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The Relationship Between NPS and Trust

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Abstract

It has been almost 11 years since the three largest retail banks in Iceland went bankrupt in October 2008 and were taken over by the government. Previous research has revealed that customers did not switch banks more often than normal, despite trust toward the banks plummeting dramatically (Gudlaugson and Eysteinnsson, 2013).

In this research, the focus is on the relationship between trust and the Net Promoter Score (NPS), a highly common metric among companies. The main reason for its popularity is that measuring NPS is simple, only one question, and that makes comparisons possible, both nationally and internationally. This is often done without much criticism or whether it is clear what NPS measures. In his paper “The One Number You Need to Grow,” Reichheld (2003) argues that NPS is a powerful instrument and that the use of only one question collects simple and timely data that correlate with growth. Others (Keiningham, Cooil, Andreassen and Aksoy, 2007) argue that NPS is too simple, is not a strong predictor of growth and has limited usability, since it is not linked to other measures or indicators for performance.

The findings are based on a survey conducted in February 2019 among the customers of the Icelandic retail banks. There were 542 valid responses, and data were weighted by gender and age so that they better reflected the attitude of the customers of the banks.

Findings indicate a strong positive relationship ($r = 0.51$) between NPS and the image attribute of trust. That indicates that when NPS is high, the image of trust is likely to be high. There was a difference among customer groups: Arion banki had the strongest relationship ($r = 0.75$), then Landsbankinn ($r = 0.71$) and finally Íslandsbanki ($r = 0.69$). In all cases, the relationship was positive and strong (> 0.5), indicating that NPS might be a strong predictor of important image attributes such as trust, social responsibility and satisfied customers.

Keywords: Brand image, Net Promoter Score, Trust

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1. Introduction and literature review

In October 2008, Iceland experienced the deepest and most rapid financial crisis recorded in its history. Within less than a week, three of the largest retail banks, representing around 85% of total banking assets, collapsed and were taken over by the government. The image of the banks was obviously hurt as the result of the crisis (Eysteinnsson and Gudlaugsson, 2011; Gudlaugsson and Larsen, 2014).

The concept of “image” has been researched for decades and is defined in different ways. According to Wrenn, Kotler and Shawchuck (2010, p. 223) image is “the sum of the feelings, beliefs, attitudes, impressions, thoughts, perceptions, ideas, recollections, conclusions, and mind sets that a person or group has of another person, organization, or object.” Howcroft (1991) defines it as “the sum of total impressions and expectations acquired by customers and non-customers alike over time.” According to Hatch, Schulz and Williamson (2003), corporate image reflects the image connected with an organization’s name, while Keller (1993) describes corporate image as “perceptions of a company reflected in the associations held in memory.” Worcester (1997) describes it as “the net result of the interaction of all experiences, impressions, beliefs, feelings, and knowledge that people have about a company,” and Fombrum (1996) defines it as “the picture that an audience has of an organization through the accumulation of all received messages.”

According to Barich and Kotler (1991), image can be divided into three categories: “corporate image,” “product image,” and “brand image.” In addition, Barich and Kotler define the so-called marketing image. The marketing image indicates how customers and the public experience the value of the goods or services offered by a company, in comparison with the competition. A company has a strong marketing image if its customers feel they obtain good value from doing business with this particular company. Based on this, loyalty metrics such as the Net Promoter Score (NPS) can be defined as a marketing image, since NPS is based on how likely customers are to recommend a company or its services to others. Chen, Chang and Chang (2005) argue that the perception of service quality is positively related to the image of banks. Furthermore, it relates to banks’ customer loyalty (Flavián, Torres and Guinalú, 2004; Cengiz, Ayyildiz and Er, 2007; Cohen, Gan, Yong and Chong, 2007), and it can be connected to either the factors of products or of the brands (Chen, Chang and Chang, 2005; O’Loughlin and Szmigin, 2005). The literature differs on whether a bank’s image directly influences loyalty (Nguyen and LeBlanc, 1998) or affects loyalty indirectly (Caruana, 2002; Arasli, Mehtap-Smadi and Katricioglu, 2005; Cengiz, Ayyildiz and Er, 2007). Loyalty has been defined in many ways, but it is highly common to see it as either the likelihood of recommending the product or service to others or the likelihood of buying the product or service again. Image may furthermore induce a customer’s initial transaction with a certain bank (Bravo, Montaner and Pina, 2009; Laroche, Rosenblatt and Manning, 1986; Javalgi, Armaco and Hoseini, 1989; Kaynak and Whiteley, 1999). Comprehensive research further shows interconnectedness between banks’ image and profit (Ohnemus, 2009).

