

Impact of Service Quality on Customer Loyalty with reference to Commercial Banks of Nepal

Binod Ghimire, Ph.D.

Lecturer, Nepal Commerce Campus, Tribhuvan University, Nepal

Dil Krishna Shahu

Faculty of Management, Bhaktapur Multiple Campus, Tribhuvan University, Nepal

Sujita Thapa

Senior Client Care Executive, Standard Chartered Bank Ltd

Abstract

Service quality is important assessment through which overall service dimension can be conformed to the client's expectations. The main purpose of this study is to examine impact of service quality on customer loyalty with the mediating effect of customer satisfaction. In order to collect data for analysis, 154 completely filled online questionnaires were collected. Four stepped method suggested by Baron and Kenny (1986) was used for examination of mediating effect of customer satisfaction. After testing the hypotheses using various techniques, it was found that service quality has significant positive impact on customer satisfaction and customer loyalty. The customer satisfaction partially mediates between service quality and customer loyalty. This research is useful for commercial banks so that they can improve service quality to the customers and thus maintain customer satisfaction and loyalty. Similarly, the policy makers can also use this finding while formulating future plans in banking sector.

Keywords: *Service Quality, Competitive Quality, Customer Satisfaction, Customer Loyalty*

Introduction

Quality service provided to the clients has been recognized as the strategic requirement in highly competitive business environments. It is not easy to define service quality as compared to product quality due to some features unique to services including intangibility, inseparability, heterogeneity and perishability (Chang & Yeh, 2002). Loyyl and Kumar (2018) have defined service quality as the customers' perception regarding certain expectation. Thus, the mode in which clients are served in an organization which could be good or poor is meant to be service quality. Service quality is defined as the degree of incongruity that can be observed in customers' normative expectations for service and at the same time perceptions of service performance (Parasurama, Zeithaml & Berry, 1985). Parasurama et al (1985) explained that measuring service quality is to identify the differences in between perceived and expected service, as it is a valid way and to identify gaps to what the management offers as service.

In this 21st century, bank must be dynamic and present certain fundamental uniqueness to ensure quality service. Banks must be world-class standard, fully committed to excel customers' satisfaction and play a lead role in the growth and diversification of financial sector. (Karim & Chowdhury, 2014). It is the bank service quality that grabs the attention of the customers and thus be satisfied and remains loyal towards the bank. There are number of issues and grievances from customers in banks of Nepal. To address

these issues, banks are using automated technology so that they are competitive and can satisfy customers. With the automated service such as Automated Teller Machines (ATMs), internet banking, and other e-banking service are improving service delivery mechanism and outperforming competitors (Shrestha, 2019). Consumers are informed about bank product and services in prior so meeting their expectation are increasingly becoming more difficult. Customers' satisfaction is derived largely from the quality and reliability of products and services provided by service provider. The satisfied customers are the sources for the higher customers' loyalty (Horstmann, 1998).

Since there is intensive competitive situation in banking sector, Banks are compelled to improve their service so that they can meet emerging need and satisfy customers (Shrestha, 2018). In addition, continuous evaluation and upgrading of the services should be done to satisfy customers' changing needs and retain customers. Without competitive quality of service, now it is not possible to satisfy the customers and retain them. Customers are free to switch over other bank. Hence, it is important issue to upgrade quality of service and its impact on customer satisfaction and customer loyalty. The study was initiated in order to realize how the services provided by the banks could lead to customer loyalty with mediating effect of customer satisfaction. This study mainly focuses on exploring the relationship between service quality, customers' satisfaction and customers' loyalty in Nepalese commercial bank.

Literature Review

Service Quality Factor and Customer Satisfaction

Jamal and Naser (2003) observed that service quality is one of major factor of customer satisfaction. Even though of its importance, there is no such relationship in between customer satisfaction and tangible aspects of service environment. This is somehow contrasted with the research by Wakefield and Blodgett (1999), but supported by Parasuraman et al (1988). Service quality and customers satisfaction are distinct, however closely related constructs. These constructs have positive relationship. (Beerli, Martin & Quintana, 2004). In one study, Yee, Yeung and Cheng (2010) found that service quality has a positive impact on customer satisfaction. Similarly, Bolton and Drew (1991) identified as customer satisfaction is pre-requisite in service quality. Jamal and Anastasiadou (2009) clarifies that reliability, tangibility, and empathy are positively related with customer satisfaction. Further, Sulieman (2011) found more aspects like reliability; tangibility, responsiveness, and assurance have significant and positive relationship with customer satisfaction. Specifically, Ravichandran, Bhargavi and Kumar (2010) explained that responsiveness is the sole factor which has significant dimension of service quality. And, responsiveness is strong determinant to have its effect on the satisfaction of customer positively.

