
SERVICE QUALITY, CUSTOMER SATISFACTION AND CUSTOMER LOYALTY: SOME EVIDENCES FROM PAKISTANI BANKING SECTOR

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ABSTRACT

Nowadays, the immersion of technology is fundamental attribute of every business sector and banking sector is no exception to this. This research endeavor is aimed at investigating the relationship and the impacts of E-SQ and customers' E-satisfaction on customers' E-loyalty pertinent to utilizing internet banking services. In order to achieve study objectives, the modified E-SERVQUAL instrument was employed to evaluate E-SQ of internet banking services offered by commercial banks in Pakistan. Drawn from random sampling, the study data were collected through survey questionnaire from 318 internet banking users. This study identified that privacy, assurance-fulfillment, efficiency-system availability, contact-responsiveness as well as website layout and guide comprises various aspects of E-SQ concerning internet banking service. The study findings revealed that contact-responsiveness; website layout and guide, and efficiency-system availability components of E-SQ pertinent to internet banking offerings could positively influence customers' E-satisfaction. Customers' E-satisfaction revealed positive association with E-loyalty. The nexus between website layout and guide component of E-SQ and customers' E-Loyalty was found partially mediated by customers' E-satisfaction. This study demonstrates that the website's layout and its user friendliness, and the relevancy and timeliness of information/guidance offered by the bank websites are the key attributes, valued by the users of internet banking. This study concludes that although, the technical and functional attributes of website's E-SQ, for instance: efficiency, fulfillment, as well as system availability are important factors, however, the appropriate layout and sufficient guidance offered by websites also appeared key dimensions to define the magnitude of E-SQ, that could lead towards customers' E-satisfaction and E-loyalty.

Keywords: Banking Sector, Pakistan, Internet Banking, Service Quality, E-Satisfaction

INTRODUCTION

Internet banking has revolutionized the traditional banking system through opening new avenues globally. The substantial growth in IT in the banking sector of Pakistan has led towards massive opportunities for

banks to offer customer friendly banking services (Zafar *et.al.*, 2012). The trend of internet banking usage is on rise in Pakistan and almost all public and private commercial banks are engaged in offering some sort of internet banking services to their customers (Raza *et.al.*, 2015). There has been greater emphasis on maintaining higher standards of service quality due to the active participation of local and foreign stakeholders (Awan *et.al.*, 2011). The number of registered internet banking users is increasing and there has been more focus on the service quality of electronic banking offered by different banks (Ali & Raza, 2015). This necessitate that emphasis should be placed on developing electronic loyalty (E-loyalty) among internet banking users to sustain profitability of banks through maximizing customer retention and minimizing operational cost that could incur due to losing old customers (Ariff *et.al.*, 2013).

This reflects that to ensure high rate of customer retention, banks need to take proactive actions through achieving higher customer satisfaction towards banks' online services, and this could be done by providing high quality electronic services to internet banking users. The prior research (Saleem and Rashid, 2011; Zafar *et.al.*, 2012, George & Kumar, 2014) corroborates positive nexus between E-SQ and customers' E-satisfaction through stressing that E-SQ could positively contribute towards customers' E-satisfaction. In the similar vein, high E-SQ and high customers' E-satisfaction have been linked with higher customer retention ratio due to enhanced E-Loyalty (Grace *et.al.*, 2009). The extant literature in the field of service marketing highlights the mediating influence of customers' E-satisfaction on the association between E-SQ and customers' E-Loyalty (Yang and Jing, 2009, Zafar *et.al.*, 2012). This scenario entails empirical research in the Pakistani banking context to investigate the nexus and impact of internet banking E-SQ and customers' E-satisfaction on E-loyalty. In this regard, this study is intended to examine the impact of internet banking E-SQ and customer's E-satisfaction on customer's E-loyalty.

LITERATURE REVIEW

Primarily, service quality has been conceptualized as an analytical factor for success of any organization that could help in shaping its competitive advantage to boost long term competitiveness (Raza *et.al.*, 2015). In the similar vein, the customers' aggregate assessment and judgment pertinent to performance and quality of electronic service provision in the virtual business setting has been termed as E-SQ (Ibrahim *et.al.*, 2006). Keeping in view the distinct nature of virtual

