IMPACT OF PERCEIVED SERVICE QUALITY ON BANKING CUSTOMERS’ LOYALTY

PROF. DR. MUHAMMAD EHSAN MALIK
Dean, Faculty of Economics and Management Sciences/Director, Institute of Business Administration (IBA)/Director General, Gujranwala Campus, University of the Punjab, Lahore (Pakistan)

BASHARAT NAEEM
Lecturer at IBA, University of the Punjab, Lahore (Pakistan) & Ph.D. (Business Management) Scholar at COMSATS Institute of Information Technology (CIIT), Pakistan

ZOUNE ARIF
Student of MBA (Honors) at IBA, University of the Punjab, Lahore (Pakistan)

Abstract
Service quality since the past three decades has been able to attract the attention of major practitioners, researchers and managers due to its robust influence on not only on business operations, profitability but also customers’ satisfaction and loyalty. Accordingly, the purpose of current research was to ascertaining the differential impact of SERVQUAL dimensions on loyalty of the customers of international, private and government-owned banks operating in Lahore (Pakistan). Stepwise regression analysis of 244 survey responses revealed that SERVQUAL dimensions such as tangibles, empathy and assurance, but not reliability and responsiveness, contributed to foster customer loyalty. Recommendations for banking practitioners and future researchers were presented, too.

Keywords: Perceived Service Quality, Customer Loyalty, Banking Sector, Pakistan

Introduction:
Financial institutions are the backbone of the economy in today’s world. The current credit crunch has affected the performance of many banks globally. Besides the global economic crunch, commercial banks in Pakistan are operating in far-reaching and cut-throat environment through policies like liberalization and privatization of banks. Thus institutions that adopt strategies to compete better are more likely to survive in the long run. Customer loyalty to businesses is one way of keeping banking businesses competitive. Service quality since the past three decades has been able to attract the attention of major practitioners, researchers and managers due to its robust influence on the dimensions of business operations, profitability, customer loyalty and satisfaction (Sureshchander et al., 2002; Leonard and Sasser, 1982; Gammie, 1992; Cronin and Taylor, 1992; Gummesson, 1998; Chang and Chen, 1998; Newman, 2001; Lasser et al., 2000; Hallowell, 1996; Seth and Deshmukh, 2005). Service quality is considered as key elements for top management in successful business organizations (Blose et al., 2005).

It is a close examination of the services marketing literature indicates that the bulk of existing research regarding the relationships among service quality, customer loyalty and satisfaction is rooted on samples from the developed Western countries, such as the USA, the UK, and Canada (Tsoukatos, Rand 2006). In addition, despite problems associated with the dimensionality of SERVQUAL and its strength in various contexts, many studies have used, adapted, or replicated this scale to measure service quality. However, measures of service quality in specific cultural settings need to be tested (Imrie et al. 2002; Winsted 1997). An
empirical study also indicated that the existing service quality dimensions applied in
developed countries should not be directly transposed to emerging markets (Greenland et al. 2006).

In the light of above literature, the purpose of this research was to determine differential
impact of SERVQUAL dimensions on customers’ loyalty. Consequently, it might assist
banking practitioners in not only improving consumers’ intentions to stay but also to
promoting banks advocacy which could have favorable impact on their retail business
scorecard.

**Literature Review:**
Traditionally, businesses employ a marketing stratagem to catch the attention of customers.
Today’s competition rewards businesses that protect products and services through customer
retention (Roberts, 2005.) Customer retention through quality service, product, price and
access to a bank’s facilities among others, are critical to customer satisfaction. Research also
shows that satisfied customers make repeat purchase (or stick to their service providers) and
recommend to friends and families thereby increasing market share and profitability of the
organization.

