

Impact of Service Quality on Customer Satisfaction and Customer Loyalty: Evidence from Banking Sector

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Abstract

The aim of this research study is to determine the satisfaction level of banking customers regarding quality of different services provided by their bank and their loyalty with the respective bank. Service quality is studied within a spectrum of different dimensions. An effort is also made to find out which service quality dimensions may enhance customer satisfaction and customer loyalty in a better way.

Respondents are chosen from a range of varying demographic features using stratified random sampling. Banks from both public and private sector are selected for sampling. Survey questionnaires were distributed among 270 customers of different banks. An 83% (225 respondents) valid response rate is yielded. Descriptive statistics, one sample t-test, correlation and regression are used to analyze the data.

Findings indicate that service quality and all its dimensions have significant and positive association with customer satisfaction and customer loyalty.

Banking sector is a significant sector in Pakistan's economy and has seen unprecedented growth and raging competition during the last decade. Therefore this study has been specifically conducted to look into this phenomenon and seek empirical justification in this regard by considering service quality as the main contributory factor towards customer satisfaction and customer loyalty.

Keywords: banking sector, customer loyalty, customer satisfaction, service quality.

1. Introduction

Banks are key players in financial markets operations and play an important role in keeping a country's economy running smoothly. In today's highly competitive corporate environment, quality of services is an essential element for enhancing customer satisfaction and customer loyalty. These are important factors in improving the performance of banks and in determining their success, i.e. better profitability and a bigger market share.

Privatization of banking sector in Pakistan during the past few decades has resulted in higher customer expectations. Now customers demand better quality services from financial institutions. It has boosted the competition among various commercial banks particularly those in private sector. This motivates them to deliver premium quality services to their customers in order to gain competitive advantage i.e. more satisfied and loyal customers (Wisniewski, 2001; and Graack, 1996).

The premise of “service quality” as a tool for gaining competitive advantage and lead in a market-driven system has been well recognized by the financial institutions. However in current highly competitive corporate environment it has become increasingly important to not only become the market leader but also to maintain that top position (Zeithaml et al., 1996; and Boltan & Drew, 1991).

Researchers all over the globe claim that offering quality services give a sustainable competitive advantage to any business. It enables them to fulfill not only the present needs of their customers satisfactorily but also to anticipate their future needs. This ability to anticipate the future needs of customers allows them to delight their customers through quality services on consistent basis. Subsequently it enhances customer satisfaction and customer loyalty level towards these organizations (Gantasala & Prabhakar, 2010; Wisniewski, 2001; Naik et al., 1988; Zeithaml, 1988).

Banks must consider various antecedents (tangibles, reliability, assurance and empathy) of service quality in order to have delighted customers (B. Sharp, & A. Sharp, 1997) and to enhance their performance and profitability (Hackl et al., 2000; Andereson et al., 1994; Lewis, 1993).

Although much empirical evidence could be found in the literature worldwide investigating the relationship between service quality and customer loyalty, this domain has not been much considered in Pakistan’s context. A lot of research on service quality and its association with customer satisfaction and loyalty has been conducted in developed countries. Therefore this study contributes to the literature by studying this phenomenon in the banking sector of a developing country i.e. Pakistan.

2. Literature Review

The impact of service quality on customer satisfaction and customer loyalty in the context of banking sector is a widely discussed topic in the literature. This section targets popular journals, magazines and various text books that contain fruitful information on various service quality dimensions as well as customer satisfaction and customer loyalty.

2.1 Service Quality

Services are a continuous process of on-going interactions between customers and service providers comprising a number of intangible activities provided as premium solutions to the problems of customers and including the physical and financial resources and any other useful elements of the system involved in providing these services (Grönroos, 2004).

Premium service quality is a key to gain a competitive advantage in services industry. The satisfaction level of customers is dependent on their perception of service quality and the trust in service provider (Ismail et al., 2006; Aydin & Özer, 2005; and Parasuraman et al., 1988). By providing better quality services to customers, a firm revives the perception of customers about quality of services.

Particularly in banking industry, premium service quality plays a pivotal role for customers in evaluating the performance of a service provider and is the key to gain customer satisfaction and customer loyalty. A bank can gain competitive advantage and build long term relationship with its customers by providing premium quality services.

Several evidences found in literature establish that there is a significant correlation between service quality and customer satisfaction (Sureshchandar et al., 2002; Boulding et al., 1993; and Bitner, 1990). While Spreng and Mackoy (1996) provided evidence of the significant correlation between service quality and customer loyalty.

SERVQUAL scale, developed by Parasuraman et al., (1988), is the most famous measure of service quality. It classifies and measures service quality in five dimensions. We have taken four out of these i.e. tangibles, reliability, assurance and empathy.

SERVQUAL scale has been the most widely used measure of service quality. In many private research studies SERVQUAL has been constructively deployed (Parasuraman et al., 1991). Moreover several published research studies have positively discussed the SERVQUAL framework (Crompton & Machay, 1989; Webster, 1989; Woodside et al., 1989; and Johnson, 1988) and have assessed the validity and reliability of this measure (Babakus & Boller, 1991; Brensinger & Lambert, 1990; and Finn & Lamb, 1991). Furthermore following the criticism on SERVQUAL scale, proper refinements were made to it (Parasuraman et al., 1991, pp. 115-117).

A brief explanation of these dimensions is given below.

