

The Impact of Service Quality, Customer Satisfaction and Loyalty Programs on Customer's Loyalty: Evidence from Banking Sector of Pakistan.

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Abstract

Top organizations know that the road to success runs through their customers. Hence in today's world, the companies who do not provide value to their customers bring an opportunity for the competitors to steal these customers. Same rule applies in banking sector hence this research focuses on finding the impact of service quality, customer satisfaction and loyalty programs on customer's loyalty in banking sector of Pakistan. A questionnaire was designed and survey was conducted to collect the data from 331 customers having bank accounts in different banks of Pakistan. The research concluded that service quality, customer satisfaction and loyalty programs are the important factors that can increase the loyalty of a customer so banks must focus on providing loyalty programs to their loyal and valued customers. Research also indicates that banks should focus on improving the quality of their services for better and greater customer satisfaction and customer loyalty.

Key Words: Service Quality, Customer Satisfaction, Loyalty Programs, Customer's Loyalty, Banking Sector, Pakistan.

1. Introduction

In today's world, economy is one of the core subjects for the development of any country hence banking sector plays a key role as circulation of money is done through the banking system. Actually banking is an evolutionary concept which is in continuous expansion concerning its different activities and functions. Development in Pakistan is also dependent upon its banking sector. The State bank of Pakistan is the main bank of Pakistan. Some of functions performed by it include giving advances, accepting deposits, payments and withdrawals. Statistics of scheduled banks are compiled and disseminate through state bank.

Hierarchy of banks working in Pakistan involves State Bank as parent node, others are mainly categorized as domestic private banks, public sector banks and foreign banks. Public sector is splitted further as commercial banks and specialized banks. State bank of Pakistan is also supporting special banking known as Islamic banking which is specially designed according to Islamic laws and sharia principles.

According to current data of State Bank of Pakistan almost 44 banks are working in Pakistan, they are classified as Pakistani Banks which are 32 in number while foreign banks are 12 in number. Pakistani banks are divided as public sector banks and domestic private banks. Public sector are total 9 in number these 9 banks are splitted as commercial banks which are 5 in number while specialized banks are 4 in number. And the domestic private banks working in Pakistan are 23. (Tariq et al., 2011)

To accomplish the objective of getting and retaining a larger number of customers, individual researches have been conducted to find the impact of service quality, customer satisfaction and loyalty programs on customer's loyalty but combined impact of these variables have been neglected so far. This research particularly focuses on finding the combined impact of service quality, customer satisfaction and loyalty programs on customer's loyalty in banking sector of Pakistan.

2. Literature Review

2.1. Service Quality

Quality consists of two primary elements: (1) either a product satisfies the needs or (2) up to which level it is free from deficiencies. (Juran, 1988).

Service is kind of performance that is offered by one party to another and in corporeality is a must part of it (Kotler&Keller, 2006). Services are defined by some characteristics like services are incorporeal in nature, we cannot measure the service by some instrument. Services are said to be inseparable that is production and consumption usually takes place at the same time. Moreover services are variable in nature, they don't follow a same or some kind of linear pattern. Very often polymorphism is also seen in services as services are simple as well as complex. (Ograjenšek, 2008).

A quantitative research was arranged by Parasuraman et al in 1988 in which an instrument was developed for measuring the perception of consumers regarding service quality and after that research it became known as SERVQUAL. The dimensions of SERVQUAL model were:

- Tangibles – physical attributes.
- Reliability –to give promised service.
- Responsiveness – showing interest to help customers and provide prompt services.
- Assurance –guarantee competence, courtesy, credibility, and security to customers by organization's employees using their knowledge.
- Empathy –the ability to understand and share the feelings of customers. (Parasuraman et al., 1988).

