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## Article

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# Investigating the Nexus of Service Quality and Customer Loyalty in Banking Industry via the Mediating Role of Customer Satisfaction

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## Abstract

This study aims to examine the relationship between Service Quality (SQ), Customer Satisfaction (CS) and Customer Loyalty (CL) in the Jordanian Commercial Bank. This Study also, investigates CS as a partial mediator of the impact of SQ on CL. Data was collected from 210 customers who work at the Jordanian Commercial Bank. Using SPSS program, multiple regressions was applied to measure the mediating role. The results of this study reveal that all five dimensions of SQ are positively linked with CS and all dimensions of SQ are positively affect with CL except the reliability dimension. The findings also indicate that CS partially mediates between the five dimensions of SQ and CL. The findings of this study can inform bank management about the importance of the dimensions of SQ and their impact on CS and CL. Bank management can take action in improving the bank design and equipment to create a proper atmosphere for customers, and in providing periodical training programs for their employees to improve their skills and their know-how to solve customer problems and meet customer satisfaction. The current study provides for finding a common understanding about the relationship between SQ, CS and CL and the role of their five dimensions on the banking industry in Jordan.

## Key words

Quality service, SERVQUAL, customer satisfaction, customer loyalty, commercial bank

JEL Codes: E50

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## 1. Introduction

Several researcher have agreed that service quality is considered as key requirement to raise competitive advantage in the service sector (Elshaer *et al.*, 2016; Kondasani and Panda, 2015; Wijetunge, 2016). Theoretically, service quality is a very recurrent topic where the consequences have been carefully studied; however, very few studies (Karatepe, 2011; Izogo and Ogba, 2015) dealt with its role in the service industry. In reality, service quality represents one of the main issues that determine the competitive environment scale due to the direct influence on customer satisfaction. Service quality is also believed to impact an organization performance, which leads to an increased level of customer satisfaction (Karatepe, 2011; Lundahl *et al.*, 2009; Shanka, 2012; Srivastava and Rai, 2013; Szwarc, 2005; Wafaa and Abderrezzak, 2014; Yavas *et al.*, 2004).

Numbers of studies have discussed the significant relationship between customer satisfaction and customer loyalty (Ariff *et al.*, 2013; Shi *et al.*, 2014; Wang, 2014). Among these are Lenka *et al.*, (2009) who emphasize on the impact of customer satisfaction in increasing customer loyalty and in organizational success. Other scholars Boshoff and Gray, (2004), Boshoff and Gray (2004), Olsen (2002), view the link between service quality and customer satisfaction in relation with customer behaviors which can be represented in customer loyalty and customer acquisition. Another study by Lee *et al.*, (2011) focuses on the empowerment of service quality strategy to implement high standard levels to customer satisfaction and customer loyalty (Jiang and Zhang, 2016; Shi *et al.*, 2014; Tam, 2004).

In an attempt to provide better understanding on the relationship between Service Quality (SQ), Customer Satisfaction (CS), and Customer Loyalty (CL), hence the study to clarify the relationship in the banking sector in Jordan. We do not deny the existence of some relevant literatures (e.g.; Jiang and Zhang 2016; Meesala and Paul, 2016; Kasiri *et al.*, 2017; Pattanayak *et al.*, 2017) in relationship with SQ, CS, and CL in service industries; however, our study presents a context (banks industry in Jordan) that have received less attention (Examples in: Al-Azzam, 2015; Mohammad and Alhamadani, 2011).

### 1.1. Research objectives

1. The current paper investigates the relationship between SQ, CS and CL in the Jordanian commercial bank.
2. Particularly, the study will examine the effects of five SQ dimensions (responsiveness, empathy, reliability, assurance, and tangibility) on CS and CL.
3. The study will test the mediating role of CS on the relationship SQ and CL.

This study will organize as follow. The follow section show the literature review which includes the concept of SQ, CS and CL, then present the relationship between SQ, CS and CL with the proposed hypothesis of the study. Next section will be the research methodology that contains the measurement, analysis data and the testing of the hypotheses and finding. The end of the study will present discussion, recommendations for future research and limitation of the study.