Tench and Yeomans (2009) contend that the corporate image reflects the company itself; that is, the way it is experienced by the public. Dowling (2001) says it is important to differentiate between the image of a company and its reputation, although those are related concepts. His definition of a corporate image sees this concept as a comprehensive value assessment, consisting of individual attitudes and feelings about the company. Thus a positive attribute of the company may affect its image, since people generally relate a company’s image to its distinctive features. Consequently, those aspects that characterize the company may assist individuals in formulating its image, which may be a consumer’s mental picture of the company or a certain feeling (Dowling, 2001). Corporate image can be of crucial importance, especially with a view to retaining a company’s current customer base (Lewis and Soureli, 2006).

In December 2003, Reichheld introduced a new loyalty metric, the Net Promoter Score (NPS), in a Harvard Business Review article, “The One Number You Need to Grow,” arguing that this new metric was the best predictor of growth. Although this metric has been widely criticized (Kumar and Grisaffe, 2004; Keiningham, Cooil, Andreassen and Aksoy, 2007; Keiningham, Vavra, Aksoy and Wallard, 2005), the metric quickly became highly popular, so much so that some managers misconstrued the concept as “the only number you need to know.” Many prestigious firms around the world have adopted NPS and are using it to this day. This is also the case in Iceland, where many of the largest companies in the country, including all the retail banks, are using NPS as an indicator of business performance. This is interesting, as Keiningham et al. (2007) have found no support for the claim that NPS is the single most reliable indicator of a company’s ability to grow, as argued by Reichheld (2003); furthermore, they have not seen that NPS performs better than the American Customer Satisfaction Index (ACSI).

In this paper the focus is on NPS as an image attribute, since it is based on customers' perceptions of how likely they are to recommend a company or service to others if asked and whether there is a relationship between other important image attributes, such as trust. The research questions are as follows:

1. Is there a relationship between NPS and trust?
2. Is NPS a good predictor of positive image?

After this introduction, the methodology employed in this study is outlined, and then the results are presented. Finally, the study's findings, its contributions to theory and practice and its limitations are discussed.

2. Methodology and data analysis

This chapter provides an overview of how the research was planned, how the data were processed and what sample of people participated in the study.

2.1 Research design

The findings are based on a survey conducted in February 2019 among customers of three Icelandic retail banks. There were 542 valid responses, and data were weighted by gender and age so that they better reflect the attitude of the customers of the banks. The instrument used was a questionnaire consisting of 17 questions in total. The first question was an open-ended top-of-mind question, intended to evaluate which retail banks came first to the mind of respondents. Next were seven image questions and the image attribute used was trust, social responsibility, modern, satisfied customers, for the young people, old-fashioned and corruption. These image attributes were identified in an extensive exploratory study in 2004, which involved interviews with the banks' customers, management and personnel, a thorough review of their websites and an analysis of the general media coverage on the banks. The participants evaluated the three largest banks, with around 95% market share, on each attribute using a nine-point scale, where 1 means "Applies very badly to this bank" and 9 means "Applies very well to this bank." The three banks evaluated were Landsbankinn (LB), Íslandsbanki (ÍB) and Arion banki (AB).

These questions were followed by four questions, the first of them measuring the Net Promoter Score (NPS). The NPS measures customer loyalty by asking respondents how likely they are to recommend organizations to friends or colleagues. The scale is from 0 to 10. People responding up to 6 are defined as detractors or unhappy customers that are likely to churn in the next three months. Respondents rating a 7 or 8 are defined as passive, and those giving out a 9 or 10 are defined as promoters. The overall score is calculated by subtracting the percentage of respondents who are detractors from the percentage who are by definition promoters (Reichheld, 2003). The last three questions focus on the respondents' backgrounds: their gender, age and education.

