption and acceptance [3].

So far, as there is only few researches has been conducted on the effectiveness of relational

bonds on customer loyalty types mediated with customer satisfaction. However, it is not identical whether relational bond has addressed in Telecommunication industry in Sri Lankan context, particularly in Batticaloa Manmunai North Divisional Secretariat. Thus, there exists a clear empirical gap with respect to relational bonds on customer loyalty and satisfaction in mobile telecommunication. This empirical gap becomes a problem to marketers in addressing customer loyalty.

Further, although researchers acknowledge the importance of the customer loyalty concept in marketing practices and have made attempts to investigate some of the relationships between relational bonds and satisfaction. But the complex interrelationships between these constructs are still not well understood, particularly in the business environment. Reichheld and Sasser [4], it clearly states there is literature gap exists in this study area. Which means the literature regard relational bonds on customer satisfaction and loyalty has not fully explored yet. This study addresses this as literature gap and attempt to fill through this study. Therefore, the findings provide further understanding on relational bond and customer loyalty mediated with customer satisfaction by providing answers to the research questions raised in the study.

### 1.3 Research Questions

- 1) What is the level of relational bond, satisfaction, and loyalty among customers of telecommunication service providers?
- 2) What is the relationship between relational bonds and customer satisfaction along customer loyalty?
- 3) Whether relational bonds have impact on customer satisfaction along customer loyalty?
- 4) Whether the effect of relational bond on customer loyalty is mediated by customer satisfaction?

### 1.4 Literature Review

#### 1.4.1 Relational bond

Roberts et al. [5] acknowledged that, "one strategy that has gained considerable attention is the strategy of relationship marketing in which firms invest in developing long-term bonds with individual customers." He further emphasis that the importance of this strategy is not only limited

to increasing customer retention, but also provides a sustainable competitive advantage to the firm as the intangible features of a relationship are difficult for competitors to duplicate. Zeithaml and Bitner [6] also state in their study that bonds are usually used by firms to build relationships and tie customers more closely to them.

This research study has also adopted the way that Berry and Parsuraman [7] they identified three types of relational bonds: *Financial bonds* - businesses use financial bonds to strengthen customer relationships. *Social bonds* - customer relationships are built through social interaction. *Structured bonds* - both parties share resources and develop a mutually beneficial relationship.

In discussing bonds, some authors consider bonds as 'exit barriers' this view refers to their function of preventing the customer from switching provider.

#### 1.4.2 Customer satisfaction

Customer satisfaction means that the quality of the product of service creates a feeling of contentedness for the customer [8]. According to Kotler statement "Satisfaction results from the customer favourably comparing product outcomes with expectations" [9].

#### 1.4.3 Customer loyalty

In Oliver's [10] study, loyalty is defined as "a deeply held commitment to re-buy or re-patronize a preferred product/ service consistently in the future". He stated several perspectives of loyalty including "Loyalty is built on continued dealings between the customer and the business; it is a type of commitment to purchase a favourite product or service again in the future".

Further, Oliver's [11] work also provided a comprehensive view of the loyalty construct, when he proposed four sequential brand-loyalty phases. First, *cognitive loyalty* refers to the existence of belief that a brand is preferable to others. Second, *affective loyalty* represents a favourable attitude that refers to customer liking or positive attitude towards a brand. Third, *conative loyalty* includes a deeply held commitment to the development of behavioural intention. Finally, *action loyalty* is where customers translate intentions into actions. From his statements it could be said that "loyal customers are important assets of a company.

Therefore, many companies select loyalty as their fundamental business goal because loyal customers purchase the same brands against all alternatives and choices”.

#### **1.4.4 Relationship between relational bond and loyalty**

Lin, Weng [12] did a study on “Integrative research into the financial services industry in Taiwan: Relationship bonding tactics, relationship quality and behavioural loyalty” on which he conclude that businesses can build customer relationships by developing one or several types of bonds. In the main, three types of relational bonds; financial, social and structural are considered to be important in securing customer loyalty.

#### **1.4.5 Relationship between relational bond and customer satisfaction**

Businesses that have a better understanding of what their customers need can provide products or services targeted to meet those demands, which strengthens their relationships with their customers and enhances satisfaction [13].

