

Influence of Customer Satisfaction on Service Quality and Customer Loyalty Relationship in Malaysian Commercial Banking Industry

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ABSTRACT

The aim of this study is to establish understanding of a mediating effect of customer satisfaction on service quality satisfaction and customer loyalty relationship in Malaysian commercial banking industry. To analyze the casual relationships among customer satisfaction, customer trust and customer loyalty, the Structural Equation Model (SEM) was adopted. The model was designed and later analyzed by utilizing the Partial Least Square (PLS) procedure on data collected from a survey that yielded 521 usable questionnaires. The results showed that service quality enhances customer satisfaction in Malaysian commercial banking industry. It was also exposed that customer satisfaction partially mediates the relationship between service quality and customer loyalty. In future more research needs to be done to investigate the role of customer satisfaction in Malaysian commercial banking industry. It is vital to do the research utilizing experimental design by using longitudinal data in Malaysian commercial banking industry via vigorous measures. The findings suggest that the relationship between customer satisfaction and profitability may reside in customer satisfaction's influence on customer loyalty, and the customer satisfaction plays a crucial role within the Malaysian commercial banking industry. This research is one of the first known efforts to use PROCESS to test the mediation effect.

Keywords: *Customer loyalty, service quality, customer satisfaction, commercial bank*

1. INTRODUCTION

In Malaysia, commercial banks deemed to be the biggest part and the most important element in the country concerning financial institutions. Due to the deregulation, liberalization and change in technological surroundings, the banking industry has become more consolidated. In current business, a customer loss will be a customer gain for competitor. The strength of market competition has pushed commercial banks to put more effort in order to keep their current customer. Malaysian banking industry has become very vibrant, aggressive and complex surroundings where there are similarities and only minor differences in financial products and services offered. The industry situation has achieved significant in customers demand and need bigger transformation in the industry. Previously commercial banks were more product oriented has become more customer oriented and emphasized the principle of relational marketing where greater emphasis is put on customer loyalty. Beerli, Martin & Quintana (2004) emphasized in their study that factors of products and distribution have achieved the same development and technology level and therefore been downgraded to a secondary function as point of reference to differentiate between on bank to another. According to Aydin & Ozer (2005), it is very unlikely for bank customers to be very impress by attributes of the core products when all banks are providing same offerings. The purpose of this study is to demonstrate the mediating effect of bank's customer satisfaction on service quality and customer loyalty in Malaysia commercial banking industry.

2. LITERATURE REVIEW

2.1 Underpinning Theory

Oliver 1977 and Oliver 1980 proposed Expectation Disconfirmation theory which suggested that

individuals foresee there will be a certain level of service when they involve in a purchase transaction. Customer when get into actual service, they will have a firm perception regarding the service performance that they are encountering. There will be certain amount positive and negative disconfirmation degree that start to develop when pre and post buying anticipations are assessed which in turn will have influence on overall customer satisfaction. When the service performance is above the service expectation, positive disconfirmation will occur and this will lead to greater satisfaction. Conversely, when the service performance is below from the service expectation negative disconfirmation will take place and this will produce lower customer satisfaction. This theory is very much well known in the marketing field. Oliver and his co-researchers (Oliver and Swan, 1989) improve the original of expectancy disconfirmation by including performance, affect and equity as the factors determine customer satisfaction and repurchase intention. Disconfirmation the extent to which performance exceeds, equals, or become short of an individual's expectations which will produce positive, zero, and negative disconfirmation, respectively (Oliver and Swan, 1989). Previous research has identified that it is necessary for each performance dimension to have equivalent individual judgments of disconfirmation.

2.2 Customer Loyalty

Loyalty as defined by Oliver(1992) as a "holding very deep commitment to re-purchase or re-visit a preferred product or service regularly in the future which will cause repeat purchase of the same brand regardless of marketing efforts and situational influences that have potential to result switching behaviour". According to Egan (2004) loyalty is defined as "an unspecified number of repeat buying from the similar seller for specific period of time.". Many researchers have attempted to discover relevant antecedents and their function in generating

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customer loyalty. Many loyalty antecedents such as service quality, customer satisfaction, image, perceived value were used when analyzing customer loyalty (Jones et al., 2000, 2002, 2007; Patterson & Smith, 2003; Burnham et al., 2003; Wieringa & Verhoef, 2007) and the mentioned variables also used as corporate success and competitive advantage critical factors (Khatibi, Ismail, & Thyagarajan, 2002; Yang & Peterson, 2004)