2.2 Sample

The population of interest consists of the banks' customers. However, a convenience sample was used, which, in most cases, resulted in a higher proportion of female respondents, and since the survey was web-based, it was also likely to have higher proportion of younger respondents. The structure of the sample can be seen in Table 1.

Table 1: The background of respondents

Gender	
Male	30.8%
Female	69.2%
Age	
Younger than 30 years old	57.8%
30-49 years old	29.8%
50 years old or older	12.4%
Education	
A-levels or lower	67.7%
University degree	32.3%

As shown in Table 1, the sample is skewed compared with the overall population, in which the proportion of females is 49.2% instead of 69.2%, and those younger than 30 years old are only 24.1% instead of the 57.8% in the sample. Therefore, all data are weighted by age and gender to better reflect the population.

3 Results

In this section, the results are detailed. First, the scores for trust and NPS are presented, both for the industry as a whole and for individual banks. Then the relationship between trust and NPS is analyzed, for the industry as whole as well as each of the three banks analyzed.

Table 2 shows the score for trust in the survey. The average score is 4.83 (+/- 0.17), which is considerably lower than before the crisis in 2008, but the average score in 2006 was 6.26 (Eysteinnsson and Gudlaugsson, 2011). Among the scores for individual banks, it can be seen that both LB (m = 5.08; +/- 0.21) and ÍB (m = 5.05; +/- 0.21) have significant higher scores for trust than AB (m = 4.38; +/- 0.22).

Table 2: The average scores for trust in the banking industry

	N	Mean	SD	95% confidence interval		
				Lower	Upper	+/-
Average	542	4.83	1.98	4.66	5.00	0.17
Landsbankinn (LB)	542	5.08	2.48	4.87	5.29	0.21
Íslandsbanki (ÍB)	542	5.05	2.51	4.84	5.26	0.21
Arion banki (AB)	542	4.38	2.53	4.16	4.59	0.22

Here it is important to keep in mind that research shows that a customer is more likely to rate the bank where he or she carries out his or her banking higher than other banks (Gudlaugsson, 2017). Table 3 shows the score of trust toward banks, based on customer groups where LB-C is the customers of Landsbankinn, ÍB-C is the customers of Íslandsbanki and AB-C is the customers of Arion banki.

Table 3: Trust toward banks based on different customer groups

Customer groups	Trust toward		
	LB	ÍB	AB
LB-C (n = 200)	6.10	4.39	3.77
ÍB-C (n = 169)	4.56	6.43	3.96
AB-C (n = 161)	4.57	4.60	5.74

As can be seen in Table 3, when considering trust, customers rate their banks higher than other banks, and in all cases the difference is significant. In trust toward LB, there is a difference ($p < 0.05$) between groups [$F(2, 527) = 26.533, p = 0.000$]. A post hoc test (Tukey) reveals a difference between LB-C (M = 6.10, SD = 2.50) on the one hand and ÍB-C (M = 4.56, SD = 2.12) and AB-C (M = 4.57, SD = 2.39) on the other. The eta squared (ES) value is 0.09, which indicates that the effect size of the group (each bank's customers) was between moderate and strong (Cohen, 1988). That means that 9% of the variability in trust toward LB was related to customer groups. An analysis of trust toward ÍB also shows a difference between groups [$F(2, 527) = 40.951, p = 0.000$], and a post hoc test shows that the difference was between ÍB-C (M = 6.43, SD = 2.23) on the one hand and LB-C (M = 4.39, SD = 2.44) and AB-C (M = 4.60, SD = 2.25) on the other. ES is 0.13, which indicates that the effect size of the group was strong. Findings for trust toward AB are also significant [$F(2, 527) = 35.655, p = 0.000$], where the difference is between AB-C (M = 5.74, SD = 2.45) on the one hand and LB-C (M = 3.77, SD = 2.43) and ÍB-C (M = 3.96, SD = 2.22) on the other (ES = 0.12).