Further kotler [14] also state that “Mutually beneficial long-term relationships are built through relational bonds which providing customers with superior value and positively contributes to customer satisfaction”.

#### **1.4.6 Relationship between relational bonds on customer satisfaction and loyalty**

As Sheth and Parvtiyar [15] indicated in their study that relational bonds has impact on CL and satisfaction , With this finding this study also attempt to investigate the relationship between them in the Sri Lankan context as devised in the conceptual framework (see Fig. 1).

By reviewing the literature it could be conclude that “Customer loyalty is strongly affected by different types of relational bonds or ties, which can act as benefits or exit barriers, and have become central concepts in the study of customer relationships.

## **2. METHODOLOGY**

Descriptive research design was adopted for the study. The type of research is deductive and variables are measured with quantitative

analysis. For the study two hundred questionnaires were issued to the customers in Batticaloa Manmunai North Divisional Secretariat area on a stratified random sampling method.

This sample size was considered adequate based on Cooper and Schindler [16] proposition that statistically, in order for generalization to take place, a sample of at least 30 must exist and also in their study they took 200 as sample size. Each customer investigated through structured questionnaires with closed statements measured with Likert’s scale, was issued which was properly filled and returned. The data analysis done by the SPSS.

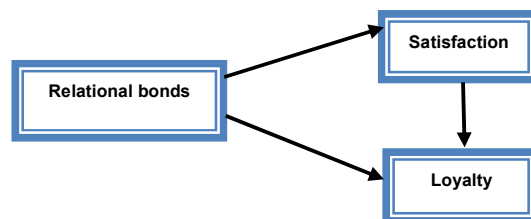
As per the literature it is stated that, in situation of strong bonds customers will be more committed in the relationship and less likely to switch to competitors. Thus, to verify this, following two hypotheses were formulated as follows:

- H1: Relational bond has an effect on customer loyalty in telecommunication service providers.
- H2: Relational bond has an effect on satisfaction in telecommunication service providers.

While concerning customer loyalty and satisfaction should be the greatest important issues for determining the most appropriate strategic in order to ensure long-term successful performance of service providers. One of the study [17] study found that, satisfaction was antecedent and mediating variable to loyalty. Thus, to verify this, following two hypotheses were formulated as follows:

- H3: Satisfaction has positive (+) effect on customer loyalty
- H4: The effect of relational bond on customer loyalty is mediated by customer satisfaction.

### **2.1 Conceptual Model**



**Fig. 1. Conceptual frame work**

## 2.2 Decision Criteria

Using tables and figures, the data and results of analyses presented appropriately. The data are analysed and presented with Univariate (descriptive statistic) and Bivariate (correlation) analyses with Multiple regression analysis.

**Table 1. Decision criteria for univariate analysis**

Range	Decision attributes
$1 \leq X \leq 2.5$	Low level
$2.5 < X \leq 3.5$	Moderate level
$3.5 < X \leq 5.0$	High level

Univariate analysis and mean estimation techniques are applied to explore the levels of study variables. In this context, the respondents are considered as unbiased with the Likert's scale of 3 for neutrality.

Bivariate (correlation) analysis carried to explore the relationship between study variable. As shown in Table 2, since the correlation coefficient of the study variables would be lying in the range of -1 to +1.

With regard to the main objective of this study, multiple regression analysis carried to explore the impact between relational bond with satisfaction and loyalty and same as mediating effect of satisfaction.

**Table 2. Decision criteria for bivariate analysis**

Range	Decision attributes
$r=0.1$ to $0.29$ or $r=-0.10$ to $-0.29$	weak relation ship
$r=0.3$ to $0.49$ or $r=-0.3$ to $-0.49$	Medium relation ship
$r=0.5$ to $1.0$ or $r=-0.5$ to $-1.0$	Strong relation ship

*\*(+Sign indicate-positive relationship, -Sign indicate-negative relationship)*

*Source: Adopted from cohen, J [18]*

**Table 3. Decision rule for impact**

Decision rule for the results of regression	
$P \geq 0.05$	There is influence between independent on dependent variable.
$p \leq 0.05$	There is influence between independent on dependent variable

## 2.3 Decision Criteria for Accepting Mediating Variable

According to the study of Dale Berger [19] in his studies he cited Baron and Kenny [20] who stated the criteria to accept the mediating variable. Accordingly if M mediates an X-Y causal relationship then:

- (1) X significantly predicts Y (path c is significant)
- (2) X significantly predicts M (path a is significant)
- (3) M significantly predicts Y in the presence of X (path b is significant)
- (4) When M is in the model, the effect of X on Y is reduced ( $c'$  is less than c).