In the academic literature conceptualization of customer loyalty has received remarkable
consideration because experts have observed the involved relationship with a firm’s
profitability. Therefore customer loyalty is now acknowledged as a crucial element in
strategic decision making because attracting new customers is more costly than retaining old
ones. Smart bank managers strive to have a faction of loyal and satisfied customers, as they
buy and spend more (Babakus, Yavas 2008). The customer loyalty notion was
operationalized into measurable metrics by Best (2009). He articulated customer loyalty as an
indicator calculated as: customer loyalty score (CLS) = customer satisfaction x customer
recommendation x customer retention. He argued customer loyalty metric must “include the
elements of customer satisfaction, customer retention as well as customer recommendation to
potential customers” (Best 2009; p. 51). In its characterization the study develops items of the
construct that reflect both attitudinal and behavioral side of loyalty as posited above.
Customer loyalty is considered as incredibly key construct when it effect on repurching by
the customers (Caruana, 2002) and to maintain loyalty among the customer is critical thing
for an organization to increase its financial strengths (Beerli, Martin & Quintana, 2004).
Customer loyalty can be enhances through “lower costs of servicing existing customers”,
“reduced customer acquisition costs”, “and increased revenue” (Reichheld & Sasser, 1990).

Many scholars researching service quality have since adopted this particular view. Service
quality was conceptualised by Parasuraman et al., (1985, 1988) as an estimate of the disparity
between perceptions and expectations of customers regarding the service delivery.
Parasuraman et al., (1985) ascertained that consumers perceived the service quality by
comparing the expected service to the one they received (perceived) on 10 dimensions
supported by the data collected on 12 groups of consumers. Parasuraman et al., (1988), in a
succeeding and more elaborate work, restricted the original dimensions from 10 to 5
indicating that there was overlapping within these 10 dimensions that could be eliminated by
soundly putting into 5. This revolutionary research study (Parasuraman et al., 1988) recommended that multi-dimensional factors relevant to the situation influence the perceived
service quality. The five dimensions defined by Parasuraman et al., (1988) have the foremost
role in establishing customers’ judgment of perceived service quality:
1. Tangibles. Service environment including physical facilities, personnel, equipment, and marketing materials
2. Reliability. The consistent ability to perform the promised service in a perfect manner
3. Responsiveness. Sensitivity to help customers and provide timely service
4. Assurance. Courteousness and knowledge of the staff and the trust that they instill in their customers
5. Empathy. Firm has individualized concern and cares for its customers

Despite the popularity of SERVQUAL, (Pollack, 2009) and its usage at managerial and academic level by the professionals (Buttle, 1996), its reliability has been questioned by critics, the gap score operationalization (Brown et al., 1993), expectation meaning (Teas, 1994), generalized dimensions and superior service quality characterization (Oliver, 1993). Researchers also questions regarding SERVQUAL dimensions in different cultures (Tsoukatos and Rand, 2007; Kueh and Voon, 2007; Malhotra et al., 2005; Witkowski and Wolfinbarger, 2001; Jamal and Naser, 2003; Raajpoot, 2004; Furrer et al., 2000). In their research Donthu and Yoo (1998) found that customers’ cultural orientation influenced the overall banking service expectation with consistent findings of Furrer et al. (2000); Kueh and Voon (2007), Tsoukatos and Rand (2007). Ladhari (2008) also suggested that to improve SERVQUAL scale while taking different cultural contexts into consideration.

Other concepts that assess service quality have been devised owing to this rationale. Parasuraman et al’s (1988) SERVQUAL model has directed critics to establish distinctive service quality measures. Along with SERVQUAL dimensions researchers have integrated other measures and methods to augment and extend the clarity of this model, nevertheless, the SERVQUAL model remains the foundation for the majority of all other works. A performance-based service quality measure named as SERVPERF was developed by Cronin and Taylor (1992) continuing from their beliefs that the service quality (SERVQUAL) conceptualization and operationalization were insufficient.

Later researchers (Peter et al., 1993) tried to merge expectations and perceptions into a solitary measurement scale that is more effective, reliable and valid and applicable to a specific industry rather than using a single generic scale. Wang et al., (2004) used similar conceptualization in his studies on the Telecommunication Industry in China. Though the fundamental outlook of Parasuraman et al’s., (1988) 5 variables in the framework of service quality have been retained in the work. Ladhari et al., (2011) conducted a research to study the comparison among the perceived bank service quality of Tunisian and Canadian customers. Customers of the two countries demonstrated an elevated level of perceived service quality for the SERVQUAL dimensions, with the Canadians reporting a higher degree of perceived service quality than the Tunisians. Reliability was a common important predictor to both; but the second important predictor differed culturally, empathy being the second important factor in Canada and responsiveness in Tunisia.