Perceived qualities as well as customer expectations are the two most important constructs that positively and directly influences overall customer satisfaction. (Yu et al., 2005). Customer satisfaction is directly proportional to service quality. So organizations should pay more attention on service quality. For this, the firms should welcome customer suggestions and should design programs which can measure service quality and customers satisfaction. (Ojo, 2010). Empathy, reliability, responsiveness and tangibility which are the dimensions of service quality are positively related to customer loyalty. Tangibility is one of the most important forecaster of customer loyalty. (Al-Rousan et al., 2010) Research depicts that improvement made to service quality will automatically increments the loyalty of customers. The service quality dimensions that play a significant role in customer loyalty are reliability, empathy, and assurance. (Kheng et al., 2010). Research also proved that tangibles and assurance has the most significant effect while empathy has the least significant effect on customer satisfaction. (Ahmed et al., 2010)

In all aspects, customers' perceptions are comparatively higher than of their expectations of the Bank's operation, and in fact the quality of offered services is low. The research findings also show that in the effects of service quality on service loyalty, customer satisfaction plays the role of a mediator. In addition there is a meaningful and positive relation between all dimensions of service quality with customer's satisfaction and loyalty, which in both cases assurance and tangibles have the most and the least relation with satisfaction and loyalty. (Mosahab et al., 2010).

2.2. Customer Satisfaction

Customer satisfaction means that a customer or the user of service is well contented with the performance. (Johnson and Fornell, 1991).It can also be stated as the overall evaluation of a customer either positive or negative for the services. (Woodruff, 1997).

Impact of satisfaction on loyalty is researched in broad terms. Many findings show that if satisfaction is there than customers are loyal and if customers are dissatisfied their loyalty is not guaranteed. It is used to explain loyalty as behavioral intents. (Heskett et al., 1994). Hence management should pay special focus on the satisfaction of a customer and for it service quality is plays a vital role. (Akbar and Parvez et al., 2009)

Customer Loyalty and satisfaction are significantly affected by cooperate brand image, and customer loyalty and satisfaction are dependent on each other. If customer is satisfied, his loyalty increases.

Therefore, firms specially focus on these factors to make a profitable long term relationship with customer and to improve the brand image in market. (Tu et al., 2012). By providing high product/service value and improving the satisfaction level of customer, customer loyalty can easily be achieved. (Yang et al., 2004). The findings of customer satisfaction on profitability suggest that profitability is dependent on satisfaction which means that attainable increases in satisfaction could dramatically improve profitability. (Hallowell, 1996). Literature shows that to enhance the customer loyalty, customer satisfaction plays a vital role and is the most important driver. (Sondoh et al., 2007). It shows that if a customer is satisfied, customer's loyalty will increase and hence customer's intention to switch banks will decrease. (Hoq et al., 2010). It is observed that customer loyalty is being more impacted by customer relationship inertia than by customer satisfaction. Hence customer relationship inertia plays a vital role in the relationship of customer satisfaction and loyalty. Furthermore, perceived price has a negative impact on customer satisfaction and relationship inertia. Convenience will increase customer satisfaction and consumption frequency will positively affect customer relationship inertia. (Cheng et al., 2011). Satisfaction and trust are the two important factors for increasing the commitment level of a customer. (Afsar et al., 2010). Some findings indicate that customers are loyal to their financial service providers and have no plan to switch to another bank unless their banks make any worst variation in financial service offers. Research indicates that customer satisfaction plays a very important role in customer loyalty and retention although it does not ensure repeat purchase. (Mohsan et al., 2011). Results also revealed that customer's satisfaction and loyalty are strongly related with formal collection of customer's feedback. Vendors are advised to take customers feedback on regular basis instead of waiting for any complaints or unwanted feedback in order to increase customer satisfaction and loyalty. (Ellinger et al., 1998). Customer's retention intention is directly proportional by the service quality and customer's satisfaction. (Prof.Gopalkrishnan et al., 2011).

2.3. Loyalty Programs

Loyalty programs are special strategies designed to make the customer stick with their banks for the long run because this loyalty will be of great benefit to an organization. (Sharp and Sharp, 1997). Loyalty programs are also useful in creating the barriers which make customers to stick to their particular product or service. These barriers are classified as psychological, economical, sociological, and relational barriers, in which customers can either lose or develop their trust and commitment with the organization. (Morgan and Hunt, 1994).

Loyalty programs are considered important due to many reasons most probably loyal customers give priority to their company and will give positive feedback of the firm to other people. Loyal customers are less price sensitive and the costs of serving customers are less. (Dowling and Uncles, 1997). Loyalty programs also help in annual increments of purchase to a firm for a substantial proportion of customers. (Lewis, 2004).

