

Perceived Service Quality and Customer Loyalty: Evidence from Commercial Banks in Sri Lanka

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Abstract

Service quality plays an important role in any organization in order to achieve competitive advantage. For banks, service quality is considered as central to their business since it affects the customer's inclination to deal or not to deal with the bank anymore. In this regard, there was a need to investigate the link between the constructs of perceived service quality and customer loyalty. For this purpose, commercial banks in Sri Lanka were identified using univariate and bivariate analysis. As per data analyzed, it was revealed that there was a positive strong correlation existing between perceived service quality and customer loyalty at commercial banks in Sri Lanka. Moreover, all dimensions of perceived service quality had the positive relationships with customer loyalty. However, the dimensions of reliability and assurance showed a higher correlation than other dimensions. Thus, the findings emphasized the banks to highly engage in increasing service quality and customer loyalty. The future researchers may look into the constructs in different areas and with different measurement of instruments.

Key Words: Perceived Service Quality, Customer Loyalty, SERVQUAL, Commercial Banks

1. Introduction

Perceived service quality is the consumer's judgment about an entity's excellence and superiority (Parasuraman et al., 1988). The concept of service quality received a remarkable demand from researchers and practitioners in the field of marketing and service management (Bolton and Drew, 1991; Amy and Amrik, 2003) and it is studied across different contexts and areas. Generally service quality model of SERVQUAL, proposed by Parasuraman et al. (1988) is widely used in many studies, since it still application in different contexts.

Same as to perceived service quality, customer loyalty is also treated as an important concept for the success of any business (Alison, 2002; Butcher et al., 2007). Customer loyalty is the attitude or behavioural and cognitive approach where the product or service whichever first comes to mind when making a purchase decision (Dwyer et al., 1987; Jose, Ko de and Martin, 1998).

Still there is an argument that the association between perceived service quality and service loyalty is an issue which requires more conceptual and empirical amplification through extension of current knowledge (JoseÂe et al., 1998).Therefore , the current study aimed at examining the association between perceived service quality and customer loyalty at commercial banks in Sri Lanka.

2. Materials and Methods

2.1 Conceptual model

The current research has adopted its constructs from previous well-established researches. Hence, it ensured content validity. One of the famed model service quality known as SERVQUAL model developed by Parasuraman *et al.* (1988) has also been used in this study, since it already confirmed its content validity in several previous researches (Bolton and Drew, 1991). Further, the research instruments of this study confirmed its reliability as well, since it accounted for the Cronbach Alpha as 0.745 and 0.816 for perceived service quality and customer loyalty respectively. The conceptual model for the study has depicted in Figure 1.

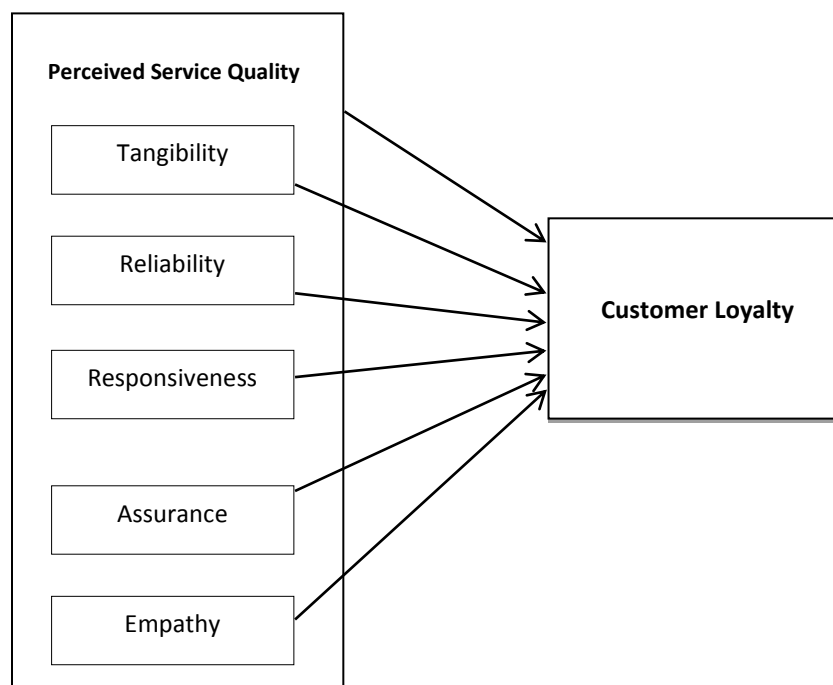


Figure 1: Conceptual Model

2.2 Hypotheses

The following hypotheses were formed in order to examine the relationship among the constructs.