With complete mediation, path  $c'$  is zero.

Model -1 X indicates Relational bond  
 Y indicates Loyalty  
 M indicates Satisfaction

## 3. RESULTS AND DISCUSSION

### 3.1 Sample Profile

Descriptive statistical analysis was run on respondents' demographic variables. The results are shown in Table 4.

Table 4 exhibits that majority of the respondents were between 18-24 years' old which make 31%. Female respondents are accounted as 62.5 percent of the total number of respondents. Majority of the 54.7% of the respondents were users of Dialog service provider. And out of selected five influence factor, majority of the (50%) respondents rated "good coverage" as highly influence factor to recommend their service provider.

### 3.2 Descriptive Statistics of Study Variables

The descriptive data including, reliability, mean, and standard deviation of the study variables was obtained and shown in Table 5.

The overall Cronbach's Alpha Coefficient values for selected variables indicated a strong internal consistency among the attributes. Therefore, the variables used were concluded as reliable.

**Table 4. Summary of demographic information**

Demographic profile		Frequencies	Percentages (%)
<b>Gender</b>	Male	72	37.5
	Female	120	62.5
<b>Age groups</b>	18-24	54	28.1
	25-35	53	27.6
	35-44	52	27.1
	45-54	28	14.6
	54-65	5	2.6
<b>Service providers</b>	Dialog	105	54.7
	Airtel	40	20.8
	Mobitel	25	13.0
	Etisalat	13	6.8
<b>Influence factor To recommend</b>	Hutch	09	4.7
	Good coverage	96	50.0
	Good customer service	10	5.2
	Cheap	31	16.1
	More offers	50	26.0
	Brand Image	05	2.6

**Table 5. Reliability**

Variable	No. of statements	Cronbach's alpha coefficient
Relational bond	11	0.840
Loyalty	9	0.823
Satisfaction	4	0.935

**Table 6. Level of relational bond, satisfaction and loyalty**

Dimension	Mean	S.D	Decision attribute
Financial Bonds	3.682	0.976	High Level
Social Bonds	3.092	0.889	Moderate Level
Structural Bonds	3.583	0.937	High Level
Emotional & confidence	2.964	0.942	Moderate Level
Relational bond	<b>3.334</b>	<b>0.825</b>	<b>Moderate Level</b>
Satisfaction	<b>3.947</b>	<b>0.697</b>	<b>High Level</b>
Loyalty	<b>3.621</b>	<b>0.956</b>	<b>High level</b>

According to the results financial bond and structural bond were found to be high level. It is also well known that overall relational bond found to be moderate Level. To conclude, service providers in Manmunai North Batticaloa district have moderate level attention in conducting the relational bond mechanism. Same as, satisfaction and loyalty found to be high Level.

### 3.3 Relationship between the Variables

Correlation analysis was used to measure the relationship between the variable as shown in Table 7.

Correlation analysis was used to measure the relationship between the dependent variables of customer loyalty and independent variables of relational bond and its dimensions. The coefficient of correlation (r) value was 0.887 at the 0.000 significant levels (see Table 7). Thus it fallen on third attribute of the decision rule and proved a strong positive significant relationship between the relational bond and customer loyalty. Same as, the relationship between relational bond and satisfaction have strong positive relationship with the coefficient of correlation (r) value was 0.892 at the 0.000 significant levels.

**Table 7. Coefficient of correlation between relational bond, satisfaction and customer loyalty**

Variable	Financial bond	Social bond	Structural bond	Emotional & confidence	Over all relational bond
Loyalty		0.725	0.820	0.740	0.887
Pearson Correlation	0.824	0.000	0.000	0.000	0.000
Sig.(2-tailed)	0.000				
Satisfaction		0.689	0.869	0.714	0.892
Pearson Correlation	0.853	0.000	0.000	0.000	0.000
Sig.(2-tailed)	0.000				

**3.4 Analyze the Mediating Effect of Satisfaction on Relational Bond and Loyalty**

A measure of the mediation effect is the difference between **c** and **c'**. This difference is equal to the product of the paths to and from the mediator. Thus, **c - c' = ab**. The total effect of X on Y (**c**) can be decomposed into a direct component (**c'**) and an indirect component (**ab**), **c = c' + ab**.