## 2. Literature review and hypotheses development

In response to the scope of this study that aims to measure the influence of SQ dimensions (responsibility, empathy, reliability, assurance, and tangibility) on CL in presence of CS as mediator, it is relevant to refer to studies on the concept of SQ. Kotler (2003) defines SQ as “any behavior or action based on the interaction between two people: the provider and the receiver, and the importance of this common process in the intangible”. On the other hand, Lassar *et al.*, (2000) links their perception about SQ to customer desires. Similarly, Beer (2003) discusses the main characteristics of SQ in meeting customer desires.

According to SQ theoretical premise, when the customers have high satisfaction with the service, the service has been able to meet their needs (Oliver, 1980). In fact, there is no one definition or understanding about SQ, the difference derives from the dimensions and areas of focus of each perception. Parasuraman *et al.*, (1988); for instance, defines SQ as “a function of the difference between services expected and customer’s perceptions of the actual service delivered”. Another definition by Hinson *et al.*, (2006) focuses on the dimensions of SQ as determinant of customer service.

As the definition and conception of SQ is relevant, the process of measuring it remains critical due to the variety in models of assessing. One of these models is Parasuraman *et al.*, (1988) who proposes the five dimensions’ model (tangibles, reliability, responsiveness, assurance, and empathy). Several researchers, Ali, *et al.*, (2015); Kayeser Fatima and Abdur Razzaque, (2014); Izogo and Ogbu, (2015) have adopted these dimensions to assess SQ in different establishments. Not different from other studies, the current study utilizes Parasuraman’s SERVQUAL model of five dimensions as an instrument for assessing SQ.

The model SERVQUAL consists of five dimensions: ‘tangibles, reliability, responsiveness, assurance, and empathy’. The first dimension of ‘tangibles’ encompasses the physical facilities, communication materials, equipment and appearance of employees (Lee *et al.*, 2011). Therefore, tangible creates the first impression of the customer toward the organization (Al-Sayyed *et al.*, 2015). ‘Reliability’, as the second dimension, refers to the ability of an organization to perform the promised service accurately in the promised time with error-free service (Arizon, 2010). The third dimension of ‘responsiveness’ implies the conception of providing a helpful service and the readiness to help customers (Lee *et al.*, 2011). Also, it expresses the willingness of service providers to help customers, to fulfill their needs at the right time, and to understand their inquiries and solve their problems in a faster manner. The ‘empathy’ dimension implies rendering individualized attention and care to each customer (Lee *et al.*, 2011). The dimension creates an emotional relationship with customers and this helps in attracting new ones for the organization (Wieseke *et al.*, 2012). Assurance is the last stage of the dimension confidence of the organization that is reflected from the employee’s experience, competence and capacity to build self-confidence with customers. Therefore, the behavior of the employees in the banking sector should involve knowledge, courtesy, and confidence to positively affect CS and customers’ retention (Ndubisi, 2006).

Customer satisfaction is considered a vital factor for organizational success (Oliver, 1980; Pattanayak *et al.*, 2017). According to Parasuraman *et al.* (1991) CS is determined by the decision of customers after they have used the service and product; in other words, CS is defined as the expectations of the customer and the performances of services. Kotler (2000) on the other hand, defines satisfaction as ‘an individual’s feeling of frustration or pleasure’ in reaction to a service. Similarly, Fullerton and Taylor (2015) adds that CS is the ability to meet customers’ expectations in the provision of goods and services.

Loyalty refers to the clients’ commitment to be consistently visiting a certain site or even buying a certain item from a certain organization whenever there is a need without being tempted by other firms offering similar products and services and without a shift in purchase (Oliver, 1997). However, Bloemer and Kasper (1995) define Customer loyalty as ‘the process of actually repeating purchase of a product or service, regardless of commitments’. Blermer’s and Kasper’s conceptions about CL follow the cognitive approach principles which imply that the customer has a preferable service or product that the customer prefers above others. Knutson (1988) believes that the latter functions as an indirect advertisement source (for instance, positive word-of-mouth) to the product or service positive word-of-mouth.