H₁: There is a positive significant relationship between customers' perceived service quality and customer loyalty.

H₂: There is a positive significant relationship between tangibility and customer loyalty.

H₃: There is a positive significant relationship between reliability and customer loyalty.

H₄: There is a positive significant relationship between responsiveness and customer loyalty.

H₅: There is a positive significant relationship between assurance and customer loyalty.

H₆: There is a positive significant relationship between empathy and customer loyalty.

2.3 Sample for the study

The study has taken the sample of customers from both private and state commercial banks in Sri Lanka. However, the study sample was limited to 200 customers from commercial banks in Sri Lanka and convenience technique was used to identify the sample of the study due to the manageability of the research. Also, the Kaiser–Meyer–Olkin (KMO) accounted as 0.575, it is acceptable as it exceeded its threshold value of 0.5 (Kaiser, 1974).

2.4 Data Collection and Data Analysis

The reliability and credibility of the research is dependent on data collection. The current study adopts a structured questionnaire with slight modifications. The structure of the questionnaire was designed into two parts; research information and demographic information. The research instruments were adopted from previous validated questionnaires (Parasuraman *et al.*, 1988; Mesay Sata Shanka, 2012).

The primary data were collected through administering structured questionnaire. All 200 useable filled questionnaires were returned. The collected data was analyzed by univariate and bivariate analysis. The study used Pearson correlation in order to determine the relationship between perceived service quality and customer loyalty and the linear regression analysis was used to find out the significant impact of those variables.

3. Results and Discussion

3.1 Descriptive statistics

According to the data analyzed both perceived service quality and customer loyalty were high at commercial banks in Sri Lanka. Perceived service quality recorded 3.88 mean with the standard deviation of 0.645. Even though, customer loyalty reported mean value of 3.66, still it is below than service quality at commercial banks in Sri Lanka.

Table 1: Mean and standard deviation

| Constructs | Mean | Standard deviation |
|---------------------------|------|--------------------|
| Perceived service quality | 3.88 | 0.645 |
| Customer loyalty | 3.66 | 0.715 |

Table 2: Level of service quality

| Level of service quality | Frequency | Percent |
|--------------------------|-----------|---------|
| Lower level | 02 | 1.0 |
| Moderate level | 43 | 21.5 |
| Higher level | 155 | 77.5 |
| Total | 200 | 100.0 |

As shown in Table 2, 77.5% of the respondents were highly perceived the service quality and 21.5% were moderately perceived the service quality towards bank. However, there was an insignificant value recorded for lower level of service quality perceived by customers.

Table 3: Level of customer loyalty

| Level of customer loyalty | Frequency | Percent |
|---------------------------|-----------|---------|
| Lower level | 33 | 16.5 |
| Moderate level | 62 | 31.0 |
| Higher level | 105 | 52.5 |
| Total | 200 | 100.0 |

According to Table 3, above half the number of customers (52.5%) expressed their loyalty towards banks, whereas there were 31% of the respondents showed the moderate level of customer loyalty. There was also lower level of customers loyalty recorded with 16.5% by the bank customers.

3.2 Correlation Analysis

The Pearson correlation between perceived service quality and customer loyalty was given in Table 4. According to table, it was found that there was a strong positive relationship between the two constructs, since the coefficient of correlation (r) was 0.595 which as significant at 0.01 (2-tailed).

Table 4: Correlation between the perceived service quality and customer loyalty

| Constructs | | Service quality | Customer loyalty |
|--|---------------------|-----------------|------------------|
| Perceived service quality | Pearson Correlation | 1 | 0.595** |
| | Sig. (2-tailed) | | .000 |
| | N | 200 | 200 |
| customer loyalty | Pearson Correlation | 0.595** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 200 | 200 |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | |

Table 5: Correlation between the dimensions of perceived service quality and customer loyalty

| Dimensions of Service Quality | | Customer Loyalty |
|--|---------------------|------------------|
| Tangibility | Pearson Correlation | .225** |
| | Sig. (2-tailed) | .000 |
| Reliability | Pearson Correlation | .390** |
| | Sig. (2-tailed) | .000 |
| Responsiveness | Pearson Correlation | .346** |
| | Sig. (2-tailed) | .000 |
| Assurance | Pearson Correlation | .375** |
| | Sig. (2-tailed) | .000 |
| Empathy | Pearson Correlation | .312** |
| | Sig. (2-tailed) | .000 |
| **. Correlation is significant at the 0.01 level (2-tailed). | | |

Table 5 shows the relationship among dimensions of perceived service quality and customer loyalty. There were positive relationships found between the all 05 dimensions of perceived service quality and customer loyalty, amongst reliability and assurance showed a higher correlation with customer loyalty than other dimensions.

