



Impact of service quality on customer loyalty: a case study of commercial banks in Dhaka, Bangladesh

Md. Shariful Islam

Dept. of Marketing, Jahangirnagar University (JU), Dhaka - 1342, Bangladesh

ABSTRACT

New initiatives in banking sectors have contributed to change the entire economy. New forms of client interactive banking systems such as internet banking, ATM, mobile banking, green banking¹ and also maturing financial market and global contest have forced bankers to explore the significance of customer loyalty. Thus, studies need to focus on changing role of the banking system and its dynamic financial market. The basic model of SERVQUAL with five components was used for this study to evaluate the effect of service quality on customer loyalty among bank customers with customer satisfaction mediating these variables such as reliability, responsiveness, assurance, loyalty etc. Outcomes show that amplification in service quality can improve customer loyalty. The service quality dimensions that play a vital role in this equation are reliability, empathy and assurance. Results indicated that overall respondents appraise banking service positively but still there are opportunities for improvements.

Key words: Customer satisfaction, reliability, responsiveness, assurance and loyalty

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I. Introduction

Service quality will be of the utmost importance throughout for inspecting the actual functionality connected with bank twigs. Due to this fact banks own tactical will depend on their own service & support quality degrees they furnish. Superiority in service quality is often an important to obtain customer loyalty which can be the principal goal connected with organization agencies; due to benefits of customer retention. Kotler et al. (2010) states the cost of attracting a new customer may be five times the cost of keeping a current customer happy. Today the actual raising of understanding involving bank clients with their legal rights, transforming calls for and also very competition needs continual advance in service quality from the bank with regards to clients to settle devoted. Difference connected with reality, several banking institutions enroll in the belief that high client satisfaction can result in increased customer loyalty which often, in turn, brings about future profits.

¹ Green banking: Green banks involve pursuing financial and business policies that are friendly to environment

According to Pleshko (2009), not only empirically studies of the relationship between service quality and customer loyalty in banking system are limited, but also the existing studies on bank branches efficiency in general do not account for the changing role of bank branches. Customers worldwide are becoming more quality aware; thus customer requirements regarding high quality support are actually greater. Service market such as the finance institutions are usually required to offer outstanding providers for their customer, so as to possess eco-friendly reasonably competitive benefits. Bank is service oriented company which gives service through bankers. Bankers should follow the service characteristics to serve the customers properly. These characteristics are intangibility, heterogeneity, inseparability and perishability. Around the corner of this, providers have to have a special framework regarding high quality clarification along with dimension.

The relationship between service quality and customer loyalty in banking system are inadequate. Service quality is of supreme significance in analyzing the performance of bank branches, since their survival relies on their service quality levels they provide. In this regard, this case study was undertaken with the following objectives:

- to find out the changing role of the banking system and its dynamic financial market
- to show the use of SERVQUAL model in Bank
- to evaluate the impact of service quality on customer loyalty among bank customers, and
- to find out how service quality enhance customer loyalty.

II. Methodology

A case study was conducted during March to May 2015 to gather information to test the hypothesis based on questionnaire. Respondents were of various local bank customers in Dhaka city. This study is designed to find out the impact of service quality on customer loyalty. Endeavor to create customer loyalty from satisfied customers was emphasized. This study is done in an exploratory research design method. Because, exploratory research is not intended to provide conclusive evidence, but helps us to have a better understanding of the problem. When conducting exploratory research, the researcher ought to be willing to change direction as a result of revelation of new data and new insights.

Data has been used in the study from Primary Source and Secondary Sources. Primary data is raw information which has collected at first time. The responses on variables which have collected from 25 respondents are source of Primary Data. Source of Data which has collected from different articles, research, report, thesis paper or from websites is called secondary data.

Data collected from selected clients of banks (such as Dhaka Bank, The City Bank, One Bank, Eastern Bank Ltd, Southeast Bank etc.) who were convenient to us. Data collected through a formal questionnaire which can be read in appendix section. Likert scaling technique has been used to code data. 05 response categories have been used ranging from 1 (minimum) to 5 (maximum). Label of these 05 response categories were like 1= strongly disagree, 2= disagree, 3= Neutral, 4= agree and 5= strongly agree.

Statistical method of multiple regressions, frequency distribution, standard deviation, hypotheses etc. have been applied in this case study. Analysis of data is required to fulfill the objectives and to find out the impact of service quality on customer loyalty.