### 2.1. Service Quality (SQ) and Customer Satisfaction (CS)

Most literature (Kayeser Fatima and Razzaque, 2014; Silvestri *et al.*, 2017; Smith and Swinehart, 2001; Yuen and Thai, 2015) discuss the existing link between SQ dimensions and CS. Research has also shown that SQ dimensions and

techniques have an enhancing role to CS. For instance, studies by Al Tamimi and Al Amiri (2003); Kitapci *et al.*, (2013); Mohammad and Alhamadani (2011); and Wang and Shieh (2006) point out that SQ dimensions have a positive influence on CS. Another study by Abu-El Samen *et al.* (2013) also focuses on mobile service industry and highlights how reliability, interaction quality and tangibles enhance CS, however, in a study of bank customers in Greek Cypriot banking Arasli *et al.*, (2005) argues that the reliability dimension is positively linked with CS. Al-Sayyed *et al.*, (2015), Al Muala, (2016); on the other hand, claim that there is a significant relationship between reliability, assurance, tangibles, empathy, and responsiveness and CS. Based on the previous research findings, this study proposed the hypotheses:

$H_1$ . SQ dimensions (reliability, assurance, tangibles, empathy, and responsiveness) have a positive effect on CS.

## 2.2. Service quality (SQ) and Customer Loyalty (CL)

It is believed that SQ leads to CL (Al-Msallam *et al.*, 2017; Jamal and Anatassiadou, 2009; Izogo and Ogba, 2015). Kheng *et al.* (2010) in their research stated that the dimensions of SQ such as: empathy, reliability, and assurance have significance to CL in the bank sector. Likewise, it was found that tangibles and responsiveness are relevant to enhancing CL. In a different sector than banking, Al-Rousan and Mohamed (2010) state that the four SQ dimensions: empathy, tangible, reliability, and responsiveness have a positive influence on CL in hotels' sector. Based on the previously discussed studies, the following hypothesis we proposed the hypotheses thus:

$H_2$ . SQ dimensions have a positive effect on CL.

## 2.3. Customer Service (CS) and Customer Loyalty (CL)

Different researchers have worked on the relationship between CS and CL (Al-Msallam, 2015; Bowen and Chen, 2001; Lam and Burton, 2006). According to Oliver (1999), CS and CL are not alternatively related to each other and it is likely a customer will be loyal without feeling highly satisfied even if a customer can be satisfied without being loyal. Also, most literature (namely: Chou *et al.*, 2014; Kandampully and Suhartanto, 2000; Kitapci and Dortyol, 2009) demonstrate the link between CS and CL. Similarly, it was revealed that CL leads to customers' recommendations of the service to others via "Word of Mouth" (WOM). Most researchers, Deng *et al.* (2010); Kitapci *et al.* (2013), Lai *et al.* (2009); Osayawe Ehigie, (2006) found that CS has a positive influence on CL. In a banking context, Patel and Desai (2016); Tweneboah-Koduah and Farley (2015) and Nayeibzadeh *et al.* (2013) highlight the positive role of CS on CL. Thus we proposed the hypothesis:

$H_3$ . CS has a significant positive effect on CL.

## 2.4. The customer satisfaction as mediation

There are several empirical studies indicating that CS mediates the relationship between the SQ and CL (Caruana, 2002; Liu *et al.*, 2017; Kuo *et al.*, 2013). Furthermore, researchers demonstrated that CS plays a partial mediating role between SQ and CL (Bei and Chiao, 2006). Whereas, Kim (2011) indicates that CS plays a full mediating role between SQ and CL. According to Karatepe (2011), Customer satisfaction mediates between the dimensions of SQ such as service environment, interaction quality, empathy, and reliability and CL. In addition, Kaura *et al.* (2015) focuses only on three SQ dimensions employee behavior, tangibility and information technology in describing the positive impact they have on CL through CS. Therefore we propose the following hypothesis:

$H_4$ . CS as a partial mediator of the effects of SQ dimensions on CL.