As per Table 6, the regression equation is

$$PSQ = 0.945 + 0.685 CL$$

Where, PSQ is perceived service quality and CL is Customer loyalty.

The b value of the equation, the gradient of the regression is 0.685 which is significant at 1% (sig. t=0.000). As indicated by adjusted R Square, 31.4% of the variance of customer loyalty was explained by their perceived service quality with the standard beta of 0.595.

Table 6: Summary of regression, ANOVA and coefficient analysis

| | |
|-------------------------------|-------------------|
| R | .314 ^a |
| R Square | .171 |
| Adjusted R Square | .167 |
| Std. Error of estimate | .91685 |
| F change | 40.881 |
| Sig F change | .000 ^a |
| DF1 | 1 |
| DF2 | 198 |
| Sum of Squares | 34.365 |
| B constant | .945 |
| B- PMS | .685 |
| Standardized coefficient beta | .595 |
| T | 6.394 |
| T sig | .000 |

Predictors: (Constant), perceived service quality

3.3 Hypothesis Testing

The current study used the results of Pearson’s Product Movement Correlation analysis and the regression analysis to test the hypotheses. The alternative hypothesis were considered with positive relationship ($H_A > 0$) among constructs, two tail test was used in the correlation analysis.

H₁: There is a positive significant relationship between customers' perceived service quality and customer loyalty.

As per the result of the Pearson's Product Movement Correlation analysis between customers' perceived service quality and their loyalty, the correlation coefficient was 0.595, which was significant at the p- value of 1%. Moreover, according to the regression analysis, the regression coefficient (b) was 0.945 which was significant at 1% (sig. t 0.000). Therefore, both tests rejected the null hypothesis and accepted the alternative hypothesis, since according to $r > 0$, $b > 0$ there was a positive significant relationship between customers' perceived service quality and customer loyalty. The findings of the previous studies also proved that the service quality is positively associated with customer loyalty (Amy and Amrik, 2003). Also another study recorded that various dimensions of service quality have differing effects on customer loyalty, and the level of loyalty varies across different segments. (Catherine, 2013).

H₂: There is a positive significant relationship between tangibility and customer loyalty.

The correlation coefficient was 0.225, which was significant at the p- value of 1% between tangibility and customer loyalty. Since $r > 0$, $b > 0$, there was a positive significant association between tangibility and customer loyalty. As per findings of Amy and Amrik (2003), among the dimensions of service quality, the most significant predictor of customer loyalty at a company level is tangibles.

H₃: There is a positive significant relationship between reliability and customer loyalty.

According to the analysis, the correlation coefficient was 0.390, which was significant at the p- value of 1% and thus it rejected null hypothesis and accepted the alternative hypothesis. Therefore, it was found that there was a positive correlation among reliability and customer loyalty.

H₄: There is a positive significant relationship between responsiveness and customer loyalty.

There was a positive significant relationship between responsiveness and customer loyalty found hence the null hypothesis was rejected due to the fact that correlation coefficient was 0.346, which was significant at the p- value of 1%.

H₅: There is a positive significant relationship between assurance and customer loyalty.

As per the results, the correlation coefficient was 0.375, which was significant at the p- value of 1% between assurance and customer loyalty. Therefore, null hypothesis was rejected and alternative hypothesis was accepted since $r > 0$, $b > 0$.

H₆: There is a positive significant relationship between empathy and customer loyalty.

The correlation coefficient was 0.312 between empathy and customer loyalty. Since $r > 0$, $b > 0$, the null hypothesis was rejected and alternative hypothesis was accepted. As a result, it was found that there is a positive relationship between these constructs. Previous finding of Cheng and Chi Leung (2009) also stated that empathy dimension of salesperson service quality is the most important for customer loyalty.

4. Conclusion

The current study found that there was a positive strong correlation existing between perceived service quality and customer loyalty at commercial banks in Sri Lanka. Further, the study found that all dimensions of perceived service quality were positively correlated with customer loyalty. Moreover reliability and assurance, the dimensions of service quality showed a higher correlation than other dimensions. Thus, it can be concluded that better perceived service quality leads to the enhancement of customer loyalty at commercial banks in Sri Lanka.

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