III. Literature Review

Considering the reasonably competitive atmosphere, there is a need for banking institutions to plan approaches that will make a distinction all of them through another. This is realized through the shipping and delivery involving excessive service quality. The practice of excellent service quality has been proven that customer satisfaction will significantly lead to customer loyalty (Caruana et al., 2000; Caruana, 2002). The current study utilizes SERVQUAL model (Parasuraman et al., 1988a) to help calculate particular customer loyalty.

Customer loyalty

Loyalty will be developed above a period from reliable report involving assembly, and sometimes even exceeding customer expectation. Kotler et al. (2010) expresses the cost of appealing to a new customer can be several instances the cost of maintaining a present-day customer needs. Gilmore (2003) provides a single description involving customer loyalty that will relate to: the degree to help a customer indicates repeat purchasing habits from your company, possesses a good attitudinal frame of mind in the direction of the particular provider and also takes using only this specific provider whenever a need for this specific support is out there.

In accordance with Bloemer & Kasper (1995), loyalty will be interpreted while genuine commitment rather than repeat purchasing habits, that's the actual repurchase of a brand, regardless of determination. Zeithaml et al. (2008) expresses loyalty is a multi-dimensional construct and also includes the two constructive and also negative tendencies. Even so, any devoted customers might not automatically be considered a satisfied customer. Colgate et al. (1996) likewise noted that it's not invariably the case that will customer defection is the inverse to help commitment, even though Levesque & Mc Dougall (1996) encouraged that will, "even a problem seriously isn't sorted, approximately half of the customers can use could remain using the firm". This can be as a result of moving over prices, deficit of identified differentiation involving options, place limitations with selection, occasion or maybe income limitations, behavior or maybe inertia that happen to be not necessarily linked to loyalty (Bitner, 1990).

Service quality

Definitions of service quality hold that this is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Lehtinen & Lehtinen, 1982). Service quality is defined as the degree of discrepancy between customers' normative expectation for service and their perceptions of service performance (Parasuraman et al., 1985). The definition of assistance high quality ended up being additionally designed as "the entire examination of a particular assistance firm in which outcomes through evaluating in which firm's performance with the actual customer's normal expectations of the way firms in that industry really should conduct (Parasuraman et al., 1988b).

Among general instruments, the most popular model used for evaluation of service quality is SERVQUAL, a well-known scale developed by Parasuraman et al. (1985, 1988a). The attributes of Parasuraman et al. (1985) were tangibles, reliability, responsiveness, competency, courtesy, assurance, credibility, security, access, and understanding. Parasuraman et al. (1988b) later on diminished these types of ten proportions in to five simply using a factor research. Based on the five proportions, a new 22-item review guitar intended for measuring assistance high quality has been designed. These five proportions are usually:

Tangibles: Equipment, physical amenities and emergence of personnel

Reliability: Capability to execute the promised service dependably and perfectly

Responsiveness: Eagerness to assist clients and provide on time service

Assurance (together with ability, politeness, reliability and safety): Knowledge and courtesy of staff and their capability to motivate

Empathy (including access, contact, considerate the customer): Concerned and individualized awareness that the firm provides to its clients

Though there was complaint through another analysts to help SERVQUAL model (Johnston, 1997), but SERVQUAL is the tool most used to its confirmatory issue examines in most cases. So, up to date, SERVQUAL model shown to be any parsimonious style which has been employed in numerous service organizations and also industries to help calculate service quality as well as banking institutions (Paswan et al., 2004; Seth et al., 2005; Lympelopoulos et al., 2006).

Customer satisfaction

Service quality is an international judgment or maybe mindset associated with the particular fineness on the service, while satisfaction is related to a particular transaction (Parasuraman et al., 1988a). In contrast, customer satisfaction features generally also been encouraged to become the leading determinant involving commitment (Lam & Burton, 2006). Ehigie (2006) implies there is a substantial constructive relationship between customer satisfaction and also customer loyalty or retention. Therefore, customer satisfaction within this investigation will be appearing as being a mediator between service quality and also customer loyalty.