2.1.1 Tangibles

Those things which have a physical existence and can be seen and touched. In context of service quality, tangibles can be referred to as Information and Communications Technology (ICT) equipment, physical facilities and their appearance (ambience, lighting, air-conditioning, seating arrangement); and lastly but not least, the services providing personnel of the organization (Blery et al., 2009). These tangibles are deployed, in random integration, by any organization to render services to its customers who in turn assess the quality and usability of these tangibles.

2.1.2 Reliability

Reliability means the ability of a service provider to provide the committed services truthfully and consistently (Blery et al., 2009). Customers want trustable services on which they can rely.

2.1.3 Assurance

Assurance is developed by the level of knowledge and courtesy displayed by the employees in rendering the services and their ability to instill trust and confidence in customer (Blery et al., 2009).

2.1.4 Empathy

Empathy means taking care of the customers by giving attention at individual level to them (Blery et al., 2009). It involves giving ears to their problems and effectively addressing their concerns and demands.

2.2 Customer Satisfaction

Satisfaction is a feeling that surfaces from an evaluation process, i.e. when the consumer of a good or service compares what is received against what is expected from the utilization of that good or service (Kotler et al., 2009).

The following criteria are laid down by Liu et al. (2008) for measuring the satisfaction level of customers regarding purchase and subsequent consumption of goods or services:

- *Satisfaction*: The perception developed by the customers that the goods or services are acceptable or tolerable.
- *Content*: The features of goods or services and the underlying benefits gives customer a positive consumption experience.
- *Relieved*: The alleviation of the negative state of customers' mind of by the goods or services provided.
- *Novelty*: The goods or services bring freshness and excitement in customers.
- *Surprise*: The amazement and unexpected pleasure brought to people by goods or services consumed.

Additionally, studying the different phases of the customer relationship life-cycle highlights important issues and helps to depict the level of customer satisfaction at each phase. It also helps to emphasize on specific customer needs and expectations at each stage of the relationship (Ravald & Grönroos, 1996). Customer satisfaction signifies the relationship between customer and service provider. It brings about customer loyalty and incites a long term relationship between both sides.

2.3 Customer Loyalty

Heskett et al., (1994) suggested that customer loyalty motivates customers for repeat purchases and persuade them to refer those products or services to others. Duffy (2003) proposed that customer loyalty is a feeling of association which a customer has towards a brand. This feeling incites customer for acquiring a good or service repeatedly. Subsequently this generates sizeable and better financial outcomes for the firm.

Customer loyalty is formed under the six assumptions mentioned below:

- 1) It is a function of psychological processes;
- 2) It involves bias (which is random);
- 3) It involves some decision making unit;
- 4) May relate to some alternative brands;
- 5) Behavioral response (the final purchase); and
- 6) It is expressed over time (post-purchase behavior).

Generally, every banking company aims at earning profits, expanding its business by offering more diversified products or services over time and capturing a larger market share progressively. Customer loyalty can favorably contribute towards this basic aim of the banks (Hayes, 2008) as it is an effective tool for generating repeat sales from the customers (Chu, 2009). Furthermore these loyal customers can serve as effective elements in the marketing mechanism when they refer their bank to more people. In this way these existing customers contribute towards increasing their respective bank's

customer base and market share. The financial base of any bank is largely dependent on this phenomenon.

2.4 Service Quality and Customer Satisfaction

In banking industry, service quality is one of the most important aspects of the premium customer experience. Most organizations monitor their services quality on a regular basis to ensure maximum customer satisfaction and to improve customer retention and loyalty. Customer satisfaction is attained by properly meeting the customer demands and expectations and providing services which are up to the market standards (Gitomer, 1998). A positive consumption experience of the customer ensures that overall his feelings for the products or services consumed are positive. However customer satisfaction does not guarantee repurchase, customer retention, or loyalty.

Service quality has been suggested as a strong predictor of customer retention and customer satisfaction by many organizational researchers. Service quality is a driver of the customer satisfaction that impacts customer loyalty (Cronin et al., 2000).

Service quality is a key factor for customer satisfaction. It is an important tool for banks for augmenting their income and market share (Muyeed, 2012)

2.4.1 Tangibles and Customer Satisfaction

Jabnoun and Al-Tamimi (2003) found that banks with better ambience enhance customer satisfaction in a better way. Association between service quality and customer satisfaction in banking sector of Sweden is examined by Zineldin (2005). He found that by combining tangible and intangible attributes of premium quality in products and services provided by banks, they may create a strong and long-term relationship with their customers.

This service quality dimension comprises of bank ambience, service equipment, human resources (staff) and the means of communication. In simple words tangibles are about creating foremost impressions. All organizations desire that their consumers get an exceptional and positive foremost impression. Focusing on this particular dimension will help them to gain maximum benefit. (Swar & Sahoo, 2012).

Ladhari et al., (2011) concisely explain the idea of tangibles role in banking sector. Service quality is key tool to achieve customer's attention. Varying behaviors and attitudes of customers demand high service quality to attain their perception of service.

Service quality has linear relationship with success and profitability of business. General Electric (GE) has invested heavily in quality service and in return they earned huge profits every year. GE considered both tangible and intangible aspects of service quality equally important in the success of organization (Tax & Brown, 2012).

Environment and culture of different areas serve as a guide for businesses on how to adapt their policies in global perspective for a particular area. They have to make changes in the setup of their outlets and branches. Banking industry mostly follows identical office ambience setups and installs similar service equipment all over the globe to maintain a standard. But adapting according to cultural needs of particular areas up to some extent will make customers feel more comfortable and loyal (Ganguli & Roy, 2011).