2.3 Customer Satisfaction

WTO (1985) defines customer satisfaction as a psychology concept which causes the human being feeling and delight resulting from what an individual hopes and expects from a service or product which is having strong appeal to that individual. Furthermore, customer satisfaction can also be classified as the common attitude the customers possess toward a product or service after consuming it. Therefore, customer satisfaction is an evaluative judgment after the experience that consumer uses the product after a specific selection of purchase (Oliver, 1992) described that customer satisfaction exists when customers evaluate their actual service performance perception against their expectations and any disagreement between the two will result in disconfirmation. Many researchers such as Ganesan (1994), Mittal, Ross, and Baldasare (1998), Mittal and Kamakura (2001) have suggested that customer satisfaction is the influencing factor that signifies customer loyalty or the relationship long term orientation. In addition, Geyskens, Steenkamp and Kumar (1999) proposed customer satisfaction as a crucial factor accountable for the long term involvement between sellers and buyers. It has always been expressed that the satisfaction affect component could encourage a satisfied customer to support the service provider and at the same time introducing its services to other potential customers. Customer satisfaction positive effect on these loyalty dimensions has been reiterated in many literatures.

2.4 Service Quality

Fogli (2006) described service quality as “a global judgment or attitude that has a link to a particular service, the overall notion of the relative inferiority or superiority of the organizations’ services. Lovelock & Wright (2002) explained that service quality as an act or performance that will allow customers to receive benefit. Providing excellent service quality to customers in present business environment is very important due to strong market competition. The capability to provide high service quality will strengthen the image, enhance retention of customers, attracting new potential customers via positive word-of-mouth and eventually increase the profit of the business (Julian & Ramaseshan, 1994; Zeithaml et al., 1996). Service quality is considered one of the most important elements in shaping the success and the competitiveness of any particular organization. Banking organization can differentiate from their competitors by offering high service quality to their customers. According to Stanford (1994); Parasuraman et al., (1985); and Zeithaml et al. (1990), service quality is

one of the crucial factors that will determine the success in banking industry. Parasuraman (1988) has proposed five principal dimensions which are reliability, responsiveness, assurance, empathy and tangible. Tangibles are defined as physical facilities, equipment and appearance of personnel. Assurance is defined as knowledge and courtesy of employees and their capability to demonstrate trust and confidence. Empathy is defined as caring employees and ability to give individualized attention. Responsiveness is defined as ability and readiness to assist customers at earliest possible. Reliability is defined as capability to perform the pledged service without fail and correctly.

3. A CONCEPTUAL FRAMEWORK OF THE STUDY

Based on the theoretical framework in Figure 1, the research has suggested a few propositions to quantify the relationship among the independent, mediating and dependent variables:

- H1: There is statistical significance that service quality predicts customer satisfaction
- H2: There is statistical significance that service quality predicts customer loyalty
- H3: There is statistical significance that customer satisfaction predicts customer loyalty
- H4: There is statistical significance that customer satisfaction mediates the relationship between service quality and customer loyalty

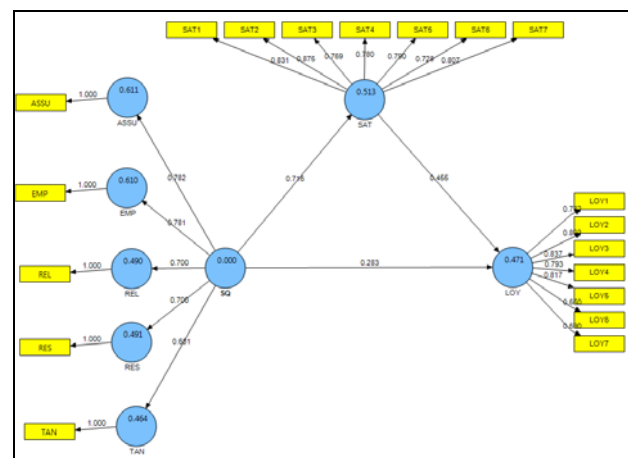


Fig 1: Conceptual Framework

4. METHODOLOGY

A total of 49 observed variables constitute the measurement of exogenous independent variable of service quality of 35 items. The mediating variable of customer satisfaction consists of 7 items, and dependent variable of customer loyalty – 7 items. The scaling applied in this study is the 5-point Likert scale of 1-

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strongly agree, 2-agree, 3-neutral, 4-disagree and 5-strongly disagree.