Customer Satisfaction and Loyalty

There are number of literatures advocating for strong foundation with the empirical exploration about the linkage in between customer satisfaction and customer loyalty. Horstmann (1998) identified strong positive relationship in between customer satisfaction and loyalty. With higher customer satisfaction, the level of loyalty increases. In this line, Tee (2012) observed significant positive relationship in between two context; customer satisfaction and customer loyalty.

In one study, Auka (2012) conducted one survey to examine the relationship between customer satisfaction and customer loyalty in commercial banking in Kenya. The results identified positive relationship in between customer satisfaction and customer loyalty. In the contrast, another study identified that customer satisfaction has not directly or indirectly impact on customer loyalty. (Aisyah, 2018).

Service Quality, Customer satisfaction, and Customer Loyalty

Caruana (2002) identified positive relationship in between service quality, customer satisfaction. One of the studies in banking sector in Greece, Veloutsou, Daskou and Daskou (2004) found the relationship

among service quality, customer satisfaction and customer loyalty positively. In the same line, Ehigie (2006) argued that service quality and customer satisfaction are determining factor and predictors of customer loyalty.

In the form of conceptual model, Zeithaml, Wilson and Bitner (2008) developed the model showing the correlation in between Service Quality, Customer Satisfaction, and Customer Loyalty. In this model, service quality represents the main outcome of reliability, assurance, responsiveness, empathy, and tangibles.

Research Methodology

The study employed on causal comparative research design to examine the relationship among different variables of service quality such as reliability, empathy, responsiveness, assurance and tangibility with customers' satisfaction with mediating effect of customers' loyalty. The total sample size taken for the study was 154 respondents. The sample size used in this study was determined by following the Roscoe (1975) who suggested the sample size larger than 30 and less than 500 is appropriate for most research. Kent (2001) has also suggested that for any kind of quantitative analysis, a minimum number of 100 cases are acceptable. Thus, this study determined the sample size of 154 which is considered to be sufficient for quantitative analysis. The sample units include the account holders of different commercial bank. The non-probabilistic sampling technique i.e. convenience sampling was used for data collection. Due to the pandemic, face to face questionnaire could not be filled; hence online survey has been used. This study is based on primary data. Primary data were gathered by surveying bank customers. The online survey questionnaire was used to display the relationship between service quality, customers' satisfaction and customers' loyalty in commercial banks of Nepal. The structured questionnaire survey was used to record the opinions and perceptions of customers of commercial banks of Nepal. 200 online questionnaires were distributed as link through Facebook, Viber, Gmail but it was found that few online questionnaires were not responded back, 154 responses were received. Five point Likert Scale where 5 represents "strongly agree" and 1 represents "strongly disagree" was used.

Econometric Model Specification

In accordance with the purpose of research which has been described previously, the basic regression models for the study with the description of dependent and independent variables are presented as follows:

$$CL = \alpha + \beta_1 SQ + \beta_2 CS + \epsilon_i$$

Where, CL refers as Customer Loyalty, SQ refers Service Quality Factors, CS refers Customer Satisfaction, and ϵ_i refers Error. With the use of four steps approach for mediation effect, Baron and Kenny (1986) used to examine the mediating effect of customer satisfaction on customer loyalty.

Results And Discussion

Respondent's Profile

Table 1 shows respondent profile. The table shows that majority of respondents are male (108 respondents out of total respondents). Similarly, majority of respondents falls under the 25 to 35 years category. Likewise, 76 percent of respondents work in service sector. Finally, the highest percent i.e. 43.5 percent of respondents has income level of 25,000 to 50,000.