Perceived values and customer loyalty are related to each other. To maintain the customer loyalty, loyalty programs should be implemented because they act as mediator for predictor variables. (Ramaseshan et al., 2008). Involvement of customers controls the effect of loyalty programs on customer loyalty hence direct rewards for higher involvement and immediate rewards for lower involvement are preferable. (Yi et al., 2003).

2.4. Customer's Loyalty

Customer loyalty is special kind of customer behavior towards the organization. It is kind of future prediction about the intentions of the customer to do business with the firm. (Zeithaml, Berry, & Parasuraman, 1996). It is the overall behavior of customer regarding product, service or any other aspect of the organization in which customer is involved makes the term customer loyalty. (Oliver, 1999). Loyalty is generally explained in terms of attitude and behavior. (Uncles et al., 2003).

Customer brand loyalty is an old term playing vital role for many years. Loyalty is a marketing strategy used by majority of marketers to enhance the profit but some people think that it is very tough to make it possible. Consumer faith can be recognized if marketers try to understand the facts which affect the loyalty. This will also benefit in building the customer reliability. (Mao, 2010). It was observed that customer's services play an important role in increasing the customer loyalty and customers highly consider the price of these services. (Haroon, 2010). Customers loyalty based behaviours are dependent on numerous factors. If firms want to optimize the loyalty behaviors of customer, they must balance and manage different aspects of customer experience. (Prof.Gopalkrishnan et al., 2011).

It is also observed that service failures significantly influence the complaint behaviour, and complaint behaviours in return influence the switching behavior and switching behaviours and service failures then influence the brand trust and brand trust influences the customer loyalty (Alfansi et al., 2010). There is no tool to measure the perceived value therefore its role in purchasing decision is not that evident. Results say that perceived value should be measured on non-monetary scale. It can be seen that perceived value is among some strong elements of customer loyalty that can't be measured but can't be neglected as well because they are attached to emotions and the feelings that only a consumer can see during purchasing. Convenience, time and effort are non-monetary costs. (Li et al., 2010)

A study shows that there is a positive relationship between image of the product, trustworthiness, customer satisfaction, customer relationship and customer loyalty. Moreover the study concludes that in order to achieve long-lasting success and maintainable reputation of an organization, customer loyalty plays a major role hence organizational success is dependent on customer loyalty. Study shows that to make customer loyalty work in a better way, organizations should keep the point that customer's comments and their needs should be the chief priority. (Akhter et al., 2011). To accomplish the objective of getting and retaining a larger number of customers, all the businesses should emphasize on building customer loyalty by maximizing the share of customers. Hence building customer loyalty should be considered an important business strategy rather than just a marketing program. (Duffy, 1998)

2.5. Service Quality, Customer Satisfaction and Loyalty Programs in Banking Sector

Customer has special kind of behaviour in different aspects like customers give priority to areas which include the full-fulness of their expectations involving the responsiveness area and customers are less attracted to tangible areas .To achieve better level of service quality bank managers should develop working lines on which service quality is refined to increase the customer satisfaction. (Khalid et al., 2011)

SERVQUAL (service quality model) can be used by bank managers to measure the service quality of banking sector. All the characteristics of this model are related directly with customer satisfaction. Empathy and Assurance are at the positive peak points while Tangibility is at the bottom level of this relation. Current competition trends in banking sector indicates that if customer is satisfied than bank will prosper more positively. (Siddiqi, 2010).

For planning loyalty programs bankers should keep in mind the factors and behaviours giving positive response and after determining them should keep track of them on regular basis. Incentives and rewards should be given according to customer expectations rather than on convenience for bank and do determine the risks and realities of working with partner loyalty programs. (Szüts and Toth, 2008).

For the increase in market share customer's involvement is an important factor. Bank managers should work on all lines which will make their customers happy and satisfied in the long run. (Jumaev et al., 2012).

Loyalty programs are important but research findings indicate that loyalty programs cannot be considered as sole factors for long term retention of customers with the bank. Banks should offer other benefits like product ranges and better communication skills which should inspire the customers in positive manner. Loyalty programs cannot guarantee the long run success. (Roberts and Carter, 2003).