2.4.2 Reliability and Customer Satisfaction

The association between dimensions of service quality and customer satisfaction was investigated by Ibáñez et al. (2006). They found a significant relationship between reliability of services on the satisfaction level of customers.

The literature reveals an increased degree of positive relationship between service quality, customer satisfaction and performance (both financial and non-financial) where face-to-face dealing between customer and employee is the only focus. Technology expansion has had a great impact on the choice of service delivery standard and services marketing strategies. This has yielded many prospective competitive advantages including augmenting of productivity and enhanced revenue creation from new services (Muyeed, 2012).

2.4.3 Assurance and Customer Satisfaction

In addition to tangibles, reliability and responsiveness; assurance has been identified as a significant dimension of service quality by Parasuraman et al. (1988). They propose that all of these dimensions significantly enhance customer satisfaction. It is believed that if the employees of financial institutions display trustworthy behavior, the satisfaction level of customers can be enhanced significantly. It may also positively influence repurchase intention of customers (Ndubisi, 2006; and Ndubisi & Wah, 2005).

2.4.4 Empathy and Customer Satisfaction

A positive and significant relationship is found between empathy and customer satisfaction by Iglesias and Guillén (2004). It was proposed in another research study, that customers may remain unsatisfied with service quality if a gap is left in empathy. It was also established by Al-Marri et al. (2007) that customer satisfaction is significantly impacted by empathy. It makes customers contented and in the long-run serves as an important predictor in improving the financial performance of the organization.

Wieseke et al. (2012) empirically investigated the role of empathy in service quality and its impact on customer satisfaction. It was established that customers treated emphatically are more often visitors and prone forgive any mistakes that may occur. Empathy creates an emotional relationship with customer, providing customer a touch of importance for business. This leads to retention and creation of new customer's pool.

Juneja (2011) has also studied the correlation between service quality dimensions and customer satisfaction in Bangladesh banking industry. It was found that customer loyalty can be won through empathy. Empathy can play role in improvement of service quality, customer loyalty and finally satisfaction

Karatepe (2011) explored the service environment impact with empathy and reliability on loyalty. Empathy works as a moderator between quality and customer satisfaction. Empathy can change the behavior of customer ultimately.

2.5 *Service Quality and Customer Loyalty*

A strong relationship between customer loyalty and service quality has been confirmed by many researchers (Anderson & Mittal, 2000; Bloemer & De Ruyter, 1999; and Oliva et al., 1992). Evidences of strong and direct relationship between customer loyalty and service quality have also been given by Heskett et al. (1997). While Bloemer and De Ruyter (1999) have stated that service quality results in customer loyalty; whereas if level

of customers' is also tends to be relatively high, it may also act as a vital promoter of customer loyalty. However in today highly dynamic and competitive environment attaining higher levels of customer satisfaction and customer loyalty, especially in the services sector, may be a tough task for many organizations.

Also notably many researchers have proved willingness to recommend and repurchase intention as dimensions of the customer loyalty. Further they found that service quality has a strong positive impact on these dimensions of customer loyalty (Ehigie, 2006; Wong & Sohal, 2003; Bloemer et al., 1998; and Bitner, 1990).

2.5.1 Tangibles and Customer Loyalty

It was established by Jabnoun and Al-Tamimi (2003) that banks with better ambience enhances customer loyalty in a better way. Association between service quality and customer loyalty in banking sector of Sweden is also examined by Zineldin (2005). The fact that banks may create a strong and long-term relationship with their customers by combining tangible and intangible attributes of premium quality in products and services they provide, was also true in this case.

2.5.2 Reliability and Customer Loyalty

In a research study carried out in Malaysian banking sector to investigate the relationship between service quality and customer loyalty, Sureshchandar et al. (2003); and Brown and Mitchell, (1993) found that reliability is the strongest dimension of service quality.

2.5.3 Assurance and Customer Loyalty

It was established by Bitner (1990) that customer loyalty is much strongly impacted by assurance than any other dimension of service quality. Later on customer loyalty improves level of customers' satisfaction and the banks' financial performance.

2.5.4 Empathy and Customer Loyalty

In services industry, particularly in banking sector, due to presence of tough competition, the customer-base of loyal customer may not be broadened without giving individual care and attention to customers (Jabnoun & Al-Tamimi, 2003). A broader customer-base of loyal customers may be won if the services delivery staff is strongly committed to providing premium quality services as well as is able to effectively handle conflicts in a timely manner (Malhotra et al., 2005; and Ndubisi, & Wah, 2005).

In the end of this discussion of literature we may conclude that by providing true value of money to customers, by offering premium quality services to them according to their demands, the perceived sacrifice may be reduced (Wilson, 1979). The product or service offered must be valuable and beneficial enough and fit customers' perceptions in order to maximize their satisfaction. Finally it can be suggested that in today's highly dynamic and competitive environment, financial institutions can win the trust and loyalty of customers by offering premium quality services as well as some other value-added offers at sometimes to ensure maximum customer satisfaction and better financial performance.

3. Research Methodology

Survey method is used for this study using questionnaire as data collection instrument. The questionnaire is adapted from scales already used for previous studies in the literature. The final questionnaire consists of two sections. The first section contains items regarding dependent and independent variables of the study, and was divided into

six parts such as tangibles, reliability, assurance, empathy, customer satisfaction and customer loyalty.