Research theoretical model (RTM)

RTM is leading the analysis can be depicted inside physique underneath, designed by Agus et al. (2007) along with Caruana (2002). This case study will certainly study 05 aspects involving service quality such as tangibles, reliability, responsiveness, assurance along with courtesy which are designed by Agus et al. (2007) studied the service good quality within the framework involving Malaysian public service field by pulling on managing along with customer expectations involving service quality.

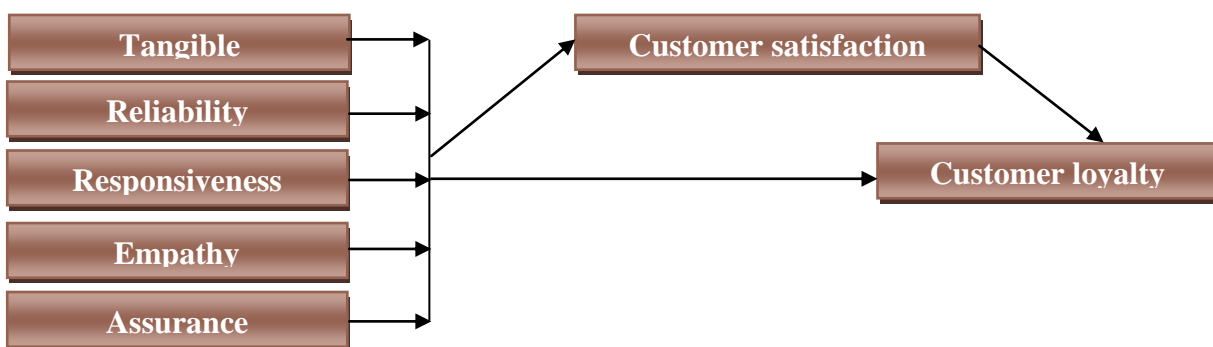


Figure 01. Research Theoretical Model

Hypotheses development

There are five components of SERVQUAL model that will really as well as in a negative way have an effect on the customer loyalty. Positive result makes much more customer loyalty in addition to negative result decies the customer loyalty. Customers are not satisfied; although, these current circumstances are altering. Today, most people seek to create good relation to customer loyalty trough SERVQUAL model. So, hypotheses of this study are based on positive effects such as:

- H1:** Tangible will lead positive impact on customer loyalty
- H2:** Reliability will lead positive impact on customer loyalty
- H3:** Responsiveness will lead positive result on customer loyalty
- H4:** Empathy will lead positive result on customer loyalty
- H5:** Assurance will lead positive result on customer loyalty
- H6:** Customer loyalty is interceded by customer satisfaction towards service quality
- H7:** Prominent customer satisfaction will lead positive impact on customer loyalty.

IV. Results

Personal information of respondents is presented in table 01. Highest numbers of respondents are doing their banking activities through branch banking (64%), followed by ATM (20%), internet banking (4%) and phone or mobile banking (12%). Further details are synopsized in table 02 below.

Table 01. Personal profile of respondents (N= 25)

Profile	Description	Number of respondent	Percentage
Gender	Male	18	72%
	Female	07	28%
Age	18 – 29	06	24%
	30 – 39	10	40%
	40 – 49	05	20%
	50 – 59	03	12%
	Above 60	01	4%
Current Occupation	Self Employed	05	20%
	Private Sectors	11	44%
	Public Sectors	06	24%
	Student	02	8%
	Others	01	4%
Income	Below 20,000	03	12%
	20,000 – 40,000	06	24%
	40,000 – 60,000	10	40%
	60,000 – 80,000	05	20%
	Above 80,000	01	4%

Table 02. Frequency distribution for present usage of banking transactions

Variable	Option	Frequency	Percentage
Number of bank used	Only 1	07	28%
	2	10	40%
	3	04	16%
	4	03	12%
	More than 4	01	04%
Types of account used	Current account	07	28%
	Savings account	13	52%
	Investment	03	12%
	Personal loans	02	8%
	Others	0	0%
Types of channels used to carry out banking transaction	Branch banking	16	64%
	ATM	05	24%
	Mobile/phone banking	03	12%
	Internet banking	01	4%
	Others	0	0%

Table 03. Reliability coefficient, mean and standard deviation (sd) for the major variables

Variable	Number of items	Alpha	Mean	<i>Sd</i>
Tangible	5	0.932	5.32	1.30
Reliability	4	0.960	5.32	1.29
Responsiveness	3	0.983	4.92	1.12
Empathy	4	0.943	4.81	1.38
Assurance	3	0.984	5.00	1.55
Customer satisfaction	3	0.984	5.77	1.51
Customer loyalty	4	0.976	5.62	1.60