Table 1

Respondent's profile

Variables	Categories	Frequency	Percentage
Gender	Male	68	44.2
	Female	86	55.8

Variables	Categories	Frequency	Percentage
Age	Other	0	0
	Below 25 years	36	23.4
	25-35 years	108	70.1
	35-50 years	8	5.2
	50 Above	2	1.3
Education	Secondary level and under	8	5.2
	Bachelor level	65	42.2
	Masters level and above	81	52.6
Occupation	Unemployed	10	6.5
	Service sector	117	76
	Manufacturing sector	2	1.3
	Other	25	16.2
Income	Below 15,000	15	9.7
	15,000-25,000	45	29.2
	25,000-50,000	67	43.5
	50,000-100,000	20	13
	100,000 above	7	4.5

Reliability Analysis

Cronbach's Alpha has been used in the study for the consistency of the scale items used. The reliability of variables of the study was tested using Cronbach's Alpha which is presented in Table 2. It shows the results of reliability of the measurement scales used for measuring the independent and dependent variables. All of the values are above 0.7 which is considered acceptable and reliable.

Table 2

Reliability Test Using Cronbach's Alpha Coefficient

Constructs	Cronbach's Alpha
SQ	0.782
CL	0.819
CS	0.910

Test of Multicollinearity

Variance Inflation Factor (VIF) was used to confirm about the multi-collinearity issues. Table 3 shows the variance inflation factors in terms of specific standard. With the standard specification test as $VIF < 10$ for all the variables, here, the result confirms that there is no multicollinearity problem among the variables.

Table 3

Variance Inflation Factors

Variables	Collinearity Statistic	
	Tolerance	VIF
SQ	0.308	3.248
CS	0.308	3.248

Correlation Analysis

Table 4 shows that the correlation coefficient among the construct of variables under study. The table

depicts about service quality and show positive correlation with customer satisfaction. Such relationship is statistically significant at 1 percent level of significance. Likewise, service quality also has a positive correlation with the mediating variable customer satisfaction and it is statistically significant relationship at 1 percent level of significant.

Table 4

Correlation matrix

	SQ	CL	CS
SQ	1		
CL	0.557**	1	
CS	0.703**	0.822**	1

***. Correlation is significant at the 0.01 level (2-tailed).*

Regression Analysis

Table 5 depicts the regression results about service quality dimension on customer satisfaction. The result of multiple regression analysis with service quality as independent variable and customer satisfaction as dependent variable shows positive relationship with customer satisfaction. The regression result between service quality dimension and customer satisfaction are statistically significant. The test statistics report reported in the regression results are $p= 0.00$ and $\beta= 0.679$. The relationship between the variables is found statistically significant. Customer satisfaction has significant relationship with customer loyalty. The regression result with customer satisfaction and customer loyalty are found to be significantly positively related. The statistics reported are $p = 0.000$ and $\beta= 0.839$. This indicates customer satisfaction has positive impact on customer loyalty. The result also reports partial mediation of customer satisfaction between service quality dimension and customer loyalty with $\beta= 0.661$ and $p= 0.000$. The table shows that the service quality has positive effect on customer loyalty with p-value equal to 0.00, which is statistically significant. However, the coefficient has significantly decreased from 0.599 to 0.262. When the effect of independent variable is significant after controlling mediating variable and the value of coefficient significantly decrease, this is the case of partial mediation effect (Baron & Kenny, 1986). Thus, it provides the evidence that the customer satisfaction partially mediates the relationship of service quality dimension with customer loyalty.

Table 5

Regression of service quality dimension on customer loyalty and the mediating effect of customers' satisfaction

Effect of service quality dimension on customer loyalty						
Dependent		Coef	SE	t. stat	P value	R square
CL	Constant	1.505	0.178	8.477	0.000	0.748
	SQ	0.599	0.043	13.911	0.000	
Effect of service quality dimension on customer satisfaction						
Dependent		Coef	SE	t. stat	P value	R square
CS	Constant	1.189	0.151	7.859	0.000	0.692
	SQ	0.679	0.037	18.486	0.000	
Effect of customer satisfaction on customer loyalty						
Dependent		Coef	SE	t. stat	P value	R square
CL	Constant	0.669	0.194	3.448	0.000	0.676
	CS	0.839	0.047	17.798	0.000	
Effect of service quality dimension on customer loyalty having mediating effect of customer Satisfaction						
Dependent		Coef	SE	t. stat	P value	R square

CL	Constant	0.358	0.226	1.583	0.116	0.689
	CS	0.661	0.083	7.922	0.000	
	SQ	0.262	0.102	2.563	0.011	

Note. The table present regression results of effect of service quality of dimension on customer loyalty with mediating effect of customer satisfaction where, CS is customer satisfaction, CL is customer loyalty, SQ is service quality, SE is standard error, P is P-value and Coeff is Coefficient.