Regression analysis was conducted to find the beta value of a, b, c and c'.

Model A in Table 9 shows an unstandardized regression weight of 1.028 for relational bond in predicting loyalty; thus, **c = 1.028**. Table 8 shows an unstandardized regression weight of 1.314 for relational bond in predicting satisfaction; thus, **a = 1.314**. The model B in Table 9 shows the unstandardized regression weight of 0.240 for satisfaction in predicting loyalty when controlling for relational bond; thus, **b = 0.240**. From these findings three conditions have satisfied necessary for mediation.

For complete mediation, need to ensure that the effect of relational bond on loyalty is zero when

control for satisfaction (path **c'** in the causal model in Fig. 2), to show that is zero.

The mediation effect can be measured as the reduction in the regression weight for relational bond on loyalty when satisfaction is included: **c - c' = 1.028 - 0.712 = 0.316** alternatively and equivalently (within rounding error), the mediation effect can be calculated as the product of the indirect paths from relational bond to loyalty through satisfaction: **1.314\*0.240 = 0.315**. Thus it is equal to zero.

$$a*b=c-c'$$

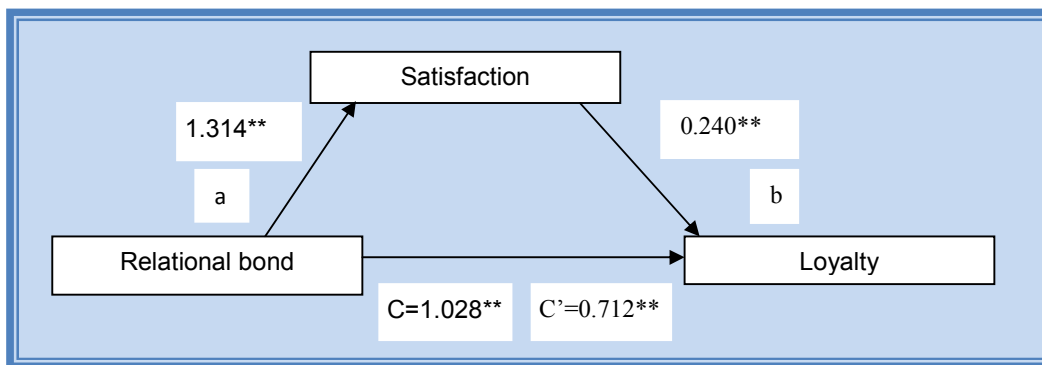
$$1.314*0.240=1.028-0.712$$

The total effect is equal to the direct effect plus the indirect effect:

$$1.028 = 0.712 + (1.314*0.240)$$

In the notation of mediation analysis: **c = c' + a\*b**

As the difference is equal to zero as per the decision criteria it could be concluded that satisfaction play mediating role. And this study accepted the formulated hypothesis H4. The effect of relational bond on customer loyalty is mediated by customer satisfaction.



**Fig. 2. Coefficient path of variables**

**Table 8. Regression predicting relational bond with satisfaction**

Model		Coefficients <sup>a</sup>		t	Sig.	Adjusted R square	Out come
		Unstandardized coefficients					
		B	Std. error				
1	(Constant)	-.885	.166	-5.334	.000	.795	H3 accepted
	bonds	1.314	.048	27.214	.000		

a. Dependent Variable: Satisfaction

**Table 9. Regression predicting loyalty with satisfaction and relational bond**

Model		Coefficients <sup>a</sup>		t	Sig.	Adjusted R square	Out come
		Unstandardized coefficients					
		B	Std. error				
A	(Constant)	.196	.133	1.471	.143	.786	H1 accepted
	bonds	1.028	.039	26.477	.000		
B	(Constant)	.409	.137	2.990	.003	.804	H2 accepted
	Satisfaction	.240	.056	4.310	.000		
	bonds	.712	.082	8.660	.000		

a. Dependent Variable: loyalty

#### 4. CONCLUSION

After successively collected and analyzed the data the research concluded that all the hypotheses are valid and show significant relationship between relational bond. And it suggested that that relational bond affect customer satisfaction, same as customer satisfaction affects customer loyalty and relational bond also positively influence to customer loyalty.