Reliability on methods has been assessed with all the inter-item regularity way of measuring Cronbach's alpha². The alpha for those independent variables and dependent variables varied ranged

² Cronbach's alpha: It is used as a (lower bound) estimate of the reliability of a psychometric test. It has been proposed that can be viewed as the expected correlation of two tests that measure the same construct

from 0.984 to 0.932, in addition to surpass the particular minimum appropriate value associated with 0.7 (Nunnally, 1978). The highest standard deviation (Sd) of collected data is customer loyalty (1.60), followed by assurance (1.55), customer satisfaction (1.51), empathy (1.38), tangible (1.30), reliability (1.29), responsiveness (1.12), which are synopsised in table 03. Regression analysis has been conducted as suggested by Baron and Kenny (1986), by jogging several methods involving evaluation on their own. Tangible is not in favor of customer loyalty (Table 04 and 05). As such, no intervention occurs. It is found that the Reliability is not major when regression the Reliability and Customer Satisfaction. As such, no intervention occurs. Table 05 summarizes these findings further.

Table 04. Locating variables

Stage	Dependent variable	Independent variable
Stage - 1	Customer loyalty	Dimensions of service quality
Stage - 2	Customer satisfaction	Dimensions of service quality
Stage - 3 & 4	Customer loyalty	Customer satisfaction together with dimensions of service quality

Table 05. Results of Multiple Regressions

Variable	Step 1	Step 2	Step 3 + Step 4
<i>Dependent Variable</i>	<i>Loyalty</i>	<i>Satisfaction</i>	<i>Loyalty</i>
<i>Independent Variable</i>	<i>Co-relation</i>		
TRANGIBLE	0.07	0.10	0.02
RELIABILITY	0.25	0.04	0.27
RESPONSIVENESS	0.01	0.14	0.08
EMPATHY	0.29	0.26	0.13
ASSURANCE	0.36	0.51	0.04
Regression R^2	0.799	0.833	0.862

Table 06. Summary of Hypotheses Analysis

Variable	Hypotheses	Support
H1	Tangible will lead positive impact on customer loyalty	No
H2	Reliability will lead positive impact on customer loyalty	Yes
H3	Responsiveness will lead positive result on customer loyalty	No
H4	Empathy will lead positive result on customer loyalty	Yes
H5	Assurance will lead positive result on customer loyalty	Yes
H6	Prominent customer satisfaction will lead positive impact on customer loyalty	Yes

V. Discursion

Regression analysis demonstrates that tangibles don't have any important effect on customer loyalty. It's been noticed that there is the transforming pattern and also respondents did not address tangibles just as one crucial dimension nowadays caused by accessibility to self-service terminals. Therefore, the banks have to investigate improving this skill in their self-service terminals rather than their own inside. In addition, due to introduction than it, tangible features misplaced its importance to be a dimension with regard to customer loyalty. As such, it should be taken into consideration and also used to be a dimension with regard to customer loyalty. This may provide a lot more reflective end result for that bank natural environment today. Tangibles have been additionally observed being definitely not importance with mediating variable (customer satisfaction). Banks customers usually do not check out these tangibles since key point for the kids. Reliability is located to obtain positive connection along with customer loyalty. Reliability has been observed being definitely not important to customer satisfaction. This can be from the brand while using finding that customers may possibly stick with a company even this conjectures they may be disappointed simply because they experience they've already absolutely no choice. Findings indicated that the relationship between responsiveness