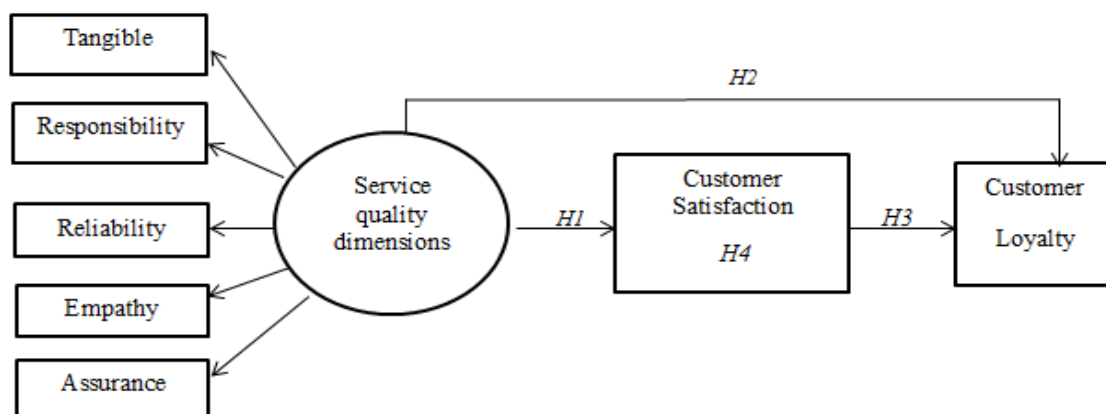


Figure1. Conceptual Model

#### 4. Methodology of research

Figure1 clarifies our perception and suggestion about the influential relationship between SQ dimensions (reliability, assurance, tangibles, empathy, and responsiveness), CS, CL. Also, explains the CS as having a mediating role between SQ dimensions and CL.

##### 4.1. Sample and data collection

This study was conducted with 210 customers from commercial banks in Hashemite Kingdom Jordan. Regarding the sampling method, the current study selects the non-probability sampling. Besides, it uses the convenience sampling. This technique is used to collect data from customers of the commercial bank.

##### 4.2. Measurement

The researcher employs a questionnaire as an instrument to measure the study variable. The questionnaire consists of four parts; the first part includes personal information such as: age, gender, and educational level. The second part contains statements of five major QS dimensions, which are tangibility, responsiveness, reliability, assurance, and empathy. The dimensions were measured via three items for each dimensions adapted from Lau and Cheung, (2013); Karatepe *et al.* (2005) and Al-Sayyed *et al.* (2015), respectively. The third part includes statements of CS. It is assessed by four items that are taken from Al-Sayyed *et al.* (2015). Finally, three items are adapted from Kitapci *et al.* (2013) and Kaura *et al.* (2015) to measure CL. The questionnaire uses five-points scale ranged from 5= strongly agree to 1= strongly disagree to answer the items related to the five dimensions of SQ, CS and CL. The researcher translated the questionnaire from English into Arabic and then back-translated the data into English by two professional translators to ensure the same meaning. A total 220 questionnaires were distributed and collected. After careful examination of the questionnaires, 10 of the questionnaires were disregarded because of some missing values in the questionnaire. In order to test the validity of the questionnaires, a pilot study was conducted using 15 questionnaires.

#### 5. Results and analysis

The researcher analyzed the study by using descriptive analysis to test for reliability and validity of the data. Also, the Exploratory Factor Analysis (EFA) was utilized to assess the loading factors for all items for each factor. One of the objectives of this study is to detect the mediating role, thus the researcher uses regression analysis. The first phase examines the relationship between SQ dimensions and CS. The second examines the relationship between SQ dimensions and CL. The third phase examines the relationship between CS and CL. The fourth reveals the mediator CS and the SQ dimensions effect on CL.

Table1. Subject Profile

Construct	Frequency	Percentage
<i>Gender</i>		
Male	104	49.5
Female	106	50.5
Total	210	100.0
<i>Age</i>		
18-27	85	40.5
28-37	111	52.9
38-47	9	4.3
47-above	5	2.4
Total	210	100.0
<i>Education level</i>		
Secondary	22	10.5
Two-year college	45	21.4
Four-year	114	54.3
Graduate	29	13.8
Total	210	100.0

The table1 shows the employee demographic profile. Regarding the participants' age, most of the employees were between 28-37 (52.9%). While the percentage of the ages 18-27 were (40.5%). The rest were ranged 38 and above.

terms of the educational level, twenty two (10.5%) respondents had secondary school. However, (21.4%) was the percentage of Two-year college and four-year was (54.3%). While (13.8%) was the percentage of graduate participants.