3. Methodology

3.1. Research Model and Hypotheses

The aim of this study is to find the relationship between service quality, customer satisfaction and loyalty programs with the level of customer loyalty.

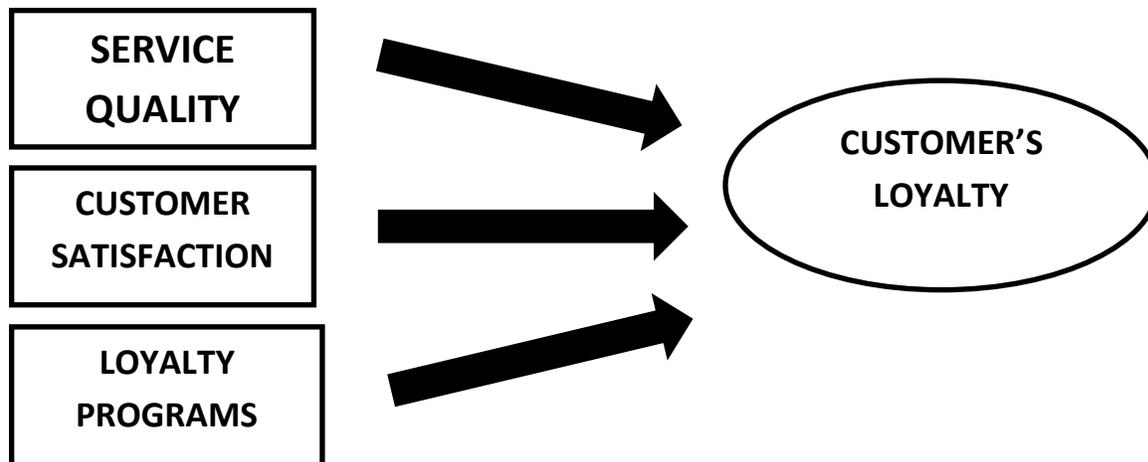


Figure 1: Research Framework

The hypotheses are as follows:

H1a: There is a positive and significant relationship between service quality and customer's loyalty in banking sector of Pakistan.

H1₀: There is no relationship between service quality and customer's loyalty in banking sector of Pakistan.

H2a: There is a positive and significant relationship between customer satisfaction and customer's loyalty in banking sector of Pakistan.

H2₀: There is a no relationship between customer satisfaction and customer's loyalty in banking sector of Pakistan.

H3a: There is a positive and significant relationship between loyalty programs and customer's loyalty in banking sector of Pakistan.

H3₀: There is a no relationship between loyalty programs and customer's loyalty in banking sector of Pakistan.

H4a: There is a positive and significant impact of service quality, customer satisfaction and loyalty programs on customer's loyalty in banking sector of Pakistan.

H4₀: There is no impact of service quality, customer satisfaction and loyalty programs on customer's loyalty in banking sector of Pakistan.

3.2. Data Collection

The population targeted for this research includes all the people having accounts in different banks all over Pakistan. Survey Questionnaire were designed to meet the requirements of the research. By using the sample size calculator, and taking confidence interval of 95%, confidence level as 5% and population size as 28,741,943 (SBP), the sample size was decided as 384. A total of 400 questionnaires were distributed by the researcher and 331 filled questionnaires were received which shows 82.7% response rate.

3.3. Questionnaire Design

A questionnaire was developed to measure the impact of service quality, customer satisfaction, and loyalty programs on customer's loyalty in banking sector of Pakistan. Five-point likert scale was used where 1 stands for "Strongly Disagree", 2 stands for "Disagree", 3 stands for "Neutral", 4 stands for "Agree" and 5 stands for "Strongly Agree." The questionnaire was divided into five sections which cover the dependent and independent variables of the research.

- The first section was about the “Service Quality” which is one of the independent variable of the research, consists of 15 questions which were adopted from Siddiqi (2011).
- The second section covered another independent variable i.e. “Customer Satisfaction”, consisting of 3 questions adopted from Mohsan et al., (2011).
- The third section was about “Loyalty Programs” that is an independent variable. This section had 3 questions and these questions were developed by the researcher herself.
- The fourth section was related to the dependent variable of this research i.e. “Customer’s Loyalty.” This section consists of 3 questions adopted from Mohsan et al., (2011).
- In the last section respondents were asked about their demographic profiles which include questions like bank name, type of account, gender, marital status, age, qualification, profession and income which were also adopted from Siddiqi (2011).