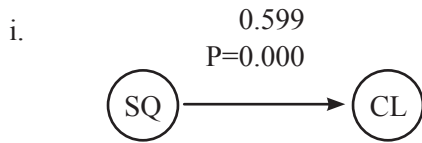


Figure 1. Path diagrams for the total effect of the service quality dimension on customer loyalty

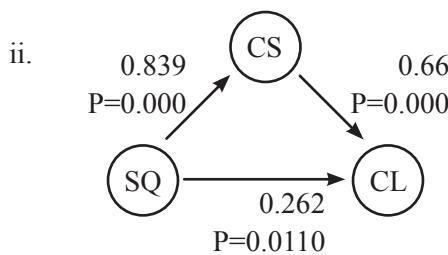


Figure 2. Path diagrams for the indirect effect of the service quality dimension on the customer loyalty through the mediator variable.

Conclusion

The study provides the insight about service qualities and their association with the customer loyalty. The study has come up with the finding that has been quested through research objectives, the impact of service quality on customer loyalty with mediating effect of customer satisfaction. The banking industry always operates under the immense pressure and new challenges. The main challenges faced by the banking industry are to provide quality services, satisfying the customer banking needs and ensure loyal customers.

In a nut shell, this study concluded positive relationship between service quality dimension and customer loyalty in the commercial banking sector in Nepal. In this increasing competitive market, banks are offering lucrative proposal for prospective customers and try to influence on best deal. But in reality, it is not in practice. So management must help to maintain in the quality of service dimensions. Despite of satisfactory financial position, the major commercial banks of Nepal need to understand and measure the non-financial aspect of commercial banks. Customers' loyalty is prime factor for the success of the organization. Different study on customer loyalty concludes that factors like customers' satisfaction, customers' retention, and perceived service quality of the organization play an important role in strengthening customers' loyalty. Long-term success and survival of the organization depends on customers' loyalty which is only possible through customers' satisfaction.

References

Aisyah, M. (2018). Islamic bank service quality and its impact on Indonesian customers' satisfaction and loyalty. *Al-Iqtishad Journal of Islamic Economics*, 10(2), 367-388.

Al-Azzam, A. F. M. (2015). The Impact of Service Quality Dimensions on Customer Satisfaction: A Field Study of Arab Bank in Irbid City, Jordan. *European Journal of Business and Management*, 7(15), 45-50.

Allred, A.T., & Addams, H.L. (2000). Service quality at banks and credit unions: what do their customers