Table 2 shows the results of (EFA) and internal consistency of the reliability results. The factor loading range from (0.70 to 0.92) that means the all of loadings was above 0.50 and was significant; these results provide evidence of convergent validity. Also, the table shows that all factors are reliable ( $\alpha > .70$ ). Moreover, the AVE (the average variances extracted) was greater than 0.50 and greater than square of the correlation between two pair of constructs ( $\phi^2$ ). Also, the CR (Composite Reliability) was above of 0.70. However, the VAE and CR these results provide of discriminant validity.

Table 2. Exploratory Factor Analysis and Consistency Reliability

Scale items	loading	AVE	% of variance	CR	Alpha
Tangible		.88	9.52	.92	.89
Item1	.92				
Item2	.90				
Item3	.87				
Responsibility		.83	8.28	.88	.81
Item1	.82				
Item2	.86				
Item3	.80				
Reliability		.85	6.81	.89	.84
Item1	.88				
Item2	.89				
Item3	.79				
Empathy		.80	5.99	.83	.77
Item1	.80				
Item2	.82				
Item3	.75				
Assurance		.80	3.85	.85	.82
Item1	.82				
Item2	.90				
Item3	.70				
Customer satisfaction		.85	11.39	.86	.96
Item1	.82				
Item2	.85				
Item3	.87				
Item4	.86				
Customer loyalty		.77	33.69	.82	.87
Item1	.80				
Item2	.81				
Item3	.72				

Table 3 shows the mean, standard deviations and correlations of the five dimensions of SQ, CS and CL. The result shows that the five dimensions demonstrates the significant impact on CS ( $r = 0.153, p < 0.05$ ;  $r = 0.331, p < 0.01$ ;  $r = 0.302, p < 0.01$ ;  $r = 0.451, p < 0.01$ ;  $r = 0.485, p < 0.01$ ) and the significant relationship with CL ( $r = 0.166, p < 0.05$ ;  $r = 0.287, p < 0.01$ ;  $r = 0.230, p < 0.01$ ;  $r = 0.426, p < 0.01$ ;  $r = 0.436, p < 0.01$ ). All values of correlation were below cut-off level 0.70.

Table 4 reported the results of regression analysis. Thus, there were four regression results. The first and second regression was five dimensions of SQ; tangible, responsibility, reliability, assurance and empathy as independent variables and CS and CL as dependent variables. The result demonstrated that tangible has positive effect on CS ( $\beta = 0.103, t = 1.91, p < 0.05$ ) and CL ( $\beta = 0.124, t = 2.16, p < 0.05$ ). Also, responsibility shows positive influence on CS ( $\beta = 0.167, t = 2.95, p < 0.01$ ) and CL ( $\beta = 0.138, t = 2.31, p < 0.05$ ). The finding also shows positive effect between reliability and CS ( $\beta = 0.143, t = 2.56, p < 0.01$ ), while reliability is negatively related to CL ( $\beta = -0.081, t = 1.37, p < 0.01$ ). Further, empathy is positively related to CS ( $\beta = 0.290, t = 5.1, p < 0.01$ ) and CL ( $\beta = 0.295, t = 4.84, p < 0.01$ ). Also, results shows that assurance has positive effect on CS ( $\beta = 0.356, t = 6.37, p < 0.01$ ) and CL ( $\beta = 0.318, t = 5.36, p < 0.01$ ). Hence,  $H_1$  is supported. Regarding the  $H_2$  all dimensions of



SQ effect on CL except reliability dimension. Accordingly the third regression, the results shows that relationship between CS and CL. The empirical results demonstrated that CS is a positive association with CL ( $\beta=0.638$ ,  $t=10.71$ ,  $p<0.01$ ). Therefore,  $H_3$  are supported.

The last phase of regression examines the CS as mediates between the five dimensions of SQ and CL. Thus, in table 4 shows that the impacts of tangible on CL reduced from 0.124 to 0.058 when CS entered the model. Also, effects of responsibility on CL reduced from 0.138 to 0.032 when CS entered the model. Similarly, when CS entered the model the impacts of empathy on CL reduced from 0.293 to 0.110. Also, the effect of assurance reduced from 0.318 to 0.091. Consequently, the CS play a partially mediates role between tangible, responsibility, empathy and assurance and CL. Hence,  $H_4$  are supported.