marketplace, a multiple scales have been constructed to assess the E-SQ in virtual business settings, such as WebQual (Loiacono, *et.al.*, 2002), SITEQUAL (Yoo and Donthu, 2001), as well as E-SERVQUAL (Parasuraman, *et.al.*, 2005). A review of related studies focused on E-SQ, customers' E-satisfaction, as well as E-loyalty in the setting of internet banking environment identified that the awareness of potential relationships among E-SQ, customers' E-Satisfaction, as well as customers' E-Loyalty needs to be conceptualized as indicators of improving service quality to assist internet banking providers to remain competitive in frequently changing e-commerce industry (Ariff *et.al.*, 2013). Primarily, E-SQ has been viewed as an antecedent of customers' E-satisfaction through exerting positive influence on customer satisfaction towards internet banking services (Szymanski & Hise, 2000; Fassnacht and Kose, 2007). Customer satisfaction has been elaborated as an assessment of the performance of any product or service in relation to the needs and demand of any customers (Raza *et.al.*, 2015). The notion of customer satisfaction is equally central for the users of internet banking due to their engagement in making frequent online transactions. Customers' positive inclination towards virtual business website that encourages customers to get engaged in repeated buying transactions, revisit website multiple times or to think about future transaction is conceptualized as customers' E-loyalty (Cyr *et.al.*, 2007). It has been argued that the E-loyalty could be directly shaped by customers' satisfaction and trust in online banking system that is largely determined by website layout and E-SQ (Floh and Treiblmaier, 2006; Ariff *et.al.*, 2013).

Notably, there has been less emphasis concerning the direct nexus between E-SQ and customers' E-loyalty, however, there is more consensus pertinent to reporting the E-satisfaction as a mediator of nexus between E-SQ and customers' E-loyalty (Buzzell and Gale 1987; Cronin and Taylor, 1992; Caruana, 2002; Yang and Jing, 2009). This reflects that if banks will offer good quality internet banking services, then they could increase their customers' E-satisfaction and that could ultimately encourage their customers to make more transactions with the bank, recommend their bank to others, considering bank's site as their priority to avail internet banking services, and prefer to get engaged in using the bank's website in comparison to competitors, i.e., E-loyalty (Ribbink *et.al.*, 2004).

METHODS METHODOLOGY

This study draws on quantitative approach. In this regard, various constructs investigated in this study were adopted from well tested and frequently used research instruments. The construct of E-SQ that is comprised of two sub-scales namely; E-S-QUAL or main scale and ERecS-QUAL or recovery scale were adapted and modified on the basis of E-SERVQUAL scale conceived by Parasuraman *et.al.* (2005). The E-S-QUAL subscale includes four elements, namely, efficiency, fulfillment, system availability and privacy that were assessed with 22 items. The ERecS-QUAL subscale was measured from two dimensions, namely responsiveness and contact by including eight items. It is of note that the third dimension of ERecS-QUAL subscale, namely compensation was dropped out due to difficulty arises in measuring this dimension. Drawn from the relevant literature, in order to cover the relevant dimensions of E-SQ in the domain of Pakistani internet banking, two more dimensions, namely; site layout (Wu, Chang, Yang and Chen, 2008) and assurance (Chien-Ta and Wen 2008) were also included in the research instrument used in this study. In terms of enhancing the content validity of research instrument, all proposed dimensions of E-SQ were discussed with industry experts and academia. The rationale of this exercise was embedded to include more relevant E-SQ scale in this study that could relate to the internet banking industry in Pakistan. The end result of this practice was the measurement of E-SQ with eight dimensions through incorporating 21 items. With regard to measuring the customers' E-satisfaction pertinent to internet banking usage, three items were adapted from the construct of E-satisfaction developed by Schaupp and Belanger (2005) and based on cognition-affection-behavior technique, E-Loyalty was assessed by four items developed by Ribbink *et.al.*, (2004).

The study data were collected by questionnaire method. The research instrument was administered to randomly selected internet banking users of different commercial banks of Pakistan. Total 400 questionnaires were distributed and 318 respondents returned back the completed questionnaire, generating the response rate of 79 percent. In terms of measuring the sampling adequacy, the KMO value for E-SQ stand at 0.757 (Bartlett's test of Sphericity of 0.00), which was higher than 0.6, demonstrates that the degree of variation among study variables arose due to basic factors, permitting the existing data to be analyzed by factor analysis. By applying Exploratory Factor Analysis, five incorporating dimensions in the beginning stage with Eigen values higher than 1.0 were taken out with the aggregate percentage of 78.009. Consequently, the suggested eight dimensions of E-SQ were reloaded and

rearranged among five dimensions in terms of assurance-fulfillment, privacy, efficiency-system availability, contact-responsiveness, and website layout and guidance. Drawn from output of factor loading ≥ 0.5 , one incorporating element (E-SQ – website accuracy of fulfillment) got avoided, since its factor loading value stands at ≤ 0.5 .