To assess the service quality, SERVQUAL, a scale developed by Parasuraman et al. (1988) is used with a slight modification. It is considered a reliable service quality measurement model. We have used four out of five dimensions (tangibles, reliability, assurance and empathy) of the independent variable service quality for our study. SERVQUAL scale items were further slightly modified to make it fit for service rendering organizations i.e. banks in this case. We have taken 3 items for tangibles, 4 items for reliability; 4 items for assurance; and 5 items for empathy.

Additionally a 3 items scale for dependent variable customer satisfaction and a 4 items scale for the other dependent variable customer loyalty have adopted from Mohsan et al. (2011). All the items were measured on five-point Likert scale eliciting responses ranging from 1 to 5, where 1 = Strongly Disagree, 2 = Disagree, 3 = Indifferent, 4 = Agree and 5 = Strongly Agree. The second section contained questions on the demographic characteristics of the subjects.

Before going for the full study, initially a pilot study was carried out to check the reliability of SERVQUAL scale and the underlying service quality model (Figure.1), using Cronbach's Alpha test. The adapted questionnaire was distributed among 50 respondents chosen randomly from a number of conventional (4) and Islamic (1) banks. Overall, the service quality scale consisting of 16 items turned out to be reliable with Cronbach's Alpha coefficient of .697. The scale items of the dimensions (tangibles, reliability, assurance and empathy) of independent variable service quality were also found to be reliable with Cronbach's Alpha coefficients of .712, .687, .699 and .614, respectively. Whereas the scale items of the dependent variables customer satisfaction and customer loyalty also yielded reliable results with Cronbach's Alpha coefficients of .753 and .643 respectively.

For the final study stratified random sampling technique and convenience sampling technique under the head of probability sampling are used in combination. The first step in stratified sampling is to identify the strata which are sub-groups of the population. In this regard two strata could be easily identified i.e. conventional and Islamic banks.

According to the list of State Bank of Pakistan, there are 26 conventional banks which have subcategories of public (5), private (17) and specialized banks (4). Specialized banks were excluded from the sample as these banks are serving specialized segments of the economy and these segments are quite dependent on these banks. Therefore measuring and analyzing the satisfaction and loyalty of customers of these banks would have understandably produced positive results. Islamic banking on the other hand comprises only 5 banks, all of which are private presently. Lastly bank of Khyber and Bank of Sindh are not working in Lahore.

After exclusions, 20 conventional and 5 Islamic banks constituted the sampling strata of our study from which the sample of the study are drawn. Under stratified random sampling four conventional banks were randomly chosen out of which one bank was public and three were private and one Islamic bank (private) was chosen.

Finally, using convenience sampling, questionnaires were distributed among 270 bank customers of the chosen banks. Out of them 225 (83%) yielded a valid response. The data was then entered in Statistical Package for Social Sciences (SPSS 19) for analysis.

Simple descriptive, one sample t-test, correlation and regression analysis was used to analyze the data.

3.1 Theoretical Framework of the Study

In view of the literature discussed above, we formulate the following research model for the study.

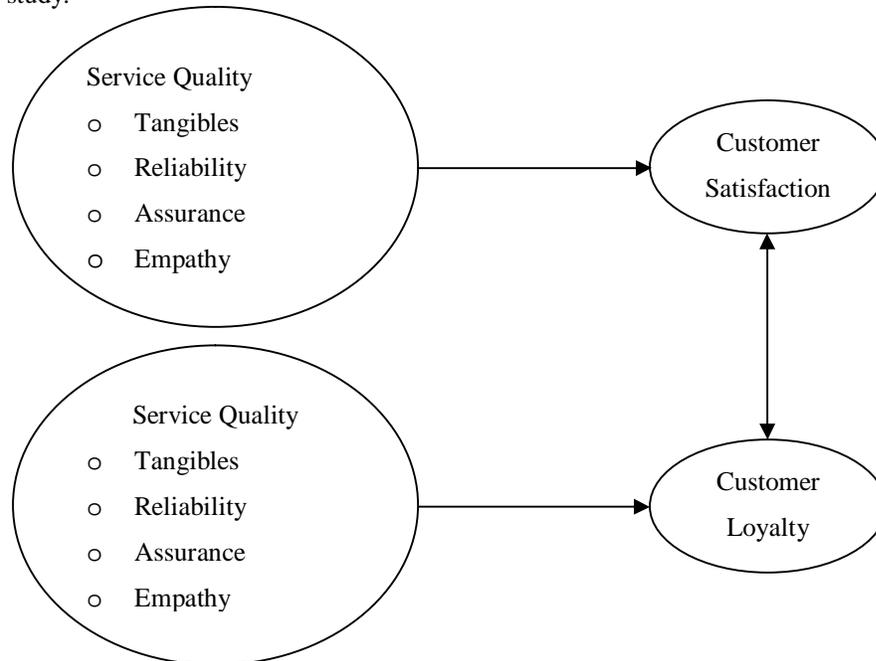


Figure 1: Theoretical Framework of the Study

3.2 Hypothesis of the Study

The hypotheses being tested in this research study are as follows:

- H₁** Service quality has impact on customer satisfaction.
- H₂** Service quality has impact on customer loyalty.
- H₃** Tangibles have impact on customer satisfaction.
- H₄** Tangibles have impact on customer loyalty.
- H₅** Reliability has impact on customer satisfaction.
- H₆** Reliability has impact on customer loyalty.
- H₇** Assurance has impact on customer satisfaction.
- H₈** Assurance has impact on customer loyalty.
- H₉** Empathy has impact on customer satisfaction.
- H₁₀** Empathy has impact on customer loyalty.
- H₁₁** Customer satisfaction has impact on customer loyalty.

4. Analysis and Interpretations

Table 4.1 below provides the demographical distribution of the respondents according to various categories.

Table 1: Demographics (Categorical)

Demographics	Category	No. of respondents in category	Percentage %
Type of Bank	Public	19	8.4
	Private	206	91.6
	Total	225	100
Nature of Bank	Conventional	211	93.7
	Islamic	14	6.3
	Total	225	100
Gender	Male	189	84.2
	Female	36	15.8
	Total	225	100
Age	21-25	47	20.9
	26-30	74	32.9
	31-35	36	16.0
	36-40	47	20.9
	41 and above	21	9.3
	Total	225	100
Education	Graduation	83	36.8
	Masters	125	55.8
	Others	17	7.4
	Total	225	100
Occupation	Salaried	125	55.8
	Businessman	75	33.2
	Student	25	11.0
	Total	225	100

Table 2: Mean, Median, Mode and Standard Deviation scores of Variables of the Study and Demographic Characteristics of the Subjects (n=225)

	Service Quality	Tangibles	Reliability	Assurance	Empathy	Customer Satisfaction	Customer Loyalty	Total Relationship With the Bank	Age
N	225	225	225	225	225	225	225	225	225
Mean	3.56	3.46	3.47	3.54	3.51	3.70	3.75	5.3368	31.9263
Median	4.00	4.00	4.00	4.00	4.00	4.00	4.00	3.00	30.00
Mode	4.00	4.00	4.00	4.00	4.00	4.00	4.00	2.00a	27.00
Std. Dev.	.715	.670	.820	.520	.501	.608	.708	4.7269	7.4813

Table 2 illustrates the details about mean, median, mode and standard deviation scores of the variables of the study and some demographic characteristics of the subjects. These scores were found using the descriptive statistics in SPSS.

The descriptive shown in the table indicate that mean of service quality is 3.56 with a median, mode and standard deviation of 4.00, 4.00 and .715 respectively. The mean score of service quality that is an average of overall service quality dimensions indicates that customers somewhat agree that their financial service providers i.e. banks deliver premium quality services to satisfy their diversified needs in order to enhance their satisfaction level and loyalty. The standard deviation of service quality is also quite low which means variability of the responses on service quality is less and overall reliability of the score is better.

The mean score of first service quality dimension i.e. tangibles is 3.46 with a median, mode and standard deviation of 4.00, 4.00 and .670 respectively. The mean score of tangibles is more than 3 which was marked as indifferent in the questionnaire but it is not close to 4 which means customers somewhat agree that bank's ambience, equipment, sitting area facilities, communication materials and personnel of the bank enhance their levels of satisfaction and make them more loyal towards their respective banks. Moreover, there is less variability in the responses as indicated by the standard deviation of tangibles.

Reliability has a mean score of 3.47 with a median, mode and standard deviation of 4.00, 4.00 and .820 respectively. The mean score of reliability clearly indicates that customers somewhat agree that financial service providers provide promised service accurately and dependably. The standard deviation of reliability is quite low which shows less inter response variability.

Assurance has a mean score of 3.54 with a median, mode and standard deviation of 4.00, 4.00 and .520 respectively which shows that there is less variability of the responses and customers somewhat agreed that banks possess trustworthy behavior and reflect genuine commitments in providing services. It may also positively influence their repurchase intentions.

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The mean score of empathy is 3.51 with a median, mode and standard deviation of 4.00, 4.00 and .501 respectively. The mean of empathy is more than 3 but less than 4 which is good but not significant enough to make the customers strongly agreed that banking staff listen to the customers' problems carefully and provide individualized attention to their concerns and demands. However, variability in the responses is much lower as indicated by the standard deviation of empathy.

The mean score of customer satisfaction is 3.70 with a median, mode and standard deviation of 4.00, 4.00 and .608 respectively. The mean score of customer satisfaction is close to 4 which shows that customers agree that they are satisfied with the quality of services delivered by their respective financial service providers i.e. banks. However, variability in the responses is much lower as indicated by the standard deviation of customer satisfaction.

The mean score of customer loyalty is 3.75 with a median, mode and standard deviation of 4.00, 4.00 and .708 respectively. The mean score of customer loyalty is also close to 4 which show that customers agree that they are loyal towards their respective financial service providers with less variability in the responses as indicated by the standard deviation of customer loyalty.

Overall, the results indicate high scores on service quality, assurance, customer satisfaction and loyalty. However scores on tangibles, reliability and empathy are relatively low as compared to other variables.

Table 2 also illustrates mean, median, mode and standard deviation of respondents' total relationship with the bank as well as their age. Findings indicate that data were collected from 225 customers having relationship with various banks of Lahore. The mean score of total relationship of the respondents with their respective banks is 5.3368 with a median, mode and standard deviation of 3.0000, 2.00 and 4.72693 respectively. The variability of the responses is also high here as indicated by the total relationship of the respondents.

The mean age of the respondents is 31.9263 with a median, mode and standard deviation of 30.0000, 27.00 and 7.48130 respectively which shows that average age of the respondents are 31.9263 years but there is much variability in the age of respondents as indicated by the standard deviation which indicates that this factor does not seem that reliable.

Table 3: One Sample t-Test

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Service Quality	4.181	224	.025	.56 000	.1553	1.1447
Tangibles	3.959	224	.029	.46 000	.1766	1.6234
Reliability	3.915	224	.030	.47 250	.1708	1.6542
Assurance	2.849	224	.065	.54 230	-.1229	2.2229
Empathy	3.312	224	.045	.51 300	.0314	1.5686
Customer Satisfaction	4.982	224	.016	.70 000	.4244	1.9256
Customer Loyalty	4.487	224	.032	.75 000	.4984	1.0016

Table 3 above provides one sample t-test for the dependent and independent variables of the study to know their level of prevalence in the banking sector of Pakistan. A cut off value of 3 is considered for the analysis to see whether all the variables of the study surpass significantly the average value of 3. A mean value more than 3 implies that according to the respondents the variable exists in the banking sector of Pakistan. On sample t-tests measures the reliability and significance of the response.

The independent variable of the study is service quality having a mean average of 3.56, valuing .56 above the average of three. This difference according to the one sample t-test is significant at 5% level of significance as entailed by the t-statistic of 4.181. The independent variable of service quality is measured using five dimensions: tangibles (mean value 3.46); reliability (mean value 3.47); assurance (mean value 3.54); and empathy (mean value 3.51). The mean value of all these variables surpass the average of 3 indicating that all these variables were prevailing in the banking sector of Pakistan.

Mean difference of all these variables is also significant at 5% level except mean difference of assurance which is significant at 10% level of significance. The t-statistic for these sub dimensions are 3.959, 3.915, 4.173, 2.849 and 3.132 respectively.

The mean value of the dependent variables on the other hand is 3.7 for customer satisfaction (mean difference .70) and 3.75 for customer loyalty (mean difference .75) along with respective t-statistic of 4.982 and 4.487 entailing that mean difference is significant at 5% level of significance.

Overall, it can be confidently stated that variables of service quality, tangibles, reliability, responsive, empathy, customer satisfaction and customer loyalty are significantly prevailing in the banking sector of Pakistan while variable of assurance is also exiting but this proposition could only be made with less confidence and significance.

Table 4: Pearson Correlation between Service Quality and Customer Satisfaction and Loyalty (n=225)

		Customer Satisfaction	Customer Loyalty
Service Quality	Pearson Correlation	.173**	.247*
	Sig. (2-tailed)	.000	.031
Tangibles	Pearson Correlation	.126*	.251**
	Sig. (2-tailed)	.033	.000
Reliability	Pearson Correlation	.187**	.248**
	Sig. (2-tailed)	.001	.000
Assurance	Pearson Correlation	.175**	.271**
	Sig. (2-tailed)	.022	.000
Empathy	Pearson Correlation	.167**	.278**
	Sig. (2-tailed)	.001	.000
Customer Satisfaction	Pearson Correlation	---	.236**
	Sig. (2-tailed)	---	.001

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

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

Table 4 provides the Pearson’s correlation coefficient between various service quality dimensions and customer satisfaction and loyalty which is found using the SPSS 19. The results indicate that service quality and all its dimensions such as tangibles, reliability, assurance and empathy have positive association with customer satisfaction and loyalty in banking sector of Pakistan.

Overall service quality has a weak correlation with customer satisfaction and customer loyalty as provided by the respective correlation coefficients of .173 (sig < .01) and .247 (Sig < .05) thus we accept hypotheses of H₁ and H₂ which postulate that there is a significant and positive relationship of service quality with customer satisfaction and customer loyalty.

The dimension of tangibles also showed a weak but significant correlation with customer satisfaction and customer loyalty as provided by respective correlation coefficients of .126 (sig < .05) and .251 (sig < .01) which lead us to accept hypotheses H₃ and H₄ proposing positive relations of tangibles with customer satisfaction and customer loyalty.

The second dimension i.e. reliability also yielded positive and significant correlation confidents of .187 (sig < .01) and .248 (sig < .01) respectively for customer satisfaction and customer loyalty which lead us to accept hypotheses of H₅ and H₆.

The dimension of assurance was also significant and positive regarding its association with customer satisfaction (r = .175, sig < .01) and customer loyalty (r = .271, sig < .01) thus we accept next two hypotheses of H₇ and H₈.

The last dimension of empathy also provided significant and positive correlation coefficients regarding customer satisfaction ($r = .167$, $\text{sig} < .01$) and customer loyalty ($r = .278$, $\text{sig} < .01$) which leads us to accept last two hypotheses of the study i.e. H_9 and H_{10} proposing a positive relationship of empathy with customer satisfaction and customer loyalty.

Moreover, there also exists a significant and positive association between customer satisfaction and customer loyalty as indicated by the correlation coefficient of $.236$ ($\text{sig} < .01$). Thus we accept H_{11} which postulates that customer satisfaction has significant and positive impact on customer loyalty.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.751	.563	.552	.32444
a. Predictors: (Constant), Service Quality, Tangibles, Reliability, Assurance, Empathy				
b. Dependent variable: Customer satisfaction				

Table 5 above provides the model summary of the model which specifies customer satisfaction as a function of service quality, tangibles, reliability, assurance and empathy. R square of the model is $.563$ which entails that 56.3% of the variation in the dependent variable i.e. customer satisfaction is accounted for by this model which is quite good.

Table 6: ANOVA

Model 1	Sum of Squares	df	Mean Square	F	Sig.
Regression	25.665	6	5.133	48.765	.000
Residual	19.894	189	.105	---	---
Total	45.559	194	---	---	---
a. Predictors: (Constant), Service Quality, Tangibles, Reliability, Assurance, Empathy					
b. Dependent variable: Customer satisfaction					

Table 6 above provides the ANOVA test of the model which species customer satisfaction as a function of service quality, tangibles, reliability, assurance and empathy. ANOVA tells overall goodness of fit of the model. F-statistic of the model is 48.765 which is quite good and entails that model is a good fit at 1% level of significance.

Table 7: Regression Coefficients

Model 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig. (P-value)
	B	Std. Error	Beta		
(Constant)	.623	.324	---	1.923	.056
Service Quality	.325	.062	.286	5.226	.000
Tangibles	.377	.029	.333	1.131	.210
Reliability	.413	.032	.387	3.537	.079
Assurance	.161	.062	.193	2.592	.025
Empathy	.141	.060	.133	2.687	.012

a. Predictors: (Constant), Service Quality, Tangibles, Reliability, Assurance, Empathy
 b. Dependent variable: Customer satisfaction

Table 7 provides the results of the model predicting customer satisfaction through the variables of service quality, tangibles, reliability, assurance and empathy. All the variables have a positive and significant relationship with customer satisfaction. These results are in confirmation with the correlation analysis explained above. But in regression analysis, the variable of tangibles is found insignificant. The regression coefficients of significant variables i.e. service quality, reliability, assurance and empathy are .325, .215, .161 and .141 respectively. Regression analysis leads us to accept hypotheses of H₁, H₇ and H₉ postulating a significant and positive relationship of service quality (P=.000), assurance (P=.025) and empathy (P=.012) with customer satisfaction. The hypotheses H₃ and H₅ regarding relationship of tangibles (P=.210), and reliability (P=.079), with customer satisfaction are however rejected.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.693	.481	.467	.59414

a. Predictors: (Constant), Service Quality, Tangibles, Reliability, Assurance, Empathy
 b. Dependent variable: Customer loyalty

Table 8 above provides the model summary of the model which specifies customer loyalty as a function of services quality, tangibles, reliability, assurance and empathy. R square of the model is .481 which entails that 48.1% of the variation in the dependent variable i.e. customer satisfaction is accounted for by this model which is quite good.

Table 9: ANOVA

Model 1	Sum of Squares	df	Mean Square	F	Sig.
Regression	61.815	5	12.363	35.022	.000
Residual	66.718	189	.353		
Total	128.533	194			

a. Predictors: (Constant), Service Quality, Tangibles, Reliability, Assurance, Empathy
b. Dependent variable: Customer loyalty

Table 9 above provides the ANOVA test of the model species customer loyalty as a function of service quality, tangibles, reliability, assurance and empathy. F-statistic of the model is 35.022, which is quite good and entails that model is a good fit at 1% level of significance.

Table 10: Regression coefficients

Model 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig. (P-value)
	B	Std. Error	Beta		
(Constant)	1.379	.591	---	2.334	.021
Service Quality	.415	.118	.217	3.510	.001
Tangibles	.077	.075	.076	2.019	.032
Reliability	.254	.114	.182	2.224	.027
Assurance	.213	.094	.202	2.321	.017
Empathy	.465	.096	.423	3.131	.007

a. Predictors: (Constant), Service Quality, Tangibles, Reliability, Assurance, Empathy
b. Dependent variable: Customer loyalty

Table 10 provides the regression results of the model predicting customer loyalty through service quality and its dimensions. The independent variable i.e. service quality and its dimensions i.e. tangibles, reliability, assurance and empathy are found to have a significant and positive association with customer loyalty. These results are in confirmation with the correlation analysis in this regard as all the variables in the model have a positive association with customer loyalty. The regression coefficients of all significant variables i.e. service quality, tangibles, reliability, assurance and empathy are .415, .077, .254, .213 and .465 respectively. Regression analysis leads us to accept hypotheses H_2 , H_4 , H_6 , H_{10} and H_{12} proposing a positive and significant association of service quality ($P=.001$), tangibles ($P=.032$), reliability ($P=.027$), assurance ($P=.017$) and empathy ($P=.007$) with customer loyalty.

5. Conclusion and Discussion

Today financial institutions are facing so many challenges i.e. increase in customers' demands and expectations coupled with provision of premium quality services (Ettorre, 1994; Joseph & Walker, 1988; JA, 1983; and Leonard & Sasser, 1982). Moreover, customers are behaving more critically to the service quality practices prevailing in banks (Albrecht & Zemke, 1985). Increasing customer demands together with ever growing

competition are compelling the financial institutions to adapt new competitive and innovative ways which will help them to take the lead in the market place in the form of loyal customer-base (Sellers, 1989).

Evidences entail that service quality is an excellent technique for enhancing customers' satisfaction level and loyalty to the organization in today's competitive environment. The main objective of this study is to determine the impact of various service quality dimensions on customer satisfaction and customer loyalty in banking sector of Pakistan. Findings indicate that service quality and all its dimensions such as tangibles, reliability, assurance and empathy have significant and positive association with satisfaction and loyalty of customers towards their respective financial service providing organizations. These findings are in conformity with the existing literature (Athanasopoulos et al., 2001; Bloemer et al., 1998); therefore justifiable up to great extent. The only finding which is not in conformity with the previous literature is the insignificant association of reliability with customer satisfaction and this may be due to couple of reasons i.e. many of the previous researches on this construct have been done in developed countries while we conducted this research study in a developing country where the concept of customer service and service quality is entirely different from developed countries on environmental grounds. In Pakistan, bank staff rarely provides prompt services and customers have to wait longer hours to be facilitated. Moreover, customers may be more concerned towards other aspects of services.

Service quality has been admired by the organizational researchers all around the globe as a competitive weapon which differentiates the organization from its rivals in a much positive way by enabling the service organizations to delight the customers through the provision of premium quality services on consistent basis and subsequently enhance their satisfaction and loyalty to the organization (Naik et al., 2010; Wisniewski, 2001; Curry & Herbert, 1988; and Zeithaml, 1988).

It has been witnessed that in today's market-driven system, customers are not loyal to one particular financial institution. Today all what they need is quality of products and services which satisfy their requirements effectively. Hence the major need of today's financial institutions is to find the ways to create satisfied and happy client-base. Therefore, these financial institutions must consider above discussed antecedents of customer satisfaction in order to have happy customer base (B. Sharp, & A. Sharp, 1997) which subsequently enhances their financial performance and profitability (Hackl et al., 2000; Andereson et al., 1994; and Lewis, 1993).

6. Recommendations, Limitations and Implications

6.1 Recommendations

The basic purpose of this research work is to put forward recommendations of practical nature rather than just propose research oriented work. The following recommendations are proposed to financial service providers in Pakistan:

- 1.** The satisfaction of the customers is a very much important factor that not only forces the customers to remain loyal with the organization but also proves as a marketing mechanism through which other people are attracted towards the organization. The word of mouth of a satisfied customer probability has more worth than any other advertising channel.

2. The marketers must understand and determine the factors i.e. premium service quality that enhances the customer satisfaction in banking sector of Pakistan. Frequent surveys must be conducted to obtain the data from the customers regarding their perceptions, expectations and recommendations to improve the service quality.
3. The financial institutions must adopt a win-win service quality strategy through which they provide value to the customer and customer remains loyal to the organization. The value provided must be keeping in view the satisfaction of the customers.
4. Traditional predictors of the customer satisfaction such like service quality (i.e. tangibles, reliability, assurance and empathy) still have a strong impact on the customer satisfaction so these factors must be the core of the strategy that is aiming at enhancing customer satisfaction and loyalty and providing value to him.
5. Probably the most important determinant of the customer loyalty is service quality. So, the provision of premium quality services must be the prime objective of the business strategy of financial institutions in Pakistan.
6. Apart from the predictors of the customer satisfaction used in this study, the financial institutions of Pakistan should look for the contemporary approaches of delivering quality services through relationship management tactics. These approaches have potential to redesign the business function of the organization and focus of these approaches is to build a long term relationship with the customer through the provision of premium quality services.
7. The financial service providers i.e. banks in the Pakistan are all alike in their customer services, products features and relationship management. etc. These financial service providers must think regarding developing a competitive edge which sets apart the products and services of the organization in a distinctive way. Provision of premium quality services holds utmost importance among the factors which can enable the financial institutions to have a competitive edge over the rivals successfully in today's market-driven system.
8. Innovating the services according to the needs and demands of the customers is very much important. Customer must be the focus of every strategy. In this regard, the financial institutions must think in terms of end result of their service quality innovations. The focus should be on the long run rather the current situation.
9. The demographical approach could be analyzed in this regard to find out the needs and demands of particular demographical sectors, so that the specialized service quality interventions can be devised and channelized to particularly meet the demands and needs of that group and eventually to enhance their levels of satisfaction and loyalty towards their respective financial service provider(s).

The above method recommendations if applied could be proved fruitful for improving the service quality of banking sector in Pakistan.

6.2 Study Limitations and Implications for Future Research

1. The one-shot nature of the research design in which we collected data at single point in time is one important limitation of the study. Although all the proposed hypothesis were based on previous research studies and evidences shown in the previous literature, it is not possible to explain causal relationships among the variables of the study due to the

absence of a longitudinal research design. Hence, the findings of the study are not an evidence for explaining causal relationships among variables.

2. The sample of the present study included only white collar managerial and non-managerial employees with graduation or more qualifications. Employees with low level of education such as cashiers were not included in the sample. This study has to be expended through replication upon the current results using the sample population with different characteristics and from different banks, such as samples which include both high and low qualified employees so as to increase the generalizability of the findings.

3. The unit of analysis of the current study was the individual customer. Future researches might carry out at group levels. However, difficulties in taking a sample large enough for significant results must be considered when carrying out the study at a higher level of analysis.

4. Much of the research on service quality has been conducted in developed countries such as United States. Relatively a very few research studies has been done elsewhere in the world. A significant and effective contribution will be made to the development of human resource management literature by conducting the research on service quality across cultures.

5. This study may be of significant importance both in contributing to the literature and as far as banking sector is concerned. An important strategy for 21st century financial institutions must be the provision of premium quality services in order to keep the customers satisfied and loyal to the organization and subsequently to survive and compete in today's dynamic and competitive corporate environment effectively.

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