4. Analysis and Interpretations

Based on a sample size of 331 customers having bank accounts all over Pakistan, the percentage of male and female respondents were 73.7% and 26.3% respectively which shows that majority of people having bank accounts are male. Statistics regarding marital status shows that married and single respondents were 40.8% and 59.2% respectively which shows married as well as single marital status has a minor effect. Majority of the respondents fell in the age range of 21-30, that is 67.7%. Respondents were also asked about their qualification and out of total respondents, 23.3% were undergraduates, 37.5% were graduates and 39.3% were post graduates. (See appendix A for the detailed statistics).

Table 1: Descriptive Statistics

	Mean	N
Service Quality	3.4707	331
Customer Satisfaction	3.4874	331
Loyalty Programs	2.5740	331
Customer’s Loyalty	3.3817	331

[Note: SPSS version 20 has been used to calculate the tables]

Table 1 given above provides the descriptive statistics of variables involved in the research. The independent variables are service quality, customer satisfaction and loyalty programs while the dependent variable of the research is customer’s loyalty. Analysis shows that mean value of service quality, customer satisfaction and loyalty programs is 3.4707, 3.4874 and 2.5740 respectively which shows that customers are slightly satisfied with the service quality of the banks where as their opinion regarding loyalty programs is almost neutral. Whereas the mean value of customer’s loyalty that is the dependent variable is 3.3817 showing the above average response which means that customers are slightly loyal to their banks.

Table 2: Correlations

		Customer’s Loyalty	Service Quality	Customer Satisfaction	Loyalty Programs
Customer’s Loyalty	Pearson Correlation	1	.515**	.467**	.343**
	Sig. (2-tailed)		.000	.000	.000
	N	331	331	331	331

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

[Note: SPSS version 20 has been used to calculate the tables]

Table 2 shows the correlation between the independent and dependent variables. The table shows that all variables are significant at the level of 1%. 0.515 is the correlation coefficient of customer’s loyalty for service quality which is significant so we conclude that there is a large (r=0.515) positive relationship between service quality and customer’s loyalty.

The table also shows that the p-value is 0.000 which is less than 0.01 thus $H1_0$ is rejected i.e. there is a no relationship between service quality and customer's loyalty in banking sector of Pakistan. 0.467 is the correlation coefficient of customer's loyalty for Customer satisfaction which is significant so we conclude that there is a medium ($r=0.467$) positive relationship between customer satisfaction and customer's loyalty. The table also shows that the p-value is 0.000 which is less than 0.01 thus $H2_0$ is rejected i.e. there is a no relationship between customer satisfaction and customer's loyalty in banking sector of Pakistan. 0.343 is the correlation coefficient of customer's loyalty for loyalty programs which is significant so we conclude that there is a medium ($r=0.343$) positive relationship between loyalty programs and customer's loyalty. The table also shows that the p-value is 0.000 which is less than 0.01 thus $H3_0$ is rejected i.e. there is a no relationship between loyalty programs and customer's loyalty in banking sector of Pakistan.

Table 3: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	.475	.243		1.952	.052
Service Quality	.530	.095	.358	5.608	.000
Customer Satisfaction	.168	.073	.150	2.287	.023
Loyalty Programs	.187	.046	.195	4.024	.000

a. Dependent Variable: Customer's Loyalty

[Note: SPSS version 20 has been used to calculate the tables]

Table 3 clearly shows the t and p- value of the variables. As we know that when t value is greater than 2 and p-value is less than 0.05, null hypothesis is rejected. The above analysis shows that the t and p- value for service quality is 5.608 and .000 respectively therefore we reject the $H1_0$ and conclude that there is a positive and significant relationship between service quality and customer's loyalty in the banking sector of Pakistan. The t and p-value for customer satisfaction is 2.287 and 0.023 respectively hence $H2_0$ is rejected which proves that there exists a positive and significant relationship between customer satisfaction and customer's loyalty in banking sector of Pakistan. The t and p-value for loyalty programs is 4.024 and 0.000 respectively hence $H3_0$ is also rejected and concluded that there is a positive and significant relationship between loyalty programs and customer's loyalty in banking sector of Pakistan. The value of regression coefficient of Service quality = .358, customer satisfaction = 0.150 and loyalty programs = 0.195 hence;

$$\text{Customer's loyalty} = 0.358(\text{service quality}) + 0.150(\text{customer satisfaction}) + 0.195(\text{Loyalty programs})$$