and customer loyalty is insignificant. Consumer loyalty is always key point that bank needs to assure in order to make profit. Clients, who utilize a particular bank support, take into account transferring bank to be a menace. Consumer tend to be more prepared and also well-informed, their own demand is additionally when using growing pattern. As a way to remain available, banks ought to improvise their own support services marketing campaign. Faithfulness plan works extremely well as one of the resources to maintain customer. With the entire introduction regarding international banks, regional banks ought to enhance their own support high quality by providing more capable staff to serve the customer from the businesses. Effects from hypotheses screening additionally indicate that responsiveness observed to obtain positive connection along with customer satisfaction. Empathy features important positive connection along with customer loyalty. Customer satisfaction is possible simply by featuring tailored, accommodating and also changeable products and services geared to needs regarding customers. This can be in line with the findings in this research that empathy features positive affect customer satisfaction. This case study demonstrates connection in between assurance and also customer loyalty and is steady. Assurance has been observed to become an important prediction regarding customer satisfaction. It is usually remarked that the general respondents measure the bank favorably, nevertheless throughout positive along with imply of more than some for each and every specifics. Nevertheless, there are still high opportunities with regard to improvements. Managerial inference in this study will be that bank managers require efficient recruitment and also training curriculum to make sure staff deliver specialist products and services, pay a lot more awareness of customer desires and also useless unveiling customer facts to entrepreneurs.

VI. Conclusion

The case study showed that impact of service quality on customer loyalty is significant. The greater part of hypothesis result is yes. Reliability, empathy, assurance and high customer satisfaction will have positive effect on customer loyalty. Only tangibles and responsiveness will have not positive effect on customer loyalty in banking sectors. Most of respondents said that service quality is the most significant part to create customer loyalty. Loyalty depends on excellence of service.

Although customer service has been evaluated long time ago, but it is still one study that banks must continue to conduct in order to meet the changes in the banking industry. New technologies must be incorporated as a factor to measure service quality in future researches. Researches and related questionnaires must also be accommodated with the new banking requirements of the customer. A clearer understanding as to the sequence of relationship between service quality, customer satisfaction and customer loyalty can help to ensure better targeting of customer using limited marketing resources.

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VII. Reference

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APPENDIX

Questionnaire

Part -A:

Demographic questions

- 1) Please specify your Gender :
 A) Male B) Female
- 2) Please tick the option that indicates your age group:
 A) 18-29 B) 30-39 C) 40-49 D) 50- 59 E) 60 Above
- 3) Your current occupation:
 A) Self-employed B) Private Sectors C) Public Sectors
 D) Student E) Others
- 4) Please tick the option that somewhat indicates your income (In Taka):
 A) Below 20,000 B) 20,000 – 40,000 C) 40,000 – 60,000
 D) 60,000 – 80,000 E) Above 80,000

Part -B:

Research questions

- 1) **The number(s) of bank account(s) you used?**
 A) Only 1 B) 2 C) 3 D) 4 E) More than 4
- 2) **What type of account you used?**
 A) Current Account B) Savings Account C) Investment
 D) Personal loans E) Others
- 3) **What type of channels used to carry out banking transactions?**
 A) Branch Banking B) ATM C) Mobile/Phone Banking
 D) Internet Banking E) Others
- 4) **The service quality impact on (create) customer loyalty.**
 A) Strongly Disagree B) Disagree C) Neither Agree nor Disagree
 D) Agree E) Strongly Agree
- 5) **In which factor affect you most from SERVQUAL model? Please give the rank of factors. (For example: Most important 1, less than most important 2, then 3, and so on)**
 _____ Tangible
 _____ Reliability
 _____ Responsiveness
 _____ Assurance
 _____ Empathy
- 6) **Tangibles will have positive effect on customer loyalty.**
 A) Strongly Disagree B) Disagree C) Neither Agree nor Disagree
 D) Agree E) Strongly Agree
- 7) **Reliability will have positive effect on customer loyalty.**
 A) Strongly Disagree B) Disagree C) Neither Agree nor Disagree
 D) Agree E) Strongly Agree

8) **Responsiveness will have positive effect on customer loyalty.**

- A) Strongly Disagree B) Disagree C) Neither Agree nor Disagree
D) Agree E) Strongly Agree

9) **Empathy will have positive effect on customer loyalty.**

- A) Strongly Disagree B) Disagree C) Neither Agree nor Disagree
D) Agree E) Strongly Agree

11) **Assurance will have positive effect on customer loyalty.**

- A) Strongly Disagree B) Disagree C) Neither Agree nor Disagree
D) Agree E) Strongly Agree

12) **Customer loyalty is mediated by customer satisfaction towards service quality.**

- A) Strongly Disagree B) Disagree C) Neither Agree nor Disagree
D) Agree E) Strongly Agree

13) **High customer satisfaction will have positive effect on customer loyalty.**

- A) Strongly Disagree B) Disagree C) Neither Agree nor Disagree
D) Agree E) Strongly Agree