The Impact of Service Quality, Customer Satisfaction and Loyalty Programs on Customer's Loyalty

NAEEM AKHTAR

Lecturer; Department of Management Sciences
University of Okara (Punjab), Pakistan.
E-mail: naeem_akhtar46@hotmail.com

MUNIBA LATIF

Student of MBA; Department of Management Sciences
University of Okara (Punjab), Pakistan.
E-mail: munibalatif12@yahoo.com

QURAT-UL-AIN

Student of MBA; Department of Management Sciences
University of Okara (Punjab), Pakistan.
E-mail: annieshah30@yahoo.com

AMNA ASHRAF

Student of MBA; Department of Management Sciences
University of Okara (Punjab), Pakistan.
E-mail: amnashraf888@gmail.com

Abstract

Now a days customers are the way to get success in an organization. Satisfying the customer is ultimate goal for every organization. . All top financial institution are trying to fulfill the demands and needs of customers. The same rule for success is also applied in banking sector. This research is conducted to study the impact of service quality, customer satisfaction, loyalty programs on customer's loyalty. A survey is conducted through questionnaire. Data is collected from 100 customers having bank accounts in Habib Bank Limited. SPSS was used to analyze the data. This research shows that service quality, customer satisfaction, loyalty programs have positive impact on customer loyalty so bank should have introduce more loyalty programs to their loyal customers to satisfy them and also provide them best service quality to retain them.

Key Words: Service Quality, Customer Satisfaction, Loyalty Program, Customer Loyalty.

Introduction

Banks play an important role in economic development of any country. They gather idle savings and transform them in investments. Banks facilitate the trade process of inside and outside of country. Banks play an important role in mobility of capital (Saini, 2014). In today's world organization can achieve success through its customers that is why if a company does not satisfy its customers than other companies may attract those customer by providing satisfaction. In banking sector if a bank does not provide satisfied services to its customers than other bank have chance to retain that customer by providing better service to that customer. This research focuses on finding the impact of service quality, customer satisfaction and

loyalty programs on customer's loyalty in banking sector of Pakistan. Banking sector plays an important role in growth of economy of any nation because of its function of circulation of money .Many banks are working in Pakistan like public bank, foreign bank and private bank but main bank of Pakistan is known as State Bank of Pakistan which gives loans , take deposits, make payments and withdrawal (Hafiz, 2012).

Every firm wants to maximize its profit through cost minimization which leads to customer satisfaction. Customer satisfaction is important area of interest for both organization and researchers. For provision of customer satisfaction service sector need to improve on further elements that were given as reason for satisfaction. Customer satisfaction is an important factor to increase sales because satisfaction leads to customer reliability and repurchase decision (Agbor, 2011).

Different type of banks perform different kind of functions according to their defined roles in memorandum of association and articles of association .Central bank is a government bank and monitors the banking activities of other banks. Agricultural bank fulfill the requirement of farmers by lending them and industrial banks helps the industrialist. Commercial banks directly interact with general public and have large network then others. Central bank of Pakistan tries to improve service quality and productivity of commercial banks because of their direct contact with public (Munusamy, 2009).

The State Bank of Pakistan Act, 1956 governs the State Bank of Pakistan. State Bank of Pakistan is lender of last resort, issues currency note, manages public debt and foreign exchange, deals with international financial institution, supervision of financial institution and handling monetary policy (Sayeed & Abbasi, 2015). Commercial, investment and Islamic banks are main source of financing to support performance of national economy. Banking sector in Pakistan has aimed to improve bank's performance, to provide quality services through technological transformation, to make reliability of financial institution, to minimize corruption by reducing the number of state owned banks and to provide stable capital market. To eliminate the inefficiencies of Pakistan economy, banks have to strengthen their financial performance which can be possible through service quality by improvement in services (Aurangzeb, 2012).

A Bank can survive long through its customer satisfaction. Bank can attract the more customer through its service quality because mostly banks have same products to offer. Improved service quality offered by banks give them competitive advantage that leads to increase in market share, profit , good will, new customers, retention of customers and reduce the market cost through publicity of old customers. Quality service also enhance the financial performance of banks (Mensah, 2010).

Customer satisfaction has great importance because a single unsatisfied customer can reduce more your business than 10 satisfied customer. Mores satisfied customer leads you to more business. So customer satisfaction is used in Pakistan's banks as effective tool to get competitive advantage. In banking sector relationship between customer and offered services and products is element of great importance for customer satisfaction. Service quality is a way to satisfied and retained the customer. In Pakistani banking sector customer estimate their satisfaction as result of service quality e.g. billing clearance, accusation, timeliness, fast service and transaction and friendly staff (Mohsan, 2011).