Therefore the value of regression coefficient of service quality is 0.358 with p-value of 0.000 indicates that the increase in service quality by one unit results in an increase in customer's loyalty, keeping the customer satisfaction and loyalty programs constant. The value of regression coefficient of customer satisfaction is 0.1580 with p-value of .023 indicates that the increase in customer satisfaction by one unit results in an increase in customer's loyalty, keeping service quality and loyalty programs constant. The value of regression coefficient of loyalty programs is 0.195 with p-value of .000 indicates that the increase in loyalty programs by one unit results in an increase in customer's loyalty, keeping service quality and customer satisfaction constant.

Table 4: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	86.664	3	28.888	51.618	.000 ^b
	Residual	183.007	327	.560		
	Total	269.671	330			

a. Dependent Variable: Customer's Loyalty

b. Predictors: (Constant), Loyalty Programs, Service Quality, Customer Satisfaction

Table 4 above shows the ANOVA table which indicates that the model, as a whole, is a significant fit to the data hence H_{40} is rejected and it is proved that there is a positive and significant impact of Service quality, customer satisfaction and loyalty programs on customer's loyalty in banking sector of Pakistan.

5. Conclusions

This research study was conducted to find the impact of service quality, customer satisfaction and loyalty programs on customer's loyalty in banking sector of Pakistan. Research indicates that service quality, customer satisfaction and loyalty programs are the important factors that can increase the loyalty of a customer towards its bank but customers are slightly satisfied with the services of banks operating in Pakistan. Research shows that loyalty programs do affect the customer's loyalty but Pakistani banks are only giving loyalty programs to their corporate customers and general public is not that much influenced by loyalty programs but they do want some kind of rewards given by their respective banks. When banks focus on customer loyalty, account holders will not only keep their accounts with the bank, but they will also feel comfortable referring to family and friends. Hence in order to be successful, banks should focus on building customer loyalty by offering quality products and by treating people how they want to be treated for better and greater customer satisfaction. For that reason banks should offer loyalty programs to retain customers because loyalty programs helps in developing strong relationships with all the customers that could directly or indirectly affect the success of banks.

6. Recommendations for Future Research

This research can be replicated in the same manner with a large sample size and more variety of variables affecting the loyalty of a customer towards its bank. As this research concludes that loyalty programs are important but not that much appreciated in banking sector of Pakistan hence future researches can be conducted on how banks can introduce better loyalty programs for their valued customers.

7. References

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Appendix (A)
(Demographics)

Demographics	Category	No. of respondents	Percentage
Bank name	Habib Bank Limited	43	13
	Allied Bank Limited	43	13
	Bank Alfalah limited	42	12.7
	National Bank of Pakistan	37	11.2
	Standard Chartered Bank	31	9.4
	Muslim Commercial Bank	19	5.7
	Askari Bank	16	4.8
	United Bank Limited	16	4.8
	HSBC	15	4.5
	First Women Bank	13	3.9
	Bank of Punjab	11	3.3
Other Banks	45	13.59	
Account Type	Current	237	71.6
	Savings	72	21.8
	Fixed Deposits	4	1.2
	Any Other	18	5.4
Gender	Male	244	73.7
	Female	87	26.3
Marital status	Married	135	40.8
	Single	196	59.2
Age	Under 20	13	3.9
	21-30	224	67.7
	31-40	56	16.9
	41-50	18	5.4
	Above 50	20	6.0
Qualification	Undergraduate	77	23.3
	Graduate	124	37.5
	Post graduate	130	39.3
Income	Below 10000	72	21.8
	10000-20000	55	16.6
	Above 20000	204	61.6
Profession	Business	43	13.0
	Service	139	42.0
	Student	117	35.3
	House Wife	8	2.4
	Others	24	7.3