Thus, Service providers have to know, such strong relationships could be formed by the presence of; an increase in the benefits of structural, social, emotional & confidence and financial bonds interactions.

The study suggests that for the sake of customer acquisition, it is more essential for service providers to monitor changes in customer satisfaction as the study confirmed that the effect of relational bond on customer loyalty is mediated by customer satisfaction. And also as per the study the effect of relational bond on satisfaction is stronger than the effect of relational bond on customer loyalty.

The results of this study provide important insights into the role of bonds, satisfaction and loyalty for the service providers and this outcome is significance to the service providers dealing in the telecommunication industry. This research

only focuses on the telecommunication industry in Batticaloa. Additional studies need to be undertaken to examine Relational bond and customer loyalty in other regions and with larger samples. However, this can be further expanded into fields such as banks, insurance, leasing and other financial sectors.

#### COMPETING INTERESTS

Authors have declared that no competing interests exist.

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**APPENDIX**

**Analyze the mediating effect of satisfaction on relational bond and loyalty**

**Regression model fit for relational bond on satisfaction**

<b>Model summary</b>				
<b>Model</b>	<b>R</b>	<b>R square</b>	<b>Adjusted R square</b>	<b>Std. error of the estimate</b>
1	.892 <sup>a</sup>	.796	.795	.55134

Predictors: (Constant), bonds

**Regression model fit for relational bonds and satisfaction on loyalty**

**Model Summary**

<b>Model</b>	<b>R</b>	<b>R square</b>	<b>adjusted R square</b>	<b>Std. Error of the estimate</b>
1	.898 <sup>a</sup>	.806	.804	.4238403

a. Predictors: (Constant), bonds, Satisfaction

<b>ANOVA<sup>b</sup></b>						
<b>Model</b>		<b>Sum of squares</b>	<b>df</b>	<b>Mean square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	225.119	1	225.119	740.586	.000 <sup>a</sup>
	Residual	57.755	190	.304		
	Total	282.874	191			

a. Predictors: (Constant), bonds

b. Dependent Variable: Satisfaction

**Coefficients<sup>a</sup>**

<b>Model</b>		<b>Unstandardized coefficients</b>		<b>Standardized coefficients</b>	<b>t</b>	<b>Sig.</b>
		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
1	(Constant)	-.885	.166		-5.334	.000
	bonds	1.314	.048	.892	27.214	.000

a. Dependent Variable: Satisfaction

<b>ANOVA<sup>b</sup></b>						
<b>Model</b>		<b>Sum of squares</b>	<b>df</b>	<b>Mean square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	140.921	2	70.461	392.231	.000 <sup>a</sup>
	Residual	33.952	189	.180		
	Total	174.873	191			

a. Predictors: (Constant), bonds, Satisfaction

b. Dependent Variable: loyalty

**Coefficients<sup>a</sup>**

<b>Model</b>		<b>Unstandardized coefficients</b>		<b>Standardized coefficients</b>	<b>t</b>	<b>Sig.</b>
		<b>B</b>	<b>Std. error</b>	<b>Beta</b>		
1	(Constant)	.409	.137		2.990	.003
	Satisfaction	.240	.056	.306	4.310	.000
	bonds	.712	.082	.614	8.660	.000

a. Dependent Variable: loyalty

**Regression model fit for relational bonds on loyalty**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. error of the estimate
1	.887 <sup>a</sup>	.787	.786	.4430104

a. Predictors: (Constant), bonds

**ANOVA<sup>b</sup>**

	Model	Sum of squares	df	Mean square	F	Sig.
1	Regression	137.584	1	137.584	701.036	.000 <sup>a</sup>
	Residual	37.289	190	.196		
	Total	174.873	191			

a. Predictors: (Constant), bonds

b. Dependent Variable: loyalty

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients Beta		
1	(Constant)	.196	.133		1.471	.143
	bonds	1.028	.039	.887	26.477	.000

a. Dependent Variable: loyalty

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