The SERQUAL is a method which is used to measure perception of consumer regarding service quality. This method has 5 factors. These factors are Reliability, assurance, tangibles, responsiveness and empathy (Dehghan, 2006). Market efficiency can be obtained through customer satisfaction and quality of services provided to customers. It is important for organizations especially for banks to improve their service quality to increase to increase level of satisfaction of customer which leads to profitability of firms. This research is used to discover variation in assurance, reliability, tangibles, empathy and responsiveness by rural consumer (Adil, 2013).

Due to privatization in banking sector in Pakistan customer expectations and demands became higher. This become reason of competition among banks (Khan, 2014). Customer satisfaction leads to loyalty. Loyal

customer purchase more than new customer. Repurchase results in less customer complaints. Retaining the customer for long run is more beneficial than to interact with new customer. Loyal and satisfied customer ignores the small error and do not move to other institute (Molaee, 2013).

In past bank was product oriented but now banks become customer oriented due to relational marketing which have goal of customer loyalty. Five factor model is used to analyze the impact of these factors on customer's loyalty toward their selected banks and their impact on each other. Commitment, trust, satisfaction, satisfaction cost and perceived quality are included in this 5 factor model. In today's changing complex banking sector there is too much less difference exists in financial services due to highly demanding customers. The high demands of customers leads to transformation in banking sector. Now due to customer oriented banking industry the relationship marketing has goal to build customer loyalty. Loyalty to a bank can be thought as constant support. Customer loyalty in a bank can be measured through number of accounts a bank have over a time period. It is quite difficult process to attract new customer so banks prefer to retain their old customers (Bilal, 2014). Customer satisfaction lean towards customer loyalty. Cost of attracting new customers for the firm is more than retaining the old one. Customers which are not satisfied with service quality of a firm will tend to complain due to which there may be decline in other potential customers (Harr, 2008).

Problem Identification

Government of Pakistan has privatized large number of banks which further increases the competition among banks. Due to high level of competition among banks customer satisfaction and loyalty has become important for long survival of banks. In this study we tried to find impact of customer satisfaction, service quality and loyalty programs on customer loyalty.

Problem Statement

This study is to examine the impact of service quality, customer satisfaction, and loyalty programs on customer loyalty.

Research Objective

- To identify impact of service quality on customer loyalty.
- To identify impact of customer satisfaction on customer loyalty.
- To identify impact of loyalty programs on customer loyalty.

Research Questions

- What is impact of service quality on customer loyalty?
- What is impact of customer satisfaction on customer loyalty?
- What is impact of loyalty programs on customer loyalty?

Literature Review

This study examined the determinants of customer loyalty in Pakistan banking sector. Data is gained from 316 respondents. SPSS software is used to analyze the data. The result of study shows that trust and satisfaction has positive effect on commitment. Greater the trust and satisfaction, greater the commitment. The effect of perceived quality on satisfaction will be positive but low. Switching cost has more effect on customer loyalty than the customer satisfaction (Afsar, 2010). The survey of impact of service quality, customer satisfaction and loyalty programs on customer loyalty conduct data from 331 customers having bank accounts all over Pakistan. These customers have 73.7 % of male while 26.3% of female. SPSS

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version 20 has been used to calculate the tables. These factors (customer satisfaction, loyalty programs and service quality) can increase the loyalty of customer. Loyalty programs effect the loyalty but in the case of Pakistan bank these programs are offered to corporate customers but these programs do not effect general public but they expect some rewards from their banks. Banks should treat the people in way as they want to be treated and offer them quality service so they will refer to other to keep accounts in that bank (Hafeez, 2012).

The study of customer satisfaction and its determinants has shown that service quality and fair price will have positive effect on customer satisfaction. Perceived value has mediating role.400 questionnaires are distributed and response get from 335 respondents. CFA model is applied. Standard deviation is used (Uddin, 2012).

In study of impact of service quality on customer satisfaction correlation and regression analyses are used for analyses purpose of data. Sample size 331 respondents. Results indicate that service quality has significant relationship with satisfaction. Tangibles and assurance has more score than empathy. Tangibles, responsiveness, assurance and reliability are positively related with satisfaction. Service quality has 28% change in satisfaction (Ahmed, 2010).

Study of customer satisfaction in banking sector is conducted through questionnaire. Sample size is 150 bank customers. Customer quality, loyalty and security are used as variables. There is a positive relation between customer loyalty and satisfaction. Service quality also has big influence on satisfaction (Akgam, 2015).

This study is examined factors affecting customer satisfaction in banking sector of Pakistan. Data has collected through 72 respondents. Research is conducted in Saihwal, Okara, Arifwala and Pakpatan. There is positive relationship between satisfaction and loyalty. Service quality leads to satisfaction and satisfaction results in loyalty (Sabir, 2014).