Table 3. Means, Standard deviations, and correlations

	Mean	SD	1	2	3	4	5	6	7
1. Tangible	4.48	0.50	-						
2. Responsibility	4.43	0.45	0.04	-					
3. Reliability	4.54	0.44	0.05	0.203**	-				
4. Empathy	4.36	0.50	-0.006	0.274**	0.210**	-			
5. Assurance	4.50	0.45	0.106	0.144*	0.167*	0.241**	-		
6. Customer satisfaction	4.55	0.48	0.153*	0.331**	0.302**	0.451**	0.485**	-	
7. Customer loyalty	4.45	0.50	0.166*	0.287**	0.230**	0.426**	0.436**	0.748**	-

Note: SD = Standard deviation. \* $p < 0.05$ ; \*\* $p < 0.01$

Table 4. Mediating effect of customer satisfaction

	Dependent variables and standardized regression weights			
	Customer satisfaction		Customer loyalty	
	Step 1		step 1	step 2
1. Tangible	.103*		.124*	.058*
2. Responsibility	.167**		.138*	.032
3. Reliability	.143**		-.081	-.011
4. Empathy	.290**		.295**	.110**
5. Assurance	.356**		.318**	.091*
6. Customer satisfaction				.638**

Note: All results are reported based on one-tailed test (\* $t > 1.65$ ,  $p < .50$ ; \*\* $t > 2.33$ ,  $p < .01$ ). |

## 6. Discussions and conclusions

The purpose of this study is to examine the effects of SQ dimensions (tangibility, responsiveness, reliability, empathy, assurance) on CS and CL. It also examines the impact of CS on CL in Jordan's commercial banks. In addition, it aimed in understanding the role CS plays in mediating the relationship between the dimensions of SQ and CL. According to Kaura *et al.*, (2015) SQ is perceived by price and fairness, and service convenience influence on CS and CL. However, the study examines the other dimensions of SQ that are considered an important aspect of CS and CL. The results revealed that five SERVQUAL dimensions (tangibility, responsiveness, reliability empathy and assurance) are strong predictors of CS. Also, all the dimensions have a positive effect on CL, except for reliability. Moreover, it was found that CS positively influenced CL.

Researchers conducted to examine the relationship between SQ dimensions and CS and CL for instance Al- Silvestri *et al.* (2017), Sayyed *et al.* (2015), Kitapci *et al.* (2013), Kayeser Fatima and Razzaque (2014) and Mohammad and Alhamadani (2013) revealed that SQ can positively affects CS. Also, other Studies by Patel and Desai (2016); Tweneboah-Koduah and Farley (2015); Nayebzadeh *et al.* (2013) indicated that CS has positive effects on CL.

According to the empirical findings of this study, CS partially mediates the relationship between five dimensions of SQ on CL. This result is consistent with Muala's study (2016) that indicates that SQ dimensions have positive effects on CL via CS. Another study by Lenka *et al.* (2009) also found that CS plays a mediating role between SQ and CL. Therefore, CS would eventually be used as a vital condition to attain CL in service sector.

## 7. Implications

Service quality is a vital factor in the banking sector. Thus, managers should focus on all dimensions of SQ that have been proved to be important in improving the services of the banks. For example, the management should concentrate on the tangible dimension which helps in enhancing the design and equipment of the bank which would develop a good atmosphere to customers. The management is advised to periodically provide training programs for employees in order to improve their skills in dealing with customers and solving their problems in order to meet their needs. To sum up, SQ dimensions are actually vital factor in achieving the goals of banks that prioritize customer satisfaction and loyalty. To achieve this, bank managers should find a way to increase the efficiency of SQ dimensions through the SQ dimensions.

## 8. Limitations and future research

The limitations of the study were seen in the sample, the study conducted the research using customer from Amman city. However, future research is advised to focus on customers who use banking services in all commercial banks in Jordan. Secondly, this study concentrated only on banks sector. Future research might find it useful to measure this dimensions in other sectors, such as airline sector. Thirdly, this study could also be conducted in another country other than Jordan in order to find the effect and similarity in the banking sector. Finally, participant of this study were mainly customers of commercial banks. Therefore, future research could select VIP (very important person) customers as responders to examine the relationship between the dimensions of SQ.

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