4.1 Sample

Local and foreign bank customers in the Klang Valley who have who have at least one bank account were the main respondents. Out of the 1000 distributed questionnaires, 706 were returned. This made up the response rate of 70.60%. In view of that, the rate of response is sufficient for SEM analysis. Out of 706 questionnaires returned, 586 are completed. After the screening and elimination of the outliers, 521 of the questionnaires were ready for analysis.

5. DATA ANALYSIS

Partial Least Squares (PLS) (Chin, 1998a, b, 2001) was adopted to assess the models. PLS is a second generation structural equation modeling (SEM) technique developed by Wold (1982). First, construct's validity and reliability were analyzed. The average variance extracted (AVE), the AVE square root, composite reliability; R-Square, Cronbach's Alpha and communality of each construct were computed. Construct validity was acquired by first evaluating Cronbach's Alpha for individual construct. The results are depicted in Table 1.

Table 1: Construct Validity & Reliability

	AVE	AVE SR	CR	R Square	Cronbachs Alpha	Communality
LOY	0.593	0.770	0.910	0.472	0.884	0.593
SAT	0.638	0.799	0.925	0.513	0.905	0.638
SQ	0.533	0.730	0.851	0.000	0.781	0.533

All constructs demonstrate Cronbach's Alpha higher than recommended 0.7 (Hair et al., 2006). Then, all constructs were assessed and processed within the model by utilizing PLS assessment to obtain each construct's Average Variance Extracted (AVE), composite reliability and communality. All construct possessed higher than the minimum required for each parameter (Chin 1998; Stan & Saporta, 2005). Then, individual construct had its AVE square root extracted to evaluate construct dimensionality (Geffen & Staub, 2005). The result generated used as the reference when all constructs correlated and each correlation weight within the two constructs, has to be lower than the AVE square root as shown in Table 2.

Table 2: Variable correlation matrix based on AVE Square root

	LOY	SAT	SQ
LOY	0.770		
SAT	0.658	0.799	
SQ	0.609	0.716	0.73

Table 3: Direct Effect Model

Direct	Beta	t-values
SQ -> LOY	0.611	9.45
SQ -> SAT	0.716	15.139

Table 4: Indirect Effect Model

Indirect	Beta	t-values
SQ -> LOY	0.283	2.505
SQ -> SAT	0.716	15.389
SAT -> LOY	0.455	3.954

Table 5: Indirect Effect Significance Test

	Effect	Boot SE	Boot LLCI	Boot ULCI
SAT	0.3833	0.0509	0.2816	0.4886

All correlations attained a value smaller than AVE's square root and all parameters (AVE, composite reliability, Cronbach's Alpha, and communality) achieved satisfactory indices. The results are shown in Table 1.

5.1 Model Evaluation

To begin with, the direct path from service quality to customer loyalty and customer satisfaction were presented. Both links were significant at the 0.000 level where the path coefficients of 0.611 and 0.716 respectively. At this juncture no indirect effect was hypothesized or assessed. After that, the model of satisfaction plays a mediating role between service quality and loyalty was presented (refer to Table 4). Mediation is said to be existed when the direct path coefficient between the independent variable and dependent variable is decreases when the indirect path through the mediator is created in the model. The direct path is evaluated without the interference of mediator and with the intervention of mediator. The direct path standardized beta was 0.611 and change to 0.283 after the introduction of satisfaction as a mediator. The amount of

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the decrease of the relationship between service quality and loyalty accounted by the mediator was 0.328 which represent 53.68% of the direct effect. The result shows that the indirect effect of service quality to loyalty with the present of satisfaction as a mediating factor is significant at $p < .000$ where the lower level confidence level (LLCL) is 0.2816 and upper level confidence level (ULCL) is 0.4886 (Table 5). The indirect effect is significantly different from zero at $p < 0.000$ (two tailed). With 95% confidence that, because zero is not within this interval, zero is not likely a value for the indirect effect of

service quality on loyalty. The true indirect effect is estimated lies between 0.2816 and 0.4886. Therefore, the indirect path service quality to satisfaction and from satisfaction to loyalty was $0.716 * 0.455 = 0.326$. The confidence interval level provided by PROSESS was between 0.2816 and 0.4886, $p < .000$. This shows that the partial mediation effect present. The significance mediation effect was measured by using PROSESS by Hayes (2012). Therefore, all the hypotheses are supported (Table 6).