The KMO measure of sampling with respect to customers' E-satisfaction and customers' E-loyalty were computed at 0.667 and 0.742 respectively (Bartlett's Test of Sphericity of 0.00). Moreover, the output of Total Variance Explained revealed that solely one dimension in the beginning stage with Eigen value higher than 1.0, namely, customers' E-satisfaction was taken out with aggregate percentage of 72.543. Primarily, three incorporating items of E-satisfaction were selected due to the results of component matrix along factor loading ≥ 0.5 . In terms of E-loyalty, the outcome of Total Variance Explained revealed that solely one dimension, namely E-loyalty in the beginning stage with Eigen values higher than 1.0 was retained with the aggregate percentage of 73.345. The suggested four items of E-loyalty were included due to the output of component matrix along factor loading ≥ 0.5 .

The reliability of survey questionnaire applied in this study was examined through internal consistency of questionnaire items, demonstrating each construct measuring E-SQ, E-satisfaction, as well as E-loyalty by applying Cronbach's alpha. The reliability output of each subscale of E-SQ as well as E-satisfaction and E-loyalty were computed at higher than 0.7, as presented in Table-1.

TABLE-1
RELIABILITY VALUES OF STUDY SCALES

Study Scales	Cronbach's alpha
Assurance-fulfillment	.872
Privacy	.775
Efficiency-system availability	.845
Contact-responsiveness	.731
Web layout and guide	.771
Overall E-SQ	.812.
E-satisfaction	.751
E-loyalty	.772.

FINDINGS AND ANALYSIS

As depicted in Table 2, the findings drawn from the regression analysis corroborates that website layout and guide, contact-

responsiveness and efficiency-system availability dimensions of E-SQ pertinent to internet banking, reported significant positive relationship with customers' E-satisfaction. The R square value of $R=.782$ suggests that E-SQ has positive and significant contribution towards customers' E-satisfaction and approximately 78 % variance in the customers' E-satisfaction is determined by E-SQ. As revealed in Table 3, the findings drawn from the regressions analysis demonstrate that E-satisfaction has significant positive association with E-loyalty. The R square value of $R=0.764$ suggest that E-satisfaction positively and significantly contribute towards E-loyalty and approximately 76% variance in the customers' E-loyalty is determined by E-satisfaction.

TABLE-2
SUMMARY OF REGRESSION TESTS EXAMINING THE NEXUS
BETWEEN E-SQ AND CUSTOMERS' E-SATISFACTION

Predictors	R Square	F- test Statistics	
		F	Sig.
E-SQ	.782	129.43	0.000
	Beta (β)	t-test Statistics	
		t	Sig.
Website Layout and Guide	0.393	8.243	0.000
Efficiency-System Availability	0.352	7.240	0.000
Contact-Responsiveness	0.257	5.640	0.000
Privacy	-0.106	-1.981	0.56
Assurance-Fulfillment	0.107	1.682	0.92

- a) Dependent Variable = Customer's E-satisfaction
- b) Predictors (Criterion) = Website Layout & Guide, Efficiency-System Availability, Contact-Responsiveness, Privacy, and Assurance-Fulfillment

TABLE-3
SUMMARY OF REGRESSION TEST EXAMINING THE NEXUS BETWEEN
CUSTOMERS' E-SATISFACTION AND CUSTOMERS' E-LOYALTY

Predictor	R Square	F- test Statistics	
		F	Sig.
Customers' E-Satisfaction	.764	273.27	0.000
	Beta (β)	t-test Statistics	
		t	Sig.
Customers' E-Satisfaction	0.623	10.639	0.000

- a) Dependent Variable = E-Loyalty
b) Predictor (Criterion) = E-satisfaction

Moreover, in terms of examining that the nexus between E-SQ and customers' E-Loyalty is mediated by E-satisfaction, the hierarchical regression technique was applied. This regression technique was applied by following four conditions as suggested by Baron and Kenny (1986). The findings drawn from the hierarchical regression analysis are presented in Table 4 (as categorized in 4 models); which shows, (1) when condition 1 was analyzed, E-SQ of internet banking (an independent variable) reported only partially significant influence on customers' E-satisfaction (variable used as mediator) carrying a value of beta coefficient at .38 (Sig=0.00) concerning website layout and guide, (2) Customers' E-satisfaction reported significant influence on E-loyalty, with value of beta coefficient at .79 (Sig=0.00). This reflects the mediating variable of customers' E-satisfaction is significantly relates with the underlying dependent variable of customers' E-loyalty, thus condition 2 was met. Pertinent to condition (3) the direct effect of E-SQ on customers' E-Loyalty excluding customers' E-satisfaction was investigated. In this regard, as shown in Table 4, E-SQ reported partially significant influence on E-Loyalty, with the value of beta coefficient at .39 (Sig = 0.00) concerning website layout and guide.