- say? *Managing Service Quality*, 10, 52-60.
- Almossawi M (2001). Bank selection criteria employed by college students in Bahrain: an empirical analysis. *Int. J. Bank. Mark.* 19(3): 115-125.
- Anderson, E. W., Fornell, C., & Lehmann, D. R. (1994). Customer satisfaction, market share, and profitability: Findings from Sweden. *Journal of Marketing*, 58(3), 53-66.
- Asubonteng, P., McCleary, K. J., & Swan, J. E. (1996). SERVQUAL revisited: a critical review of service quality. *Journal of Services Marketing*. 8(13), 54-66.
- Athanassopoulos, A., Gounaris, S., & Stathakopoulos, V. (2001). Behavioural responses to customer satisfaction: an empirical study. *European Journal of Marketing*. 14(2), 85-103.
- Auka, D. O. (2012). Service quality, satisfaction, perceived value and loyalty among customers in commercial banking in Nakuru Municipality, Kenya. *African Journal of Marketing Management*, 4(5), 185-203.
- Bambore PL (2013) Customer satisfaction and electronic banking service on some selected banks of Ethiopia. *International Journal of Research in Computer Application & Mana* 3: 133.
- Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology*, 51(6), 1173.
- Beerli, A., Martin, J. D., & Quintana, A. (2004). A model of customer loyalty in the retail banking market. *European Journal of Marketing*. , 6(1), 10-27.
- Bello, D. A., & Dogarawa, K. (2005). The impact of E-banking on customer satisfaction in Nigeria. *University Library of Munich, Germany*. , 6(2), 21-37.
- Berry, L. L., Seiders, K., & Grewal, D. (2002). Understanding service convenience. *Journal of Marketing*, 66(3), 1-17.
- Bloemer, J., De Ruyter, K. O., & Wetzels, M. (1999). Linking perceived service quality and service loyalty: a multi dimensional perspective. *European Journal of Marketing*.
- Bolton, R. N., & Drew, J. H. (1991). A multistage model of customers' assessments of service quality and value. *Journal of Consumer Research*, 17(4), 375-384.
- Brady, M. K., & Cronin Jr, J. J. (2001). Some new thoughts on conceptualizing perceived service quality: a hierarchical approach. *Journal of Marketing*, 65(3), 34-49.
- Caruana, A. (2002). Service loyalty. *European Journal of Marketing*. 56(3), 55-68.
- Chakravarty, S., Widdows, R., & Feinberg, R. A. (1996). How moments of truth define bank-customer relationships. *Journal of Retail Banking Services*, 18(1), 29-35.
- Chang, Y. H., & Yeh, C. H. (2002). A survey analysis of service quality for domestic airlines. *European Journal of Operational Research*, 139(1), 166-177.
- Churchill Jr, G. A., & Surprenant, C. (1982). An investigation into the determinants of customer satisfaction. *Journal of Marketing Research*, 19(4), 491-504.
- Cohen, J., Cohen, P., West, S. G., & Aiken, L. S. (2003). Applied multiple regression. *Correlation Analysis for the Behavioral Sciences*, 3.
- Cronin Jr, J. J., Brady, M. K., & Hult, G. T. M. (2000). Assessing the effects of quality, value, and customer satisfaction on consumer behavioral intentions in service environments. *Journal of Retailing*, 76(2), 193-218.
- Eshghi, A., Haughton, D., & Topi, H. (2007). Determinants of customer loyalty in the wireless telecommunications industry. *Telecommunications Policy*, 31(2), 93-106.
- Ghimire, B. (2020). The Mediating Role of Trust in Management on Job Satisfaction and Organizational Commitment. *Pravaha*, 25(1), 43-52. Retrieved from <https://doi.org/10.3126/pravaha.v25i1.31932>
- Grönroos, C. (2011). A service perspective on business relationships: The value creation, interaction and marketing interface. *Industrial Marketing Management*, 40(2), 240- 247.
- Hennig-Thurau, T., Gwinner, K. P., & Gremler, D. D. (2002). Understanding relationship marketing outcomes: an integration of relational benefits and relationship quality. *Journal of Service Research*,