Previous studies showed the strong association among perceived service quality and customer loyalty in services industry (for example Cristobal et al., 2007; Caruana, 2002; Jamal & Anastasiadou, 2009; Pollack, 2009; Kumar, Mani, Mahalingam, & Vanjikovan, 2010; Wong & Sohal, 2003; Wolfinbarger & Gilly, 2003; Yen & Lu, 2008). In banking industry Lam and Burton (2006), Beerli et al. (2004) and Ennew and Binks (1996) argued that superior services provided by the bank positively impacted the customer loyalty. Hsin-Hui Lin (2011)
conducted a research on mobile industry by taking 102 respondents from Taiwan and using partial least square approach and concluded that tangibility, empathy and responsiveness affect customer loyalty indirectly and directly. Bloemer et al. (1998) conducted a research in the Netherlands on retail banking customers and found that service quality did influence customer loyalty. Based on the literature, the following proposed relationship was empirically tested:

Research Hypothesis: Perceived service quality dimensions (tangibility, reliability, responsiveness, assurance and empathy) have differential positive impact on banking customers’ loyalty

Research Methods:
Survey questionnaire was used to collect data from the customers having bank account in government-owned, international and private banks in Lahore (Pakistan). After multiple follow-ups, 244 questionnaires were successfully retrieved with the response rate of 96%. For testing the hypothesised relationship, the main constructs/attributes measured in this study include SERVQUAL dimensions and customer loyalty. The SERVQUAL items in the questionnaire were adapted from the pioneering study conducted by Parasuraman et al’s (1988). Service quality was assessed in two ways both as antecedents (Wang et al., 2004) based on Parasuraman et al’s (1988) five dimensions namely, tangibility, reliability, responsiveness, assurance and empathy. A 5-point likert scale was used in the 18 items to measure the five dimensions.

Customer loyalty was computed from three question items reflecting both attitudinal and behavioural aspects of loyalty on a 5 point Likert scale. An attitude scale was employed for its measurement. Berne’ (1997) highlight it as a frequently employed system of measurement because of problems associated with sequential information regarding the repeat purchases. Three items were used to gauge the variable. It measures the level of commitment to the bank and the intents regarding continuation of the relation. The characterisation on customer retention and recommendation intentions is also consistent with the characterisation of Best (2009). All questions were measured on 5-point likert scale where “1=strongly disagree”, “2=disagree”, “3=neutral”, “4=agree”, and “5=strongly agree”.

Analysis and Interpretation:
The demographic data revealed that out of the 244 valid respondents, 174 were male and 53 were female. This represents 71% male and 29% female respondents respectively. The age group distribution of the respondents had the higher frequency of 196 (80%) respondents below the age of 40 and just 32 (13%) respondents above the age of 40 years, 16 of the respondents did not mention their age. The banking statistics reveal that 99.2% of respondents belong to identifiable banks by name whilst the rest (0.8%) belong to banks designated as “other banks”. The identifiable banks included United Bank Limited (UBL; 50), Standard Chartered Bank (SCB; 28) Habib Bank Limited (HBL; 29), Bank of Punjab (BoP; 19).
Table # 1 below shows the correlation matrix obtained based on customers’ perception scores of the various constructs measured in the study.

<table>
<thead>
<tr>
<th></th>
<th>X1</th>
<th>X2</th>
<th>X3</th>
<th>X4</th>
<th>X5</th>
<th>X6</th>
<th>X7</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X2</td>
<td>0.592*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X3</td>
<td>0.365*</td>
<td>0.399*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X4</td>
<td>0.598*</td>
<td>0.728*</td>
<td>0.463*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X5</td>
<td>0.560*</td>
<td>0.593*</td>
<td>0.488*</td>
<td>0.673*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X6</td>
<td>0.388*</td>
<td>0.489*</td>
<td>0.371*</td>
<td>0.470*</td>
<td>0.414*</td>
<td>0.536*</td>
<td></td>
</tr>
</tbody>
</table>

X1=Reliability, X2=Tangibles, X3=Empathy, X4=Assurance, X5=Responsiveness, X6=Customer Loyalty  
*Significant at 0.01 level

Table # 2 reflects the results of stepwise regression indicating that about 28% variance (adjusted $R^2=.28$) in customer loyalty was explained by model containing the SERVQUAL dimensions assurance, empathy and tangibles and other two dimensions “responsiveness”, “reliability” were excluded from the model. Tangibles alone explained 24% variability (adjusted $R^2=.24$), whereas empathy and assurance accounted for only 3% and 1% variance respectively in customer loyalty.