This study analyses level of awareness and satisfaction toward the Islamic banking system. Data is collected from156 respondents. ANOVA software is used to analyze the data (Rehman, 2010). In the study of relationship between customer satisfaction and customer loyalty in retail banking sector of Ghana. Data is collected through interviews of 160 customers of banks. Multiple regression, t test and variance are used to analyses the data. Assurance is considered as important factor in loyalty. Multiple regression model shows that there is significant relationship between satisfaction and loyalty (Farley, 2016).

This study is conducted on factors affecting customer loyalty in Pakistan. Data is gathered from 150 respondents and analyzed in SPSS. Study reveals positive relationship among satisfaction, relationship, trustworthiness, loyalty and image of product. Study shows that we should consumer right always then we can obtain customer loyalty (Akhter, 2010).

The study focused on factors affecting customer loyalty in banking sector. Study is conducted in Bahawalpur Pakistan. Data was collected from 496 respondents through a questionnaire. Data is analyzed through regression technique in SPSS 17. Results of study show that service quality, customer satisfaction has significant impact on customer loyalty (Rasheed, 2015).

Research is conducted on evaluation of customer satisfaction in banking services. Primary data is collected from 50 retail clients respondents and the results shows that there are some unclear results and does not show any significant positive impact on service satisfaction (Bena, 2010). Research is conducted to investigate service quality in banking sector. This research investigates role of technology in baking and its effect on service quality perceived by customers. Data was collected from 440 customers. This indicates poor performance of electronic banking sector compared ideal banking (Joseph, 2010).

Research on service quality dimension is conducted through Gronroos model which is a service quality model. This study shows that SERQUAL model only tells about process of service delivery. Gronroos model has 3-dimension image, technical and functional. This model gave more accurate result than SERQUAL model. Data is gathered from 464 participants. Study represents that service quality influenced by technical and functional quality which can be compared but functional quality has larger impact as compare to technical quality. It's also tells about that consumer's image of firm can influence by representative and consumer interaction (James, 2004).

The main reason of this study is to know more reliable common services of banking sector which has impact on customer satisfaction and to explore impact of satisfaction on loyalty of customer regarding their relationship with banking. Data is collected from 192 respondents. Convenience sampling method is used. SPSS is used to analyses data and AMOS is used to test the data. Results shows that customer satisfaction and loyalty have positive relationship and there is significant link between them (Zafar, 2012). This study is conducted on customer satisfaction towards banking services of state bank of India. Data is collected through interviews from 150 customers of bank. Chi square test and charts, percentage analysis are used to make analysis. It show there is significant relationship between service and customer satisfaction. (Rabb, 2014).

This research is conducted to measuring customer satisfaction in banking sector. Data is collected from 120 sample customer having bank accounts. SPSS software is used to analysis the data. SERQUAL is used for measuring service quality importance (Mistry, 2013). This research is conducted to determine service quality perspective and customer satisfaction in commercial banks in Jordan. Data is collected from 260 customers through questionnaire. Study shows that service quality has significant impact on customer satisfaction. Multiple analysis is used to analyze the impact of service quality on customer satisfaction (Alhamadani, 2011).

Research is conducted to check relationship between service quality and customer satisfaction. Likert scale questionnaire is used to collect the data. Correlations and T test is used to analyze the data. This study tells about five dimensions of service quality and assurance has negative relationship customer satisfaction (Gunarathne, 2014).

Research Methodology

Research design holds the whole research together. It is referred as to show the rational aspects of the ways; the research was conducted. The research conducted by me follows the "Descriptive Research Design", the Impact of Service Quality, Customer Satisfaction and Loyalty Programs on Customer's Loyalty.

Technique

We have used Quantitative technique in this research, which is focused on the collection of numerical data for statistical analysis.

Population

We have collected the data from customers of Habib bank limited. Data collection was based on impact of service quality, customer satisfaction and loyalty programs on customer's loyalty.

Sampling Technique

We have used random sampling technique which depicts the exact number of population.
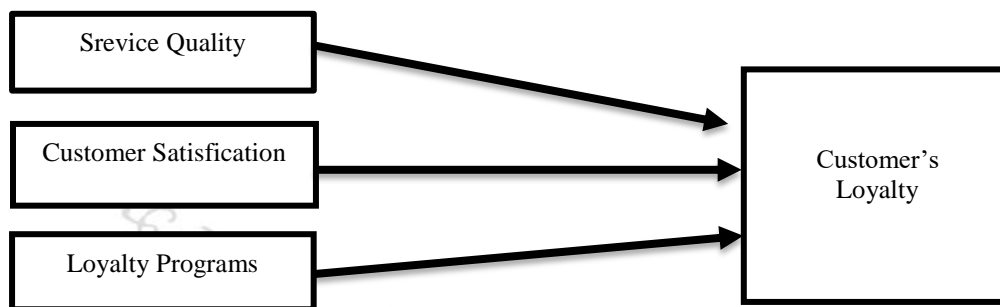
Sampling Size

Data was collected via a structured questionnaire with a sample of 100 individuals who are customers of bank.