- 4(3), 230-247.
- Horstmann, R. (1998). Customer Satisfaction and Loyalty: an empirical assessment in the service industry. *J. Appl. Manage. Entrepreneurship*, 4, 39-54.
- Jamal, A., & Anastasiadou, K. (2009). Investigating the effects of service quality dimensions and expertise on loyalty. *European Journal of Marketing*, 16(3), 1-17.
- Karatepe, O. M., Yavas, U., & Babakus, E. (2005). Measuring service quality of banks: Scale development and validation. *Journal of Retailing and Consumer Services*, 12(5), 373-383.
- Karim, R., & Chowdhury, T. (2014). Customer satisfaction on service quality in private commercial banking sector in Bangladesh. *British Journal of Marketing Studies*, 2(2), 1-11.
- Khan, M. (2006). Consumer Behaviour and Advertising Management: New Age International Pvt. Ltd., Publishers.of mediation. *International Business Research*, 3(4), 72.
- Kim, W. G., & Cha, Y. (2002). Antecedents and consequences of relationship quality in hotel industry. *International Journal of Hospitality Management*, 21(4), 321-338.
- Kotler, P., & Armstrong, G. (2010). *Principles of Marketing*. London: Pearson education.
- Kotler, P., & Armstrong, G. (2012). *Principles of Marketing*. Boston: Pearson Prentice Hall.
- Ladhari, R. (2008). Alternative measures of service quality: a review. *Managing Service Quality: An International Journal*.
- Lee, M. C., & Hwan, S. (2005). Relationships among service quality, customer satisfaction and profitability in the Taiwanese banking industry. *International Journal of Management*, 22(4), 635.
- Levesque, T., & McDougall, G. H. (1996). Determinants of customer satisfaction in retail banking. *International Journal of Bank Marketing*.
- Magesh, R. (2010). A study on quality of service as a tool for enhancement of customer satisfaction in banks. *Global Journal of Finance and Management*, 2(1), 123-133.
- Meuter, M. L., Ostrom, A. L., Roundtree, R. I., & Bitner, M. J. (2000). Self-service technologies: understanding customer satisfaction with technology-based service encounters. *Journal of Marketing*, 64(3), 50-64.
- Mohsan, F., Nawaz, M. M., Khan, M. S., Shaukat, Z., & Aslam, N. (2011). Impact of customer satisfaction on customer loyalty and intentions to switch: Evidence from banking sector of Pakistan. *International Journal of Business and Social Science*, 2(16).
- Negi, R. (2009). Determining customer satisfaction through perceived service quality: A study of Ethiopian mobile users. *International Journal of Mobile Marketing*, 4(1).
- O'Neal, S. (1998). The phenomenon of total rewards. *The Journal of Total Rewards*, 7(3), 6.
- Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1985). A conceptual model of service quality and its implications for future research. *Journal of Marketing*, 49(4), 41-50.
- Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). SERVQUAL: A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality. *Journal of Retailing*, 64(1), 12-40.
- Portela, M. C. A. S., & Thanassoulis, E. (2005). Profitability of a sample of Portuguese bank branches and its decomposition into technical and allocative components. *European Journal of Operational Research*, 162(3), 850-866.
- Portela, M. C. A. S., & Thanassoulis, E. (2007). Comparative efficiency analysis of Portuguese bank branches. *European Journal of Operational Research*, 177(2), 1275-1288.
- Ravichandran, K., Bhargavi, K., & Kumar, S. A. (2010). Influence of service quality on banking customers' behavioural intentions. *International Journal of Economics and Finance*, 2(4), 18-28.
- Razak, M. R. A., Chong, S. C., & Lin, B. (2007). Service quality of a local Malaysian bank: customers' expectations, perceptions, satisfaction and loyalty. *International Journal of Services and Standards*, 3(1), 18-38.
- Reichheld, F. F., & Sasser, W. E. (1990). Zero defections: Quality comes to services. *Harvard Business Review*, 68(5), 105-111.

- Shrestha, P. (2018). Service Quality and Customer Satisfaction: Evidence of Nepalese Banks. *NCC Journal*, 3(1), 121–133. <https://doi.org/10.3126/nccj.v3i1.20254>
- Shrestha, P. (2019). Banking customer attitudes toward ATM service in Nepal. *International Journal of Advances in Scientific Research and Engineering*, 5(12), 88-93. DOI: 10.31695/IJASRE.2019.33652
- Siddiqi, K. O. (2011). Interrelations between service quality attributes, customer satisfaction and customer loyalty in the retail banking sector in Bangladesh. *International Journal of Business and Management*, 6(3), 12-36.
- Solomon, R. C. (1998). The moral psychology of business: Care and compassion in the corporation. *Business Ethics Quarterly*, 8(3), 515-533.
- Spathis, C., Petridou, E., & Glaveli, N. (2004). Managing service quality in banks: customers' gender effects. *Managing Service Quality: An International Journal*.
- Suliman. (2011). Banking Service Quality Provided by Commercial Banks and Customer Satisfaction. *American Journal of Scientific Research*.
- Tee. (2012). The Effects of Service Quality, Customer Satisfaction on Re-patronage Intentions of Hotel Existing Customers. *International Journal of Management and Administrative Sciences*, 1(8), 60-73.
- Uncles, M. D., Dowling, G. R., & Hammond, K. (2003). Customer loyalty and customer loyalty programs. *Journal of Consumer Marketing*, 20(4), 294-316
- Wakefield, K. L., & Blodgett, J. G. (1999). Customer response to intangible and tangible service factors. *Psychology & Marketing*, 16(1), 51-68.
- Wilson, A., Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2012). *Services Marketing: Integrating Customer Focus Across the Firm*: McGraw Hill.
- Yee, R. W., Yeung, A. C., & Cheng, T. E. (2010). An empirical study of employee loyalty, service quality and firm performance in the service industry. *International Journal of Production Economics*, 124(1), 109-120.
- Zeithaml, V. A., Berry, L. L., & Parasuraman, A. (1996). The behavioral consequences of service quality. *Journal of Marketing*, 60(2), 31-46.