Table 2: Model Summary (Dependent Variable: Customer Loyalty)

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>$R^2$</th>
<th>Adjusted $R^2$</th>
<th>Std. Error of Estimate</th>
<th>Change Statistics</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$\Delta R^2$</td>
<td>$\Delta F$</td>
<td>df1</td>
<td>df2</td>
<td>$\Delta\text{Sig. } F$</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>.49a</td>
<td>.24</td>
<td>.24</td>
<td>.74</td>
<td>.24</td>
<td>76.08</td>
</tr>
<tr>
<td>2</td>
<td>.53b</td>
<td>.28</td>
<td>.27</td>
<td>.725</td>
<td>.04</td>
<td>12.31</td>
</tr>
<tr>
<td>3</td>
<td>.54c</td>
<td>.29</td>
<td>.28</td>
<td>.720</td>
<td>.01</td>
<td>4.70</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Tangibles,  
b. Predictors: (Constant), Tangibles, Empathy,  
c. Predictors: (Constant), Tangibles, Empathy, Assurance

ANOVA results (table # 3) demonstrated predictive strength ($F_{3,240}=32.69$, $p<.001$) of the model suggesting its appropriateness for explaining variance in customer loyalty.

Table 3: ANOVA (Dependent Variable: Customer Loyalty)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>50.73</td>
<td>3</td>
<td>16.91</td>
<td>32.69</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>124.16</td>
<td>240</td>
<td>.517</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>174.89</td>
<td>243</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Predictors: (Constant), Tangibles, Empathy, Assurance

The beta coefficients indicated that how and to what extent SERVQUAL dimensions such as tangibles, empathy and assurance influence customers’ loyalty toward their banks. As shown, tangibles (beta =.29, $t=3.63$, $p<.001$) had the highest positive impact whereas empathy (beta =.17, $t=2.81$, $p<.01$) and assurance (beta =.18, $t=2.17$, $p<.05$) had a relatively lower impact on the customers’ loyalty whereas “responsiveness” and “reliability” did not have any impact on loyalty.
Conclusion and Recommendations:
The main purpose of this study was to determine the differential impact of perceived service quality on banking clients’ loyalty. The study results showed that three dimensions of SERVQUAL such as tangibles, empathy and assurance fostered the customer loyalty whereas responsiveness and reliability did not observe to have significant impact on the customer loyalty. The results also showed that tangibles post more impact on customer loyalty followed by assurance and empathy.

The result that service quality dimensions have positive impact on customer loyalty is consistent with the other empirical studies in the services marketing literature. For instance, in a study of retail bank customers in the Netherlands, Bloemer et al. (1998) demonstrated that service quality had relationship with customer loyalty directly and indirectly. Similar findings were also reported in the works of Bell et al. (2005), Lassar et al. (2000), Bei and Chiao (2006) in Taiwan, Karatepe et al. (2005) in Northern Cyprus, and Mosahab et al. (2010) in Iran.

The current study presents very useful insights to bank management and marketing practitioners to better understand the relationship of service quality dimensions and customer loyalty. As the organizational structures of national and international banks operating in Pakistan are not sync with the accordance of consumer’s point of view and not providing the individualized service quality so the management should focused on establishing customer-orientated atmosphere in the bank. The management should make better their aural, visual, tactile and olfactory dimensions of environment in their respective branches because the today’s discerning and sophisticated consumers put more attentions to these attributes.

This study also has numerous limitations. This study used exploratory research design, thus researchers should take this limitation into consideration while interoperating the study results. Some additional variables, playing a vital role as mediator / moderator, should be incorporated in future studies in Pakistani context. This study was conducted in banking sector however researchers should extend this research in other services industries like telecommunication, hospitals, hotel industry etc.
References:


