

Moderating Role of Customer Satisfaction on the Relationship between Service Quality, Locational Convenience, Interpersonal Relationship and Customer Loyalty: Evidence from Banking Sector of Pakistan

Abstract

Customer loyalty is valuable for the survival and profitability of the organization. This paper aims to design a model for determining customer loyalty in the banking sector of Pakistan. The competition in the banking sector is continuously increasing. This study chooses to analyse the impact of service quality, interpersonal relationship, and locational convenience on customer loyalty where satisfaction plays a moderating role among them. Descriptive and analytic research is carried out through a survey design. Data is collected from respondents having accounts in commercial banks located in Rawalpindi and Islamabad. A questionnaire consisting of standardized five point likert scale is self-administered. SPSS software is used to analyse the data. The result of the study indicates that service quality has significant and positive impact on customer loyalty while locational convenience and interpersonal relationships have no significant impact. It is also shown that customer satisfaction does not moderate the relationship between the explanatory variables and customer loyalty. Implications for organizational managers have been suggested along with limitations of the study. Recommendations for future research have also been given.

Key words: customer loyalty, customer satisfaction, service quality, locational convenience, interpersonal relationship, banking sector, Pakistan

Introduction and literature review

Companies are facing difficulties to survive in this competitive environment and customer loyalty is important for this survival so organizations have to concentrate on it, now a day's companies take customer loyalty as an imperative factor while designing future strategies (Fathollahzadeh et al, 2011). Satisfaction and loyalty are related but clearly different (Ball et al., 2004). To gain

competitive advantage superior quality of services are provided to the customers because excellent quality leads to satisfaction which plays significant role in creating loyalty (Fathollahzadeh et al, 2011).

Globalization has changed economic and business strategies in the whole world and it effected many industries mainly the banking and financial sector. In providing novel services to its customers banks have flourished in the whole world (Vimi Jham, 2016). The banking sector of Pakistan has undergone significant reforms due to privatization of commercial banks and is offering variety of services to fulfil the ever changing demand of their customers. Only national bank of Pakistan is not privatized, 20% of the banking assets are held by national bank while remaining 80% are held by private commercial banks. Many industrial changes took place and defensive strategies are developed for regulation of banking sector and to avoid loss of customers (khan et al, 2011). Banks offer different services such as cash settlement, remittance and depository services to individuals and companies. Finally because of nature of financial services, interpersonal relationship and service quality are important to form customer loyalty which then leads to long term profitability and competitive advantage (Bolton, 1998). The interpersonal relationship among the service provider and the customer helps in developing emotions and creating loyalty (Kozub, 2008). When service quality is better interpersonal relationships are enhanced because customers are treated in a proper manner and their problems are solved within time by well trained staff of service providers (Ehigie, 2006). The attitude of service providers is remarkable to attract the customers and achieve the competitive advantage by all means. Attention is paid on relationship quality for establishing customer loyalty (Payne, 2000). Many customers think that locational convenience is of primary concern for a variety of frequently purchased services, and it forms their purchasing habits and loyalty (Rowley, 2005). Locational convenience has also some importance in achieving customer satisfaction and loyalty because in Pakistan customers mostly prefer the banks which are easy to reach despite being dissatisfied by its services but it happens in rare cases. It is due to the fact that access of internet is not available in all areas of Pakistan and mostly older people have less knowledge about using internet so they have to visit the banks. Location is taken as a competitive factor in retailing and People mostly prefer the banks which are convenient to their location so that they can easily use the services of these banks without bearing much cost of transportation (Jone et al, 2003).

I am choosing banking sector of Pakistan for conducting my research as banks help to facilitate and maintain economic development of a country and banking corporations have same desire to attract more customers through quality products and services (Hinson, Mohammed & Mensah, 2006). The contribution to the existing literature is that this study considers service quality, locational convenience and interpersonal relationship together to determine their impact on customer loyalty and tested customer satisfaction as a moderator among them and this relationship is not studied previously. Following are research questions of this study:

- Is there any impact of service quality, locational convenience and interpersonal relationship on customer loyalty?
- Whether customer satisfaction moderates the relationship between service quality, locational convenience, interpersonal relationship and customer loyalty?

On the basis of literature review the hypotheses developed for the study are:

H1: High service quality has significant and positive impact on customer loyalty.

H2: Interpersonal relationship among customers and service providers has significant and positive impact on customer loyalty.

H3: Locational convenience has significant and positive impact on customer loyalty.

H4: Customer Satisfaction moderates the relationship between service quality, interpersonal relationship, locational convenience and customer loyalty.

Gap of the study:

In Pakistan the research is conducted on the impact of service quality on customer satisfaction and customer loyalty evidence from banking sector by Mubbsher and Maryam in 2014. Perceived service quality and customer satisfaction with mediating effect of purchase intention by Rizwan et al in 2014. Impact of customer satisfaction and trust on customer loyalty, mediating role of commitment in petroleum sector of Pakistan by Saeed et al in 2014. Factors influencing customer loyalty of banking sector, evidence from Pakistan by Ali et al in 2014 and the factors taken in this study are trust, service quality and reputation impact. While no one in Pakistan has theoretically

and empirically examined the effect of service quality, locational convenience and interpersonal relationship on customer loyalty and moderating role of customer satisfaction among these variables.

Methodology

Sample of study includes individuals that are the customers of commercial banks located in Rawalpindi and Islamabad. Four hypotheses are developed and by using a standard questionnaire the relationship between the variables included in the study are tested. 150 questionnaires were distributed 130 were received back out of which 126 were useable hence the response rate was 84%. The standardized scale at five point likert scale where 1 is equal to strongly disagree and 5 equal to strongly agree is used. The quantitative method which is most suitable for this study is used.

Questionnaire consists of two parts. Part one comprised of questions about variables while part two consists of questions regarding respondent's personal information. The questionnaire was pre tested before the survey was conducted. To measure service quality, interpersonal relationship, customer satisfaction and customer loyalty items are adopted from questionnaire of Jacob Ramathe research on the antecedents of customer experience in retail banking (2010) whereas items for measurement of locational convenience are adopted from questionnaire of Yen Ng research on the study of customer satisfaction, return intention and word of mouth endorsement in university dining facilities (2001). Data is analysed using correlation and regression analysis.

Results and discussion

Data is measured by using questionnaires so reliability of the questionnaire is measured, Cronbach alpha is used which is found to be 0.7 and above for all variables. SPSS software is used and Correlation and Regression analysis are performed to test the model.

Regression analysis is performed to check the impact of quality, convenience, relationship and satisfaction on customer loyalty. The value of t-statistics above 2 is meaningful. In this case only quality and satisfaction have significant t value. Standardized beta for all variables is positive that is increase in independent variables will increase customer loyalty. When the p value of variable is less than 5% then this variable has significant impact on customer loyalty. In this table quality and satisfaction have significant positive impact on customer loyalty while locational convenience

and interpersonal relationship have no significant impact on customer loyalty. So on the basis of these results H_2 and H_3 are rejected that is convenience and relationship have no significant impact on customer loyalty but H_1 is accepted that is quality has significant impact on loyalty. R^2 tells goodness of fit and it shows that 55.4% variation in customer loyalty is explained by convenience, interpersonal relationship, service quality and satisfaction. When sampling error is removed from R^2 then adjusted R^2 is obtained which shows 53.5% variation. Model is significant as depicted from F-value ($p < 0.05$).

Satisfaction doesn't play a moderating role in this model. The significance level is above 0.05 for all three independent variables that is ($p > 0.05$) so the H_4 is rejected that satisfaction moderates the relationship between quality, convenience, interpersonal relationship and customer loyalty. The reason for it is that respondents have salary accounts in banks and as long as they remain in job they will receive their salary in this specific account so even if they are not satisfied with the services offered by these banks they have to remain loyal and there is no chance for them to switch from this bank to other unless they leave their job. Small no of respondents have accounts in other banks in addition to salary account while mostly have only salary accounts. From this study it is depicted that most of the respondents are not satisfied with the services of their banks. It is not necessary that a loyal customer is also a satisfied customer (vimi jham, 2016).

Conclusion

Hence it is concluded that when satisfaction is high then obviously customer is loyal to the organization and better quality is an important factor to resist the customer from switching to another bank but only convenience and relationship do not create loyalty hence customer will switch to other banks definitely if the other bank is offering superior quality of services. Service quality plays an important role in measuring performance of banks and survival of bank depends on it (Portela & Thanassolis, 2006). When relationship is built between customer and employee and if employee leaves the organization then loyalty of customer with that organization is disturbed as customer is actually loyal to that employee not to the organization (Rizwan et al, 2014). Hence by only building relationships with customers is not the basis of customer loyalty there is a need

to improve the quality of services provided to the customer so that he becomes loyal to the organization.

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