Table 6: Hypotheses Result

	Hypothesize Relationship	Path Coefficient	p-value	Conclusion
H1	There is statistical significance that service quality predicts customer satisfaction	0.716	0.000	Supported
H2	There is statistical significance that service quality predicts customer loyalty	0.611	0.000	Supported
H3	There is statistical significance that customer satisfaction predicts customer loyalty	0.455	0.000	Supported
H4	There is statistical significance that customer satisfaction mediates the relationship between service quality and customer loyalty	0.3833	0.000	Supported

6. DISCUSSION & CONCLUSION

6.1 Research Conclusion

This research main objective is to establish the mediating effect of customer trust on customer satisfaction and customer loyalty relationship understanding in Malaysian commercial bank industry. This research seeks to build probable causal relationship between the constructs, which are service quality, customer satisfaction and customer loyalty. In view of that, an evaluation of the previous study in the area of service quality, customer satisfaction and customer loyalty was done. From the academic studies of initial findings, the model was developed and it's reveal that service quality has a positive and significant direct effect on customer satisfaction. In addition from the same model, it was found that service quality has a positive and significant direct effect on customer loyalty. Subsequently, the mediating relationship was established in the model where customer satisfaction was introduced as a mediator in service quality and customer loyalty relationship. Theoretically, it is not easy to validate the superiority of any model, so empirical testing was carried out. This study suggested a model to be empirically tested and confirmed that there are positive direct relationships between service quality, customer satisfaction and customer loyalty. In order to meet this objective, the PLS technique data analysis was utilized. There are a few points that need to be examined. Firstly, the most accepted relationship between service quality and customer satisfaction is verified. First the direct

relationship path coefficient between the service quality and customer satisfaction is 0.716 and is significant. Then, the most accepted theory that connect service quality and customer loyalty also well supported with the direct relationship path coefficient between service quality and customer loyalty is 0.611 and is significant. After that this research is to empirically assess the proposed mediating effect of customer satisfaction on service quality and customer loyalty relationship. The relationship amount between service quality and customer loyalty accounted by the mediator was $(0.611 - 0.283) = 0.328$, which represents 56.68 percent of the direct effect. Therefore, it is concluded that customer satisfaction is partially mediates the relationship between service quality and customer loyalty. Therefore, the above findings statistically justified that customer satisfaction plays a role as a mediator and has mediating effect on service quality and customer loyalty relationship in Malaysian commercial banking industry.

6.2 Practical Implications

The practical implications that can be drawn are to improve commercial bank service quality. As the research exposed, service quality has a direct effect on customer loyalty mediated by customer satisfaction, and then on customer loyalty. Secondly, commercial banks should establish good customer relationship with customers, execute customer relationship management and create customer satisfaction. The research shows that commercial banks customer satisfaction leads to customer loyalty. Thirdly, customer satisfaction should be paid attention to by commercial bank managers. The research

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suggests that customer satisfaction is the most indirect and important antecedent to loyalty. Satisfied commercial bank customers only will revisit and be low probability to look alternatives, but also have word-of-mouth recommendations, which means that satisfied customers are absolutely loyal to their banks and helpful with new market development.

6.3 Research Limitations and Directions for Future Research

As an investigative study, this paper introduce customer satisfaction on commercial bank customer loyalty influential mechanism model, and carried out in the scientific and systemic empirical research, and produced firm conclusions, while it has some limitations due to research funding and ability. Therefore, some future directions should be performed. Firstly, in relation to research samples, this study only chose commercial bank customers in Klang Valley areas as respondents. Also this study lacks discussions on that whether the geographical factors, as a mediating variable, will have impact on customer loyalty. Then, on the sampling time and space, the study only obtained the latitudinal data belonging to static research. Nonetheless, if we desire to establish the causal relationships between variables, it's better to make a follow-up assessment to accumulate longitudinal data to be analyzed. Due to the above limitations, on one hand, additional research may be performed on refining our scale to obtain better internal validity. Conversely, the survey should be carried out on different types and timings to get the generic model to make the external validity better.

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