Research Instruments

We have collected data through questionnaire as a research instrument and tool. Likert scale is used to measure the questions in questionnaire. I have adopted questionnaire from (Abdullah) and modify it and now it is in adapt shape.

Research Model

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│   Srevice Quality    │ ──────────┐
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                                    ▼
┌──────────────────────┐     ┌──────────────────┐
│ Customer Satisfication│ ──▶ │    Customer's    │
└──────────────────────┘     │     Loyalty      │
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│   Loyalty Programs   │ ──────────▲
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Hypotheses

The hypotheses are as follows

H1a: There is a positive and significant relationship between service quality and customer's loyalty in Habib Bank Limited.
H10: There is no relationship between service quality and customer's loyalty in Habib Bank Limited.
H2a: There is a positive and significant relationship between customer satisfaction and customer's loyalty in Habib Bank Limited.
H20: There is a no relationship between customer satisfaction and customer's loyalty in Habib Bank Limited.
H3a: There is a positive and significant relationship between loyalty programs and customer's loyalty in Habib Bank Limited.
H30: There is a no relationship between loyalty programs and customer's loyalty in Habib Bank Limited.
H4a: There is a positive and significant impact of service quality, customer satisfaction and loyalty programs on customer's loyalty in Habib Bank Limited.
H40: There is no impact of service quality, customer satisfaction and loyalty programs in Habib Bank Limited.

Analysis and Interpretations:

Reliability

The value of Cronbach Alphafor is 0.770 which shows that results are reliable.

Cronbach's Alpha	N of Items
.770	23

Correlations

		Loyalty program	Service Quality	Customer satisfaction	Customer loaylty
Loyalty program	Pearson Correlation	1	.524**	.275**	.245*
	Sig. (2-tailed)		.000	.006	.014
	N	100	100	100	100
Service Quality	Pearson Correlation	.524**	1	.256*	.233*
	Sig. (2-tailed)	.000		.010	.020
	N	100	100	100	100
Customer satisfaction	Pearson Correlation	.275**	.256*	1	.304**
	Sig. (2-tailed)	.006	.010		.002
	N	100	100	100	100
Customer loaylty	Pearson Correlation	.245*	.233*	.304**	1
	Sig. (2-tailed)	.014	.020	.002	
	N	100	100	100	100

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

*. Correlation is significant at the 0.05 level (2-tailed).

Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.233[a]	.054	.044	.70817

a. Predictors: (Constant), Service Quality

Anova[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.810	1	2.810	5.604	.020[b]
	Residual	49.148	98	.502		
	Total	51.958	99			

a. Dependent Variable: customer loaylty

b. Predictors: (Constant), Service Quality

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.778	.233		7.629	.000
	Service Quality	.253	.107	.233	2.367	.020

a. Dependent Variable: customer loyalty

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Customer satisfaction[b]	.	Enter

a. Dependent Variable: customer loaylty
b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.304[a]	.092	.083	.69368

a. Predictors: (Constant), customer satisfaction

Anova[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.801	1	4.801	9.977	.002[b]
	Residual	47.157	98	.481		
	Total	51.958	99			

a. Dependent Variable: customer loaylty
b. Predictors: (Constant), customer satisfaction

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.556	.247		6.300	.000
	Customer satisfaction	.377	.119	.304	3.159	.002

a. Dependent Variable: customer loaylty

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	Loyalty program[b]	.	Enter

a. Dependent Variable: customer loaylty
b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.245[a]	.060	.050	.70604

a. Predictors: (Constant), loyalty program

Anova[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.106	1	3.106	6.232	.014[b]
	Residual	48.852	98	.498		
	Total	51.958	99			

a. Dependent Variable: customer loyalty
b. Predictors: (Constant), loyalty program

Conclusion

This study shows results of impact of customer satisfaction, service quality and loyalty program on customer's loyalty. This research shows that service quality, customer satisfaction, loyalty program can affect the customer loyalty and bank can enhance loyalty of customer by providing their loyal customers different kinds of rewards. Service quality has major impact on customer loyalty because if a bank is providing best service then customers will be satisfied and they will retain with the same bank as long as they are satisfied.

Limitations

This research can be conducted at any other area with different population size. It can be also conducted by adding other variables that can effect customer loyalty.

Recommendations

Bank can introduce different loyalty programs to retain the customer for long time period or for life time. In Pakistan there is less loyalty programs so bank should focus on its loyalty programs much more than other variables.

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