Concerning condition (4), the influence of E-SQ on E-Loyalty was analyzed, while the E-SQ (independent variable) and E-satisfaction (mediator variable) both were controlled and the mediating influence of customers' E-satisfaction was included. As presented in Table 4, the findings demonstrate that the influence of customers' E-satisfaction reported significant decrease from .79 to .77 (Sig = 0.00), therefore, Baron and Keny's 4th condition concerning mediator effect was achieved. Hence, it could be inferred that customers' E-satisfaction reported only partially mediated association between website layout and guidance of E-SQ and E-loyalty.

TABLE-4
SUMMARY OF HIERARCHICAL REGRESSION TEST OF E-SQ, CUSTOMERS' E-SATISFACTION
AND CUSTOMERS' E-LOYALTY

Independent Variable	Dependent Variable											
	E-satisfaction			Model 2			E-loyalty			Model 4		
	Model 1						Model 3					
	Coef:	t	Sig.	Coef:	t	Sig.	Coef:	t	Sig.	Coef:	t	Sig.
Website Layout & Guide	.38	8.25	.00				.39	8.23	.00	.08	5.69	.24
Efficiency-System Avail.	.32	7.24	.00				.33	7.19	.05	.05	4.58	.29
Contact- Responsiveness	.22	5.64	.00				.23	5.77	.05	.03	4.22	.31
Privacy	-.08	-1.99	.58				-.05	-1.41	.79	-.02	0.87	1.39
Assurance-Fulfillment	.07	1.69	.90				.05	1.45	1.15	-.01	-.09	1.39
E-satisfaction				.79	10.75	.00				.77	3.89	.00
R ²	.60			.59			.54			.61		
Adjusted R ²	.59			.59			.53			.59		
F-Change	130.43			275.2			118.3			94.8		
Sig. F-Change	.00			.00			.00			.00		

DISCUSSION AND CONCLUSION

The findings drawn from the regression technique revealed that when the five incorporating dimensions of E-SQ adopted in this study were theorized to concurrently exert impact on customers' E-satisfaction then website layout and guide, efficiency-system availability as well as contact responsiveness reported positive and significant influence on customers' E-satisfaction. This reflects that one dimensions of E-S-QUAL namely, efficiency-system availability, one dimension of RecS-QUAL namely; contact- responsiveness (Parasuraman, *et.al.*, 2005), and one more dimension, namely website layout and guide are pivotal attributes of E-SQ of internet banking in terms of predicting customers' E-Satisfaction. This study corroborates the positive nexus between customers' E-satisfaction and customers' E-Loyalty, as also supported by the prior literature (Floh and Treiblmaier, 2006; Ariff *et.al.*, 2013; Zafar *et.al.*, 2012). This suggest that if concrete steps are taken to improve policy matters concerning the provision of adequate information to users, developing user friendly transaction process and offering good value to the customer relative to associated cost (Schaupp and Belanger, 2005), this could trigger customers' E-satisfaction that is more likely to enhance E-loyalty.

Furthermore, the findings drawn from the hierarchical regression analysis demonstrate that when Customers' E-satisfaction is treated as moderator, then it could partially mediate the nexus of E-SQ and E-loyalty and this is in line with the prior research (Yang and Jing, 2009;

Ankit, 2011; Ariff *et.al.*, 2013). This highlights that the layout and user-friendliness of website in terms of offering relevant and timely information are important parameters of sustaining the E-SQ that could enhance customers' E-satisfaction that could ultimately create E-Loyalty. This suggest that although banks should focus on improving technical and functional attributes of E-SQ pertinent to efficiency, fulfillment and system availability, however, equal attention needs to be paid to develop the vibrant and attractive website that could offer access to the users towards adequate and relevant information. This study concludes that there is underlying relationships among E-SQ, customers' E-Satisfaction, as well as customers' E-Loyalty in the domain of the internet banking. Primarily, this study corroborates that the E-SQ dimensions could exert significant influence on customers' E-satisfaction and good quality internet banking could increase customers' E-Satisfaction. Although, this study validates the positive influence of customers' E-satisfaction on customers' E-loyalty, as also supported by prior studies (Ankit, 2011), however, customers' E-satisfaction partially mediated the nexus between E-SQ and customers' E-loyalty. The website layout and provision of adequate information aspects of E-SQ appeared as mediating factors, suggesting development of aesthetic and provision of relevant information as key attributes that could enhance E-loyalty through customers' E-satisfaction. The findings drawn from this study offer valuable insight to the concerned authorities of commercial banks who want to maximize customer's utilization of online banking services. This study suggests that banking authorities should pay special attention to improve the service quality aspects of online banking and take efforts to maximize customers' satisfaction so that customers' could repetitively get engaged in using online banking services.

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