Table 4 shows a calculated NPS for the banks in 2019. The total NPS is negative (-24.9), which indicates that detractors group is 24.9 larger than the promoters group. Based on NPS benchmarks provided by Customer Guru (see www.customer.guru/net-promoter-score/benchmark), this score is on the lower end for the financial services industry, where the lowest score is -41 for Citibank. However, it is important to keep in mind that this score is for the overall banking industry in Iceland, and among individual banks, the scores are different, as shown in Table 4.

Table 4: NPS for the retail banks in Iceland 2019

	Landsbanki	Íslandsbanki	Arion banki	Total
Detractors (0-6)	57.5%	40.8%	51.2%	49.2%
Passive (7-8)	23.5%	26.6%	31.5%	26.5%
Promoters (9-10)	19.0%	32.5%	17.3%	24.3%
NPS (M-L)	-38.5	-8.3	-34.0	-24.9

As can be seen in Table 4, Landsbankinn received the lowest score, -38.5, then Arion banki (-34.5). Íslandsbanki had the highest score (-8.3), but still negative.

The relationship between trust and NPS was investigated using Pearson product-moment correlation coefficients. Findings indicate a positive relationship ($r = 0.51$; $n = 541$; $p = 0.000$) between NPS and the image attribute of trust, and according to Cohen's (1988) classification of strength of associations, the relationship between NPS and trust is strong. That indicates that when NPS is high, the image of trust is likely to be high. Looking at different customer groups' findings indicates that the relationship is strongest among customers of Arion banki ($r = 0.75$; $n = 161$; $p = 0.000$), then among customers of Landsbankinn ($r = 0.71$; $n = 199$; $p = 0.000$) and finally among customers of Íslandsbanki ($r = 0.69$; $n = 169$; $p = 0.000$). In all cases, the relationship is positive and strong ($p > 0.5$), which indicates that NPS may be a strong predictor of important image attributes such as trust, social responsibility and satisfied customers.

4 Conclusions and discussion

In this research, the focus is on the relationship between trust and the Net Promoter Score (NPS), but NPS is a highly common metric in companies. The main reason for its popularity is that measuring NPS is simple, only one question, and makes comparisons possible, both nationally and internationally. This is often done without much criticism or whether it is clear what NPS measures. In his paper "The One Number You Need to Grow," Reichheld (2003) argues that NPS is a powerful instrument and that the use of only one question collects simple and timely data, which correlate with growth. Others (see e.g. Keiningham, Cooil, Andreassen and Aksoy, 2007) argue that NPS is too simple, is not a strong predictor of growth and has limited usability, since it is not linked to other measures or indicators for performance. The research question, again, is as follows:

1. Is there a relationship between NPS and trust?
2. Is NPS a good predictor of positive image?

Findings show a difference in the image of trust among banks, where Landsbankinn received the highest score and Arion bank received the lowest. Research like this has been conducted since 2004, and in each study, Arion banki has received the lowest score. What is of interest here is that when participants are divided into groups by where they carried out their banking, in all cases, people rated their banks highest on trust. In all cases, the eta squared was moderate or strong, indicating that a relatively high proportion of the variability in trust is related to where customers do their banking and always in favor toward the bank where they do their banking.

Findings indicate a strong and positive relationship between NPS and the image of trust toward the industry as a whole. This relationship was even stronger among each bank separately, but in all cases, the relationship between NPS was both positive and strong, with correlation coefficients between 0.69 and 0.75. This indicates that in a focus on the relationship between NPS and trust, NPS may be a strong predictor for that image attribute but also for other positive image attributes, such as social responsibility, satisfied customers, support good causes, personal services, progressive and modern. All these image attributes have been used in previous research.

Future research might focus on the relationship between NPS and other positive image attributes as well as those not so positive, such as corruption, since the relationship between NPS and corruption is expected to be strong but negative. If that is the case, managers might use NPS to predict things other than growth and execute NPS surveys more frequently than image surveys, since NPS is much simpler than common image or position surveys.

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